**February 08, 2023** **#2038**

# LOOKING FORWARD WITH A BACKWARD GLANCE

**Grain Sales Recommendations:** We remain long-term bullish grains. Expect heightened volatility. Next MNU by February 19th.

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| **Current Sales:** | **2022** sales: | **corn** | 10% - 50% | **soybeans** | 50% - 100% | **wheat** | 75% |
| | **2023** sales: | **corn** | 0% | **soybeans** | 0% | **wheat** | 40% |

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**Technicals Plus:** We are long-term bullish grains. See Twitter. We just added another interesting chart showing soybean export sales which will make you think. **Mar23 Corn** is trading within a wedge from $6.85, with uptrend support $6.60, which we see as a good opportunity if price could fall there. Do not know if that is possible. Corn's trend is sideways. Today's USDA numbers have not changed current fundamentals. **Mar23 Soybeans** are working within an upward channel, with support from $15.00 to $15.05 and resistance at $15.40 but the upside channel line resistance is $16.00. Price is struggling to get through $15.40, failing on numerous attempts. Upside momentum has slowed, which is negative. Prices will be making a significant move soon. Mar23 Meal touched $500/t Monday, then collapsed $20/t going into this report on profit taking. **Mar23 K.C.** Wheat closed at a new high for this move today, closing at $8.96. Support is now $8.50, with resistance at $9.00 and $9.10. Prices will continue to rise and break above resistance in the weeks ahead, targeting $10.00 to $10.25. This ride/move could take place in the next 14-trading days. Wheat's trend is now higher, which will be supported by record shorts by the Funds, commercial buying on demand, very tight old crop stocks, and an impending escalation of the war in Ukraine by the 24th of February. The lone negative this month is potential rains/snows in the HRWW areas of KS, OK, and TX. The **USD** fell to fresh new lows for this move off contract highs last week, its lowest level in 7-months. We wrote last week, ***"Need to watch the next week's price action, as this new low may well be a Bear Trap."*** That is exactly what occurred, with the USD rallying from its freshly printed low of $100.680 last Thursday to yesterday's high of 103.850, for a low to high raise of 3170 points.

**February 8th, USDA Grain Stocks Report:**

| U.S. Ending Stocks 2022/2023 Feb | Average Guesses | Jan 2023 | 2021/2022 |
|---|---|---|---|

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|---|---|---|---|---|
| Corn – | 1.266 bb | 1.264 bb | 1.242 bb | 1.377 bb |
| Soybeans – | 0.225 bb | 0.210 bb | 0.210 bb | 0.274 bb |
| Wheat – | 0.568 bb | 0.579 bb | 0.567 bb | 0.698 bb |

| **World Production (mmt)** | **Feb** | **Average Guess** | **Jan 2023** | **2021/2022** |
|---|---|---|---|---|
| **Corn** | | | | |
| Argentina | 47.0 | 48.1 | 52.0 | 49.5 |
| Brazil | 125.0 | 125.3 | 115.0 | 116.0 |
| **Soybeans** | | | | |
| Argentina | 41.0 | 41.5 | 45.5 | 43.9 |
| Brazil | 153.0 | 153.1 | 153.0 | 129.5 |

| **World Ending Stocks 2022/2023** | **Feb** | **Average Guess** | **Jan 2023** | **2021/2022** |
|---|---|---|---|---|
| Corn – | 295.3 mmt | 295.0 mmt | 296.4 mmt | 306.0 mmt |
| Beans – | 102.8 mmt | 101.6 mmt | 103.5 mmt | 98.2 mmt |
| Wheat – | 269.2 mmt | 270.8 mmt | 268.4 mmt | 276.8 mmt |

**USDA's Numbers:** February reports are usually boring, which this one was. **Corn** carryover was increased 24 mb from last month's guess but was nearly dead on the average trade guess. They cut ethanol demand by 25 mb, which was passed on directly to ending stocks. Ethanol grind to date is down 158 mb from last year, or 6.8%, and down 45 mb from the seasonal pace needed to reach USDAs estimated usage. They kept the average farmgate price for corn unchanged at $6.70/bu. *On a side note, Argentina corn production was cut 5 mmt, which they offset its bullishness by cutting "feed usage" by 5 mmt for Argentina and Brazil. Being simple minded, the question is how do animals know there is 5 mmt less feed available for them to eat so they will go on a diet?*

Soybean stocks were increased by 15 mb but we see that as an action the USDA does to control prices. They did the same thing 2-years ago when stocks were also tight. They claimed crush would slow and thus, stocks would rise. At current profit margins, why would crushers slow a profit generating enterprise just to increase carryover stocks? Well, the USDA is doing it again, reducing crush this time by 15 mb, which is the exact amount they increased soybean carryover stocks. That does not pass the smell test. South America's corn and soybean guesses were close enough to average guesses that they could not move prices much. The farmgate price for soybeans was raised $0.10 to $14.30/bu.

