June 09, 2023 **#2059**

LOOKING FORWARD WITH A BACKWARD GLANCE

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

Grain Sales Recommendations: Read recommendations further below. **Next MNU will be out on June 15th.**

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MNU: To assist you with these long MNUs, if you tend to scan, we place titles and bold and underline those items we believe one should view. If you are scanning because you do not wish to read everything, please read Technicals Plus. Technicals are very important. Read anything about pricing grain. We put a lot in this MNU on that topic. This will not be in future MNUs as we wish to shorten them and focus on making sales. Weather is everything now and price volatility will be increasing even more, with old crop supplies being tight in all grains.

Technicals Plus: USDA numbers for the U.S. were slightly bearish for corn and soybeans, and mostly neutral for wheat. **July23 Corn** closed down $0.06 today and down $0.046 for the week. Corn's longer-term trend is lower, shorter-term trend is turning higher. Price found support at $6.00 this week, with resistance at $6.10. ***All pricing will be weather determined.*** Read more below. First upside targets will be $6.40 for corn and for **Dec23**, $5.50, with support at $5.20. **July23 Soybeans** closed up $0.232 today and up $0.34 for the week. Beans broke above its intermediate downtrend line this week, with 1st resistance at $14.00, followed by $14.40 to $14.50. After that, $15.00. Technicals and fundamentals look good. **Nov23** closed back above $12.00, targeting $12.50. July23 K.C. Wheat closed back below $8.00, closing today down $0.07 at $7.976 and closing the week $0.144 lower. Price has been working mostly from $8.90 to $7.70 in 2023, with volatility picking up. Seasonally, wheat struggles to rally in June. Future fundamentals suggest strength building later but price will need to close above $8.30 for Funds to get more bullish.

Grain Sales Recommendations: This section will be expanded over the next month or two, as traders wait on every forecast to make their "bets". In a market where the overhanging fruit remains negative, which is U.S. and global macroeconomics, declining U.S. crop production, amid poor growing conditions, can overrule general market negativism for a time. What we must determine is that timeframe and for how long. Make sure you continue reading, as we will go through those things we see as affecting how high, and then how low, these grain markets can move. **<u>Next MNU will be out on June 15th</u>.**

<u>Understanding</u>: The purpose of the market is to part you from your money. In the context of cash grain, it is to get you to sell your grain at the lowest prices possible. The market gets that done by getting you to lose hope of a future rally. Corn falls $1.00, then rallies $0.50. You are really happy to get half "your losses" back. Plus, nearly 90% of the talking heads are preaching about the gift you just received from the price rally and you need to reward the market. The pressure "they" and you place on yourself is immense. Then someone asks you about your market plan. You do not want to admit you do not have one.

When the market cannot get grain to move by raising prices, their next option is to collapse prices. It works every time. After the 1st pop higher in price, producers begin selling. Note how prices have struggled to move higher over the last week. Producer selling limits the board price from moving higher. Brazil's producers are also selling on any rally, limiting upside price moves.

Think about the psychology behind producers pricing their grain. The market, the Funds, big commercials, and your grain buyers, know how to play you. They know most do not sell when the markets rise. They need to slam the market lower, knowing producers will become much more willing sellers later. Producers' fears will drive them to make sales, as the market has most of the talking heads working in tandem with them.

They will even move from pricing off July futures earlier than normal, going to September futures, claiming they do not want to be involved in the volatility of the lead month. On the move, they might even lower the cash price by also lowering the basis. Producers think the basis is weakening, creating more panic selling.

<u>Simple Thoughts Repeated</u>: We know we have printed this a number of times but realized we need to do this a lot. **<u>When pricing old crop grain, sell 50% of that amount for new crop</u>.** No doubt you are pricing old crop grain because it offers you a good profit or you think the price is near its high. In general, the same would be true for new crop grain.

Consider our sales recommendations in the Jan/Feb timeframe this year. Where would you have priced new crop at the same time? And when we made that recommendation, we needed to remember to repeat those simple thoughts.

