

LOOKING FORWARD WITH A BACKWARD GLANCE

A PRODUCT OF 247.AG MARKETING GROUP

Sales Recommendations: No sales. Next MNU by August 2nd.

<u>Current Sales:</u>	<u>2019</u> sales: <u>corn</u> 100%	<u>soybeans</u> 100%	<u>wheat</u> 100.0%
	<u>2020</u> sales: <u>corn</u> 70 - 100%	<u>soybeans</u> 50 - 100%	<u>wheat</u> 60.0%
	<u>2021</u> sales: <u>corn</u> 20%	<u>soybeans</u> 0%	<u>wheat</u> 68.0%

Technical Plus: More than this will be addressed herein. How much has flooding in China changed their need/demand for corn, wheat or beans? Are China's lies about large supplies coming back to haunt them? Will actual "facts" create a long term demand driven bull market? Read more under **China & Three Gorges Dam. Dec20 corn** continues to hammer between support and resistance, \$3.30 and \$3.40, closing this week at \$3.35; dead center. Support below \$3.30 comes in from its low of \$3.22 to \$3.25. If \$3.30 support holds next week, our thinking concerning corn having a chance to fall to \$3.30 may have to adapt. Most of the trade will come round to our projection of 180+ bpa that we have been talking about since last April, when we wrote, *"If genetics prove to be as increasingly good as advertised, pushing above 180 bpa would not be a problem in 2020; if producers get good stands like they did in 2018. Bean yield will hang around 50 bpa or higher."* Stands have been **mostly** excellent as has rainfall. Now coming into August with continued cooler and wetter forecasts through the first 3 weeks, if corn can't break below \$3.30 support next week, one has to look at the many reasons that are supporting it; USD, Funds so short, increasing demand from China. Still, we can ignore the Bear side. Corn has no reason to get up and run; yet. **Nov20 soybeans** printed a new high for this move this week, but were not able to close over \$9.00 on 3 separate attempts and closed today at \$8.992. That is negative, but the chart structure is good. We doubt beans will close over \$9.00 on Monday, as long as the rains come, the longer term forecasts don't change and the USDA does not announce a massive sale to China on Monday. If price closes below \$8.90, next support sits at \$8.80. The trade is longer term bullish beans. An early, seasonal low should be expected. Demand continues to be the Bull, supplies are neutral, bullish if China keeps buying, while weather continues to be a market negative. **Dec20 K.C. wheat** printed a lower high this week, while holding above support at \$4.45 and \$4.40. Price remains below its downtrend line. Price held above \$4.55 this week, which we will call a win. Price has to close back over \$4.60, then above \$4.75, to have any chance to make its next target of \$4.95. We don't see any reason for the price to take out \$4.75 at this time. That would take a BIG sale of wheat to China; say 2 cargoes or more (***264k mts***). Price continues to base.

Beans: The Nov20 soybean chart looks good technically. Technically, price remains in an uptrend. Price failed to close over \$9.00 this week on 3 attempts, Monday, Thursday & Friday is negative. The sharp uptrend line beginning from June 29 breaks if price closes below \$8.85. Next trendline support comes in at \$8.68, followed by \$8.60. Major support sits at \$8.40. Those looking to re-own past sales can look at \$8.40 for re-purchasing. Continued

buying from China could easily support the price at \$8.60, while continued weather would keep rally attempts muted for now.

China continues to buy beans, well over 100 mb so far in the month of July. Most purchases have been for the new marketing year, which begins September 1. Very few purchases have been for immediate shipment, before September 1. It is suggested that China will purchase another 15 mmt of soybeans (about 60 mb) to cover for their October-November-December needs/timeframe, most of which should come from the United States based on current FOB offers and lack of available supplies out of Brazil.

USDA's early 2020/21 soybean export estimate of 2.050 bb looked optimistic, when compared to the 1.650 bb exported in 2019/20. That early guesstimate would be the largest since 2017/18. USDA's estimate now looks to be in line, based on the current pace of sales to China for 2020/2021 and places greater focus on the national yield reaching 50.0 bpa or higher to avoid balance sheet tightness. This year's crop size is the Bear in the room that would keep prices in check with continued Chinese buying. The USDA already has this buying in their numbers, so there would be no reason for any changes in USDA's upcoming August report.

Loadings last Monday were just 16.6 mb vs the 31.1 mb needed to meet the total projections of the USDA and are down 4% from a year ago. Loadings continue to drag, now short of what is needed for 10 weeks in a row. You can see by the map below that China is taking everything from South America/Brazil right now, with only token shipments from the U.S. Whatever they don't take from the U.S. that they have purchased for shipment this marketing year, either gets canceled before September 1 or gets rolled over into the next marketing year; 2020/2021.

