Dear Subscriber's Plus, Full Service Light, and Full Service Subscribers

Attached are our 2021 Target Zone Charts and Summary Analysis Report – December 20, 2020

***** Due to the unusually higher number of factors driving grain prices higher into 2021 and the amount of information that will be provided on each one, our <u>Summary Analysis Report</u> will be divided into *<u>three mailings</u>* to be sent out over the *<u>next three months</u>* in order to provide an in depth analysis on each topic. All mailings will include the 2021 Target Zone Charts.**

Looking forward with a backwards glance helps give guidance to future possibilities. We looked back to review our thoughts for 2020. The Wuhan Virus (WV) was the 2nd thing that came along to upset the proverbial apple cart. The 1st was the large carryover stocks held in the U.S. in 2019, which had finally been falling later in the year. Come January 2020, the USDA calculated U.S. 2019/2020 soybean carryover stocks at 475 mb, down from January 2019 carryover stocks of 913 mb. Corn stocks were estimated at 1.89 bb, down from 2.11 bb and wheat stocks were 965 mb, down from 1.08 bb. While for all 3 grains the stocks were not overly burdensome, they were still high enough to limit upside potential.

Then in came the U.S. & China with the WV. You may not have heard that before. Yes, the U.S. was involved with China. The U.S. did funnel money to the lab in Wuhan for disease studies. It is a tangled web that more governments, and major corporations in the pharmaceutical arena, have woven that most do not know about. Just remember, it is all about the money they can make in the drug development area; follow the money. Still, no matter what they are all up to, the end result to our grain markets is our only concern within this report.

First we would like to say how excited we are about 2021 and beyond. It has been 7-years since we have had fantastic grain marketing opportunities coming at us. The one fear we have is that prices could rise too high, sending prices into the dumpster once again. While that always is a possibility, let us not dull the luster of tomorrow's blessings with worry. We will be wise enough to price 3-years grain production when prices become better than we could have imagined; right??!!!

Second, there are more factors behind these rising prices than we have ever had. So much so, for the depth of detail we desire to provide, this report would be too lengthy. To do each one justice and allow readers to digest this report more thoroughly, we are going to break this information into several mailings over 2 or 3 months. This also allows us to help you follow the developments moving grain prices higher and what we are looking for as time progresses. It is our hope that by doing so, it will keep you more in tune with the market, allowing you to make more informed marketing decisions for your operation. Now let us back up a bit and lay the groundwork behind the 2 primary factors driving prices higher; China and World Weather Trends.

Ag Masters addressed the potential hit grain prices were going to take in special issue MNU, #1824, on February 23, 2020; a special follow-up to our normal Friday MNU sent on February 21. This paragraph was the key to great profitability of your 2019 grain production:

*"As we texted late **on Friday**, we agreed with a Subscriber who was planning on selling his 2019 corn because of the good basis, which gives him a profit. He further planned on buying futures against his cash sale. Because of the "supply chain" risk to all commodities from CV, we agreed with him making this sale ASAP. We did not agree with his plans to buy back this grain with futures. His sale was a manage risk step and guaranteed profit to his operation. Re-owning those bushels at the same time would not have changed his risk position. Selling the cash grain did, re-owning at the same time negated what he really wished to accomplish. Our advice was to not re-own his cash sale – at this time. That re-ownership should only come when the world has secured control over CV and good reasons for corn to rally begin coming to light.* ***Those who desire to take a risk-off stance with corn need to price all your 2019 production in a delivery month that works for you. Your decision as to what percentage of those bushels needs price needs to be weighed against your ability to manage that sale.****"*

The next paragraph addressed new crop production.

