August 12, 2022 **#2006**

LOOKING FORWARD WITH A BACKWARD GLANCE

Sales Recommendations: Aug22 soybeans rallied over $1.20 to new contract highs this week. We texted to get basis locked on soybeans and sell remaining gambling bushels, if you have any. Aug22 beans posted new contract highs of $17.376 yesterday. Sept22 reached $15.57, about $0.50 off contract highs. Nov22 pressed through $14.50 resistance, about $0.30 below recent highs. We are bullish soybeans into 2023.

Most have their basis locked on any remaining old crop corn bushels. We texted before today's USDA report to place a sell order at the elevator at $6.50, off Sept22 futures. Move that to $6.58. Most have basis locks from $1.15 to $1.50+. At $6.50, you will get from $7.00 to over $8.00, depending on how tight supplies are in your area, and how strong the demand is.

Like last year, all need to ready yourselves to own July23 futures on some of your past old crop sales ***(soybeans especially)*** and all new crop sales you plan on making in the 1st quarter of 2023. This is the same recommendation as last year, where producers who re-owned those bushels said they made more profits than ever.

We are hoping July23 corn will at least move back down to its gap area, topside of the gap $6.00. Imagine that $6.00 for a fall low? For soybeans, we're not sure yet. Need to see more, like next few weeks of weather, demand over the same time frame, etc.

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Current Sales:							
	2021 sales:	**corn**	100%	**soybeans**	100%	**wheat**	100%
	2022 sales:	**corn**	0%	**soybeans**	50% - 100%	**wheat**	75%
	2023 sales:	**corn**	0%	**soybeans**	25%	**wheat**	40%

Technicals Plus: Today's USDA's data dump was overall friendly to corn, somewhat negative for soybeans and wheat. Excellent close on **Dec22 corn** at $6.422. This proves up the open gap under $5.90. Price broke through $6.20 - $6.24 resistance and closed strongly above it. Price WILL test next level of resistance from $6.50 to $6.60, with an initial target of $6.584. Based on the lack of general coverage of rain next week, we see no reason price cannot move above this resistance zone. Basis levels began weakening in spots this week. This is the wrong time of the year to get too excited about chasing a major move, though we see stocks falling even further from today's USDA's numbers. If you can hold your leftover bushels of 2021corn, you can hold for even higher prices later. If you have the basis locked, that was not your intention, so price those bushels from $6.55 to $6.59. Sept22 resistance runs from $6.55 to $6.70, with its most recent high at $6.67. Sept22 corn put in a key reversal higher, which is bullish. Corn's trend remains higher. **Nov22 Soybeans** posted a key reversal higher too, but on a negative news day! That is even more bullish than what corn did. Bad news did not keep it down. Price closed above $14.50 resistance, with minor resistance at $14.80 to $14.85, and stronger resistance at $15.00. Contract high is $15.846. **Sept22 Soybean Meal** posted another new contract high close at $464.70, with **Sept22 Soybean Oil** posting another weekly higher close at $69.53. Soybean oil has resistance at $70.00, which we see getting taken out next week, working up to its next resistance level at $75.00. Soybeans remain a short-term uptrend. **Dec22 K.C. wheat** continued its sideways trade this week, which it has been in for 4 weeks. We see a rounding bottom building, with its base at $8.25 and resistance at $9.00. Price is going to blow/take out $9.00. It has built a great, rounding bottom. When price takes out $9.00 and closes above $9.00 for the week, price will attack $10.00 resistance.