You can see China's thirst for beans in this photo of Karen's.



Export sales for last week came in at just 13 mb, which is good for this time of year. For last week's sales for 2020/2021, they were excellent, coming in at 96 mb. That looks to be the largest, one-week total for soybean sales in September 2017. For the record, it was reported China purchased 132k mts of soybeans on Thursday. That makes 8-days in a row of large soybean purchases by China for the next marketing year; 2020/2021. Today, 252k mts were reported sold to unknowns. If this was China, that makes 9-days in a row.

The trade is starting to notice. Is China trying to appease Trump with the purchases, as Trump wraps up other sanctions against China, as well as the rhetoric? Is China going to cancel these

purchases later? Is China needing these beans or are they rebuilding reserves? Is part of their soybean production getting washed away? There are many unknowns coming at this market from the demand side. A demand led Bull market is the strongest one there is. It is slow and steady. With no major weather threats to the U.S. crop, it will be hard to get a Bull market going until we get into harvest. This will be good from the technical side, as the Bulls & Bears will be fighting each other at support and resistance points; easier to forecast pricing as it becomes a developing, longer term trend. But it is more difficult to determine where “real” demand is coming from, since it is China. We note that demand from buyers other than China has been lower in 2020 since anytime since 2014.

Corn: Loadings continue to shine for the corn market, with 45.2 mb inspected for export last week vs. the 36.7 mb needed weekly to hit the USDA forecast. Total inspections/loadings are now down 16.7% from a year ago, with 6 weeks remaining in the old crop marketing year, and down 12% from last year. Export sales for last week died, coming in at 8.7 mb, while last week’s sales of new crop corn for 2020/2021 came in at a whopping 91.4 mb, the largest week of new crop sales on record since August of 2016.

It’s becoming apparent that the extra 150 mmts the USDA added to the world’s carryover stocks in November of 2018 was far from true. They no doubt got those numbers from China and happily added them to their numbers to depress corn prices in favor of end users. We noted that China abandoned their ethanol program last year on tight supplies. With this monsoon affecting up to 20% of their corn crop, it appears the chickens are coming home to roost. If all this is true, corn’s future is undecided and could be much shinier than what we know today. Now all China needs is a drought on theirs or somebody else’s corn crop this year or in 2021.

China’s weekly corn auctions have seen buyers snatching up every kernel, posting an average purchase price of \$7.31 per bushel. That is the highest price since September of 2015. It also makes U.S. corn a steal on the open market; though a bit overpriced when compared to a few other exporting nations. China has always touted their ending stocks were above 200 mmts, or reserves sitting at 75% of total domestic demand. U.S. domestic reserves currently sit well over 20% of domestic demand. Such demand doesn’t jive with stated supplies. Or if you want to lean in China’s favor, they are jacking up prices by keeping available supplies to their own end users to make a great haul for the government coffers.

Old crop export sales are in line to meet USDA’s export target for 2019/2020 of 1.775 bb. Total 2020/2021 commitments currently stand at 302 mb, up 105% from a year ago. This represents the fastest/largest export sales pace for this week of the year since 2013 and 2nd largest since 1996. On the demand side, because of the Wuhan Virus, questions remain for ethanol and livestock demand, offsetting great export sales. At the current demand pace, the USDA should cut demand by at least 100 mb in their next report. The USDA could also reduce the 2019 crop by another 100 mb or more. As with the USDA, no one knows!

Spot ethanol prices closed down \$0.06 Monday, reaching the lowest level since May 1. This has severely contracted operating margins and could force grind rates to slow. With ethanol margins falling into the red by 5 – 7 cents per gallon, one shouldn’t be expecting grind to increase.

The Wuhan Virus looks to continue to threaten the already subdued fuel consumption for the balance of the year. That leaves ethanol demand for corn forecast at risk for the remaining part

of this marketing year, 2019/20, and for the 2020/21 marketing year. It is likely we will see another cut in feed demand in the upcoming August 12 USDA Report. Assuming the current grind rate stays the same through August, the USDA will cut demand from ethanol another 50 mb. Feed & residual will be cut to from 50 – 100 mb. This would get added to old crop stocks, which rolls over into 2020/2021 carryover stocks, likely lifting them from 2.648 bb to nearer 2.775 mb in USDA's August 12 Report. Read more under weather.

Wheat: The big wheat sales they have been harping on for over a week have not come to pass. That was the big push behind last week's high trade. The last 8 days of trading has formed a wedge, with wheat's next big price move depending on which way price takes out of this wedge. Another announcement of long waited for "2 cargoes" would break prices out to the upside. If the price can't take out last week's high if that export sale is announced, it will be a false breakout and the price will fall back hard.

