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

2nd Issue – February 8, 2021

Added Attachment April 23, 2021

(3nd Mailing of 3)

A Re-Analysis and Market Factor Summary for 2021

(1) China, ASF and The Great Rebuild
(2) China's Feed Grain Demand – What is Real
(3) China's Strategic Grain Reserves
(4) China's Subsidies
(5) World Weather Trends
(6) La Nina - Or Not
(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/CME

Missing in this 3rd update of our **2021 Target Zone Charts and Summary Analysis Report** are China's Weather Calamities of 2020. Those events have all but been priced into the market.

In our last update, bullish was brought to bear in the soybean pit when **a group raised China's 2021/2022 demand for soybeans to 110 mmts.** Do make note that this is for ***2021/2022*,** the marketing year that begins September 1, 2021. This changes the world demand situation considerably - if it comes to fruition. In upcoming reports, please pay attention to China's demand needs for next year. How real this demand is will be of major consequence to grain price inflation or deflation?

Let us backup and repeat important, baseline information, which needs to be understood for the basis of evaluating and then projecting price probabilities.

World demand is linear, meaning it is very stable; constant. World grain demand increases approximately 1.2% per year. China's soybean demand had reached a projected 96 mmts before ASF devastated their hog herds. At peak ASF, estimated soybean demand from China had dropped to 84 mmts. After increasing protein production through other sources such as fish, ducks, geese, poultry and cattle, demand for soybean and soybean meal began rising. Shortly thereafter, China was able to begin rebuilding its hog herd.

If this demand projection for 2021/2022 of 110 mmts is correct, then from when African swine fever ***(ASF)*** first hit China's hog herds, growth from where demand was to where it is forecasted to be is increasing at a rate of 3.8%/year if we look at this as a 3-year debacle. If we use 2-years as the rebuild time frame, the demand growth rate would be 5.7%.

If China's soybean demand reaches 110 mmts in 2021/2022 as forecasted, its growth rate, YOY, could be as high at 10%, depending on where this marketing year's demand settles out. That number is still up in the air, as questions about ASF still has the USDA adjusting/guessing at China's overall demand. In their last report, the USDA reduced China's domestic usage by 2 mmts, though this could just be temporary.

Global pork production is forecasted to raise 4.9% in 2021 to 101.5 mts. China's pork production for 2021 is projected to increase 11.4%, with their pork imports decreasing by 8.2% to 4.9 mts. China's beginning stocks of sows has been projected to increase 24% in 2021 to 38.5 million head.

After a very fantastic expansion period in the last half of 2020 going into the 1st quarter of 2021, variants of ASF thought to be caused by unapproved vaccines, began sprouting in numerous parts of China, causing much fear that their accelerating herd expansion of 2020/2021 was coming to a screeching halt. That stymied soybeans' price rise, sending it sideways since its last peak on March 8th at $14.60.

Through the 1st quarter of 2021, traders have been confused by mixed reports of what is really occurring in China related to the growth, or lack of growth, of China's hog herds. Worries of increasing death losses had soybean traders anxious about increasing their length in futures. The USDA comes out in its April WASDE report reducing China's 2020/2021 crush by 2 mmts, confirming their worst fears.

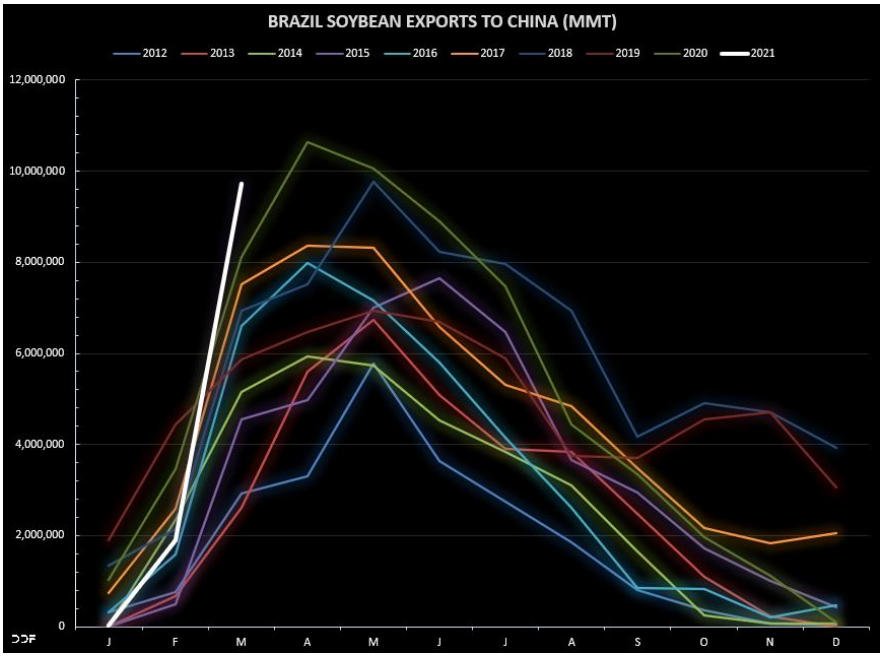
Countering that report, last week's USDA's export sales numbers showed net pork sales of only 17,200 mts for 2021, a marketing-year low, down 48% from the previous week and down 60% from the prior 4-week average. China was noticeably absent last week for the 1st time in forever, sending U.S. hog futures down the limit.

Is China's hog herds growing or not? We suggest looking at 3 things. What are grain prices doing in China, how soybean prices holding up in Brazil, how fast is China moving soybeans out of Brazil.

May soybean prices on the Dalian exchange are near their lows of 2021, with China's demand needs being met with Brazilian soybeans. While trading near this year's lows, price has been trading above its 100-day moving average and staying supported in a sideways range in 2021, somewhat mimicking price action here in the U.S. Last week on China's Dalian exchange, their soybean price was up 1.3%, at $17.05 USD. China's firming to higher soybean prices suggests more demand might be in the offering. In fact, toward the end of last week, June palm oil futures gapped higher, jumping over 3% higher, Canadian July canola futures rose to close at a new contract high and U.S. soybean oil futures were also up sharply Friday, posting a key reversal higher for the week and reflecting big demand for renewable biodiesel.

Brazil's soybean prices have remained surprisingly firm, after falling 10% from their January high, then rallying back 6% during harvest due to the aggressive demand for their soybeans from China.

How aggressive has Chinese demand been for Brazilian soybeans? As you can see, after a late start, soybeans are flying out of Brazil at a record pace.



The question that is not getting answered is if this rapid pace soybean purchases by China is for meeting current demand needs or are they also working on building their strategic grain reserves. We would like to tell you we know the answer to this, but that is not the case. All we can do is process the numbers to arrive at the most informed conclusion.