August 12th USDA Grain Stocks Report:

U.S. Production 22/23		Avg Guesses	July 2022	2021/2022
Corn –	14.359 bb	14.383 bb	14.505 bb	15.115 bb
Soybeans –	4.530 bb	4.471 bb	4.505 bb	4.435 bb
All Wheat –	1.783 bb	1.825 bb	1.781 bb	1.646 bb
Winter –	1.198 bb	1.204 bb	1.201 bb	1.277 bb
HRW –	0.576 bb	0.585 bb	0.585 bb	0.749 bb
SRW –	0.381 bb	0.377 bb	0.376 bb	0.361 bb
White –	0.240 bb	0.242 bb	0.240 bb	0.167 bb

U.S. Average yield 21/22		Avg Guesses	July 2022	2021-2022
Corn –	175.4	175.8	177.0	177.0
Soybeans –	51.9	51.0	51.5	51.4

U.S. Ending Stocks 21/22		Avg Guesses	July 2022
Corn –	1.530 bb	1.518 bb	1.510 bb
Soybeans –	0.225 bb	0.228 bb	0.215 bb
Wheat –	0.660 bb	0.660 bb	0.660 bb

U.S. Ending Stocks 22/23		Avg Guesses	July 2022
Corn –	1.389 bb	1.383 bb	1.470 bb
Soybeans –	0.245 bb	0.227 bb	0.230 bb
Wheat –	0.610 bb	0.651 bb	0.639 bb

World Ending Stocks 2021/22		Avg Guesses	July 2022
Corn –	311.80 mmt	313.30 mmt	312.30 mmt
Beans –	89.70 mmt	88.90 mmt	88.70 mmt
Wheat –	276.40 mmt	280.10 mmt	280.10 mmt

World Ending Stocks 2022/23		Avg Guesses	July 2022
Corn –	306.70 mmt	309.80 mmt	312.90 mmt

Beans –	101.40 mmt	99.20 mmt	99.60 mmt
Wheat –	267.30 mmt	267.80 mmt	267.50 mmt

USDA's Numbers: For **Corn**, the USDA's reduced corn production by 146 mb to 14.35 bb. Yield was lowered by 1.6 bpa to 175.4 bpa. Harvested acres were cut 100,000, coming in at 81.8 m. The USDA cut Feed and Residual 25 mb, Feed, Seed, and Industrial use was raised 5 mb, with used for ethanol left unchanged. That lowered ending stocks to 1.388 bb, down 82 mb from July. Ending stocks projected for 2022/2023 were placed at 1.389 bb, down from last month's 1.470 bb. World stocks for 2022/2023 were cut from 312.9 mmt to 311.8 mmt. Ukraine exports were increased 3.5 mmt to 12 mmt. The USDA left the average farmgate price unchanged at $6.65/bu.

The USDA lowered **Soybean** production by 25 mb to 4.53 bb, opposite to what the trade was thinking. Yield was increased from 51.5 bpa to 51.9 bpa. Soybean harvested acreage was reduced by 300,000 acres, opposite of what we were thinking, but offset by the surprised increase in yields. ***(But it goes along with our thinking with U.S. soybean stocks getting too tight, some adjustment in numbers somewhere, needs to be done.)*** The USDA did increase export expectations by 20 mb to 2.155 bb, increasing 2022/2023 ending stocks to 245 mb, up by 15 mb. Old crop, or 2021/2022 stocks, were increased by 10 mb from lowering exports the same, placing them at 225 mb from 215 mb last month. Global ending stocks were increased 1.8 mmt to 101.4 mmt. Soybeans' farmgate price was lowered $0.05 to $14.35/bu.

Food demand for **Wheat** was increased 6 mb, while exports were increased 25 mb. Those were the 2 biggest changes, which lowered ending stocks to 610 mb. Production was increased for Russia, Australia, and China. Russia's was raised to 88 mmt. Wheat production came in at 1.78 bb, up 8% over last year's. Harvested acres were 37.5 m. Winter wheat production was 1.2 bb, up 6% from 2021, with yield set at 47.9 bpa. Harvested for grain or seed was 25 ma. Spring wheat ***(SpW)*** saw production at 512 mb, up 55% over 2021. Yield at 47.8 bpa was up 0.8 bpa from July, but up 16.1 bpa from last year. Total acres came in at 10.7 m, up 5% from 2021. HRWW production was seen at 576 mb, with SR (soft red) at 318, White winter 240 mb, and durum wheat at 73.6, down 5% from July, but up 97% from 2021! Wheat's national average farmgate price was lowered $1.25/bu to $9.25.

