June 03, 2017

#1610

IF YOU DON'T PAY ATTENTION YOU'LL PAY CASH

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*****   We'll be out of office next Thursday through Monday, June 12th. Should any major change take place during that time, we will send out a MNU update later that day.**

__Sales Recommendations__: No sales. Waiting on weather scares! Next MNU issued by June 20th.

__Drought 2017__: We've done a lot of reading concerning the drought that has been in our northern grain belt & in south central Canada for many months. Even today, it doesn't show up with any relevancy when others speak about the general weather trends expected for our nation's growing crops. The outlook remains generally cooler than normal, with no major heat occurrences that would affect overall yields. We have even read of some stating concerns that this summer won't provide sufficient heat units to mature our corn crop.   To begin, we'll acknowledge technicals suggest price could rally some. But if you don't mind, the review will be on what we see vs. what they predict; the fundamental facts.

Our long term weather modeling has not and still does not show a drought, or even a potential drought, that would have an "overall" effect on the entire U.S. corn crop that would reduce yield significantly as to matter to our end price this fall. Still, that will not stop us from ignoring the obvious. In 2011, it was obvious to us that 2012 would be a very bad drought year and that was our forecast; a forecast no one agreed with until crop losses were being sustained. Just last year we forecasted trend to above trend yields which came to be. We also forecasted a year of extremes. Those extremes came, but at the wrong time to cut production. The heat and dryness that came to us in June was not very harmful to our crops. Had those extremes hit us in either July or August, our yields would have been significantly less. We have been extremely accurate with our long term forecasting. But were not fools to recognize things can always turn out a lot different had weather patterns shifted by as little as 30 days!!!! That is what bit us in 2013; missing it by 30 days.

Now back to our hurtful June weather of last year, because we have to put this equation in prospective <u>*so we can figure out what price will most likely do this year*</u>. Most have no doubt forgotten that our June weather was **<u>NOT</u>** the main reason for the price rise that pushed our July16 futures price up to the season high of $4.392. It was the drought in Brazil which cut their crop from an expected 84 mmt to 67 mmt. While their production was falling rapidly in June, our carryover stocks of 2015 corn were stated at 1.708 bb, or about 500 mb less than this year. Bringing that all forward, we're sitting on 2.3 bb, which puts the breaks on any rally in July futures above $3.80 *(Read our corn commentary that was attached to this year's TZC)*. Now here's the real problem that we haven't heard anyone talking about – much. Brazil's corn crop for this year was first estimated to come in at 86.5 mmt. That number has been rising. Last month the USDA had it at 96 mmt, up from their April estimate of 93.5 mmt. Weather for Brazil's corn crop has been far better than perfect, just like it has been for their bean crop; better than what our weather was for our corn and bean crops last year which gave us record yields. Better than perfect now has their corn crop pushing insane yield numbers, <u>*yields that will crush price in the coming months*</u>. <u>*All better pay attention to this because it won't be missed by traders or end users!*</u> We now have yield estimates placing their production at **<u>105 mmt</u>!!!!** Think about it. They go from 67 mmt last year to possibly 106 mmt this year from what started out at 86.5 mmt. That's over 50% more from last year for a crop of 4 bb. **<u>The next WASDE report is on June 9</u>**. If they release a number of 100 mmt, what do you think it will do to price?

A farmer told me that his "sell by" date was June 6, and history gives that some credence; it did last year. Price is wedging again $3.95. Price will decide decision very soon. Funds are betting lower, with a hefty short position in corn. It will take something dramatic to get them to cover. They are betting on 2.3 bb of old crop corn, 2 bb of "extra" corn out of Brazil, and a long term forecast that says no problem with U.S. weather this year. Even though anything can happen with the weather, this year we have excessive supplies that last year's market didn't have. *Those 2 big problems can't be made to go away*!

Last year, our old crop corn price was acting just like this year; hanging just below $3.80. The last part of April, price jumped and tagged $4.02, before falling back to trade from $3.80 to $3.90 thru mid-May. Three weeks later, price peaked at $4.392, *the week of June 6*, with 3 more weeks of very bad weather yet to hit our crops and with the Brazilian crop taking it in the shorts. As you can see, futures priced that all in – in advance of those crop problems maturing. Price still managed to hold together for 2 more weeks, hitting a high of $4.356 the week of June 20, but ending that week 53 cents lower, closing at $3.844. *Price posted a low of $3.33 the week of July 4*. In 3 weeks, corn moved from $4.36 to $3.33. The only reason it wouldn't do that this year is because Funds are already betting short. After reading what we just wrote, there is no way we would make a long bet at this time and we would definitely cover our butt on the downside. If you want to bet on a summer rally, the best strategy is to make the cash sales & then use options or buy futures to protect the cash sales, using an open buy stop at $3.962 in Dec17 futures should weather conditions push price through resistance. Of course, then you'll have to manage with an exit strategy on your options or futures if you go that route.

If this year's high trade ends up being $4.04, with last year's high being nearly $4.40 and its low being $3.01, how low do you think price can go with us having a 2.3 bb old crop carryover at harvest time and Brazil starting to export 2 bb more corn starting this June and continuing to do so through our harvest? Guys, this picture can't change. ***This is our factual reality of supplies*** that is going to kill price. Everyone is hoping…….or praying……..for a weather problem, or at least a weather scare, to give us a quick rally where we can get a better price. We continue to advise sales in the upper third with re-ownership of those bushels in the lower third. In doing so, you create necessary cash flow and the likelihood of increasing your cash sales price by 30 cents or more. Like last year, if U.S. production is at or near trendline, holding any 2017 crop in the elevator this fall will be a losing proposition. One last comment: they have raised Brazil's bean estimate to 115 mmt, up from 111.6 mmt.