Wheat stocks were increased 1 mb from their January guess, but down 11 mb from the average trade guess, making the number bullish. Wheat's average farmgate price was lowered $0.10 to $9.00/bu. The USDA raised Australian wheat production 1.4 mmt to 38 mmt, Russia's was increased 1 mmt to 92 mmt, and Canadian wheat feeding was increased 1 mmt.

**<u>2023 Acres</u>:** Most guesses come in around 90.5 ma for corn. Outliers are as high as 94 ma, with StoneX at 92 ma. S&P Global is estimating 90.5 m, with IHS Market dropping 2.5 ma from their early estimate, coming down to 90.504 ma. Farm Futures came out with 90.5 ma for corn and 88.9 ma for soybeans, for a total of 179.4 ma. Our rule-of-thumb uses 180 ma for combined corn and soybean acres. If corn goes to 94 ma, soybeans will need to fall to 86 ma. Many wheat acres are going to be zeroed out later, either going to corn, sorghum, soybeans, or sunflowers. This will change final acre numbers. Corn acres will increase from this, but these will be outlier acres, producing far less than trend and pulling down the national average yield.

**<u>Soybeans & Products</u>:** We have had this worry, about meal prices going to hell as they crush for oil for biodiesel. Of course, what one thinks is only common sense, turns out to be wrong. So why are meal prices making new highs, with crush rates and crush profits so strong? One can look at the drought in Argentina as one reason. One could also suggest rail logistics causing issues with getting supplies of DDGs moved from ethanol plants. There is also a shortage of fishmeal, which has been used extensively to replace soybean meal in livestock rations.

The question that was posed by Manav Gupta of UBS was the same as mine and others; what about the "mountain of soybean meal" that will be the end result from building out all the proposed U.S. soybean processing facilities, which is in part being done to meet the feedstock needs of the U.S. renewable diesel industry? Here is the response by a leader in this sector, ADM.

***"When you think about the capacity that renewable green diesel is installing, it is going to have a huge pull in soybean oil. And we have found that there is – we have found relatively easy to place the meal in the export markets. And if you look at the market overall, the meal market is a market of like 175 mmt and growing. So, if you calculate by 2026, we need to have 20 mt more soybean meal, just to catch up with demand. And if you look at everything that we are building through the RGD and the capacity expansions, we are estimating about 15 mt of supply on soybean meal. So, it is still we have – we are still covered in only 75% of the expected soybean meal demand out there. So, we are looking at this as you can understand very carefully. So, I would say we look at this, but the demand on both sides of the soybean meal and soybean oil clearly can support all this capacity. So, we continue to see an environment in which crush margins will be strong and highly supportive for many, many years."***

**<u>Better Late Than Never</u>:** A funny thing happened on the way to El Nino; conditions changed. A surprise temperature drop changed weather patterns along North and South America. Apparently, our Trifecta is making one last gasp, trying to keep it together. While we have been arguing in favor of this on-going La Nina to stay intact, thus making it a true Trifecta, the experts differ. Their thought is that this fading La Nina would see its demise by mid-to-late spring, or by June, and their El Nino would appear by late summer or fall. This recent push may end that possibility or at the least, delay it a bit more.

**<u>Corn</u>:** Japan stepped up to the table and picked up 111.8k mt of corn this week. Mexico added to that, taking 100k mt for 22/23 and 100k mt for 23/24. The same day, loadings came in quite weak at 18.9 mb. U.S. corn exports in December hit a 5-month high of 3.7 mmt or 145 mb. That was down 22% from last year and down 7% from its 5-year average. Of those December sales 1.4 mmt went to China and it was 38% of the December total, the highest share since July of 2021.

Last week's export sales data for corn was very good, showing 62.7 mb sold. ***(That will show up next Monday in loadings/inspections.)*** Of that total, China showed up as the main buyer taking 12.6 mb with unknowns taking another 16.7 mb. If we mark that for China, that totals 29.3 mb. If they are stepping in taking corn finally, it just adds more support under this market. While China is beginning to pick up some U.S. corn, we see Brazil's January exports registered a new highwater mark of 6.4 mt, likely China stepping it up with them. Still, U.S. corn sales commitments remain down 43% from a year ago. But we need to remember that corn sales were huge last year.