Corn: **Today's key reversal higher cannot be dismissed.** Issues exist where we could be witnessing a counter-seasonal rally into harvest. Fundamentally, there are issues. Prices need to contend with the 6 mmt/235 mb cut to Europe's corn crop, with more losses coming. The same is occurring with the U.S. corn crop.

The greater issue is figuring out what end users are going to do. It is the *"pay up now or pay more later"* scenario. Texas, Oklahoma, Kansas, all dryland in Nebraska, plus Western and Southern Iowa, are getting toasted or seeing significant yield losses.

We look at it this way. These areas have no 2021 corn left. TX, OK, KS, and parts of NE and IA, have either lost all, most of, or a significant amount of their 2022 production. ***Where and When are end users going to secure ALL of next year's needs?***

If we were them, we would come after it immediately, before producers lock it in their bins and keep it off the market for 4 to 8 months. Harvest is when grain prices and basis levels are the lowest. Where's the corn? Nebraska is short. The Western half of Iowa is short. Iowa is a net importer of corn if yield losses fall more than 10% below trend. End users will need to suck corn from east and north of Des Moines. Anywhere west of that line will see this "new" demand rushing in for new crop corn, pushing basis levels higher, much sooner and much faster than we have seen for years. They will be "demanding" your corn right off your combine. What are you going to tell them? **<u>Pay me now or pay me later</u>?** Do not be shocked to see new crop bids over $7.00 during harvest. Consider the cost of carry. Consider selling and owning the board. The problem with that is you cannot take advantage of basis gains. This is going to get crazy, compared to normal.

This is the situation that is developing. We look for it too. Remember the gap at $7.26. Plus, there are many more issues that can cause grain prices to move even higher. The risk is China goes after Taiwan, **<u>which creates tremendous risk to the downside</u>**. If yes, think October?

If Russia turns the screws on Europe even more, that will push inflation higher. It will also mean less fertilizer production. Europe is working to save its behind by switching from NG to diesel fuel to power its industrial sector. This tightens diesel fuel supplies. You cannot take from one without creating another issue. Just like Europe not buying the corn it needs from the U.S. because of GMO concerns. They buy sorghum/milo instead. Milo prices skyrocket, lifting corn prices along with it. So many more issues, and even more risks, are coming at us in the next 9 months than this last year. But great opportunities, too!

The corn prices in China have been steadily rising, up to $10.22 this week. They have argued that China should be in for corn based on their prices, and they were right. China had a flash sale of 133k mt on Wednesday. Export sales showed 7.6 mb of old crop sold last week and 7.5 mb of new crop. Corn demand from China over the last 2-weeks totaled 5.2 mb of new crop corn.

Strategie Grains estimated Europe's corn crop at 55.4 mmt, well below USDA's last estimate of 68.0 mmt and the lowest in 15-years. Their on-going drought is creating low river levels and is adding to this year's problems in Europe. The French Ag Minister says this is going to be their worst corn crop on record. With Europe's on-going drought, imports of grain by the EU are expected to be massive. After that comment, Italy came in under Flash Sales taking corn. It has been a long time since they have shown up there.

Conab estimated Brazil's corn production at 114.7 mmt or 4.52 bb, less than USDA's 116.0 mmt estimate, but still a new record high. More acres always help.

<u>Soybeans</u>: Mexico stepped in to buy133,400 mt of soybean cake and meal this week. Plus, China came in for 196k mts of soybeans.

U.S. cash soybean meal prices in Illinois closed over $603/ton this week, its highest price on record which goes back to only 2016. Palm oil prices have tacked on gains of about 10% this week, supporting soybean oil, helping lift Sept22 soyoil from $65.00 to $69.80 today.

Using Jan23 futures, the value of the soybean crush remains $2.76 above the cost of soybeans, enticing crushers to chase for more supplies to keep them operating at a high level. The $20/bu price in China should keep them coming in for soybeans, especially since Brazil's crop was so short this year.