"Others are concerned about how CV will affect new crop corn prices. Again, no one really knows. The question was simple, "Do I need to sell it all NOW!" Besides CV, corn has many negatives that will and are weighing on new crop prices. Yet, there are a few bullish arguments for corn to rally later; South American weather and U.S. weather. That's a waiting game. Again, the recommendation would be the same as it is for old crop corn. What is your ability to "manage" any pricing you do? If you have no ability, the price you take today is what you get. You can't change that decision later. You still have 18 months to price 2020 production, if you can store it on the farm. ***Due to the risk of CV gaining traction and if you can manage these sales, you can take your 2020 sales up to 35%.*** *For soybeans, we see many reasons to prefer to stand aside on making sales at today's price levels."*

At the time of these recommendations, Mar20 corn was trading at $3.80, with Mar20 soybeans at $8.95. By the end of April, May20 corn had fallen to a low of $3.002 and May20 soybeans had hit the low of $8.082. From those lows, grains have slowly risen; taking off like a Banshee these last 3 months.

In September we wrote, *"**It is time to change your mindset!** In times of falling prices, which was the "era" we have been in for 8-years since August of 2012, the most profitable methodology of pricing your crops was by selling them for the best price before you harvest. With such poor prices, the cost of carry by storing your crop into the next marketing year would generally not cover any price appreciation.*

*The **New Era** we are entering is the exact opposite of the last 8-years. **This will be where you defer all grain sales for as long as you can to generate as much profit as possible**. Within this New Era, which should run approximately 4 years, you will need to time your cash grain sales to potential highs for cash flow purposes. During the year, one will see 3 sizeable rallies during the year. Now is not the time to worry about the cost of storage, especially on soybeans, which will be the most dynamic market in the 1st year of this New Era."*

This most important takeaway from the above 2 paragraphs is that, ***"It is time you change your mindset!"*** Mentally, we have been beaten down. After 8-years of low to even lower prices with little if any profits at times, one develops a marketing strategy to preserve assets and avoid risk at all costs. That training has to be thrown out the window during this ***"New Era".*** This is a time where letting profits ride will serve one's operation with more profits. The most important thing you can do in riding this grain train is to learn and understand all the reasons behind this push. By doing so, when these ***Market-Moving-Factors*** change, you will know it is time to get off this ride and push old crop and new crop sales hard and fast.

Those issues driving prices higher today and even higher in 2020 are the focus and the basis of this, our ***Summary Analysis Report for 2021*.**

*** We always struggle to determine what is best. Would producers rather see the max upside potential in old crop futures or new crop futures? Those producers who sell ahead need to see the upside potential in both old crop and new crop. With this unprecedented demand rally in soybeans and the spread between old crop and new crop so wide, we decided to use July21 futures for corn & wheat, while using Aug21 futures for soybeans. When June21 arrives, we will issue updated Target Zone Charts for Nov21 soybeans & Dec21 corn & K.C. wheat futures.

Being that it is also wise to price some new crop grain when you decide to price old crop, you would not necessarily need new crop pricing. But with this coming year being so unpredictable and with so many bullish underpinning, we decided to break things down even further in hopes you better understand all the factors driving prices higher.

We will be writing more on each grain later, but for now, just a brief recap.

August 21 SOYBEANS: $10.40 – $12.80 / $12.80 - $15.20 / $15.20 - 17.60

Soybeans will be the market leader in 2021. We fear soybeans' price move could be like MN spring wheat was in 2008, when spring wheat carryover stocks fell to zero and the board price went to $25/bu. Demand has been sufficient to move soybean prices to $14.50. Crop losses of 10 mmts in South America guarantees our Middle Third price projection will be reached. Just today, November 21, a reporting firm lowered Brazil's soybean production from 133 mmts to 123.4 mmts; or over 9 mmts. While our Upper Third price target is quite high, we see South America's drought being one of the worst in decades. If we are correct on the weather, our Upper Third is too low. Please keep updated with us into 2021.

July 21 Corn: $3.80 - $4.90 / $4.90 - $6.00 / $6.00 - $7.10

Corn is a follower of soybeans. Its carryover stocks can only lift its price to $4.60 to $4.65. Our Upper Third projection incorporated soybeans pulling corn higher, South America's drought clipping 10 to 20 mmts off their 2 corn crops, the USDA lowering last year's U.S. production by 1.5 to 2 bpa, corn having to bid acres away from soybeans this spring, and crop reducing weather in the U.S. this summer. We are asking for many things to come together to lift corn above $5.00, let alone $6.00.