<u>Old Crop/New Crop Confusion</u>: We believe one needs to be aggressive pricing new crop this year, opposite of the last 3-years. Thus, we need to take a deeper dive behind the price discrepancies between old crop and new crop futures.

Basis gives a BIG clue as to what prices "may be" in the future. Basis levels for corn have been rising steadily for 3-years. Many producers have told us they believe the USDA has been overcounting corn production these last years in order to manage prices. Because cash prices reveal real value, we know supplies are tighter than what the USDA says they are.

Because basis levels in some states have reached their highest levels ever, the question is if they can move even higher later this summer, giving us the higher cash price for old crop grain for this year? Many have told us because corn supplies are so tight (basis so strong), they expect cash prices for corn to be extreme in August. Yet, there is a much greater risk of holding grain into August. 2012 was the last year when doing so paid off in obtaining the best cash price possible. So, holding grain into August becomes a personal decision to producers, who will need to determine how much risk they can manage.

Whether or not to lock the basis at the best level right now is the best move is also a good question. Market indicators strongly suggest basis levels will improve from here, especially since our buyers are playing the "scare you to sell" game. If futures fall, basis will improve. If futures rise slowly, basis should stay strong. If weather produces a sharp rally, we suggest locking in basis.

We believe the government is working to manage prices to help keep food price inflation under control until elections in November 2024. Only a significant drought this year will get traders off their shorts to move prices higher. Traders remain short grains. They will need a serious scare to get prices cranking. Based on current carryover for corn, they will need to fear a national corn yield below 170 bpa, which would bring corn stocks down to near current levels. To get prices really going, yield will need to be at or under 165 bpa. Our final yield projection is from 170 bpa to 173 bpa, the projection we first made on May 24th.

We estimate conditions now and through harvest. Current dryness has total production falling every day. With perfect conditions after this month's damage, we believe corn production cannot exceed our stated projection. If weather conditions worsen in July and August, our estimate will fall. We were told one expert cut production yesterday by 1 bpa, taking it down to 180 bpa. The Dr. was so brave!

<u>How Low Can They Go</u>: Corn's G/E rating fell 5 pts on Monday, from 69% to 64%. In 2012, they began at 77%. More importantly, IL fell 19%, **<u>down to 50%</u>!** Michigan fell 20%, placed at 46%, G/E. IN and WI both fell 10 pts to 62 and 72, respectively, with OH down 17 pts to 64%. It was a shock to us with these massive drops in key producing states, the overall G/E rating was only down 5 pts. With little to no rain over the next 7-days for these same states which took the greatest hit last week, can the G/E rating for corn get knocked below 60% on next Monday. The trade would sit up and look at that. But more significance would be given to a dry, longer-term forecast.

<u>Marketing Using Historical Weather Data</u>: We seldom do what we would call "weather-based marketing, which is what we are doing this year. We do not because weather marketing is the toughest of all. If we are right, the winnings are great. If we are wrong, it is much worse. That is why the percentage of what you would hold back for a summer weather rally must be based on your ability to take the financial hit if we are wrong.

We can also argue that our price forecasting model weighs heavily on our ability to forecast weather, as weather can influence price to a much greater extent, and much quicker, than most any other market factor, excluding intrusive government actions and/or market interference. Our forecast for South America to lose 1 to 2 bb in grain production was correct. We did not forecast Brazil to have above average production, somewhat off setting our forecasted losses. We did not see ASF in China taking off again this year, reducing their grain imports. As with fickle weather forecasts, missing counter-balancing world situations throws off our price forecasts.

We stated earlier that our pricing forecast is based on historical weather data, which has had us forecasting a drought in 2023. We have been talking this year about the drought in the east.

Today, many producers are experiencing drought conditions. The HWRR areas got hit hard with one, producing record abandonment. That has now flipped, with flooding conditions being reported along the leeward side of the Rockies, from TX to MT. From west and south of the Missouri River and west of the Mississippi, most have seen much better growing conditions. If you are in the Grainbelt, north and east of the Mississippi River, drought areas have grown significantly over the last month.

