February 09, 2022 **#1969**

LOOKING FORWARD WITH A BACKWARD GLANCE

Sales Recommendations: **NO SALES.** Sit back and watch. Next MNU by February 20th.

Current Sales:	**2021** sales:	**corn**	20%	**soybeans**	50% - 100%	**wheat**	80%
	2022 sales:	**corn**	0%	**soybeans**	50% - 100%	**wheat**	50%
	2023 sales:	**corn**	0%	**soybeans**	0%	**wheat**	25%

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You Don't Know: You don't know what you don't know. Realizing that truth will allow you to better understand and react to the facts. Know that the times we live in today are not the inflationary times your father or grandfather lived through in the 70's. **Know that if you have not lived it, you do not know it.**

What we are living through today may not conclude for another 6 months, or maybe not a few years (2020 through 2025). If you cannot see the entire picture, you cannot understand what it is trying to tell you.

Projecting price probabilities from unfolding events is difficult at best when many of the events we have never seen before. But there are canaries in this coal mine that are ***"YELLING"*** at us, telling us we better damn well pay attention.

This boils down to what we have known for ages; follow the money. Understanding why Big Money is going where it is going is the response to all the unknowns which are driving prices higher. Big Money is Yelling at us. Are we listening and watching?

Technicals Plus: A very bullish tech day for most all grains! **Mar22 Corn** blew through its recent high of \$6.424, last year's May 7th contract high of \$6.404, its May 7th life of contract high close of \$6.40, to close at \$6.466. It is also a breakaway extension on the gap-open higher created on Monday this week. This is technical confirmation indicating old crop prices moving to \$6.90 - \$7.00, another *minimum upside projection*. We will re-evaluate the potential of future price gains when prices reach this stated price range. With Mar22 gaining so much over all other months, that strongly suggests commercials are making new sales. Expect new Flash Sales for corn to show up and later, higher export numbers in USDA's Thursday mornings reports. The **Dec22 Corn** chart looks just as strong, closing at $5.884, up $0.064 today. **Dec23 Corn** may be even stronger than Dec22, as it closed up $0.086 at $5.582. **Mar22 Soybeans** closed up $0.256 today at $15.946, which is a new, life-of-contract high close. Last year's high trade was $16.772, with a high close of $16.602. The 10-year high trade for soybeans was $17.946. The meal chart signals that last year's high of $16.772 will fall by the wayside. **Mar22 Meal** looks like corn, with the gap-open higher, with an even more powerful extension than corn printed. Its *minimum* price target is now $500/ton. Soyoil does not matter to soybean's upside equation. It is meal's turn to lead, if it can outpace soybean's price rise. *(Just FYI, seasonals have soybeans up from Jan 2nd to Feb 17th; worked 12 of the last 15-years.)* **Mar22 KC Wheat** is now the boring market, a come-a-long. It has had its day, while corn plans on being fashionably late to the Rally Party. While Stats Canada give wheat a pop off $7.50 support, its downtrend line is holding. Price closed at $8.15 today, with $8.40 to $8.50 offering good resistance to a future challenge. **Mar22 Oats** has rallied 12 out of the last 13-days, blowing up to $7.75 resistance off Stats Canada's stock numbers for their grains, closing below at $7.722. Never say never, for as other grains rise, oats will have a difficult time staying down. Odds favor oats eventually clearing resistance offered at $7.75.

February 9th, USDA Grain Stocks Report:

U.S. Ending Stocks 2021/2022	Feb	Average Guesses	Jan 2022	2021-2022
Corn –	1.540 bb	1.264 bb	1.540 bb	1.377 bb
Soybeans –	0.325 bb	0.210 bb	0.350 bb	0.274 bb
Wheat –	0.648 bb	0.579 bb	0.628 bb	0.698 bb

World Production	Feb	Average Guess	Jan 2022	2021/2022
Corn				
Argentina	44.0 mmt	48.1 mmt	52.0 mmt	49.5 mmt
Brazil	124.0 mmt	125.3 mmt	125.0 mmt	116.0 mmt
Soybeans				
Argentina	45.0 mmt	41.5 mmt	45.5 mmt	43.9 mmt
Brazil	153.0 mmt	153.1 mmt	153.0 mmt	129.5 mmt

World Ending Stocks 2021/2022	Feb	Average Guess	Jan 2022	2021-2022
Corn –	295.2 mmt	295.0 mmt	296.4 mmt	306.0 mmt
Beans –	92.8 mmt	101.6 mmt	103.5 mmt	98.2 mmt
Wheat –	278.20 mmt	270.8 mmt	268.4 mmt	276.8 mmt

<u>USDA's Numbers</u>: Initial price action is about how far U.S. carryover stocks are above or below the average trade guess. All numbers were bearish, as well as were world production numbers and world ending stocks, except for world ending stock for wheat, which came in lower than the average trade guess by 2.2 mmt.