Wheat: To date, 12 ships have left Ukraine, with mostly poor-quality corn stuck on those ships for over 5-months. No wheat has been exported yet. That is not including wheat which was stolen by Russia and shipped out.

Monday's 6% drop in G/E ratings for spring wheat showed the crop is vulnerable to the hot and dry weather that persists, especially in Montana and South Dakota. The shift of the hot and dry conditions from the Midwest to the PNW needs to be watched. U.S. and world wheat supplies are expected to remain at historically low levels in 2022/2023.

Crop Ratings: USDA's crop ratings cover 18 states. Of those 18, 9 states lie east of the Mississippi River and 9 states lie west of the Mississippi River. Those states east of the Mississippi River accounted for 33% of the U.S. corn acreage and those acres west of the Mississippi River account for 58% of the U.S. corn acreage.

This week's G/E crop ratings for corn fell 3%, down to 58%. IL +1, IN +2, OH +3, IA -3, MI -3, WI -1, MN -1, ND -7, SD -6, NE -4, KS -6, MO -1. Soybeans G/E rating fell 1%. IL +2, IN +3, OH +2, MI -7, WI -3, MN -3, ND -4, SD -4, NE -3, KS -5, MO un, MS -2, LA +5, AR +3.

Crop Issues: We have mentioned this several times for this year's crop. Major problems this spring getting in, which created a tight planting window. Usually, you have disparity in plant maturities between the northern states like ND, SD, and MN. This year, it is like the growing season for the U.S. corn crop has been condensed in its growing stages.

If you have seen some of the NDVI maps, which we have posted on Twitter, you can see the disparity which shows up in this modeling. Growth/foliage is trailing versus the time of the year and is the lowest in years. Much of this is likely from the seed sitting in the cold ground for weeks before germinating.

This year has created much variation in this crop and variation is never good for attaining trendline yields. Plus, June was 2 degrees above normal. For best yields, corn needs June to average at least 1 degree above normal, with July and August coming in at least 1 degree below normal. This July may have been the warmest on record and at least 2 degrees above normal.

Corn's maturation is being accelerated by the heat. From Des Moines west, north, and south, corn yields are being cut by the constant heat. In the Harlan, Iowa area, northeast of Omaha, Nebraska about 60-miles, many fields of corn are already dented, way too early. These fields have no potential to increase yields now. Some have said they see a 20 bpa loss from the heat. Nebraska producers have chided us when we questioned the Digital Tour yield at 158 bpa, suggesting no way that low. They sighted cold weather, late plantings, long and wide strips of hail, higher than normal replanting's, and 100's of pivots being flipped from the storms that could not get repairs due to lack of parts. Iowa came down to 180 bpa from another's report that had it over 200 bpa just a few weeks ago.

We dropped our corn yield estimate last week to 172 bpa, due to this week's anticipated lack of rain and heat. We left soybeans unchanged at 50.0 bpa. We do not want to be high on these numbers, working to be conservative. Our numbers are very friendly to prices – later. Lower numbers become more bullish and more bullish earlier.

Here is a very early call. This fall's low in corn may have already arrived. The open gap area could easily hold ***<u>if</u>*** tested again ***(counter seasonal rally?)***. If yields fall to our numbers, or lower, we forecast the gap will hold. If we are wrong and the gap does not hold, <u>the lows set in July will not be broken</u>.

Also, an early call, buy the next good push lower and own all bushels you need or want to price in January and February of 2023. Just like last year. Prices will be just as good next year as last. Upside potential is not yet known as future production losses are still occurring. Also, add in Europe's on-going losses and likely production losses out of South America in 2023.

