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FARM DIVISION OF JSA

844-4Ag-Mrkt

2019 Corn Market

There is no doubt that the US Ag sector is experiencing one of the most frustrating and stressful eras since the 1980's. Most of the price decline is, or can be, associated with the international trade policies that have been employed. The market is starting to trade the perception that demand destruction is so large and widespread that the world will not recover lost volume even if there is a trade agreement.

It is impossible to try and predict and as we have witnessed, it is dangerous to assume or take any side as to how and when the trade dispute will be resolved.

About the only way to predict the near-term direction of the market is to look at charts and simply point out the next level of support … or the resistance it has to take out to signal a reversal and bullish turn. So that is easy because you're never wrong. This will sound cynical and it kind of is, but it is what every other firm is doing and you should know these points. (I will provide more solid info after the chart discussion.)

Here it goes:
May corn – closed at 364'2 and near the previous contract low 363'2. A close below support will signal a potential decline to the next support on the nearby monthly chart at 354. If that fails to hold, support at 338 and 330 are followed by 321. In the last 13 years, there have only been 4 times that futures have traded below 321 and the duration of the trade below 321 was extremely short lived.

A May corn close above 377'6 March 4th high would signal an outside weekly reversal and suggest the market will test 395-400 area. A weekly close above that would suggest a move to 425 where a gap was left in June 2018 when tariffs were implemented.

Dec Corn – closed at 388'4 and has support at 380, 375, and 360. A close above 398'6 would signal a major reversal and would suggest a test and possible break out above the 405-407 resistance.

Dec Corn Chart

Fundamentals

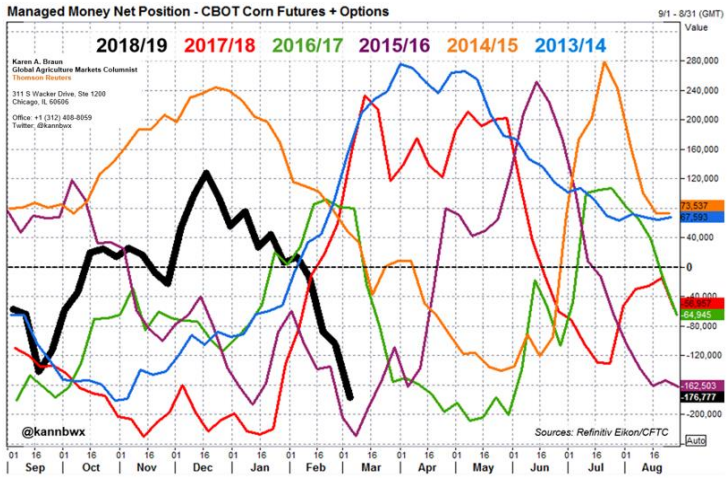
USDA's supply demand report really did not do anything to change the outlook. It raised stocks a smidge but look at what stocks were estimated on the March report the last few years:

	Based on USDA March Reports						
Corn Crop year	**2016**	**2017**		**2018**		**E2019-20**	
US Stks	2320	2021	0.87	1835	0.91	1678	0.91
World Stks w/out China	220	199	0.90	104	0.52	109	1.05
World stks w china	350	341	0.97	308	0.90	297.78	0.97

As you can see, USDA is reporting 2018 (Old Crop) stocks at 1835. That was higher than the last months estimate but is 9% SMALLER than stocks last year, and 21% smaller than stocks in 2016. Furthermore, you can see our estimated stocks in 2019 at 1678 and implies an additional 9% decline in inventory. Prices of May 17 futures were 372 on the March report that estimates old crop 2016 stocks, and 393 when the 2017 stocks were predicted…..and even with the 9% decline in inventory, today's May futures today are 363…well below the previous years even though stocks are significantly tighter.