What matters next is the close. After digesting all the numbers and considering all other outside market factors and trends, do the Funds want to own corn, wheat, and soybeans at these price levels or do they think they can get a better buy later, or is price now too risky at these levels and they need to turn sellers?

For **<u>Corn</u>**, the USDA left U.S. production, exports, feed & domestic use, ethanol use, and the farmgate price of $5.45/bu unchanged. The ESU ratio came in just under 10.4%.

<u>Soybeans</u> saw the same, with only U.S. soybean crush increased 25 mb, reducing U.S. soybean carryover stocks to 325 mb. Soybeans SEU ratio was left unchanged at 7.4%, but the U.S. farmgate price was raised $0.40 to $13.00/bu.

<u>Wheat</u> had its ending stocks increased by 20 mb and its exports cut by 15 mb. Wheat's average farmgate price was cut $0.15 to $7.15/bu, with its SEU ratio pegged at 33.4%.

<u>Corn</u>: There is little reason to waste your time giving market details, which becomes only filler for a market letter, when all that matters to the trade currently is South American weather and technical considerations.

What is South American weather doing to their production? Those numbers settle into a supply/demand equation, which is the ***<u>base</u>*** component for projecting price possibilities.

All 22 corn contracts held the open gap they created on Monday, with Dec22 extending gains and printing new contract highs every day this week. This is bullish and provides a technical calculation for possible upside targets.

Private guesses suggest USDA's total export number for corn of 2.425 bb could be 2.5 to 2.7 bb. Using those numbers, the USDA could, in the future, lower U.S. 2021/2022 corn carryover stocks from 1.5 bb to 1.2 bb – 1.4 bb. Not a big deal – yet. Rumors are beginning to build about interest from China and with reason, as their internal corn price is near record high at $11.10/bushel.

One day this week, Dec22 corn gains exceeded those in old crop months. In fact, one day this week, Dec22 closed higher, while Mar, May, & July22 closed lower. Why? Why did Dec23 vault $0.30 in 5-days? Why is there so much money flowing so early into Dec22 and the Dec23 corn contract? Following the money?

Ethanol ground 100.9 mb of corn last week, exactly the amount needed/week to meet USDA's projection of 5.325 bb, while having ground 2.35 bb to date. Ethanol production was 994k bls, down 4.5% from last week and up 6.08% from last year. Total ethanol stocks were down 4% vs up 4.2% from last year. The fact the draw took down stocks 4% was considered bullish by the trade.

Higher crude oil prices support higher corn and soybean/soyoil prices. The EIA report today showed a drawdown of nearly 5 mb (Million Barrels) in crude oil stocks, gasoline down 1.6 mb, distillates down 930k mb, and ULSD (Diesel) down 1.7 mb. That helped lift Mar22 crude prices back above $90/bls, while NG is working back to $4.00 today.

<u>Soybeans</u>: All eyes are on soybean yield reductions in Brazil, though some are beginning to eye Argentina. Private projections for Brazil's soybean harvest have it from 125 to 130 mmt versus the beginning estimate of 144 mmt, losses running from 15 to 19 mmt. Argentina's soybean crop started at 46.5 mmt, with Privates taking it down to 40 mmt, for losses about 6.5 mmt. Taken together, maybe 25 mmt or over 1 bb in production losses and history forecasting more losses out of Argentina over the next 45-days. Do you think China is worried? Do we follow their money? Remember, they built their reserves buying all they could from Brazil's massive 2021 harvest of 144 mmt?

From last Friday to today, Flash Soybean Sales of 295k mt to unknowns, with 43k mt for 22/23. Monday 507k mt (18.6 mb) to unknowns, with 258k mt for 22/23. Tuesday, 132k mt to China and 332k mt to unknowns, all for 22/23 delivery. Wednesday, 240k mt to China, all for delivery in 2022/2023. We surmise from all China is NOW buying that THEY have a problem, or they are working with all due diligence NOT to have a problem. They MUST feed their livestock, or all hell could break loose – not enough food for their Surfs.