<u>Traders And History</u>: Traders are also going with history, **<u>betting that any kind of weather cannot kill the U.S. corn crop in June</u>**. That is a really sound bet, well over 95% accurate. Yet with this year's weather, we have reports of corn fields in NE and SD that were zeroed out this week. The current forecast will see more fields zeroed out over the next week.

When you have 1st hand reports of crop losses in ND, MN, NE, KS, IA, and IL, then see G/E ratings in several major corn producing states record historical collapses in June, something that has never occurred before, it is difficult to make grain sales even when traders refuse to push futures higher.

We know historically, dry begets dry. There is rain in the forecast nearly every day and it does not rain. Humidity levels are so low, rain cannot develop. The large expansion of very dry soil makes it very difficult for rain to penetrate it. It would take a major storm to break down this dry zone. Historically, entering the summer growing season, the only event that could create such a change is a hurricane. That will not occur in June or July.

<u>El Nino Is Coming</u>: The next potential weather event that could create a major weather pattern change, would be this forecasted El Nino. In fact, many see this to become a Super El Nino and to make it to that grand size extremely quickly. To date, it has yet to make its appearance.

While no one year is the same as another, the drought of 2012 was to be an El Nino year. It was, but not until late in the year. 2012 was preceded by 2 years of La Nina. Those 2 La Nina year's depleted subsoil moisture. With little to no rainfall or snow from the fall of 2011 through planting the crop in 2012, crops went in fast. But the lack of surface moisture over most of the Midwest, helped keep rains away through summer, allowing for our last major drought in the U.S. Grainbelt.

2023 has been preceded by nearly 3-years of a La Nina, which dried out soils west of the Mississippi. One can argue that 2023 is similar to 2012, but there are significant differences. Others claim 2023 is most similar to 1983, while others see it most similar to 2004, a year where a late season dry period hit the soybean crop. 1983 was much drier earlier, similar to 2023. Again, no one year is the same as another. There are too many variables to match up. This year, the very cold water off the U.S. East Coast was not there in 2012, so we have no clue how that will affect airflow across the U.S. or disrupt possible moisture coming up from the Gulf.

Comparing drought maps of 2012 to 2023 show that soil moisture conditions on June 6th, especially surface moisture, are much worse than it was in 2012, but more drought conditions rest in the eastern Grainbelt than the west. Illinois is the #2 corn producing state. Total U.S. corn production falls much quicker if Illinois takes a major hit to production. It all adds up. Many states have weather related production issues which will not be counted in today's USDA's report.

Our forecast still calls for below normal precipitation, on average, across the Midwest, with above normal temperatures. At times, it will be much above normal. If this El Nino brings sufficient rains in, how hot it is likely will not matter. For these areas that missed the best rain chances during May and June, if they only get normal rainfall or get shorted in July and maybe August, their yields will suffer.

Summer Solstice: Our summer weather patterns generally settle in around the summer solstice, or June 21st, a week before or after. All the talk is El Nino will be here by then and everything will be fine. But the current weather change is a bit early, the one coming to us next week. We are most interested in what develops after this "cool down". This cool down is not coming to ND, SD, and MN. In fact, their heat will filter down into E Nebraska and Iowa, with heat moving up from the south. If our weather forecast is correct and July is going to be **very** warm, with below normal rainfall, what will matter more is who did not get rain in the last half of June.

How Much Is Enough: How much yield reduction will it take to keep corn prices above $6.00/bu next year and give us another shot at $7.00 corn? U.S. production would need 2023/2024 carryover stocks to fall to 1.2 bb. Currently estimated at 2.2 bb, a loss of 1 bb is needed. To get that total, the average corn yield for the U.S. would need to be 1 bb divided by 83 m harvested acres = 12.05 bpa or 181.4 bpa – 12.05 bpa = 169.35 bpa. That is quite doable under current conditions and would support a rally in old crop futures to $7.25 and new crop to $6.40. Falling to 160 bpa would cut production 776.05 mb – 1.2 bb = a carryover of 424.95 mb. That would support old crop futures well over $8.00 and new crop over $7.00.

