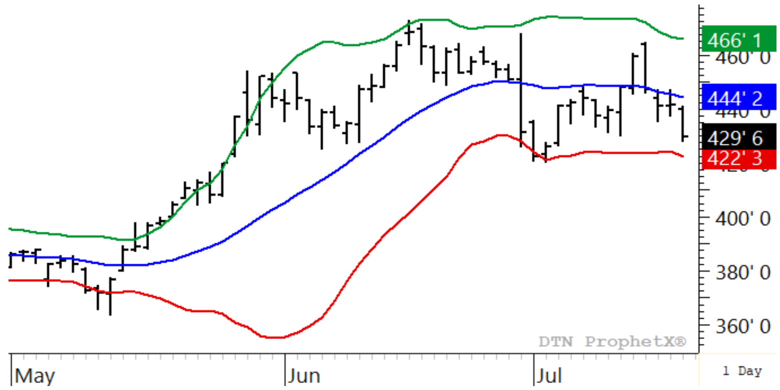
CHS Hedging The Edge

7/23/2019

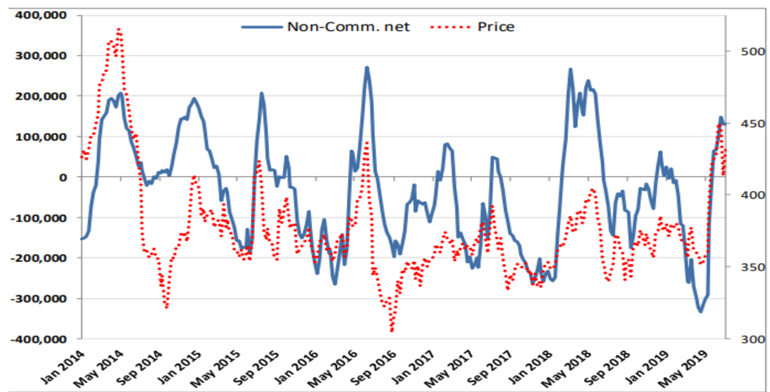
Corn: Uncertainty is a good way to describe the corn market. Usually by the middle of July the market has a good handle of planted acres and how pollination has gone or will go. This year, both are unknown. The July WASDE report saw the USDA use the June acreage numbers and an unchanged yield estimate to show ending stocks at 2.010 billion bushels, well above the average trade guess. Even though the ending stocks were bearish, corn finished the day higher on support from wheat being 20 cents higher and what appeared to be the market not believing the USDA's estimates and for good reason. The USDA announced in the June acreage report they will do a re-survey and release the new acres in the August WASDE report. With the new acre estimates yet to come, the debate continues with how much they will cut and what is the mix of planted and harvested in the balance sheet? Do they reduce planted acres and leave harvest acres alone or do they show the loss in acres in harvested rather than planted? Either way, total supply is expected to be down for the August report due to a loss in acres. The late planting is not only causing delays in the accuracy of USDA estimates, it is also causing pollination to occur later than normal. In an average year, pollination occurs in the middle of July. However, this year, the bulk of pollination is set to occur in late July and into August. The weather forecasts are being heavily monitored and will cause swings in the market. Currently, the USDA has the yield pegged at 166 with crop conditions having remained fairly flat since mid-June. Cash prices have increased, especially in the Eastern Corn Belt where nearby spot corn basis reached the mid-70's over the September. Basis levels have fizzled a little but are still at very firm levels as the ethanol plants have been struggling to source the corn they need. The strong basis levels are expected to wane more as the ethanol plants are not making money paying that much for corn when the cash ethanol price is low. However, it will be interesting to see basis behavior as harvest comes closer and corn becomes harder to procure. Farmer selling has been lacking this summer leading to large on farm stocks. Once futures and cash price reach a certain level or a lack of storage space materializes, farmers will be heavy sellers. As it stands now, futures and cash are not high enough yet.