JULY 21 KC WHEAT: $4.40 - $5.30 / $5.30 - $6.20 / $6.20 - $7.10

Wheat needs the most help to reach its Upper Third. World stocks continue to be the most bearish factor for wheat. Wheat's saving grace is that it has many more markets working in competition to pull it higher. The bidding war for acres could easily see wheat acres fall 1 or 2 million. If the on-going droughts continue in Russia and the U.S., wheat will perk up in 6 weeks.

<u>Market Factor Summary for 2021</u>

(1) China, ASF and The Great Rebuild
(2) China's Weather Calamities of 2020
(3) China's "Farm Payment" Policies
(4) China's Strategic Grain Reserves
(5) World Weather Trends
(6) La Nina
(7) South American Grain Production
(8) U.S & World Carryover Stocks
(9) Exports of Competing Nations
(10) U.S. Acreage & Production
(11) Massive Debt/Inflation/USD Trend

<u>It is time to change your mindset</u>! In times of falling prices, which was the "era" we have been in for 8-years since August of 2012, the most profitable methodology of pricing your crops was by selling them for the best price before harvest. With such poor prices, the cost of carry storing your crop into the next marketing year would generally not cover any price appreciation.

The ***<u>New Era</u>*** we are entering is the exact opposite of the last 8-years. This will be where you defer all grain sales for as long as you can to generate as much profit as possible. Within this New Era, which should run approximately 4 to 5 years, you will need to time your cash grain sales to potential highs for cash flow purposes. During this marketing year, which runs from September 1, 2020 to August 31, 2021, we are going to witness 3-rally events. The 2nd rally event will reach higher highs than the 1st. How high the 3rd rally will rise we cannot say at this time. Now is not the time to worry about the cost of storage, especially on soybeans, which will be the most dynamic market in the 1st year of this New Era.

On a percentage basis, soybeans 16% gain in 30-days following the USDA's August crop report *<u>was the largest rally in time in over 40-years</u>*. The trade needed the August USDA report out of the way so they could focus on the **"<u>unknown</u>"** demand picture. ***(That "unknown" qualification continues today.)*** "Flash" soybean sales to China continued nearly every day until November 9th. The trade struggled to understand if this was true demand or if China was restocking reserves or building reserves on fears of the possibility of the "unattainability" of supplies caused by the WV or geo-political concerns ***(rising tensions with the U.S.).***

The key word here is **"<u>unknown</u>".** If the trade does not know the reasons behind this possible "new" demand, they cannot place a value on that product. Then, upside valuations become anybody's guess. Daily price action showed this was becoming a demand driven rally, where the lead month outpaces the back months. There were days that confused the trade, where back months were up more than double the lead months.

This ***"New Era"*** is coming to us from a slew of supporting issues. This is not like the EPA induced ethanol rally from 2006 to 2008. This is not like the demand rally from 2010 to 2011. This is not like the supply/drought led rally in 2012. This is a totally different rally, supported by numerous demand factors we have not seen for many, many decades; if at all.

****** As the first 4 on our list are intertwined, they will be covered together.***

1) **<u>China, ASF and The Great Rebuild</u>**

2) **<u>China's Weather Calamities of 2020</u>**

3) **<u>China's "Farm Payment" Policies</u>**

4) **<u>China's Strategic Grain Reserves</u>**

<u>CORN</u>: China's corn demand comes from the P1 agreement; or does it? Does China's soybean demand come from the P1 agreement, actual demand, the need to rebuild inventories, or a combination of any of the above items?