Consider China's corn imports. In March, China imported 1.93 mts of corn, up over 500% from last year. Going year-to-date, China's imports were 6.73 mts, up over 435% from last year's pace.

With this torrid import pace, is China just meeting demand or growing their strategic reserves? We believe they are doing both, but mainly working to stabilize their dwindling stocks. China was subsidizing their corn production, which led to abundant supplies with a substantial amount going bad. To use this grain which deteriorated to non-food grade, they developed their ethanol program to burn through it, while ending subsidies. That was a double-edged sword, decreasing production while increasing internal demand. In a period of about 4-years, demand ate through China's excess supplies, causing a rapid drawdown on their strategic reserves.

To correct this situation, China re-instated subsidies last year. This year, they have raised subsidies to entice even more acres to corn. In a combination of using feed rations that include less corn and more wheat or sorghum, increasing corn imports and increasing subsidies for growing corn, China is hoping they can stabilize their strategic corn reserves. To help with the feed rations, China has increased their imports of wheat and sorghum. In this week's exports loading report, 12.4 mb of sorghum was loaded out. Of that amount, China took 100% of it.

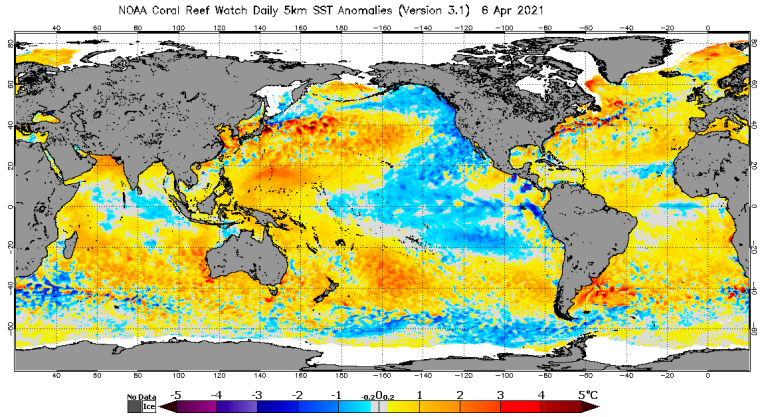
In a final analysis of China's insatiable demand for soybeans and corn this year, we can draw several conclusions based on the facts at hand and knowing that no one really knows their actual needs vs their needs/desires to build large reserves. China's endgame is simple to understand. Control their destiny by controlling anything and everything they can to their greatest advantage. Food security is paramount to them. Using ample supplies to drive world grain prices lower would be a weapon they could wield at the appropriate time. Therefore, due to China's mistakes in managing production, over-production and ASF, China's true battle remains building their protein supplies to a level of self-sufficiency. They need grain to get them to that point. Once there, they can begin replenishing their strategic grain reserves. This will take them several years.

The reports of ASF in various parts of China were attacked quickly this time, with tight lockdowns to prevent further spreading of the disease. Plus, these variant strains were not as deadly. China is reacting with all due haste to get as much of their hog herd in confinement as possible. In doing so, this will greatly increase feed demand, as nearly half their hog production was on table scraps just 2-years ago. China's demand for grains will continue increasing rapidly for at least another 2 to 3-years.

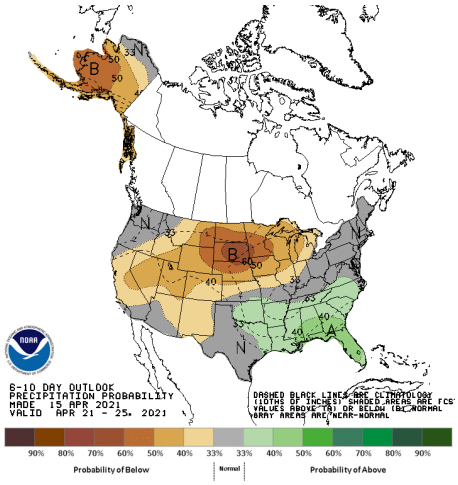
World weather trends and a budding **La Nina** continued its new trend from last summer of normal to below normal precipitation on a global basis in the world's grain producing countries. When a trend of trend to below trend grain production meets rising demand, grain prices become explosive; even more so if government spending rises parabolically.

La Nina talk has been the talk since last fall. Most have claimed it has faded and conditions have gone neutral. Within this cycle, ocean currents and pools of warm and cool waters still control wind currents. Those currents are part of the weather patterns which help dictate where rains can develop.

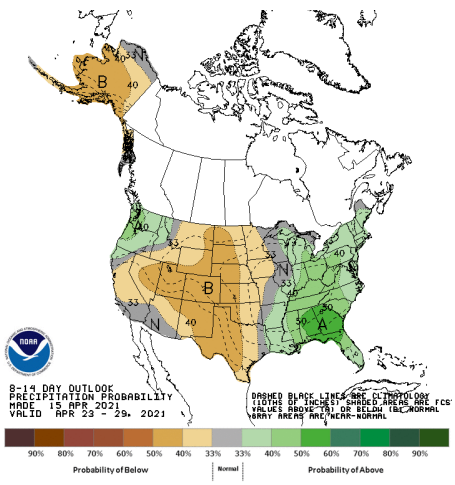
Colder waters off the western coastlines of the United States limits the amount of precipitation that will fall in the Midwestern states of the U.S. If those waters persist in their current location through July, grain production in the U.S. will come in below trend. Note the effects it is having on our current forecasts.



6–10-day forecast.



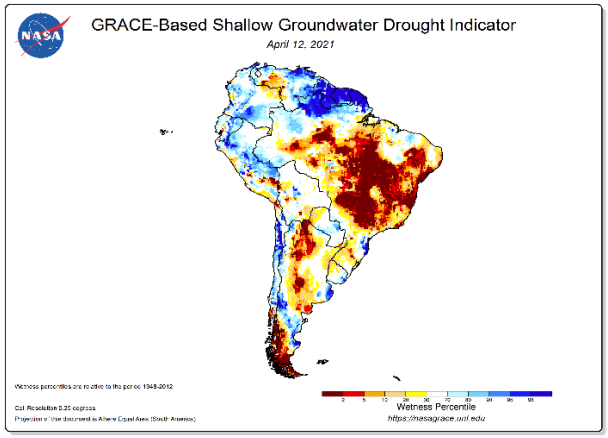
8–14-day forecast.