Well, there are your weather targets and price possibilities if yield falls to these levels.

World Crop Issues: Watch Russia's spring wheat crop, a frost/freeze on Brazil's southern Safrinha crop, China's wheat crop, Australia's wheat crop, and India's seasonal monsoon failing in July, after 7-years of good crops.

Tidbits: In 2015, 2016, and 2017, all 3-years of above trend yields, managed money still went from short positions to significantly long positions, buying from 300,000 to 400,000 contracts. Makes one wonder.

IL G/E corn rating of 50% is their lowest rating since 2002. Comparing 2022 G/E corn ratings to today, IL is down 31%, IN and IA down 14%, WI down 12%, MI down 27%, and PA down just 64%. IL subsoil moisture is 60% S/VS.

Corn's G/E rating fall from 69% to 64% was the largest 1-week fall since 08/2020 and is 9% below last year's at this time. Soybeans' crop ratings are the lowest since 2014, with IL G/E rating down 31% from last year, IA and WI down 12%, IN down 11%, AK down 19%, with NE down just 21%. Crops are just fine, though, expecting a trend yield of 52 bpa.

U.S. corn areas see 45% in drought, soybean areas 39%, both up 11% from last week. Corn's drought areas represent the most since records were kept. But all is good, expecting trend yield at 181.4 bpa.

Freeze potential for Brazil's southern corn regions next week. Only 6% mature in Parana, with the bulk of their corn, 65% in fill stage and 35% still in pollination.

Remember, we need 96 ma of soybeans planted next year. EPA announcement in the next 10-days. It will be a market mover.

Most elevators are or have rolled from July to September in corn and from July to August for pricing and adjusted basis accordingly. Most dropped the cash bid some too, pocketing the difference. This is normal. Normal is also for them to begin raising basis later to get grain moving again.

June 10th USDA Grain Stocks Report:

U.S. Production	23/24	Avg Guesses	May 2023	2022/2023
Corn –	15.265 bb	15.210 bb	15.625 bb	13.730 bb
Soybeans –	4.510 bb	4.505 bb	4.510 bb	4.276 bb
All Wheat –	1.665 bb	1.666 bb	1.659 bb	1.650 bb
Winter –	1.136 bb	1.137 bb	1.130 bb	1.104 bb
HRW –	0.525 bb	0.515 bb	0.514 bb	0.531 bb

SRW –	0.402 BB	0.413 bb	0.406 bb	0.337 bb
White –	.209 bb	0.211 bb	0.210 bb	0.236 bb

U.S. Ending Stocks 22/23		**Avg Guesses**	**May 2023**
Corn –	1.451 bb	1.446 bb	1.417 bb
Soybeans –	0.230 bb	0.223 bb	0.215 bb
Wheat –	0.598 bb	0.606 bb	0.598 bb

U.S. Ending Stocks 23/24		**Avg Guesses**	**May 2023**
Corn –	2.257 bb	2.220 bb	1.222 bb
Soybeans –	0.350 bb	0.336 bb	0.335 bb
Wheat –	0.561 bb	0.568 bb	0.556 bb

World Ending Stocks 2022/23		**Avg Guesses**	**May 2023**
Corn –	297.6 mmt	297.1 mmt	297.4 mmt
Beans –	101.3 mmt	100.4 mmt	101.0 mmt
Wheat –	266.7 mmt	266.4 mmt	266.3 mmt

World Ending Stocks 2023/24		**Avg Guesses**	**May 2023**
Corn –	314.0 mmt	312.8 mmt	312.9 mmt
Beans –	123.3 mmt	121.7 mmt	122.5 mmt
Wheat –	270.7 mmt	264.2 mmt	264.3 mmt

South American Production		**Average Guess**	**May 2023**
BRAZIL			
Soybeans –	156.0 mmt	155.5 mmt	155.0 mmt
Corn –	132.0 mmt	130.8 mmt	130.0 mmt
ARGENTINA			
Soybeans –	25.0 mmt	24.3 mmt	27.0 mmt
Corn –	35.0 mmt	35.5 mmt	33.0 mmt

USDA's Numbers: Overall, USDA ending stocks are seen slightly bearish for corn and soybeans, but mostly neutral for wheat.

