LOOKING FORWARD WITH A BACKWARD GLANCE

A PRODUCT OF AG MASTERS MARKETING GROUP

Sales Recommendations: No Sales. Any corn you can’t store and have not sold needs to held in the elevator. Your next option would be to sell on a good rally, then own back on futures. So pick your poison! Give thanks if your bins runneth over. Next MNU will be issued on or before September 27th.

Quick View: Harvest pressure, weak basis, and likely several outside issues, will be moving prices lower over the next 2 weeks.

Timing Low: We currently have a timing low for soybeans to arrive on the close of trading on Friday, October 2nd, or in the first few minutes of night trade on Sunday evening, October 5th. We also have a price objective between $8.00 and $8.30. We will try to “harden” those numbers at the end of next week. From a technical count, we have another “low” for soybeans arriving in the latter part of October. If this one plays out, then we have a low on the 2nd, followed by a rally into the next USDA report, followed by a subsequent decline. If that report continues to support high yields, reduces next year’s demand by any percentage, and our weekly export reports continue weak, we could see another low coming at us later in the month. Stay tuned!

A Reality Slap: Did those who have been buying in the financial market since 2009 because of the Fed’s QE programs just wake up with a Slap of Reality; where bad economic news was good news, as they knew the Fed would come to their rescue with more liquidity/QE? On Thursday, the Fed told us they would not raise rates. (We heard the IMF told our Fed not to do so, as it would cause financial harm to the emerging markets; known as the BRICS - Brazil, Russia, India, China and South Africa. So who really runs the show here, anyway? One does have to wonder.) After that announcement at 1:00 pm our time, corn and beans both rallied 8 cents in a minute, before corn fell back to close near its low for the day, while soybeans managed to maintain some of that strength and closed higher on the day. After taking some time to consider everything, markets fell apart on Friday; and I don’t just mean grains. Beans were down 17 cents, or just 1.95% of value, crude oil down 4.73%, gasoline down 1.73%, NG down 1.93%, Dow down 290 points or 1.74%, cotton down 2.96% and sugar down 4.20%, while the T-Bond was up 1.74% and the dollar up .34%. Many commodities got hit; but why? Investors realized the Fed is not going back to QE, at least not in the short term. Thus, the fact that they are not raising rates only confirmed what we have been saying from day one; our economy is not healthy, and neither are many other economies around the world. The PE of our stocks are around 16 today, when the average over time has been 14. China’s stocks are now around 50. All this shows weak demand, which is deflationary. Deflation IS the big issue, which brings up the question of how the deflationary effect will weigh on grains. If demand weakens, as all indications suggest, then upside projections based on old history, would not be valid. We fear many advisors will not consider this “deflationary” factor, as they make their forecasts. Ag Masters utilizes weighted variables in developing our Target Zone Charts. Depending on the trend of these variables, determines the weight they receive within our calculations. Besides deflation, our future grain rallies will be fighting weakening demand, currency devaluations and competing nations that hold large stocks of corn, wheat and soybeans.

Corn: Total U.S. stocks for 2015/2016 will be the determining factor for price discovery this fall; a number that no one yet knows. We just had our first “real” yield report out of Illinois. Even with drowned out spots, a field averaged over 250 bpa. Last year’s “record” yield on this farm was around 225 bpa. That shows that some farms in Illinois will help lift the poorer yields they will experience on their worse farms. Going to price, $3.75 board may represent value. That is where price was 4 months ago and where support is found today. Technicals all say that the low is in for the year. If August was the highest USDA production forecast for corn, then the history of USDA reports says the same thing. Because of China's problems, our problems, and the negative overhang this throws on grains in the scary stock market months of September and October, we are not ready to call the low being in for corn. It will be interesting to see how well corn holds up in the face of a soybean downfall. It did well on Friday, supported by wheat. Corn still struggles with sluggish demand. Last week’s exports continued on the weak side. Cumulative sales are at 19.9% for 2015/2016, compared to the 5 year average of 36.6%. Aggressive sales out of Brazil and aggressive pricing of feed wheat out of Russia and the Black Sea region are also pressuring corn prices. China is reducing the price it is paying its farmers for
in April and May, and possibly, June of 2016. And for that projecting next year's wheat crop, it doesn't. That will be determined this competition, in face of record world stocks, locks wheat into a sideways trading range from its current low to its 5 year average of 48.4%. EU sales are down this year, being undercut by aggressive pricing by Russia and Ukraine. All oils, and thus, cause our soybean market to gain strength. India has seen a 12% reduction in rainfall to date, but this is mainly in their sugar growing regions. This would affect ethanol production. Indonesia is also seeing reduced rainfall. Ole, and thus, cause our soybean market to gain strength. India has seen a 12% reduction in rainfall to date, but this is mainly in their sugar growing regions. This would affect ethanol production. Indonesia is also seeing reduced rainfall. Palm oil is the major crop that can be affected. We will keep all posted on rainfall in those nations whose crop failures could benefit our prices in the U.S. For now it means nothing to our price, as its work today to discover our fall low. Purchasing. The market may move higher because of it, but our take says it means nothing. El Nino is the big talk from many within the veg oil complex. We are tracking rainfall in those nations where drought can create a shortage of veg oils, and thus, cause our soybean market to gain strength. India has seen a 12% reduction in rainfall to date, but this is mainly in their sugar growing regions. This would affect ethanol production. Indonesia is also seeing reduced rainfall. Palm oil is the major crop that can be affected. We will keep all posted on rainfall in those nations whose crop failures could benefit our prices in the U.S. For now it means nothing to our price, as its work today to discover our fall low. Once that is done, then this will become a top.