China's renewed demand for U.S. corn stems from a number of reasons. One is from a change in internal policies, where China ***<u>was</u>*** subsidizing corn production. Those subsidies led to increased production, ballooning supplies. China changed this policy and stopped subsidizing. Subsequently, corn production is projected to fall ***<u>25 to 50 mmts below internal demand this year.</u>***

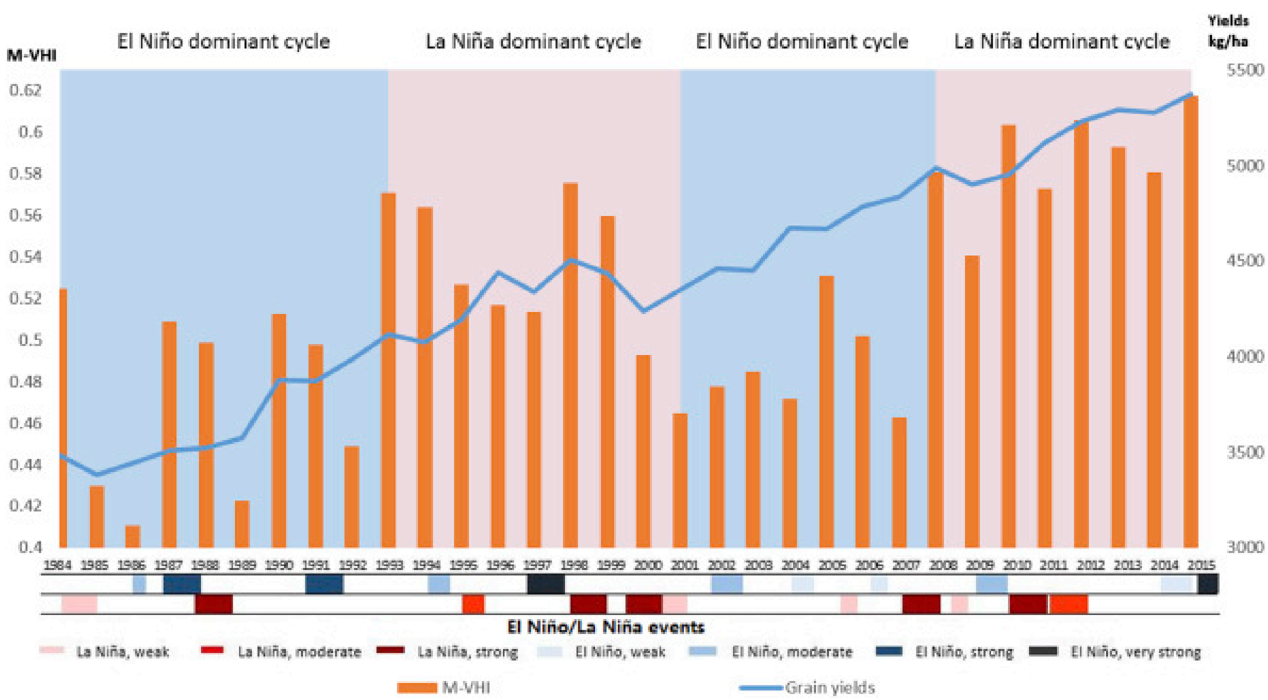
Before 3 typhoons hit their corn growing regions last summer, their corn crop was getting hit by drought, army worms and flooding from the monsoons. Their 2020 monsoon season turned into a record setting event, which they have called a 100-year flood and later, changed it to a 200-year flood event. This 100-200 year flood event was said to have affected up to 20% of their best producing agricultural lands. At the time of this disaster, corn or beans were not mentioned to have suffered production losses. Still, this lost food production will have to be replaced with something, which could just as well be corn, wheat, soybeans, soyoil, sorghum, rye, etc.