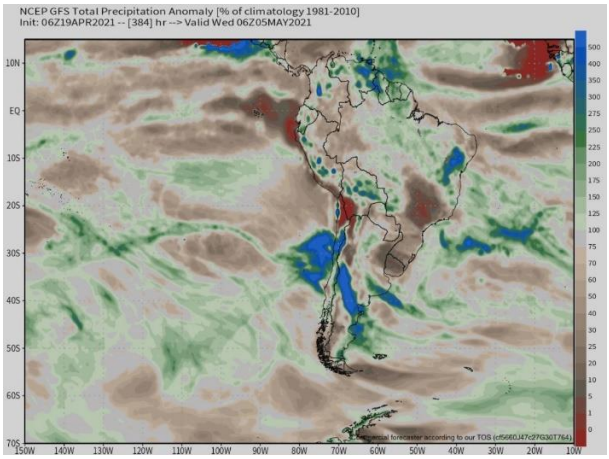


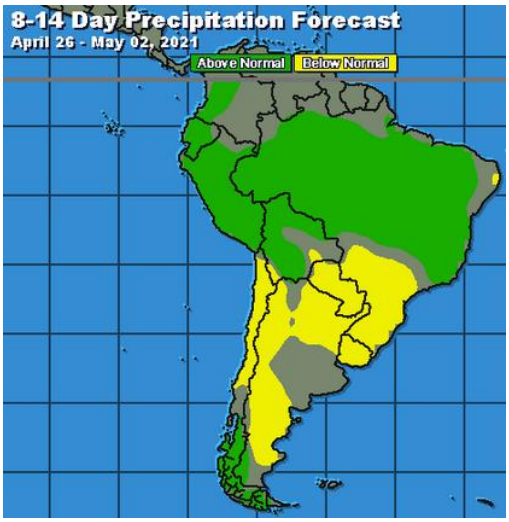
The oceanic temperatures support the precipitation modeling shown in the above forecasts. While this promotes early planting of the crops, it will not support trend yields in 2021. This weather trend needs to change. Generally, what weather trends "settle in" before the end of May, determines the weather trends through the summer.

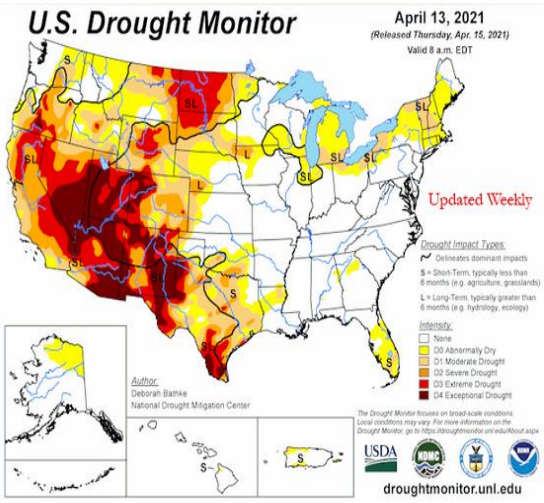
These ocean currents have shown a consistency to affect global grain production on a consistent basis. In so much that this statement is correct, in our 2nd issue of this year's report we wrote, ***"If our global weather forecast is correct, the world will see a global increase in feed grain demand, accompanied by a decrease in global feed grain production."*** If this is in fact what we are beginning to realize, the following statement was made, ***"The worst consequence, should this scenario come together as expected, would be insanely high grain prices."***

We can only just the veracity of these statements through observation. These are the current data maps confirming what we have been saying. The continuation of these trends would be a validation of our arguments in favor of dramatic rises in grain prices.

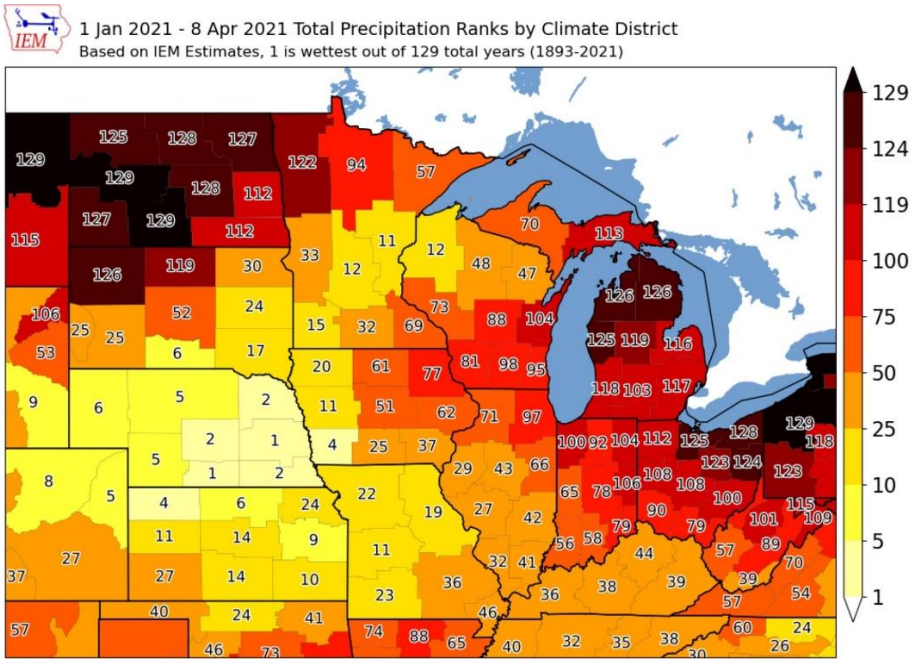








Everyone is looking out west and up north for how dry it is in the U.S. Paying attention to the happenings in the entire U.S. is important this year. This map shows total precipitation all this year through April 8th and how it ranks the quadrants of each state ranks over the past 129 years. You are likely amazed at how dry it is to the east; driest stretch in over 100 years in many areas.



Looking at **South American Grain Production**, we still see the USDA working to manage price. While it is understood they do it by maintaining U.S. carryover stocks higher than what they truly are, it was a surprise to see them do it by raising Brazil's soybean production estimates higher than even CONAB did. The USDA has a lag time before raising or lowering production. They usually error to limit changes in production before having substantiated facts to base it on. So, consider USDA's actions. First, they raised Brazil's soybean production by 2 mmts. Then they decided to maintain Argentina's production 3.5 mmts over Argentina's estimate from last month. That decision left Argentina's production 4.5 mmts over Argentina's most recent estimate which was released just a day earlier! It is blatantly obvious to us that the U.S. is placing their foot on the scales to manage price in favor of the end users.

Factual production numbers from South America will come out over time. What the USDA is hoping for is no production problems over the next 6-months so when they release the real numbers, their impact on prices will be marginal at best. If there are production losses, USDA's management scheme will blow up in their face, big time; literally. The impact on prices will be explosive. Point in fact, it started on Monday this week!

In fact, the Shallow Groundwater Drought Indicator Map showing what is available in the soils in Brazil is very scary in and of itself. With Brazil's normal drought cycle just 2 weeks away and their Safrina crop reaching its pollination stage the 1st week in May, crop losses are inevitable without timely rains. Current weather patterns indicate precipitation patterns are shifting earlier than normal for lessening rains. This is not good for exceptionally large areas of the Safrinha crop that is already suffering from the lack of moisture.