Beans: With the long term trend in beans being down, you will hear mucho negative news these next few weeks. Surprisingly, they keep talking about increased acres from South America. This has been a constant for years, so what’s the importance? The bigger Bear from SA would be their large old crop supplies. China has purchased nearly 10 mmtms more from them compared to the same date a year ago. That fact would imply less will be purchased from the U.S., even if they increase their total yearly purchases the same amount as they have over their last 5 year average. As of September 10th, cumulative sales stand at just 32.6% of the USDA’s forecast for 2015/2016, compared to the 5 year average of 50.1%. For this marketing year, Cargill is saying we could see a decrease in China’s soy demand, which would be the first time in the last decade. They cite a slowdown in animal feed demand and the devaluation of the Yuan. India raised the import tax on vegetable oil products, which is a negative to soybean oil. The federal agency that issues export certificates went on strike on Friday. If there is any legs, it could add some short term support to beans and corn. A Chinese delegation will be in the U.S. this coming week. They will be expected to announce soybean purchases. If expected, it is already in the market. This announcement is either of grain they have already purchased, or will be purchasing. The market may move higher because of it, but our take says it means nothing. El Nino is the big talk from many within the veg oil complex. We are tracking rainfall in those nations where drought can create a shortage of veg oils, and thus, cause our soybean market to gain strength. India has seen a 12% reduction in rainfall to date, but this is mainly in their sugar growing regions. This would affect ethanol production. Indonesia is also seeing reduced rainfall. Palm oil is the major crop that can be affected. We will keep all posted on rainfall in those nations whose crop failures could benefit our prices in the U.S. For now it means nothing to our price, as its work today to discover our fall low. Once that is done, then this will become a top.

Wheat: There is little to say about wheat; the same ole story. World wheat stocks grew again, as the IGC increased production from the Russian/Ukraine and Euro regions by another 5 mmtms. Buyer nations continue to buy from others, not the U.S. From this fact alone, U.S. stocks continue to build. Cumulative sales for 2015/2016 are at 43.8%, vs. the 5 year average of 48.4%. EU sales are down this year, being undercut by aggressive pricing by Russia and Ukraine. All this competition, in face of record world stocks, locks wheat into a sideways trading range from its current low to its most recent high. Breaking either one of these would extend that trend. With corn and beans going nowhere or lower, wheat has nowhere to go but sideways at best. U.S. will soon be planting its new crop for 2016. Moisture conditions are good to excellent in many areas. And for that projecting next year’s wheat crop, it doesn’t. That will be determined in April and May, and possibly, June of 2016.

Reading the Shanghai: We don’t “read” charts like most. We look at them in a very simple way. With the gap seen on the Shanghai Stock Composite, it projects erosion in price down to 1800. Consider these numbers. Its high was around 5200. It has fallen to 3000. We see 3000 as our “Line in the Sand”. If that support level gives way, the second leg down begins. They said their PE (price earnings ratio) was 80, and now with their Composite at 3000, their PE is 50. At 1800, it should be down to about 20. Our Dow reached a high PE of around 18. Our longer term average is about 14. A move to 1800 would get the Shanghai close to our stock “model”. This is something we must watch, as when their Composite breaks this support level, the first few days should be nasty. Our grains will take a hit, as will our Dow. What we have to determine is if this break takes us below fair market value and if yes, how far below? Generally speaking, when outside markets slam grains, it creates an opportunity for those who understand.

Deflation: We often speak about deflation as being a trend all need to follow and understand. What if deflation becomes the natural state of life; opposite of having to live with inflation? Could you deal with it? Would you understand it? Most would love to see deflation in everything they buy. But how would you deal with it if your employer came to you and told you that due to the lower trending economy, they were reducing your salary by 10%? That would not be a
problem if the things you had to buy to live had also fallen by 10% or more. Deflation is good, if you have the right kind. Those who suffer during an extended period of deflation are those who carry debt. If you recall, we stated many times that when “we” were earning 8 to 12 times more profit, you needed to retire debt and build up a 1 to 2 year line of operating capital. In the last half of 2013, we pushed for no unnecessary purchases. We said not to purchase any machinery or land. And to those who owned land and carried large debts, we suggested selling some land to bring that debt down. Those who did not heed this advice are, or will be having, major problems. We have pointed to Japan as a nation with decades of stagflation. They are going nowhere. We have a lengthy article that goes into depth about a long period of deflation; a period that could be or become the norm. If this is true, yours’ as well as our thought process, has to change on how we manage everything we do. The article will make you think. When we read it, my first thought is that it may be above our pay grade!! Let’s just say you will be reading this more one more than once. If you would like to read this, we are asking that you make a request that we send it to you. We will not print it here as it is too lengthy. We are also curious as to how many want, or are willing to take the time, to try to get a grasp on how our governments and the world banks have created this unique set of circumstances.