<u>Crop Yields</u>: The Digital Tour, powered by Gro Intelligence, uses public, private, and environmental data, including NDVI, land surface temperature maps, rainfall, USDA crop condition surveys, crop calendars, planted and harvested acreage data from NASS, cropland data, U.S. government soil surveys, weather forecasts, and much more. This year, they reported unfavorable planting dates. Land surface temperatures have been near historical highs. The NDVI map is trending below to well-below normal, which would be reflective of higher temperatures, planting and emergence delays, or some other combination of factors. Stay tuned to the weather, for with the lateness of some of the northern crops, well-timed rain could really add bushels, even for corn.

With all that, this week their per state yield estimates for **<u>corn yields</u>** as follows: Iowa 180, Illinois 197, Indiana 181, Ohio 179, Wisconsin 170, Nebraska 158, Kansas 118.5, and Missouri came in at 142.8.

For soybeans, the Digital Tour says IA 55.9, IL 60.0, IN 54.5, OH 51.8, WI 51.3, NE 52.5, KS 34.8, and MO 44.8.

Their final national yield estimates for corn are 167.2 bpa and 48.9 bpa for soybeans. If yields fall this low and no other changes were made to demand, 2022/2023 U.S. carryover stocks for corn would fall to 589 mb and for soybeans, -5.7 mb. Neither will appear in print. The USDA will cut demand to raise **<u>corn carryover</u>** to at least 800 mb and **<u>soybean carryover</u>** to at least 120 mb. That would create a reduction in soybean demand by 125 mb.

<u>Curious</u>: In 2016, the U.S. had its wettest July/August period in the Midwest in 127-years since records were kept. That included the Dakotas, Nebraska, and Kansas, also receiving above average precipitation. That year, soybeans set their record yield of **<u>51.9 bpa</u>**. With such extensive crop issues this year, how much below USDA's trendline yield projection of **<u>51.5 bpa</u>** will this year's crop fall, considering the highest production year ever was 51.9 bpa?

<u>Europe</u>: Strategie Grains slashed EU's corn harvest by 10 mmt to a 15-year low of 55.4 mmt ***(2.18 bb)*** due to its continuing heatwave and on-going drought. SG raised its 22/23 import forecast by 3 mmt to 20 mmt, with 9 mmt of that coming from Ukraine ***(with some uncertainties)***.

We have detailed this to Subscribers before, that those in poorer nations would cut back on fertilizer usage 1st due to high prices. We did not think about the highest prices for fertilizer in Europe causing the same reduction in application rates. EU farmers did have much higher fertilizer costs and many did put on less. Europe is now suffering through the worst drought on record. Less fertilizer with this drought and yield falls further and faster than expected. USDA has their production at 68 mmt. Estimates have total production off by 15%. We cannot rule that out, with the current longer forecast and less fertilizer, yield losses for many will reach 30% or more.

Europe does not accept GMOs, which keeps them from importing U.S. corn. Expectations are they will increase their imports of sorghum. Grain is grain, so any increase in grain demand reduces global cereal stocks.

Besides grains taking a broadside hit, Germany's industrial manufacturing base is going to take a major hit over the next 9-months. Most of it is powered by cheap and abundant supplies of NG. Many are expected to shut down due to unavailability of supplies or costs too high to operate. Europe is a major manufacturer and exporter of fertilizers, especially NG. This will raise world prices this winter as they go off-line. See our posting of those plants which have already shut down or have reduced production.

<u>Inflation</u>: After 27-straight monthly increases, the PPI dropped in July by -0.5% versus +0.2% expected. That is the biggest drop since April 2020. On a YoY basis, PPI remains up a shocking 9.8%. For the 19th straight month, PPI has exceeded CPI, implying more pressure on U.S. businesses.

The CPI fell by a small fraction of Wednesday's data release, as did the PPI. That was mostly due to the sharp fall in energy prices, appliances, and airline travel. But some of the sharpest year-over-year jumps in food purchased for consumption at home include flour +22.7%, chicken +17.6%, milk +15.6%, bread +13.7%, & eggs +38%. Food prices, and especially costs for food at home, continue to soar, *<u>rising at the fastest pace in more than 43 years</u>*.