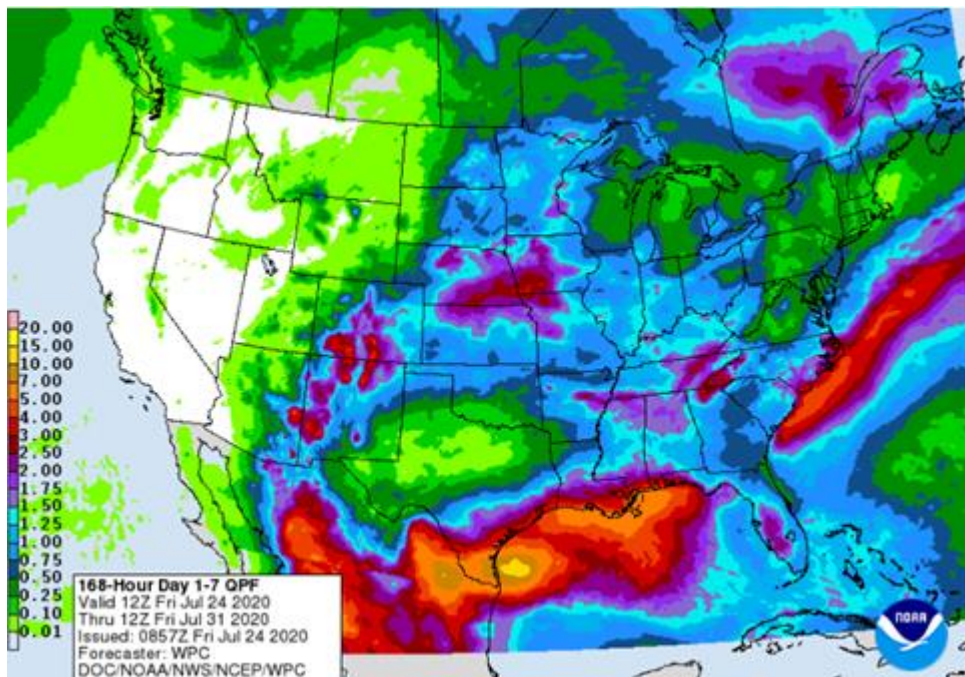
Export sales and loadings are going fine so far this marketing year, with both running ahead of expectations to date. Wheat's marketing year began June 1. While sales have been good, Australia saw its crop rise to 27 mmts, up from 15.2 mmts last year and up from the last estimate of 26 mmts. The IGC reduced world wheat production 6 mmts to 762 mmts. The IGC also reduced its estimate of ending stocks at the top 8 exporters from 65 mmts to 62 mmts, or about 2.28 bb. That's less than a 1% reduction in supplies, leaving supplies burdensome. With global supplies so large, it will be cutthroat for garnering sales this marketing year. Quality will matter. The rains going through the Northern Plains over the weekend should help with the quality of this year's spring wheat crop. Next week's cooler temperature will also help.

Wheat fell on Thursday, off the failure of the U.S. gaining a wheat sale which went to Russia. Crying wolf on wheat buying from China that has yet to show was also seen as a negative influence. Talk has been for China to buy 4 cargoes, or about 8.8 mb. That would be 10% of projected U.S. wheat exports for 2020/2021. If China would take SRW, US SRW stocks would fall to lowest since 07/08. If total exports of SRW exceed USDA's projection of about 90 mb, carryover would fall below 100 mb. The U.S. could handle that, but it would make SRW supplies tight enough to where any more sales would start raising U.S. prices.

U.S. Dollar: The USD posted a Death Cross on its chart last week, signaling a high probability of its current, 4-month lower trend, actually becoming a long term, lower trend. When you look at the breakout of the Euro, one would have to concur. Wednesday's blow down of the USD looks quite negative. Price needs to close below 94.50 in the Sept20 USD to put a nail in its coffin. It's working hard to do this, trading at \$94.33 currently. That will print a nasty looking chart. Next support is \$90.00, \$88.00, \$85.00 and then \$80.00. A 10% fall in the USD can add \$1.00 in value to U.S. soybeans, \$0.50 to U.S. wheat and \$0.35 to U.S. corn.