But why is China going after U.S. new crop supplies? Are they good on old crop, having purchased ahead last year? Remember how we wrote last year that they were stockpiling so they would not have to buy many soybeans from the U.S. for the 21/22 marketing year? Their buying for 22/23 so early tells much. It also changes how one needs to view the supply/demand situation for 22/23. China's actions today tell us China's usual purchasing window for U.S. 22/23 soybean stocks, which normally runs from Sept/Oct through Feb/Mar, will widen from a 4 to 6-month timeframe to 5 to 6 months. A larger purchasing window will equate to greater total purchases from China, which will also begin earlier than normal. This fact becomes a bullish factor for soybeans later in 2022. This pressure/fear China has which is causing/forcing them to make purchases in February, is also a very bullish element because it is not normal.

<u>Wheat</u>: MN wheat got the biggest pop from a Stats Canada update on their grain stocks. All-wheat stocks came in at 17.3 mt, 1.7 mt below the average guess and below the lowest guess. That surprised the trade, lifting MN wheat yesterday $0.19 and adding another $0.10 today, closing at $9.5??? This was also bullish oats, adding to oats gains.

Wheat's other bullish factors are the ongoing droughts in the Southern and Southwestern Plains, which is forecasted to expand, and the ongoing drought in North Africa, which is one of their worst in years.

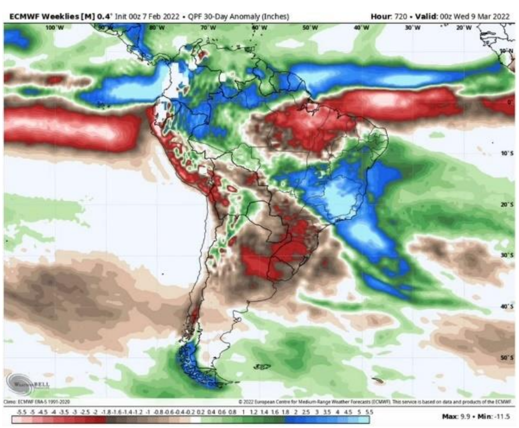
Funds went into today's report a bit long MN wheat, short Chicago, and long KC.

Canadian Stocks 2021

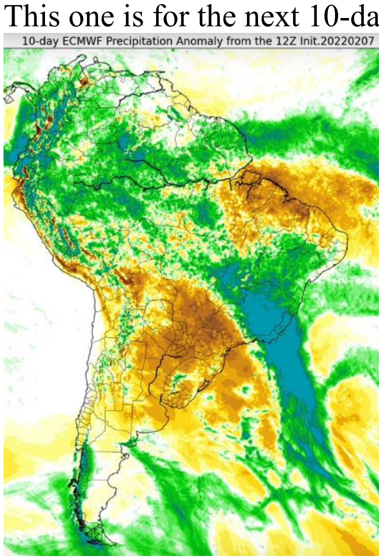
(As of December 31; million tonnes)

	Dec. 31	YOY
Total wheat	15.56	-38%
Durum wheat	2.09	-56%
Wheat excl. durum	13.47	-34%
Barley	3.15	-44%
Canola	7.56	-43%
Corn for grain	11.53	4%
Dry field peas	1.63	-43%
Flaxseed	0.26	-31%
Lentils	1.18	-36%
Oats	1.66	-39%
Rye	0.29	-3%
Soybeans	3.29	-6%

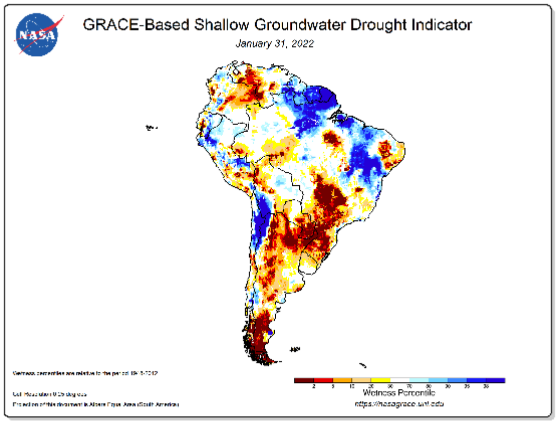
Weather: It remains everything weather in South America for price direction. Drought concerns in the U.S. do not matter at this time because drought does not hurt production during the winter months. Longer term weather forecasts for Brazil and Argentina are mostly warmer and dryer, but much more so for Argentina. If these forecasts verify even for the next 2 weeks, significant crop losses will be sustained. This is a 30-day precipitation map.