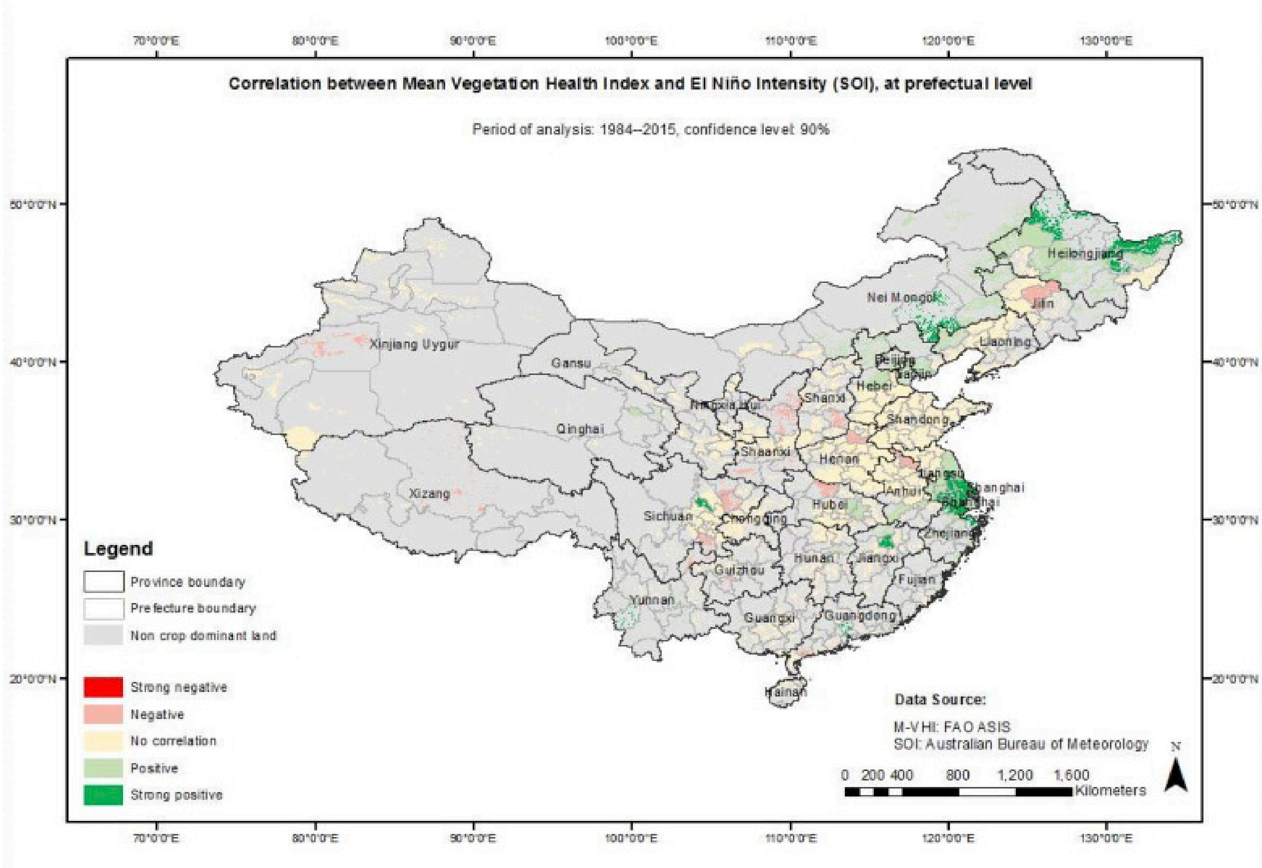
With this major flooding event in China in 2019, was it attributable to the La Niña event that was just initiating at that time? With some research, we found only a broad based answer referencing global production. El Niño likely improves the global-mean soybean yield between 2.1% and 5.4%, but it appears to change the yields of maize, rice and wheat between −4.3 and + 0.8%. The global-mean yields of all these four crops during La Niña years tend to be below normal (−4.5 to 0.0%). In the case of China, the available data is still limited.

Time series data shown below also included grain production, yield and sowing area statistics from 1984 to 2015 of all 31 provinces and were retrieved from the website of the Chinese Ministry of Agriculture ***(official statistics).*** National level statistics in the current were aggregated from the province level. Grains in China mainly refer to rice, wheat, maize, soybean and millet.

The chart below shows time cycles where either El Niño or La Nina was the dominant feature. **Our read** suggests that during a La Niña dominant cycle, China's overall yield production was higher. The earth looks to be entering a La Niña dominant cycle, which would benefit China. Higher yields tend to correlate with higher rainfall. A warming atmosphere holds more moisture. Thus, the answer to the original question appears to be yes; China's record flooding event could be attributed to the budding, La Niña event.