Areas of Brazil are experiencing a decline in crop conditions as dry conditions continue lingering over a good portion of southern & west central Brazil. The outlook for these areas remains below average precipitation for the foreseeable future.

When one follows the crop conditions and then sees the "experts" estimations on yields, it brings many things into question, maybe more so in years like this than in other, non-price threatening years?

In this month's USDA WASDE Report, they forecasted Brazil's corn production at 109.0 mmts, up from the average trade guesses of 108.3 mmts. In January's report, the average trade guesses were 108.7 mmts, but the USDA came in at 102 mmts. This is a bit confusing, as the average trade guess has remained constant for 3-months. Yet, as the crop begins to suffer, the USDA jumps to above the average trade guess.

Consider prices during this time. With the USDA raising Brazil's crop 7 mmts, the price of corn has kept rising. This should tell everyone of the issues in these grain markets. What happens when the USDA begins lowering production? We place odds on Brazil's corn production to come in much closer to USDA's beginning number, if not lower, than it does its new guesstimate.

U.S & World Carryover Stocks: To the best of their ability, the USDA is working to manage world carryover stocks, too. By increasing South America's grain production, it can pass-through these increases to their world calculations. In USDA's April revision of world stocks, soybean stocks increased 3.2 mmts. Corn stocks remained stable, only falling 1 mmts. The wheat number did show a surprise. The USDA reduced China's wheat stocks through usage by 5 mmts. Passing that through on their world stocks number, it fell from an average trade guess of 301.70 mmts to 295.50 mmts. While a sizable decrease, wheat stocks on a stocks-to-use ***(S/U)*** basis remain too high to matter "much" to price.

Traders will be watching to see how quickly the USDA lowers Brazil's corn production over the next 3-months. The greatest hit to their production will come during the month of May. Conab will begin making production cuts in the next few weeks, ahead of USDA's next WASDE report due out on May 12th next month. USDA's numbers will be a calculation up to May 1. If there is severe drought in Brazil the first 2-weeks of May, any number the USDA comes out with will be considered old news. Conab will likely have pre-empted USDA's release with numbers lower than the USDA comes out with, just like Conab did on this last report.

The other numbers of consequence will be Brazil's and Argentina's soybean production numbers. USDA's guesses can be construed as too high by as much as 5 mmts. Admitting to only being half wrong on their estimate would be going halfway to making it right. That is assuming Brazil's and Argentina's estimates were accurate to begin with. A 5 mmt miss is nearly 200 mb. That is nearly double what the USDA reports the carryover is in the U.S. With demand so hot and stocks so low in the U.S., numbers matter big time this year. That is why they are being managed so closely.

Most of the time, the U.S. struggles when it comes to market share with **Exports of Competing Nations**. More so with wheat, as there are so many more nations that grow and export wheat. For corn, it is mainly Brazil, Argentina, and Ukraine. For soybeans, it is mainly Brazil, followed by Argentina.

With U.S. corn and soybean stocks so tight and demand so strong, production from exporting nations comes front and center. Any production losses in those nations will directly be reflected in prices here in the U.S. With soybean harvest in Brazil over 91% complete, the market is focused on Brazil's export pace to China. How quickly soybeans flow out of Brazil tells us 2 things. First is China's need/demand for the product and second, how soon the export window opens for U.S. soybeans. The market has been fearful that Brazil's late planting start, followed by a late harvest, would reduce the U.S. export window to China by a month. That would be negative to U.S. prices. Viewing the chart on Page 3, you will see in China's rush to get soybeans, Brazil's export pace in the first 3-months of 2021 has already exceeded that of any of the last 10-years.

While the U.S. has competition from Ukraine on corn, not so much this year due to their short crop last year. Maybe one of the greater concerns for exporting corn to China is the volume of soybeans coming into their ports at the same time corn is arriving. Currently, corn export loadings need to average slightly over 54 mb/week through August to ship the record volume that has been sold to all nations.

As Brazil generally takes over the export market later in June, having their Safrinha crop going in late is said to potentially give the U.S. the export market into July. While that is a good thing if it occurs, we see some things that could change it.

First, let us go back to volume. We know U.S. export loadings tail-off the last 2 to 3-months. That means export loadings need to be 70 to 80 mb/week, not the 60 mb it was this week.

Secondly, if drought does reduce Brazil's Safrinha crop, it also means the heat and dryness will push it to maturity quicker. While the reduced crop will raise U.S. corn prices in the short run, their corn will hit export channels quicker.

Third, and the most important aspect of a short Brazilian crop, a short crop in Brazil will doubly or triply increase corn's price rise in the U.S. on any weather-related issues the U.S. corn crop will have to endure in 2021.

Even now, it is hard to fathom how grain traders will react to crop losses in Brazil when at current projections, the U.S. will not plant sufficient acres at trend yield to increase U.S. 2021/2022 carryover stocks. The price of Dec21 corn futures would have to rally sharply, to and above $6.00, to gain the acres the market deems necessary to secure the bushels they believe the market needs to meet projected demand. Even if price could rise to a level needed to add the necessary acres, even assuming trendline yield, the total acres needed would still be insufficient to meet production needs. We believe this to be a true statement because the market is ignoring several critical factors, but not purposely; government lies, marginal acres, lack of subsoil moisture, etc.

Soybeans have production issues out of the way in South America. That is a good sized negative off trader's plates. Watching soybeans flying out of Brazil to China at record pace, all while soybean prices in Brazil and China remain near record levels, only serve to strengthen the Bulls argument. All traders need to watch is how China handles all the beans sailing into their ports. Can they handle them at this pace? Do crush margins fall? Does China's price for soybeans begin to fall due to over supplies? Even then, that does not change the supply shortage in the U.S. ***(We note at the end of this week, China's soybean price reached a new high at $18.24. Interesting!)***

U.S. Acreage & Production: The USDA threw the market a curve ball when it released its S&D and Plantings Intention Report on March 31st. Corn acreage at 91.1 ma and soybeans at 87.6 ma were both short of the acres necessary to meet current demand projections. We need to clarify this. The estimated acres times trend yield needed to maintain current carryover stocks into 2021/2022 is 92 ma of corn and 90 ma of soybeans.

Think about the true facts when we work with USDA's numbers. We know that the true carryover number in **Soybeans** is a negative number today, not the 120 mb carryover for 2020/2021 that the USDA claims. Knowing this number is a lie, then what they claim for carryover stocks for 2021/2022 is an inflated number. Forecasting prices in a space where traders place the most credibility behind USDA's number makes for an interesting dilemma.

When the futures market has been infiltrated with lies, one must look at cash prices. Never have we lived through a time where cash soybean prices were higher than futures in parts of Western Iowa and SW Minnesota in the month of April. We have been writing for 2 months that soybean processors were having difficulty sourcing soybeans for the months May through August. This month, it has been reported to us that these processors are telling the end users if they need product for the summer months, no product will be guaranteed to them unless they already have contracts. The only other options they may have will be for them to bring them the soybeans for the crushed product they need.