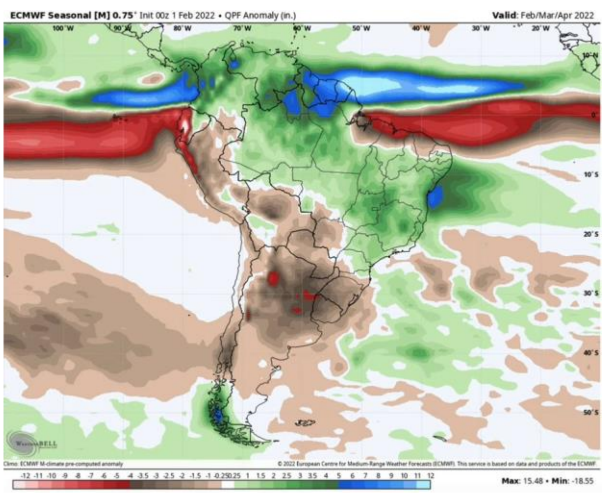
This one is for the next 10-days.

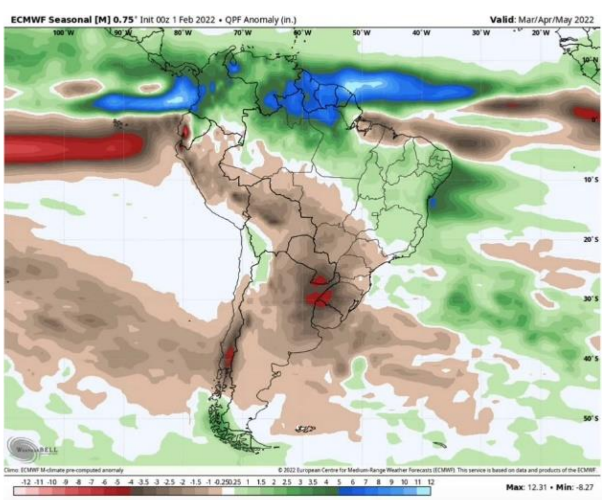


Groundwater is well short in these areas looking for reduced rainfall. These same conditions, carried over from last year's drought, is what caused Brazil's yields to fall so rapidly this year.

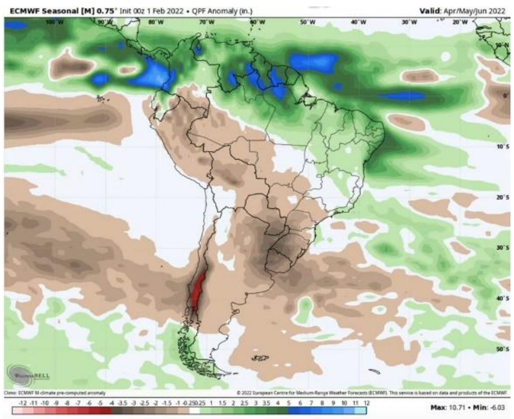


Here's the updated models for South America Feb/April and then March/May.

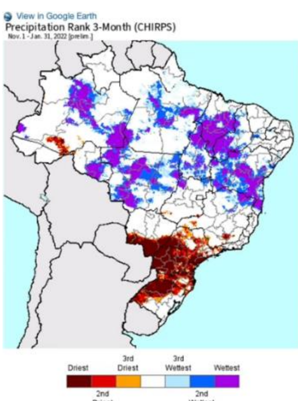


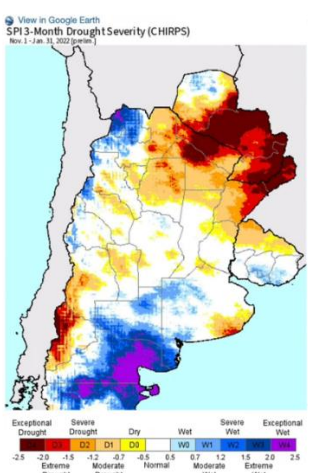


The Apr/May/June forecast shows how they see the drought continuing working to the north, with drier conditions likely coming to Brazil's Safrinha crop later in their growing season.



This map shows how this year's drought in Brazil ranks in recorded history. About 40% of Brazil's soybean crop is grown where the drought is. You can see many areas recorded their 1st or 2nd driest year on record. Northern Argentina also saw the same and are going to see another stretch of hot/dry weather most of the rest of February. The 2nd map shows Argentina's drought.