Their read goes like this: More cropland is sensitive to La Niña events than El Niño events. More cropland benefits from the La Niña events ***(43.1%, positive or strong positive relationships between SOI and M-VHI present)*** than the El Niño events ***(20.6%).*** The result also shows that more cropland is affected by the negative impact of La Niña events ***(13.5%)*** than that of El Niño events ***(10.9%).***





Besides weather concerns affecting China's ability to produce the crops it needs to feed its people, China fears the possibility of other nation's ports being closed due to the WV. While China had already identified that as a threat to their strategic food reserves, here comes African swine fever ***(ASF)*** crossing into Germany ***(ASF was found in a dead, wild boar carcass just inside the German border several months ago.)*** and forcing China to close its borders to the importation of German pork. Even though Germany had been planning for an ASD intrusion for over a year, which we believe they successfully controlled by immediately locking down and keeping it out of their commercial herds, China did not feel they could take that risk and banned imports of pork from Germany. ***Germany is the #3 exporter of pork to China at 15.3% of their total imports. Spain is #1 at 15.81%, with the U.S. is a very close 2nd at 15.8%.***

With open borders between all the EU nations, imagine ***<u>what is going through China's mind</u>***? While the U.S. fears getting ASF, all countries in the EU can contract it at almost any time. China looks at all these factors, even worrying about South America's hogs succumbing to ASF. With food security now pushed front and center in China, forget the P1 agreement. Or better yet, tell the U.S. you are buying all this grain because you can be trusted to honor the P1 agreement; when you are lying through your teeth. In reality, fear grips China's elites, knowing food shortages will cause civil unrest; something they must avoid at all costs.

Put yourself in China's shoes. We do not believe China trusts the rest of the world ***(at this time, with all the extenuating factors in play)*** to be able to provide all of China's protein needs when they demand it; their much loved pork. China is pushing hard and fast to become self-sufficient in pork production. We know China is rebuilding its hog herds as quickly as possible, ***creating a much greater demand for corn, soybeans and soybean meal than most realize or even understand***. But there is so much more to this story than is being told.

These are the facts as we know them. China grows about 50% of all the pork in the world. Of their production, about 45% are grown on small, rural farms like we had in the U.S. in the 40's, 50's and 60's; open pins of 10, 20 or 30 hogs. These Mom and Pop herds are not fed "rations". They were fed slop, table scraps, waste milk, turnip, waste garden products, etc. ASF ravaged the small producer. The disease stays in the open hog pens for months. Birds pick up the infected manure and spread it around to other farms. When hogs died, they did not bury the carcasses as mandated by the government. They did not have the manpower or equipment to do so. Some used wheelbarrows and dumped the carcasses in nearby streams or rivers. Others just piled the carcasses out of sight; out of mind. So when they went to restock their farms with fresh, clean hogs, those hogs were immediately re-infected and died.

In order to stop this re-infection from ASF ravaging China's rural hog herds again, China placed regulations on "open air" pens. A confinement type system is now required if you want to grow hogs. Massive "Hog Hotels" are being built, some 6-stories high. There are reports of one such hog hotel that is over 20-stories high! ***(Our 1st thought is that this is really smart for cleaning, as manure flows downhill?)*** In this one massive complex, it reportedly holds 84,000 sows; plus all the litters from those sows. Imagine the hectares of land required for all that manure?

Here is the bottom line for all these changes to hog production that came from ASF in China 2-years ago. A huge number of "new", non-rural hogs are coming on-line to feed the people of China, which are being fed rations of soybean meal and corn. We cannot even compute how much more corn or soybean meal will be needed when all of China's "new" hogs come on-line consuming high-value rations instead of table scraps.

This is the best of both worlds for the U.S. grain producers. Consider if we are only half right on our thoughts and then what if we are correct on all? Remember ***food security*** is a strategic, national security issue for China. Storms, floods, droughts, army worms, and government policies have all aligned to drastically lower grain production in China; the perfect storm that is single handedly lifting up U.S. grain producers. China is creating increased feed demand while facing decreasing feed supplies; again, the perfect storm. China fears its own inability of securing/producing its current needs due to ASF and the WV. In this whole package of issues, we did not even mention China's expansion in other protein sectors; poultry, cattle, aquaculture, etc. Those all consume soybean meal, DDGs and corn, too.