Bottom-line: After the July WASDE report, the USDA has put even more weight on the August report. But until then, weather is going to be the market driver with pollination just beginning. We have made a fair amount of new crop sales to this point and feel comfortable holding off on new sales, looking for more upside to come our way. Better opportunities to make sales are expected to come but there is still a lot of weather to play out and USDA data to be released.

December 2019 Corn



CFTC Commitment of Traders



Current Marketing Recommendation

Sold 35% for July 2019 at $4.00
Sold remaining old crop for July 2019 at $4.38
Sold old crop for overall price of $4.09 basis July 2019
Dec. 2019 sold 10% at $4.15 first sale of the year
Sold 10% of new crop in Dec. 2019 at $4.05
Sold 10% of new crop in Dec.2019 at $4.13
Sold 10% of new crop Dec. 2019 in PBB 370/424/424
Sold 10% of new crop Dec. 2019 at $4.53

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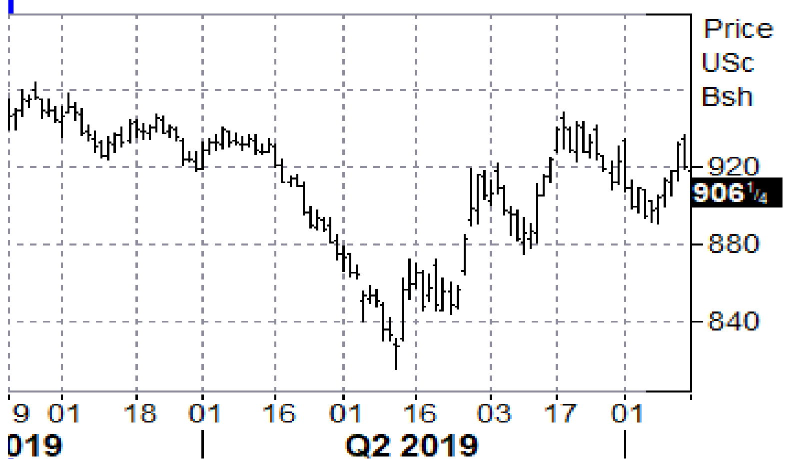
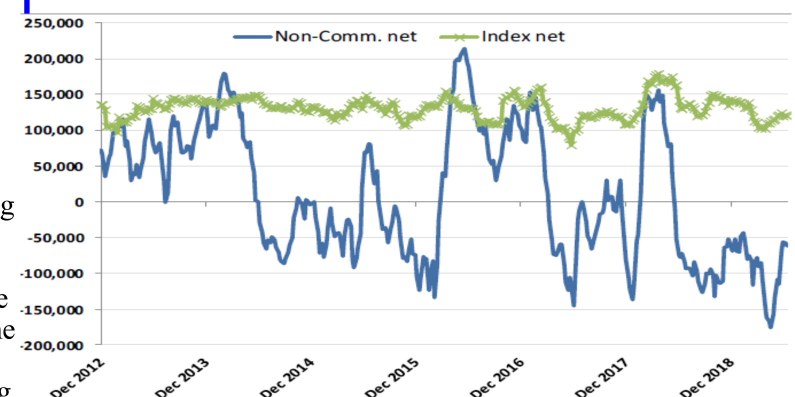
Soybeans: The USDA was good to their word and lowered the soybean acres from last months 84.6 million acres to 80.0 million acres. Normally a 300 million bushels reduction in production (from 4.15 to 3.845 billion bushels) would push price substantially higher. However, soybeans only managed a six cent gain. The biggest reason that its hard to get excited about soybeans when the carry out is 795 million bushels. The difference came from exports, which were cut 75 million bushels and beginning stocks which increased 40 million bushels. While acreage declined the yield was also cut a bushel per acre at 48.5 bushels per acre. Declining acres and yields are bullish but declining exports scare the market. Ending stocks at 795 million bushels is less than a billion, but it's still 19.3% stocks to use, which is bearish. The South American crop will begin to pressure the market by February, which means we have six months to make sales for both 2019 and 2020. Funds are still short soybeans, currently they're short 21,402 contracts. As long as they continue to buy, the market will begrudgingly go higher. However, we could see a time when they sell soybeans to defend their position. The resistance in November soybeans remains between the $9.40 and $9.60 range which encompasses the most recent high at $9.48 on June 18th. The upper end of that range is $9.71 from back on December 12th. From then until mid April the market traded in a fifty cent range before breaking out down to the new low at $8.15 1/2. There will be solid resistance above $9.60, that's why we want to make sales just under that. As long as the market is uncertain about the size of the crop, November soybeans will be supported. The soybean crop is typically made in August, while corn is made in July. The government subsidy promised last spring is expected to be announced soon for payment in August. The guaranteed payment was supposed to be paid this summer. The balance of the payment has yet to be decided, and whether it will be paid or not. The August S&D report should have resurveyed data from producers giving us a better understanding of what actually got planted. Current guesstimates are there could be 1 to 3 million acres of prevent planted soybean acres.