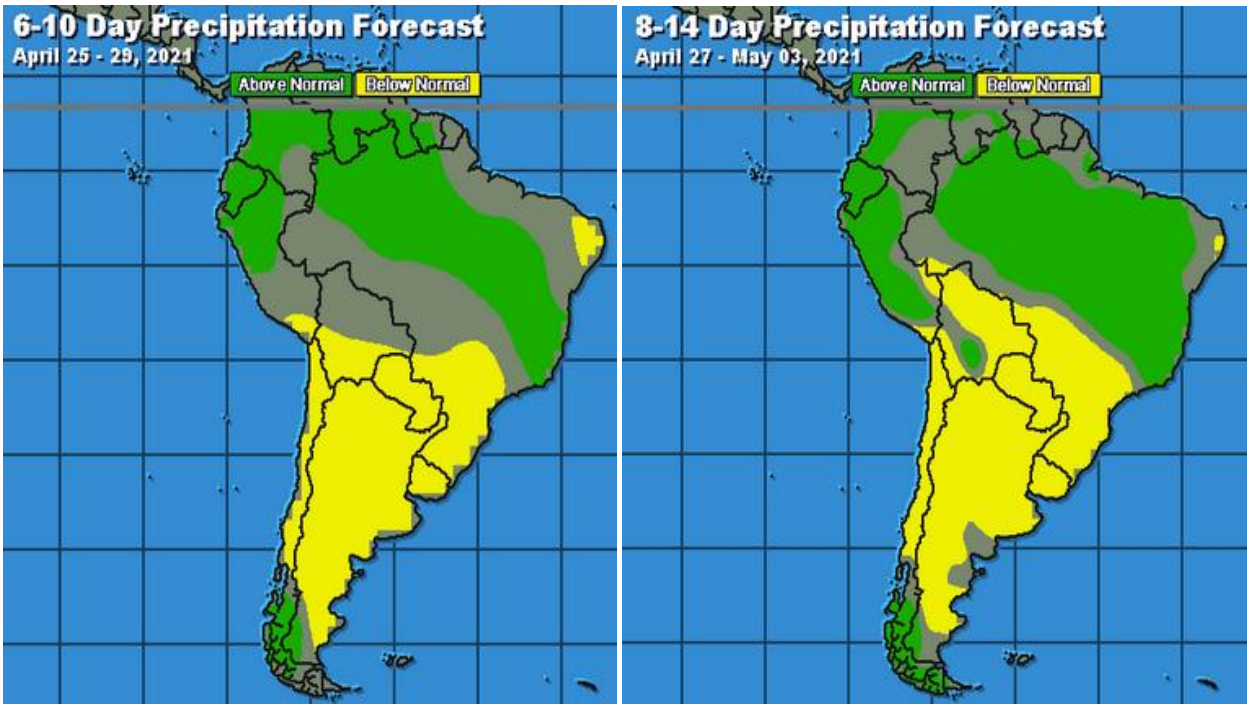
Looking forward with a backwards glance, we remember the squeeze play in MN wheat in March of 2008 when end users bought the board and forced delivery, forcing Mar08 futures to a record high of $25.00. A squeeze in July13 soybeans occurred with old crop stocks tighter than what the USDA would let on. We believe such a squeeze will occur this year in soybean futures and there is no reason for such a squeeze to occur later than sooner. That said, we are looking for fireworks in May21 soybean futures once the delivery period begins. If it does not occur in May21 futures, expect it in July21 futures. One would think the processors will do their best to grab all the soybeans they can today (in May) vs waiting until July. Basis levels out east are pushing $0.90 over the board.

Never thought of this in reverse before until just now. Our complaint with the USDA is that when they keep grain carryover stock numbers inflated to control price, they also screw the producer. ***In reverse***, it also screws a percentage of end users. If they do not buy/hedge their inputs believing the USDA that supplies are plentiful, they stand to lose as much as producers do. It is another example of the government thinking they are helping when the reverse is true.

The **Corn** market is dealing with a different issue than soybeans. Brazil's soybean harvest is nearly complete. Brazil's Safrinha corn crop is at risk, entering its pollination window in May.

We have written several times that when a demand driven rally meets up with a supply driven rally, price will go parabolic. The corn market may be the 1st commodity where these 2 get acquainted. If Brazil's drought comes front and center to the market in the weeks ahead, with little additional rainfall forecasted for the next 14-days, corn will continue to be the market leader.

Brazil's forecasts have been trending dryer over the last 5-days. The updated forecast as of April 23rd is not looking good.



Corn's 2020/2021 carryover stocks are thought to be less tight than soybean stocks. Placed at 1.352 bb in USDA's last report, sharply rising basis levels are telling us this is not the case. One can argue that government payments have given the producers enough liquidity to hold their corn off the market, waiting to see how high is high. If this is true, when corn prices peak and begin falling, the price fall this year will be faster and further than usual.

We are only guessing, thinking that the carryover number the USDA will not want to move below in 2021 in corn will be 1.0 bb. Basis levels are screaming that carryover stocks are much tighter, somewhere from 1.1 bb to 1.2 bb. With reports of corn basis levels pushing +$0.50 over the board in Iowa and South Dakota, 2020/2021 U.S. corn carryover it is likely closer to 1.0 bb. Again, this tightness in supplies may be a bit deceptive if the government cash to producers has afforded them the financial flexibility to hold off making grain sales.

We did not forget about acres. These high prices are going to push producers to plant more corn acres. Let us project 94 ma vs the initial guesstimate of 91.1 ma. With the minimum needed guessed at 92 ma, 94 ma would "net" about 327 mb more than needed. If 2020/2021 carryover falls to 1.1 bb by August this year, carryover for 2021/2022 would rise to 1.427 bb, about where it is today. And we have $6.50 old crop futures today at this carryover level?

Truth be told, this year's corn acres are not going to produce a 179.5 bpa crop. All considerations tell us yield will not exceed 175 bpa. A 4.5 bpa reduction on 94 ma would result in 385 mb reduction from trend. As you can see, the total bushels gained from the increase in acres is more than lost in the reduction in yield. That means based on demand projections at this time, carryover will decrease from current levels going into 2021/2022. It will be difficult to collapse prices solely based on U.S. assumed production in 2021. It will be extremely easy to jack prices higher on even the whiff of fear from yield losses to this year's crop.