Corn exports were lowered 50 mb to 1.725 bb, with all adjustments raising old-crop stocks 35 mb to 1.452 bb. Production for corn will be 92 ma at 181.5 bpa, producing 15.265 bb. Demand for 2023/2024 was placed at 6.735 bb for food, seed, and industrial use, 5.3 bb for ethanol, with total domestic use of 12.385 bb. Exports are seen to come in at 2.1 bb. The average farmgate price for corn is projected at $4.80/bu.

Soybean production was placed at 4.51 bb, based on 87.5 ma yielding 52 bpa. Old crop stocks were raised slightly to 230 mb, with 2023/2024 stocks placed at 350 mb, 15 mb higher than their May estimate. Soybeans farmgate price was projected at $12.10/bu.

Wheat production inched up a bit to 1.665 bb for the new crop, with an average yield of 44.9 bpa, up from the USDA's May estimate of 44.7 bpa. New crop ending stocks were set at 562 mb, 37 mb less than this year. Food, seed, and residual use for new the crop was placed at 1.112 bb, while leaving export estimates unchanged at 725 mb. Wheat's farmgate price is seen being $7.70, down from their May guess of $8.00. Global wheat crop estimates see Canada's crop at 37 mmt, Europe 140.5 mmt, Argentina 19.5 mm, Ukraine 17.5 mmt, Russia 85 mmt, with China's at 140 mmt.

<u>World</u> ending stocks were seen as neutral for corn and soybeans, but bearish wheat. USDA raised Brazil's corn production 2 mmt and their soybeans 1 mmt. For Argentina, USDA lowered both their corn and soybean production by 2 mmt.

<u>Corn</u>: Loadings were good at 46.5 mb, but export sales again very poor at 6.8 mb. Ethanol production picked up 3.2% over last week. Stocks were up 2.8%, down 2.9% from last year. Grind took 104 mb versus needing to grind 103.7 mb to reach USDA's estimate 5.25 bb.

Total red meat and poultry production is near the same as last year, yet feed and residual usage is forecasted to be down nearly 8%. Makes sense, right? March stocks were well below trade expectations, but the USDA never made an adjustment. That could show up as bullish corn in the June 30 quarterly report. Basis levels agree stocks are tighter than the USDA is willing to admit.

<u>Soybeans</u>: *The July/August soybean spread traded to a new high on Wednesday at $0.96, with the July/September spread trading to $0.83. Need to watch this. Old crop stocks are tight, and Flash Sales keep showing up. The March stocks report was 50 mb lower than trade estimates and the USDA did not make any adjustments, as the work to manage prices. The spreads act like the bushels are not there. When will the USDA print the truth?*

Loadings do not need to be very high for soybeans. They came in at 7.9 mb, with export sales at 7.6 mb. Today saw a surprise flash sale of 197k mts to unknowns. That would be a bit of a surprise if the buyer would be China. Last Tuesday also saw a flash sale to Spain of 165k mts, something that is not seen too often. <u>Must mean U.S. soybeans are competitive on the world stage. If so, soybeans should be supported at current levels</u>.

Brazil's May exports were a record at 573 mb, 22 mb higher than May of 2021.

<u>Wheat</u>: Australia cut their wheat production due to the expected El Nina, taking it down 34%. U.S. HRWW saw its G/E rating increase 3% to 36%, which was negative. We see this as playing with numbers. With abandonment at record high, they then do not count those acres, which would naturally raise the overall ratings.

Loadings for wheat on Monday were 10.7 mb, with export sales at 8.6 mb. Russia is still dumping wheat, aggravating U.S. wheat prices. We see the growing drought in Russia as a potential reason for them to change their stance to exports.

The market struggles to confirm how many mmt of wheat were lost in China from all their pre-harvest storms. Estimates run as high as 20 mmt.