So how can prices be falling when we are consuming more corn than we are producing? Maybe the dollar? Nope…. In March of 2017 when USDA estimated the 2016 old crop stocks at 2320, the US dollar was at 100.21 versus 97 today….and yet May corn was 10 cents higher. The bottom line, is that the market is trading a deflated, no weather risk premium value as traders give up on Tariff success. This is actually kind of hard to believe considering the timing of the selloff.

	2016	**2017**		**2018**	
May corn futures	372	393	1.06	364	0.93
Dec corn futures	388	410	1.06	388	0.95
US Dollar	100.21	89.81	0.90	97.26	1.08



This chart shows you the trading funds position over the last few years. As you can see, as of Tuesday of last week they were near a record short position. Add in the last few days of selling and we are pretty sure they are currently VERY Close if not at record short. They made a similar move in 2015-2016. May 2016 corn made new contract lows by 7 cents, bottomed at 347 in March and rallied 15%. But to be fair in the comparison, the dollar was over 100 and US stocks were 27% greater than today's stocks while world stocks were 14% greater. Thus, we would assume with a 20% decline in end stocks, today's prices would find support soon.

History tells us that maybe prices can make a short term move lower, but looking out into the growing season, or even the long term, the risks of something going wrong when stocks are this low are too great for the market to remain asleep. Anything that could tighten stocks further could have too big of consequences.

We identified the following years as having a similar set up to 2019. We based this on stocks, stocks to use versus previous 1 and 2 year change. The following will give you a table of the year, the low, high, and any notes we observed.

Similar years based on similar prevous 1-2 years changes in end stocks/use ratios						
DEC Futures	low	month	high	month	% px Chg	
1995	254	Mar	344	Dec	1.35	
1996	250	May	388	July	1.55	
2002	215	April	297	Sep	1.38	
2006	250	Mar	288	May	1.15	Market made a new low Aug, then rallied to 380 by Dec
2010	345	June	605	Nov	1.75	
					1.44	Average price change

Not one year did prices remained down into the growing season. That is not to say we are at the low. Predicting the low when you are already below a price that held in years with bigger stocks is like picking the lotto. This does however suggest that once the selling dries up and the low is in, there is a VERY high odds we will see a rally and that it could be significant. Dec corn futures are currently at 388. You can do the math based on the above table and see what it might suggest.

Driving Forces:

It is strange to look at the yield data in these years with similar stock/use. In 3 years yields fell by 6-8%, one year -18% and one year yields actually increased. Even in the larger yield year, Dec corn rallied significantly as we were coming off low stocks, prospects for good demand growth and there was a weather concern even though the yields ended up performing well. Another observation is that most of these years were preceded by a record yield like this year.