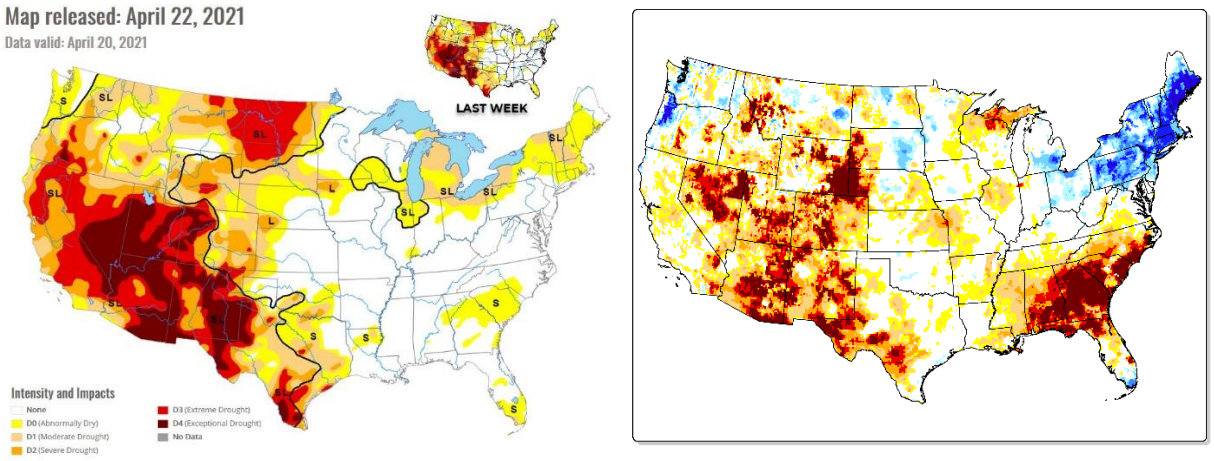
U.S corn yields have not been rising like trendline forecasts predict. Over the 7-years, the best U.S. average corn yield has been 176.6 bpa. National corn yields from 2014 through 2020 were 171.0, 168.4, 174.6, 176.6, 176.4, 167.5, and in 2020, 172.0. With 91.1 ma at 176.6 bpa, carryover stocks for corn to begin the 2021/2022 marketing year would end up at 951 mb. If yield were to come in at 172 bpa, carryover would fall to 568 mb. Up yield to an astonishing 182 bpa and carryover would remain about unchanged at 1.40 bb.

Using other's calculations, still working with the 91.1 ma guesstimate, using a trend yield of 179.5 bpa and beginning stocks of 1.47 bb, ending stocks came in at 1.46 bb. Raising acres to nearer 93 ma with an above trend yield of 182 bpa, all other numbers remaining the same, it raised carryover to an acceptable 2.06 bb. Dropping the yield to 175 bpa, a more realistic number, carryover on the higher acreage number falls to 1.468 bb. As you can see, the odds of increasing U.S. 2021/2022 corn carryover stocks with current demand are exceptionally low. Add ANY production losses from Brazil's Safrinha crop and U.S. prices will come under extreme upward price pressure, as we have begun experiencing this week.

Jumping to production issues which would affect U.S. prices drastically, USDA's Ag Attaché reduced their forecast for Argentine soybeans by 2.5 mmts to 45 mmts. For Brazil, a private forecaster reported that Brazil's corn production which the USDA placed at 109 mmts less than 2-weeks ago, is less than 100 mmts.

Getting back to U.S. production for 2021, the U.S. needs to add another 2 m corn acres to move next year's carryover stocks nearer 1.8 bb, with trendline yield. With North Dakota on the driest 7-month stretch in recorded history, 129-years, and the U.S. having more acres under drought than in 2012, the odds of the U.S. producing trendline yield in 2021 is less than 4%.

April 23, 2012



Soybeans have the same issue that corn does with insufficient acres. Using USDA's Planting Intentions number for soybean acres at 87.6 m, their trendline yield estimate of 50.8 bpa, plus current demand projections, ending stocks would come in at just 19 mb. To get that number back up to USDA's unreal of 120 mb ***(really under -100 mb today)***, planted acres would need to climb to 89.6 m. To bring the ***real*** carryover number to 120 mb, total soybean acres would need to reach a minimum of 91.96 m. That would be 4 ma more than USDA's initial projection. The odds of soybean acres reaching that level is *Fat Chance*.

Besides insufficient acres, we need to look at where those acres will be planted this year. West to east, Nebraska, Kansas, Missouri, Iowa, Illinois, Indiana, Ohio, and Pennsylvania are all reportedly reducing corn acres in 2021 from 2020, with cuts ranging from 4.9% in Kansas to 1.3% in Pennsylvania. If the highest bpa states, Nebraska and Iowa are cutting by 2.9%, Illinois 3.5%, Indiana 3.7%, with Minnesota unchanged. Because of floods and PPA in South Dakota and North Dakota, those states are increasing acres by 13.1% and 69.2%, respectively.

If this year's weather produces as a great yield this year as we had 4-years at 176.6 bpa, how do we make that yield if the highest bpa producing states are reducing corn acres and the lowest producing states are increasing acres?

The 2nd argument against making trendline yield this year is additional acres. If producers add an additional 2.04 ma taking total acres to 94 m, it is always assumed most of those acres will be marginal acres. That would pull trendline yield down even further.

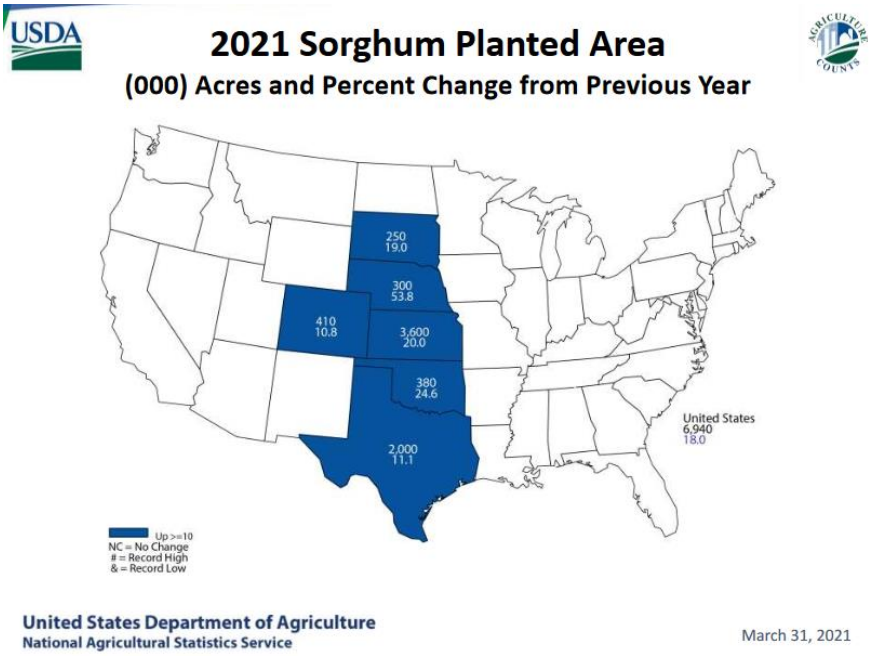
The 3rd argument is shown in the previous drought map of the U.S. When compared to the worst production year in decades in the U.S., which hit us in 2012, this year is starting off worse, with more acres under drought stress than in 2012.