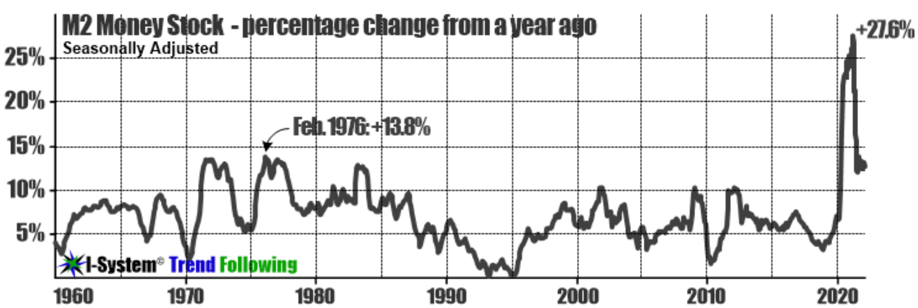


Crude/Fertilizers/Inflation Hedge: The pendulum swings, too far one way, then too far the other. The front-month May20 WTI crude oil contract dropped 306% on the session, settling at a negative $37.63/b ***(barrel)*** on the NYSE. How far to the upside should one now expect crude oil to rise? What can producers of crude oil do to stop it from rising above $100.00/b? With such an "insane" collapse in prices, it is reasonable to expect prices to overshoot to the upside, just as it did to the downside. With so many troops concentrated on the Ukraine/Russian border, an itchy trigger finger can easily push prices to $125/b, if not a lot higher. Some headlines/comments read like this, "JP Morgan warned that Brent could rise to $125/b as OPEC's spare production capacity falls to 4% of total capacity by the 4th quarter of 2022.

If this rally cannot be stopped, higher fertilizer prices are a given, and plentiful supplies become questionable, regardless of price. While we suspect shortages of fertilizers in the U.S. will be minimum, such will not be the case in other nations around the world. We do see this issue as one which reduces the total production of nitrogen needy crops in 2022. When one adds water shortages due to drought to plants short of all their nitrogen needs, production losses escalate.

The U.S. Government is helping create the fertilizer shortage, with the Biden administration putting sanctions on Belarussian potash, creating the pike in that fertilizer which is critical for corn, cotton, and wheat acres. Belarus represents 20% of the global production of potash. The market is anticipating reduced crop production due to these sanctions. Reduced grain production in the U.S. would lead to higher prices, increasing food inflation concerns to producers. Due to the gravity of this situation, U.S. agricultural representatives are putting pressure on the government to remove the sanctions.

How high and for how long can inflation run? The M2 money supply can give us an indication of the possibilities. M2 is growing at a rate of 15% per annum for the last 2-years, while in the 70's it never exceeded 4%! In the 70's, inflation averaged "just" 9%. During that time frame investors lost 65% of the wealth in real terms.



We know the government is lying to us on what the real inflation rate is. They want us to believe it is only 7%. They have accomplished this sleight-of-hand by changing the way they calculate inflation. Using the same method, they used in the 70's, inflation would be much closer to 16%. Now consider how much "real" wealth is going to be lost during these years of extreme inflation.

Also, in times of rapid inflation, stocks overall are not winners. Money moves to safe havens or where they can generate higher returns. Commodities are one of those places. As money flow moves into grains and energies, higher highs than anticipated will be normal due to money chasing profits. Check out the markets which have already seen this rapid money flow, lumber, palm oil, soybean oil, and canola. What markets are beginning to see an increased interest from money chasing money – soybeans, corn, and anything energy?

With higher prices slamming producer's profitability levels, what is your greatest hedge against rising costs? Would you believe it is what you produce and what you produce it on? A recent study by Deutsche Bank has shown that the current commodity cycle has been the strongest on record, eclipsing all the previous 20-cycles since 1914. Simply said, own land ***(hard assets)***, produce grain, and market your grain in the upper third of each year's price range.

The Invesco Ag Fund has broken above a classic tenet of technical analysis that traders can use to catch a post-breakout. Notice how price extended its consolidation into January, with prices holding above the resistance breakout. This is a sigh of strength because the breakout is holding. Price broke out of a triangle, with the bounce lasting for the last 4 trading days. This consolidation digested the gains from September to late November and represents a bullish continuation pattern, or a rest period within the uptrend. This breakout signals a continuation, with new highs expected. Both charts cast a bullish/inflationary light on commodities.

The 2nd chart is the Bloomberg Commodity Index.