Bottom line: Clean up all old crop sales. We met our objective and when you add the subsidy from last year on to this sale, we did quite well. If you haven't made a sale near $9.60, target something in that neighborhood. If you have, look at making another sale above $9.80. Also, look at using a Price Builder Bonus contract if futures get back above $9.50. We want to use the contract to price soybeans at $10.00. Think about selling November 2020 $9.80 futures and a $10.40 call for $0.40. It gives you a net sale of $10.20 with the potential second sale at $10.40.

August 2019 Soybeans



COT report for soybeans for July 16th



Current Percent Marketed by Crop Year

Sell remaining soybeans at $8.96 for July
Sold 10% Nov.19 soybeans with PBB @ $10.20/$9.00
Sold 10% Nov.20 soybeans with PBB @ $10.50/$9.25
Sell 20% Nov.19 soybeans $9.80
Sold 10% Nov 19 soybeans on PBB contract using $8.80/$10.00/ $10.00 strikes filled
Nov. PPB beans @ $9.60/$10.70/$10.70 11% sold
Sell Nov. 19 $10.20 call for $0.30

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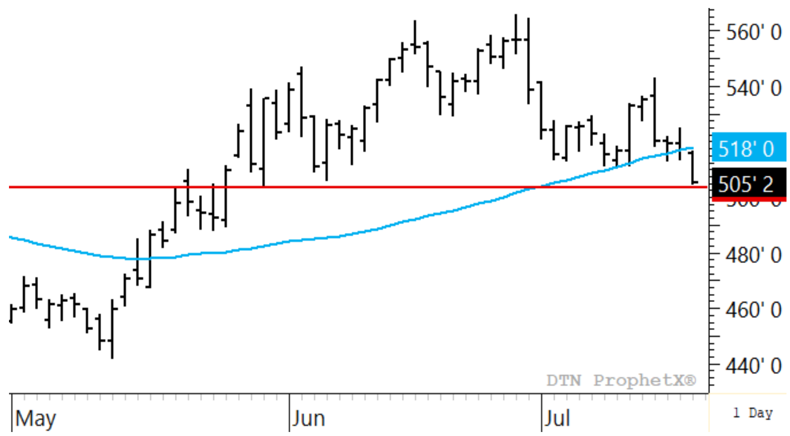
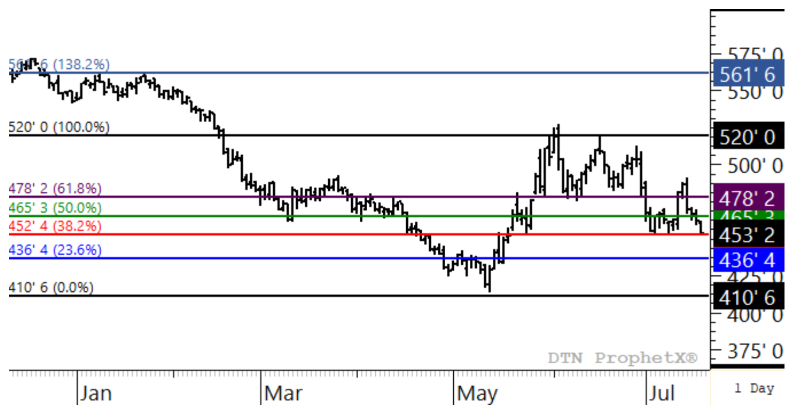
Wheat: Wheat markets got a shot in the arm from the July WASDE report last week but have since given back the gains. The WASDE report came out with a surprising world ending stocks estimate at 286.46 MMT vs. expectations of 292.43 MMT. The drop can be attributed to Russian production being cut by 4 MMT, EU production being cut by 2.5 MMT and Ukraine production being cut by 1 MMT. Wheat prices have come back down as there is still enough wheat globally on top of the winter wheat harvest in progress. Winter wheat harvest is at 57% complete vs. the 5-year average of 71%. Delays in harvest are in seen Colorado, Kansas and Nebraska. So far, yields are coming in large for the Southern Plains with protein levels around 11% in the eastern half of Kansas while the western portion is seeing protein levels around 9%. The western Kansas wheat is being sold for feed over corn as it is the cheaper option. The soft red winter wheat crop in the eastern Corn Belt and into the delta is seeing issues with vomitoxin and spotty yields due to above average rain the area has seen. Looking at spring wheat, the USDA came out with US production