Knowing soybeans need 92 ma to keep carryover stocks from falling below 120 mb, the question is can soybeans secure that many acres over and above the 87.6 m the USDA reported on March 31st?

If corn gains the acres it needs, most doubt soybeans can secure their minimum acres required. Corn's limit up move shows the market if focused on getting producers to plant as many acres of corn they can. Based on the production losses in Brazil of over 10% off their Safrinha crop, the trade is obviously seeing securing corn acres as their #1 concern at this point, to the detriment of soybeans getting what they need.

Another issue is also with where the acres for soybeans will be coming from. All soybean producing states are increasing soybean acres, the exceptions being Missouri and Kansas. But the same issue applies to soybeans as it does to corn. The lowest bpa states are increasing the most. North Dakota is upping their acres by nearly 22%, South Dakota by 15% and Wisconsin by 12.5%. That will increase the odds of the U.S. soybean crop reaching trendline production this year.

We can also point to the drought map to argue trendline yield possibilities are low due to the on-going drought, knowing dry begets dry. But at this time, we are seeing subtle changes in oceanic conditions suggesting the cool waters along the western coastlines of the U.S. will subside as we move into the summer months, allowing for increasing rainfall chances in the Midwest. It could well be a year where the rains are too late to correct moisture deficits for U.S. corn production but come soon enough to enhance soybean yields.



What we see as the problem securing the acres needed for corn and soybeans is the move to sorghum in the western states. Sorghum prices were the leader in the grain rally in 2020, rallying much higher and much sooner than any other grain. With the on-going drought, producers are seeking to manage the risk to the grain production. On many higher risk acres, sorghum out yields corn. With the risk of drought greatly enhanced this year, sorghum will pull acres from corn. Look at the jump in acres in the 5-top sorghum producing states; from 10.8% up to 53.8%

Massive Debt/Inflation/USD Trend/CME:

There are *2 New Factors* in commodity markets that were not present in the past. These 2 factors will cause the rally in grains to be like none other we have experienced to date. For an idea of what these 2 factors can do, look at lumber prices. The old high in lumber was $650. Its price this week has more than double over that high, reaching $1324 on Thursday this week. Do not get your brain set on grains old highs being the highest they can move. Never say never.

The **1st factor** is the huge spending of the U.S. government to keep people from working!! Massive U.S. debt is tied directly to massive U.S. spending. Over the past year, $4 trillion in Covid relief was approved over the past year. Another $1.9 T just signed into law. The Fed's balance sheet has increased 86% since pre-pandemic. The M2 money supply similarly rose $4 trillion.

The velocity of money matters to inflation. The velocity of money has fallen to its lowest level since the 1950's. Consumers are not buying with all this stimulus money. Inflation starts when the velocity of money increases. This needs to be tracked for when the velocity of money picks up, the odds increase for additional monies coming to commodities. This will also cause inflation to increase at an accelerating pace.

The **2nd factor** is the CME! Not only are they raising position limits, doubling from 600 contracts in most all the grains to 1200 contracts, they are raising trading limits. Corn's limit was $0.25/bu and that will be increased on May 3rd to $0.40/bu, with expanded limits to $0.60. Soybean futures were limited to a $0.70 move, which will increase to $1.00/bu on the 1st trading day in May, with its new expanded price limit moving to $1.50. Wheat will raise from $0.40 to $0.45, with expanded limit to $0.70.

One cannot imagine how these 2 changes will play out in the months to come. Fund positions can double. When you read or hear fund length is a record long or record short, that is under the old rules. Does that matter to price?

If prices are blowing up and it is reported that Funds are at record long, one would think a market top is at hand. This may not be true this year, as funds are now allowed to hold twice as many contracts. With all the new money floating around from government handouts, they could push prices beyond one's imagination, but also hammer prices down so hard and so fast people lose their minds! With expanded price limits, increased financial capacity, and increased position limits, the unimaginable may well be the norm if any grain exporting nation suffers significant crop losses. This year we do not see as one for the faint of heart, as we flip the calendar to May.

Tibits: Private forecasts have Brazil's Safrinha crop falling over 10%, from USDA's last production number of 109 mmts. 10 mmts is about 367 mb. Thunderstorms are forecasted to enter this area from the south Sunday and Monday, but nothing of significance. We look for higher prices next week, while profit taking into month's end after such an extreme price rise would be normal. Normal would also be for buyers to step in on 1st notice day, as well as during the 1st week of the new month. The on-going drought is going the throw off that which is normal, making for a very volatile 2-week period, if not longer.

China's corn stocks are down by 25% over the last 5-years and are believed to still be well overstated. If one were to remove China's stocks from this equation, world supplies would fall to a 35-day supply, the lowest in 20 years.

After planting intentions report, an unscientific producer survey found 14% will plant more corn and 10% more soybeans. The strong price rally in corn vs soybeans, as well as drought conditions in many areas has no doubt changed many' s thinking? The new crop soybean/corn ratio traded at 2.43 today, down from 2.64 on March 30th, a day before the USDA came out with their acreage estimate. Price is doing all it can to encourage as many corn acres as possible.

The S/U ratio for corn gets corn prices excited when it falls under 9%. It sits at 9.2% with stocks at 1.352 bb. A carryover of 1.1 bb equals a S/U of 7.4%. Soybeans get excited with a S/U under 7%. Now 2.6% with carryover at 120 mb. Soybeans are not excited enough since we know the S/U is much lower than stated. High freight rates work against importing beans. Maybe importing soybean meal instead will work? But why, with soybean meal as weak as it is in the U.S.?

North Dakota has had the driest 7-months on record. Many will switch to other crops, including soybeans, if it stays dry. Because it is so dry, wheat growers can get out early and get wheat in – dry dirt. Much different conditions than last year, which was so wet. Better to plant wheat in dry soils then wait to plant corn with no subsoil moisture to sustain that crop.

Brazil will increase its soybean acres again in 2022. If they have a good crop, how much will it pressure prices after January 1, 2022? It will all depend on China's demand and U.S. 2021 production.

China issued guidelines on Wednesday recommending the reduction of corn and soymeal in pig and poultry feed, a measure that could reshape the flow of grains into the world's top corn and soybean buyer. Chinese feed makers have already been switching corn for cheaper alternatives, especially wheat, after the grain rallied by more than a third in the last year following a drop in corn output and state stockpiles.