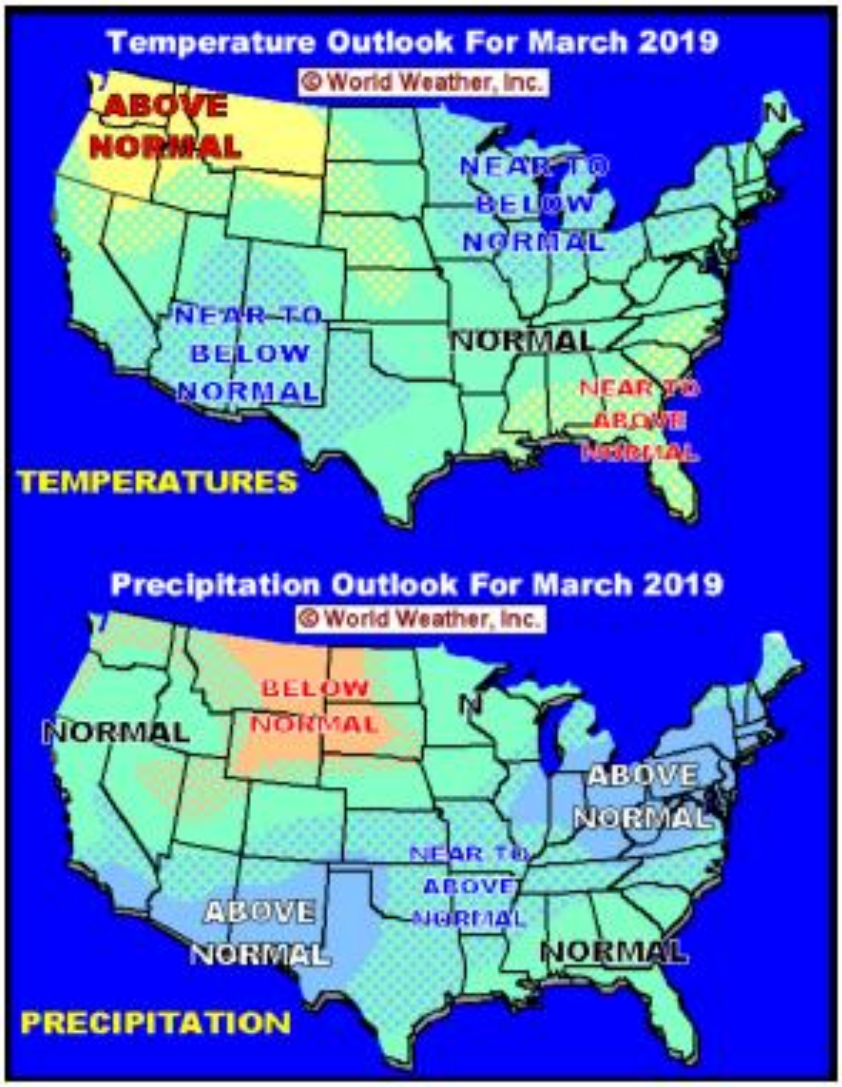
Yield study	yield	prev year	% chg	prev 2 year
1995	113.5	138.5	0.82	100.7
1996	127.1	113.5	1.12	138.6
2002	130	138.2	0.94	136.9
2006	147.9	160.4	0.92	42.2
2010	152.8	164.7	0.93	153.9
2019	176E	176.4		176.6

It is not only easy to imagine how weather could become a factor in this year's spring planting, but also for a potential environment for demand growth if the US-China trade talks were to conclude with a positive result.

This information tells us that

1. Every year we could find that was similar had a seasonal weather-related rally
2. Trading funds are at a record short. Looking at that graph, there is not one year that they did not get long at some point in the growing season
3. US corn belt is in a historical situation we cannot match. Wet fields stretch across the entire nation from KS to OH and ND to the delta. The closest year is 1993. The spring forecast is cool and wet. Farmers will no doubt get the crop planted as many only need 1-2 weeks to get the job done. But to simply get it in the ground does not mean it goes in yield optimal planting conditions and dates.
4. Lack of fall field work and fertilizer application could mean compaction problems and fertility challenges that reduce the potential for another record yield.

The bottom line is that a low in prices will be hammered out. Key unknowns are Acreage and weather. If farmers do not plant more than 3 million acres, then the corn market is really set up for a very weather sensitive market. If they plant more than 3 million additional acres, the "edge" will come off the market. This is a large unknown. The other key unknown is obviously the trade deal. Our contacts suggest the deal will be made and it will be significant for the US Ag industry on a long-term scale. We all want to believe this because the lack of a deal will be devastating. Given these 2 unknowns come in remotely close to our assumptions, we believe that this is an excellent time to move as much corn out of the bin as possible and replace ownership on the board using futures or an option position. This will increase your



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cashflow while basis is strong and keep you in an ownership position until the board has time to react to a weather concern this summer.

There is always risk in the market. And technical risk is as much as 40 cents. However, as soon as the market rallies about 15 cents, those chart signals will be reversed and all in the buy mode. All fundamental and economic approaches to this market suggest very strong odds that summer prices will be higher. Acreage, trade deal, and weather will dictate how high.

For more information, or to use our software to develop a strategy that fits your operation, please fell free to call us anytime.

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