StoneX came out with a corn production increase for Brazil placing their crop at 129.9 mmt, higher than where the USDA just pegged it. We note that FAX lowered Mexico's 2022 corn production. Also, if the current trend of too wet to harvest and too wet to plant continues in Brazil for the next 2-weeks, the odds of their Safrinha crop making trend yield is off the table.

**Soybeans:** For those who have not noticed, Nov23 soybeans are trading $1.50/bu below Mar23. That is a large disincentive to be pricing new crop. While a disincentive, it is telling us what the market thinks today where price will be this fall. We need to ask why. The main reason we see is the looming bushels from South America. From last year's failed crop, Brazil is adding 30 mmt, which is the total amount of soybeans China imported from the U.S. last year. When you think about this wall of additional soybeans China "will" be buying from the U.S., what the end result is closing that export window that the U.S. usually has where China "must" come to the U.S. for their soybean needs. For those who wish to have their soybeans sold before harvest for whatever reasons, such as storage, logistics, cashflow, avoiding storage costs, etc., we will need to watch this for a pricing window. While we remain bullish longer-term, crops still need to be priced, usually before we need to fill the bins with new crop bushels.

U.S. December exports of soybeans were 8.3 mt or 305 mb, the 2$^{nd}$ largest ever for the month and up 21% from the 5-year average. Loadings were too good for soybeans again at 67 mb, though most believe this will fall off quite rapidly over the next month as Brazil's soybean harvest advances. Total U.S. soybean export commitments show there are only 191 mb left or available for purchase and export before the USDA will need to begin lowering the 210 mb, 2022/2023 carryover number. That is roughly 6.6 mb/week for loadings and this last week it was 67 mb? Four more weeks like last week and there would be a big problem. Do not be concerned if sales and loadings fall sharply over the next few weeks. Be more concerned if they do not! Meanwhile, in China, demand remains active for soybeans, with their price at $19.86/bu.

In South America, Argentina's soybean meal exports in January have fallen to a 20-year low. Brazil's January soybean exports were down 65% from last year, as a result of their slow start to harvest. Brazil's soybean harvest has reached 9% complete versus 16% last year. Mateo Grasso is 24% harvested versus last year at nearly 47%. Their Safrinha crop is only 12% versus 24% last year at this time.

Like for corn, StoneX increased their guesstimate for Brazil's soybean crop, raising it to 154.2 mmt, while Buenos Aires reduced their soybean crop again, taking it down to 36 mmt. Part of this last cut was from their soybean crop getting planted too late, about 60% of their crop due to the excessive dryness. Dr. Cordonnier took his estimate down 1 mmt to 38 mmt. Hope is yields can recover some with the recent rains. Their soybean crop is currently rated 12% G/E, with 46% P/VP.

NOPA soybean crush for December was 187.4 mb, missing the 188 mb estimate and below November's crush number of 189.4 mb. Meal prices were doing great, reaching $500/t again this week, before looking down and getting scared. That dropped them $20/t in 2-days.

Soyoil got a shot in the arm this week after probing to new lows for this move, with Indonesia cancelling up to 80% of the previously issued palm oil export permits for shipments into May.

**Wheat:** A surprisingly decent week for wheat loadings at 20 mb. Over in Russia, IKAR cut their wheat harvest forecast from 87 mmt to 84 mmt. Their Ag Ministry is forecasting their 2023 crop from 80 mmt to 85 mmt. That would be a pretty good fall from their last year's crop of 102 mmt.

K.C. wheat is acting on its technicals, closing higher 8-days in the last 10. The SW Plains continues to miss any meaningful rains, with another chance forecasted to show up next week. The extremely dry fall and winter, topped with several freeze events, does give bearish traders pause. Kansas winter wheat ratings are the worst in 25-years.

Record shorts is just one reason this wheat ship has trouble sinking further. Shorts are beginning to fall off their end of the ship from it being so overloaded. Ukraine continues shipping wheat out, but their loadings are slowing. The shipment agreement with Russia ends shortly with no word on if it will be renewed. Our guess is war activity will blossom before the end of the month, say February 24$^{th}$, and hope of any extension goes bye-bye. That makes 2-bullish reasons to own K.C. wheat.

Spread trading between grain and products seems to have grown quite a bit over the years. If corn and soybeans decide to take a dip, look for spreaders to be selling soybeans, soybean meal, and corn and buying wheat.