China consumes about 175 mmts of corn in animal feed each year, but that is set to increase as more livestock is raised on intensive farms using industrial feed. China raises half of all the world's pork. Half of China's pork production get fed table scraps. Those will be going into confinement to control disease outbreaks. That represents a huge increase in feed demand when 25% of the world's pork moves from table scraps to feed rations. This will take several years to accomplish. That means China's increasing demand for feed grains will continue for a few more years.

China also imports about 100 mts of soybeans to crush into soymeal for animals, agriculture ministry data shows. Their ministry said rice, cassava, rice bran, barley and sorghum were also suitable alternatives to corn, while rapeseed meal, cottonseed meal, peanut meal, sunflower meal, distillers dried grains, palm meal, flax meal, sesame meal and corn processing byproducts were good options to replace soymeal.

Greater feed usage of wheat, which has more protein than corn, has already cut demand for soymeal. However, a wheat products trader said it could have "a significant impact". "Many feed producer clients are still using quite a bit corn. They have reduced the usage but haven't cut off corn completely," he said, declining to be named because he was not authorized to speak with the media.

This change in China to more wheat will take some time. It is not necessarily negative to corn prices. They cannot produce enough corn to meet all this new demand they are creating by placing the maximum number of hogs under confinement. China is self-sufficient in wheat production. Why force yourself to pay someone else for something you can grow yourself? This may well be greatly beneficial to wheat prices during this changeover.

Our Conclusion: The most important statement may be "No Sale!" This is a radical position if you are listening to all the talking heads on the radio. One just said if you still have any or most of your 2020 production, you have done a great job marketing. He went on to say the market is topping, showing a blow-off top! ***(We are looking around saying where! We are entering another leg higher after breaking above resistance.)*** He continued saying he would be advising one to price **ALL** their 2021 production, though he knows few producers would ever do such a thing.

We have been calling for 2 significant rally highs this year. We are now in the 1st one. This rally may put the high in for this year, but we will not make that call until we see how high it rallies and what reasons are in the market to make it rally as high as it does.

This rally will peak no later than June 10th. It will likely peak in May because crop losses in Brazil could be pushing Fund money into grains faster then usual because of all the reasons previously sighted. Our initial upside projection for lead-month old crop corn has been $6.50. That price level has been reached this week and due to our anticipation of continued crop losses in Brazil, hot basis levels in the U.S. and a squeeze play possible in May futures when deliveries begin, we are holding off to see what unfolds in the next 2-weeks.

To understand our thought process, we will reprint from our last issue.

"Target Zone Charts: *The Upper Third price projections for the 3-grains were set conservatively. If* ***all*** *the players come to the stage and dance* ***in 2021****, all grains will rise higher than the top side of their individual, Upper Third price range."*

We prefer not to put $7.99 in print too early, lest we get people to call us idiots. We like to lead our Subscribers higher prices, feeding them the data that supports our "No Sales" recommendations. Putting $7.99 out there too early will cause some to sell just because they think we are off our rocker and for others, they go into a freeze mode and will not sell until that price is reached. We do not like to give producers tunnel vision. Things change. Price could hit $7.99 in May if the unthinkable occurs in Brazil. If weather conditions would later take some of the U.S. corn crop, higher highs in our 2nd rally would surely be a possibility.

Just because it is prudent to say – give us a reason for not selling 100% of all old crop corn and soybeans if corn hits $7.99 next month? If you say because you are greedy, that is as good of a reason as any. Here is an alternative. Sell all old crop and challenge the market to make you wrong. Then on a price move over $8.00, take some of your profits and begin buying puts. Or when price falls back to major support, begin buying calls if the drought in the U.S. continues?

For soybeans, it should be the hottest market, but it is not today because corn is sitting front and center with the trade. The trade is demanding more acres and with the corn marketing facing the possibility of large production losses out of Brazil, a weather premium is being added.

With soybeans' S/U ratio the lowest in history, soybeans should be up to our initial target of $16.50. The problem is with the hot veg oil markets, driving soyoil futures while depressing soybean meal prices. This week, meal prices are leading with soyoil weaker. This is promising, but it needs to continue.

New crop soybeans are being severely underpriced with corn trying to buy acres today. By doing so, the odds are high that producers will not plant sufficient soybean acres to at the minimum, maintain soybeans' carryover stocks above pipeline supplies. That makes soybean prices vulnerable to massive fund buying later in the year.

This year could be the year where corn has its day in the sun in May and soybeans having its day in the sun later. Or if the drought hammers Brazil's corn and then a U.S. drought does the same, soybeans just might have to take a backseat to corn prices.

We have 2 technical indicators projecting price. For corn, there is an open gap on the Dec21 corn chart which projects Dec21 corn to a minimum price of $6.00. At the time of this writing, Dec21 corn has printed a high of $5.57. One must be cognizant of where May21 corn is trading ***when*** Dec21 corn reaches $6.00.

July21 soybeans went sideways from its high on January 14 of $14.17. It was not able to close above $14.25 until Monday this week, or April 19th. Not that there is much if any science behind this, but we measure the distance on the chart that price went sideways, then flip that measurement up to compute how high. That calculation would see the lead month soybean price rising to approximately $20.50.

Does the S/U ratio apply to old crop prices? Today it is 2.55. If that would hold, at $20.50 for soybeans, corn's price would be $8.70. If 2.6, corn's price would be 7.92. For further past comparison, going back to 2012 when corn was $8.49, the soybean price reached 17.95, for a S/U of 2.114. If that ratio came this year with soybeans at $20.50, corn's price would be $9.97. That is close to a big, psychological number! So, we could say $10.00 corn and $20.00 soybeans.

Do not get it in your head we are predicting these prices. We have said this is the years all the bullish factors can easily line up to give us the unimaginable.

For wheat, it will be a tag along on this first rally. After that, things can line up where wheat futures can lead. We will get into that if wheat's story begins to build a life of its own.

Target Zone Charts: Here are our targets for the Upper Third for 2021, now that *"**all** the players come to the stage to dance **in 2021**".* We do need to include one exception – maybe.

Every potential bullish factor is coming to bear to drive prices higher, except one. That is a summer drought reducing crop production in the U.S. It is waiting behind the curtain, with its big fat red shoes showing. If it steps on the crops this summer, that will give our 2nd rally event great odds of blowing through the highs that will arrive in the next 6.5 weeks.

Corn – July 21 futures

Lower Third	$4.20 - $5.80
Middle Third	$5.80 - $7.40
Upper Third	$7.40 - $9.00

Soybeans – August 21 futures

Lower Third	$11.00 - $13.50
Middle Third	$13.50 - $16.00
Upper Third	$16.00 - $18.50

Wheat – KC July 21 Futures

Lower Third	$5.40 - $6.50
Middle Third	$6.50 - $7.60
Upper Third	$7.60 - $8.70