This next round of stimulus will help keep the pressure on the USD. This is the scenario that Bulls love when getting behind an inflationary Bull market. The Brazilian Real is adding to the value of U.S. grains by moving to its highest level in about a month. Then look at gold and silver, the commodities in which investor's hedge against risk and inflation. Their trends are higher and in silver's case, parabolic this last week! Silver has reached its highest price since October of 2013 on expectations of rising inflation. We're not going down that path yet. We have watched Japan over the decades and understand Stagflation. We are going down the path of better value for U.S. grain, growing demand and a likely, demand driven Bull move in the grains; larger in the one that has the tightest supply/demand ratio; soybeans.

Weather: Most say it is all over for corn. Based on the current forecast of almost cold clear through the 1st third of August, it would be hard to argue. They even show the 3rd week in August just as cool and even wetter! The high pressure ridge is moving further west than expected, opening up the Midwest for even greater rain chances. Many of the pop up storms have been south of I-70. The further west it moves, the further south the rains are pushed, possible moving rains to the southern tiers of Illinois, Indiana and Ohio. Good rains these next 7-days in the Eastern grain belt will set their corn crop, with the same said for those areas lacking in Iowa, Missouri, Nebraska and South Dakota. Take note how this pattern has stuck for 6 weeks. Trends in all things are hard to change. It needs a push from somewhere. That could be caused by TS Hanna, coming on shore in Texas this Saturday. Its current path has it going west and south. This will be a dud for creating a weather change. One needs to come on shore and head north, then east, cutting off moisture from the Gulf. For now, it keeps the northerly air flow dropping into the Midwest, mixing with the southerly Gulf flow, allowing storms to fire along the lines of confrontation.



China & Three Gorges Dam: Torrential rains have continued to batter China for a 2nd straight month, forcing severe flood alerts to be issued for three major rivers this week: the Yangtze, Yellow, and the Huai. On Monday, a red alert, the highest of China's four-tiered color-coded warning system, was issued for the Huai River. Authorities opened the sluices at Wangjiaba that day to release the flood pressure, as waters rose 0.36 meters above the warning level. There have been continuous rainstorms in southwest China since the beginning of June, and the rain belt has extended to the whole Yangtze River Basin. The entire basin has been continuously plagued by flooding for about 40 days.

In recent days, the rainfall has expanded across China, as the rain belt has moved northward causing the Yellow and Huai river basins to begin to see extensive flooding. According to the Yellow River Conservancy Commission, the flood crisis in the Yellow River will also begin to expand to the provinces of Qinghai, Gansu, Ningxia, and Inner Mongolia.

Sitting between the Yangtze and Yellow rivers is the Huai River, which has been dubbed the “most difficult river to manage in China.” As a red alert was issued for the Huai River on Monday, the Wangjiaba Floodgate in Fuyang, Anhui province was forced to open its floodgates at 8:32 p.m. on Monday evening, for the first time in 13 years, to relieve flood pressure on the facility.

This prolonged monsoon has been dropping very heavy rainfall on both sides of the Huai River for more than a month. The rainfall seen in June shattered all previous records. China had called the Three Gorges Dam a 1000-year dam. They are calling this rain event a 100 to 200 year event.

Last Sunday, Chinese authorities blasted a dam on the Chuhe River in eastern Anhui Province to discharge floodwaters, in order to "alleviate the pressure of flood control". Prior to the blast, the water level at Zhongxiao Station in Chaohu reached 12.83 meters in the morning, surpassing the historic high of 12.80 meters recorded in 1991. A total of 35 rivers and lakes in Anhui alone had reported high water marks exceeding danger levels by noon Saturday. Deliberately blowing the dams and embankments was a tactic used during the massive floods seen in 1998. It appears that the government is resorting to this practice again as the floodwaters across China this year appear to be exceeding the levels seen 22 years ago.

Last Saturday, China reported that the vaunted Three Gorges Dam experienced "displacement, seepage, and deformation" as it was hit with the "No. 2 Flood" of the year but that these were within "the normal range." After absorbing the latest flood, the Three Gorges Reservoir water level has risen to 160.7 meters, more than 15 meters above the flood limit level. Officials “bragged” about the MW being produced, while Chinese citizens perished below in the flood waters.

Many have questioned the structure's purported purpose of flood control, given the extensive flooding recently seen both above and below the dam. Some Chinese citizens suspect that authorities have been releasing more water from the dam than they are willing to admit to protect it rather than people from harm. Indeed, [satellite imagery](#) of the dam taken on July 9 shows all the floodgates open, despite the fact that China has only admitted to opening "three flood discharging outlets." What is that saying; “China Lies & People Die”?

What we are concerned about is crop losses. Up to 20% of China’s 2020 corn crop is being affected by these rains. How many other crops and how much livestock are getting pummeled? This “once in a life time” event of a 100 or 200 year flood could drastically alter China’s short term buying habits.