at 572 million bushels vs. 623 million bushels last year. Spring wheat stocks are at a 30-year high in the latest WASDE report. Timely rains throughout Montana and North Dakota are causing folks to believe a bigger crop than expected is coming. The annual spring wheat tour will take place next week, giving the market better insight into how good things actually are. Canada is seeing improved conditions after dry weather during the spring and into early summer raised concerns, but consistent rains have alleviated those concerns for the time being. In Europe, there are concerns for their gain production, especially in France, due to hot and dry conditions. Production expectations continue to decrease to levels close to last year, where hot and dry weather was present as well. US wheat exports have not been great as global competitors have taken a majority of potential business. Russia and Ukraine have been the cheapest wheat on the global market with the EU, specifically Romania, getting some sales as well. Even though the USDA reduced Russian and Ukrainian production estimates, both countries still have plenty to sell and will continue to do so, forcing the US to lower its price at some point to be competitive.

Bottom-line: Continued strength in corn will support wheat prices but winter wheat harvest is showing large yields and spring wheat conditions are implying a large crop will be coming. Upside in the winter wheat markets is going to be limited for the time being but once we get past harvest, this market will follow corn, which could have a rally in it yet. Look at selling Dec'19 Chicago wheat at $5.70. In KC, look at $5.10 for the Dec'19. Look at $5.75 in the Dec'19 for Minneapolis.

Chicago December 2019 Wheat



Kansas City December 2019 Wheat



Current Percent Marketed by Crop

Mpls Wheat	Sold 10% Mpls March $5.80
	Sell 20% Mpls Sep. 2019 $5.55
	Sell 10% Mpls Dec. 2019 $5.75
	Sell 10% Mpls Dec. 2019 $5.90
	Sell 10% Mpls Dec. 2019 PBB 5.50/6.40/6.40
Chicago Wheat	Sold 10% Chicago July 2019 $5.20
	Sold 20% Chicago July 2019 $5.35
	Sold 10% Chicago Sep. 2019 $5.50
	Sell 10% Chicago Dec. 2019 $5.70
KC Wheat	Sold 10% KC March 2019 at $6.00
	Sold 10% KC July 2019 at $4.80
	Sell 10% KC Sep. 2019 at $4.70
	Sell 10% KC Dec. 2019 at $5.10