As China analyzes what is happening, it is realizing it needs to build a 2-year reserve for all its critical needs. This will range from precious metals to meats, grains, crude oil, etc. To build reserves, China is not only building more grain storage capacity, they are building better grain storage. Remember, this is for the ***strategic reserves*** for ***food and national security***. Being dependent on any other nation for anything scares China's elites more than anything. They realize most nations see them as a threat to their current form of government. They will "control" what they can and "manipulate" those they cannot control. To achieve their ends, China first needs to protect themselves against grain shortages, which would be caused by crop failures in other parts of the world. By building 2-years of reserves, they offset this risk to a major degree.

But then they have to fill that reserve. The question becomes is China working on doing that now? If this is what is unfolding, how long will China need to "buy up" all the soybeans the world can produce so they can shut off buying when prices rise too high or when they seek to punish another nation? That is what is occurring between China and Australia right now. China is punishing them by not importing their coal. With Australia being their #1 outside supplier of coal, this has reduced China's ability to produce enough electricity to their nation. The Chinese citizens have to suffer from not having enough electricity to heat their homes during the winter months, as their government punishes another country for not acting in a manner most favorable to them. Australia has put out a good amount of negative press about how China was responsible for unleashing the WV on the world. For that of course, China must "bring them inline" with how they should be treating China.

By building a 2-year grain reserve, China affords themselves the ability to punish countries who export grain or any commodities to them if they do not do China's bidding. ***By achieving that goal, China becomes a market maker today, but a market breaker tomorrow.***

The question still remains, is China buying for their needs today, are they buying for their grain reserve, or are they buying for both. Another question would be if price matters? We believe ***not so much***. China appears to be buying puts, which gives them the money to buy calls; both placing them long the market. If they use options to cover "all" their needs in advance, their net cost ends up being near the entry point on those options. Using this strategy, they have already set their purchase price on the number of bushels they covered with the options; no matter where the cash price is of that grain. They started this strategy when soybean prices were in the $9.00 range. Each time they purchased puts and then calls, they set the floor under the market from which price launched its next rally. Their last entry for buying puts and then calls was at $11.40. Price subsequently fell to $11.396 and then rallied. Later in night trade, price fell to $11.38, then rallied again. Since that day, price then continued higher, reaching $12.00. Price never fell below $11.40 since and 4 weeks later, price moved above $12.00.

Another question that needs to be asked is how long does China need to accumulate all the soybeans it needs so it can shut off buying in order to stick it to those who they desire to punish for whatever reasons they have? With the demand explosion seen in China due to the rebuilding of their hog herds and other protein sources, this will take some time. With the world weather trends reducing production for several more years, we suspect it will take much longer than what the Chinese would like. To that end, China is in Africa, building its silk road and creating obligations to them from the countries within; all to help insure supplies of all those commodities it will need now and into the future. Nations around the world should not be turning a blind eye to what China is doing, as it will lead to their eventual downfall. China is essentially eating up the world's resources under our eyes. While many see this as a financial windfall today, it will end up being a control factor in the future.

Conclusion

China's "Perfect Storm" is a blessing today to producers in the United States, but in time, it will become a stick to beat prices lower when China so desires. This truth may be several years away, or it could be decades. This truth is what U.S. producers must understand. This will create future volatility in grain markets that would be quite financially harmful if you do not understand what is happening. China could depress grain prices for several years, which would then be followed by much higher prices afterwards. We are experiencing that updraft in prices today. That downdraft would be just as swift, if not swifter.

Whenever China welds the power to control other nations, it will do so. The easiest way and the way with the least consequences for retaliation to themselves would be with embargoes or tariffs. Their last resort would be militarily. With Trump in office, that confrontation could have come sooner with the issues concerning Taiwan. With a Harris/Biden administration, we doubt there will be any "real" effort to protect Taiwan from China doing anything they so desire to them.