<u>Energy</u>: Now that fears of collapsing gasoline demand have been shelved, expect higher prices ahead. Implied gasoline demand finally spiked, jumping back over 9 million: was 9.12 m in last week, up from artificially low to 8.54 m ***(numbers being manipulated by the govt)*** the week before.

Higher because the wholesale cost of gasoline in New York surged more than 40% against futures, after regional supplies sank to the lowest level in a decade, raising the risk of shortages. Gasoline stockpiles in the central East Coast region are at the lowest absolute level since

November 2012, reported by the EIA. Seasonally, supplies are near an all-time low in records, back to 1993. As a result, New York gasoline on the spot market jumped by $0.10 Wednesday.

Gasoline sales have been rising over the past few weeks ***(GasBuddy).*** Implied demand figure from the EIA has been far more volatile than usual in recent weeks (prompted allegations of manipulation by the DOE), but the latest weekly jump should help further bolster retail volumes.

***** <u>Diesel Supplies</u>** remain dire as well, with seasonal distillates stockpiles languishing at the lowest level ever since March in records going back to 1993. The tightness will start to be felt when the weather turns in 2 months.

***** <u>Fertilizer/Fuel</u>:** Stay in touch with your fuel, fertilizer, and chemical guys. Prices will begin rising soon. Unavailability on some products already showing up.

<u>Weather</u>: Our Trifecta, which has confused the "experts" all year. Instead of weakening months ago, it remains strong, even strengthening at times over the last 30 days. This La Nina is not coming to an end but will strengthen over the next 30-days. This will eventually change the current flow of the Pacific, which will move precipitation patterns this fall.

The Southwestern Monsoon season has been the strongest and most sustained than we have ever seen. More movement in the Arctic oscillation will drive precipitation patterns more than they did in July.

Forecasters peg the chance for La Nina conditions in December through February at 60%. If that forecast pans out, it will "officially" become a Trifecta. It will be the 3rd-straight La Nina in the Dec/Jan/Feb timeframe – the 1st "three-peat" in 22-years.

We are by far, not experts. Our background is Ag spans decades. Our focus has always been on weather, as it determines supplies, which are half the equation necessary to compute price. Global demand, as we have written before, has always been extremely consistent, running about +1.2%/year. How can we figure out that 2022/2023 would be the year of a Trifecta, when the "experts" kept pooh-poohing the notion, projecting La Nina to go neutral by summer? Here is a reprint from April 20th, MNU #1984.

"The next Big Deal factor is our Trifecta. We wish to lead the pack in talking about what others will be talking about 6 months from now! A back-to-back-to-back La Nina is a Big Deal. We have never talked about such a thing in all our years. This event lines up with our forecast for the 1st half of the 20's to be a period of higher grain prices, droughts, major droughts *(the 89-year drought cycle),* ***and extreme price volatility, a time of opportunity for great profits.*** *(We will not post all the data here, as we post it on twitter. If you wish to see all, click on the link above. YOU DO NOT HAVE TO HAVE A TWITTER ACCOUNT to see what we post.)* ***What are you going to do to pad your pockets in preparation for the Great Grain Train Crash which is inevitable?***

The CDAS Nino 1+2 index collapsed last week. This is exactly opposite of what occurs if La Nina was weakening. This will strengthen the seasonal drought for Brazil, which began

nearly a month ago. This fact will see CONAB cutting their corn production forecasts for the 2022 production within the next few weeks. This is at a time when the world cannot afford to have any crop losses anywhere in 2022. Such crop losses only feed into and heightens the growing Global Food Crisis.

This change <u>nearly guarantees</u> a Trifecta for this La Nina. And due to this freefall in the CDAS, most forecasters increased their drought risks for the U.S. Midwest, pushing the risk factors out through August, with the greatest drought risks centered over Omaha and Kansas City. This singular change will reduce the rain, and chances of rain, for those areas already under drought. That is pretty much all of South Dakota and all states south to the Gulf. If little to no rain would fall in this much of the Midwest through May, grain prices will respond."