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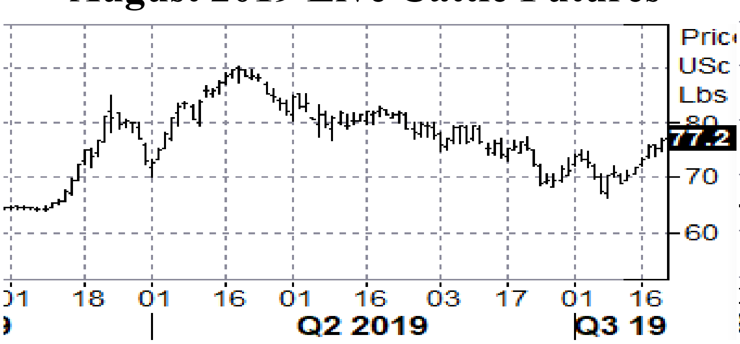
Cattle: The July Cattle on Feed report for a change had no surprises. The trade was expecting 101.8% cattle on feed and the USDA put them at 102.0%. Placed was expected to be 97.8% and came in at 98.0%. Marketings were pegged at 97.0% and came in at 97.0%. The Inventory report was also neutral with all cattle coming in 100.0% The calf crop was estimated at 100.5% and came in at 100.0%. If there was any surprise it was that cow numbers were expected at 100.0% and they came in at 96.0%. Dairy cows were expected to be 98.6% and came in at 98.0%. Overall the market should view this as neutral. Cash cattle traded in a range of $111.00 to $115.00 for live cattle, there was an extreme top trade at $117.00. Dressed beef traded between $182.00 to $185.00 per cwt. This was mostly steady with last weeks trade. Boxed beef settled the week at $213.42 for choice and $189.51 for selects. That's nominally lower than last week's $213.77 and $190.79 respectively. While this isn't bad for the dog day of summer. Typically, when temperature climb into the 90's peoples interest isn't high priced meats, it's more hot dogs and hamburgers, read cheaper cuts of meat. Therefore if boxed beef holds these values when we start to climb into the fall we could rally the market farther. Export remain strong, for the week we exported 19.8 tmt, with Japan taking 8 tmt, South Korea taking 3.6 tmt and Mexico taking 3.25 tmt. That's just above the four week average of 18.3 tmt. Year on year Japan is at 170tmt , South Korea's at 165 tmt and Hong Kong is at 90 tmt. Cumulative exports are at 609.7 tmt 2.8% above last year. Beef production this past week was million lbs. That's above last week's production and last year's. Steer weights rose from 854 lbs to 861 lbs for the weekending July 6th. However, it's still less than the five year average weight of 867.4 lbs. This was more than what was expected, however, as weights typically rise into the summer. Funds remain long cattle. Currently, they're long 17,387 contracts. This makes sense since February cattle typically rally from mid July into settlement. That gain ranges from $10.00 to $30.00 per cwt. For now we'll just have to wait and see.

Bottom-line: We want to hold off making sales right now. Markets tend to rally into the fall.

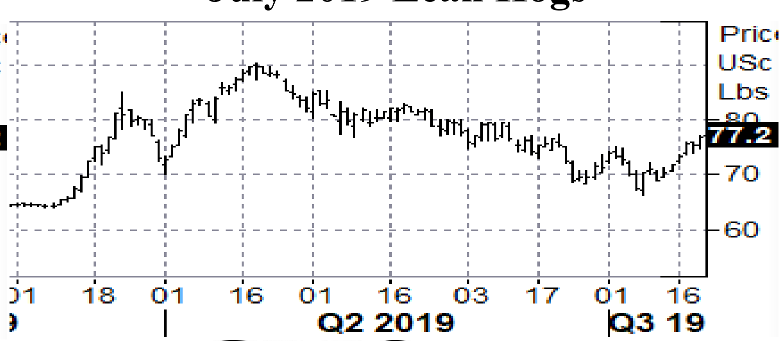
Hogs: The lean hog complex continues to confound me. For the better part of year, we have talked about what would happen when China started buying pork from the US and they are. Year to date they've bought 260 tmt of pork. Pork prices in China have risen 5.6% this week, 8.85% for July and 40.9% for the year so far. The rise in price reflects the shrinking herd which currently is being reported to have shrunk 25.8% while the Sow herd has dropped 26.7%. If this is what's being reported, the likelihood is the herd has shrunk even more, the government doesn't know or they aren't going to say. Either way, going forward they are going to have to import more meat. Whether that's chicken or beef or pork, they going to need protein. US exports for the week of July 11th were 30.1 tmt. That's above the four week average of 21.05 tmt. Cumulative sales are at 965.6 tmt with China, Mexico, and South Korea rounding out the top three buyers of US pork year to date. Year to date, US pork exports are running 28.4% above last years exports. Compare this to weekly slaughter which was 2.3 million head last week vs 2.4 the previous week and 2.38 last year. Hog weights are staying relatively steady with weight coming in at 280.0 lbs for the week ending July 13th. That was down from the previous week's 280.2 lbs but still above last year's 276.5 lbs. Pork cutout on the other hand is at $78.53 per cwt. And that's up from the previous week's $70.83 per cwt. That's also the highest they've been in a month. Pork bellies have rallied nicely in the past week coming up over $24.00 per cwt, which explains the gain in pork cutouts. Funds remain long hogs at 43,811 contracts. Earlier this year they were long 75,000 contracts, however, since this spring they've been reducing their length. Like cattle, lean hog futures tend to decline in July through mid August. However, this year may be the exception they 've been under valued for the past two months. The challenge for hog producers going forward is going to be controlling feed costs. While corn costs are up I believe they will jump substantially later this year when the planted acres and yields are know.

Bottom-line: Think about covering feed costs for any hogs you plan on feeding over the next year. You can do this by buying futures, buying calls or you can use a call spreads. We want to look at placing orders for the next 6 to 12 months. If the market jumps the market will pull you in.

August 2019 Live Cattle Futures



July 2019 Lean Hogs



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Recommendations Filled

Corn

Sold 10% March 2019 corn at $3.90
Sold 25% July 2019 corn at $3.90
Sold 35% July 2019 corn at $4.00
Sold 10% Dec. 2019 corn at $4.05
Sold 10% Dec. 2019 PBB 370/424/424

Sell remaining old crop for July 2019 at $4.38
Dec. 2019 sold 10% at $4.15 first sale of the year
Sold 10% of new crop in Dec.2019 at $4.13
Sold 10% of new crop in Dec.2019 at $4.53

Soybeans

70% of the 218 soybean crop sold at $10.82 vs July soybeans
Sell remaining soybeans at $9.60 vs July
Sell 10% November 2019 soybeans over $9.68
Sell 10% November 2019 soybeans over $10.04
Sell 10% November 2019 using PBB contract at $10.20/ $10.20 with a knock out at $9.00.

Chicago Wheat

Sold 10% Chicago July 2019 $5.20
Sold 20% Chicago July 2019 $5.35
Sold 10% Chicago Sep. 2019 $5.50
Sell 10% Chicago Dec. 2019 $5.70

KC Wheat

Sold 10% KC March 2019 at $6.00
Sold 10% KC July 2019 at $4.80
Sell 10% KC Sep. 2019 at $4.70
Sell 10% KC Dec. 2019 at $5.10

Cattle

Sell August live cattle at $116.00 per cwt
Sold June live cattle $119.85 per cwt filled
Sell December live cattle futures at $120.00
Sold June live cattle $126.00 Call for $4.00 per cwt
Sell October live cattle at $118.00 per cwt.
Sell December live cattle $124.00 call for $3.00
Sold Oct. at $118.00 /cwt or Dec. cattle at $122.00. filled
Sell April 2020 live cattle at $128.00 & $130 call $4.00/ cwt

Mpls Wheat

Sold 10% Mpls March $5.80
Sell 20% Mpls Sep. 2019 $5.55
Sell 10% Mpls Dec. 2019 $5.75
Sell 10% Mpls Dec. 2019 $5.90
Sell 10% Mpls Dec. 2019 PBB 5.50/6.40/6.40

Hogs

Sold June lean hogs at $99.50
Sold July lean hogs $102.00
Sold June lean hogs at $84.00 per cwt
Sell August lean hogs at $100.00
Sold June $92.00 Calls for $3.25
Sell December lean hogs at $88.00
Sell December a $96 call for $6.00 per cwt
Sold December lean hogs at $86.00
Sold April 2020 lean hogs at $86.00

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