

2019 Grain Market Outlook: *End Of An Era?*

Bryce Knorr
Senior Grain Market Analyst

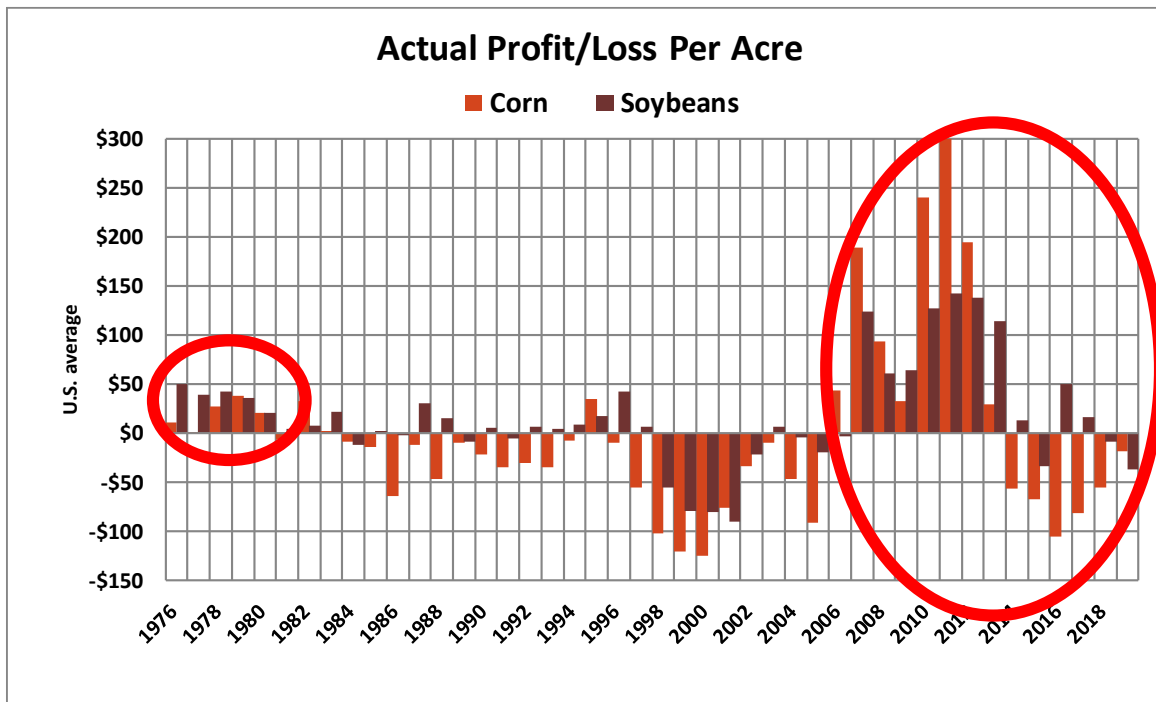


Plenty Of Issues To Talk About

- Trade war impact
- Size of the crops
- USDA data vacuum slowly fills
- Acreage questions
- Price forecast
- Input buying
- Weather
- Net farm income estimates
- Farm financial trends

***But There's
A Bigger
Issue!***

The 2nd Demand Boom Is Dead



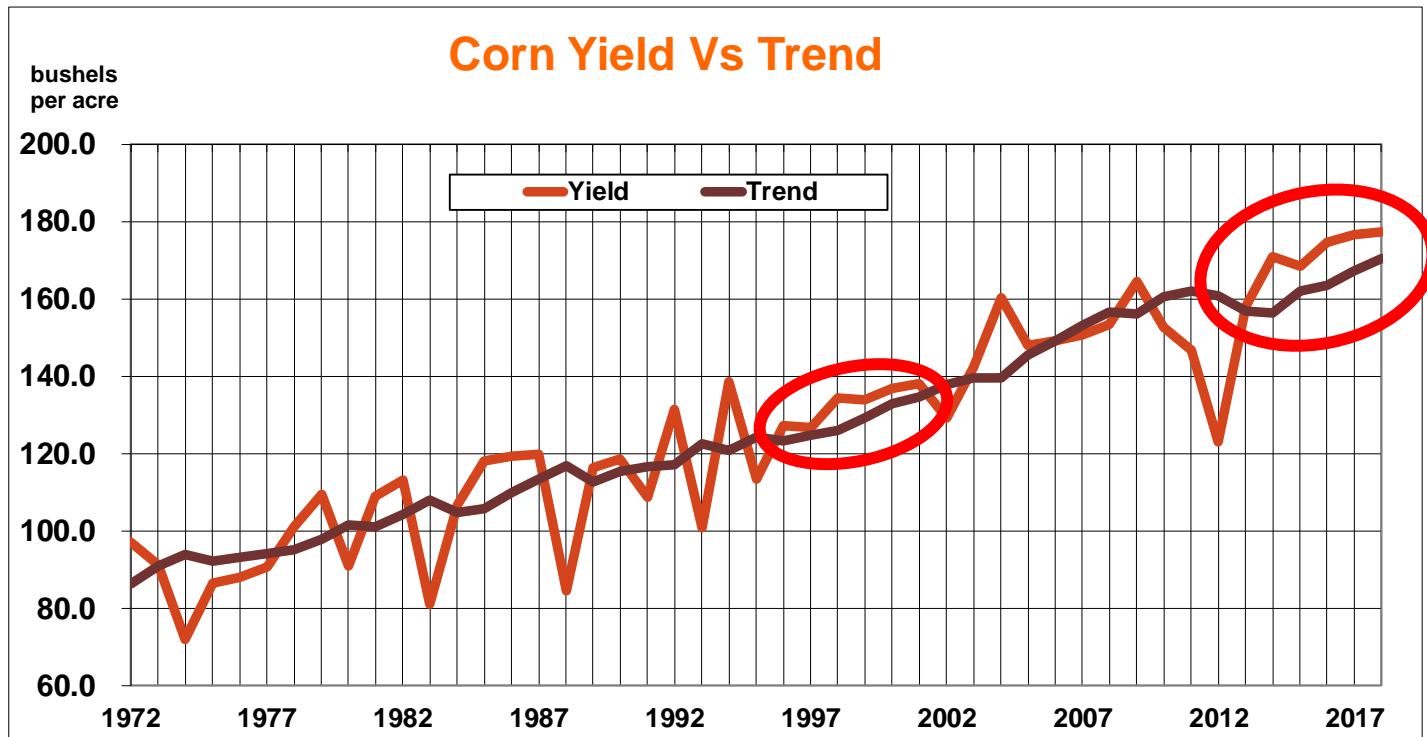
Ethanol Is Over



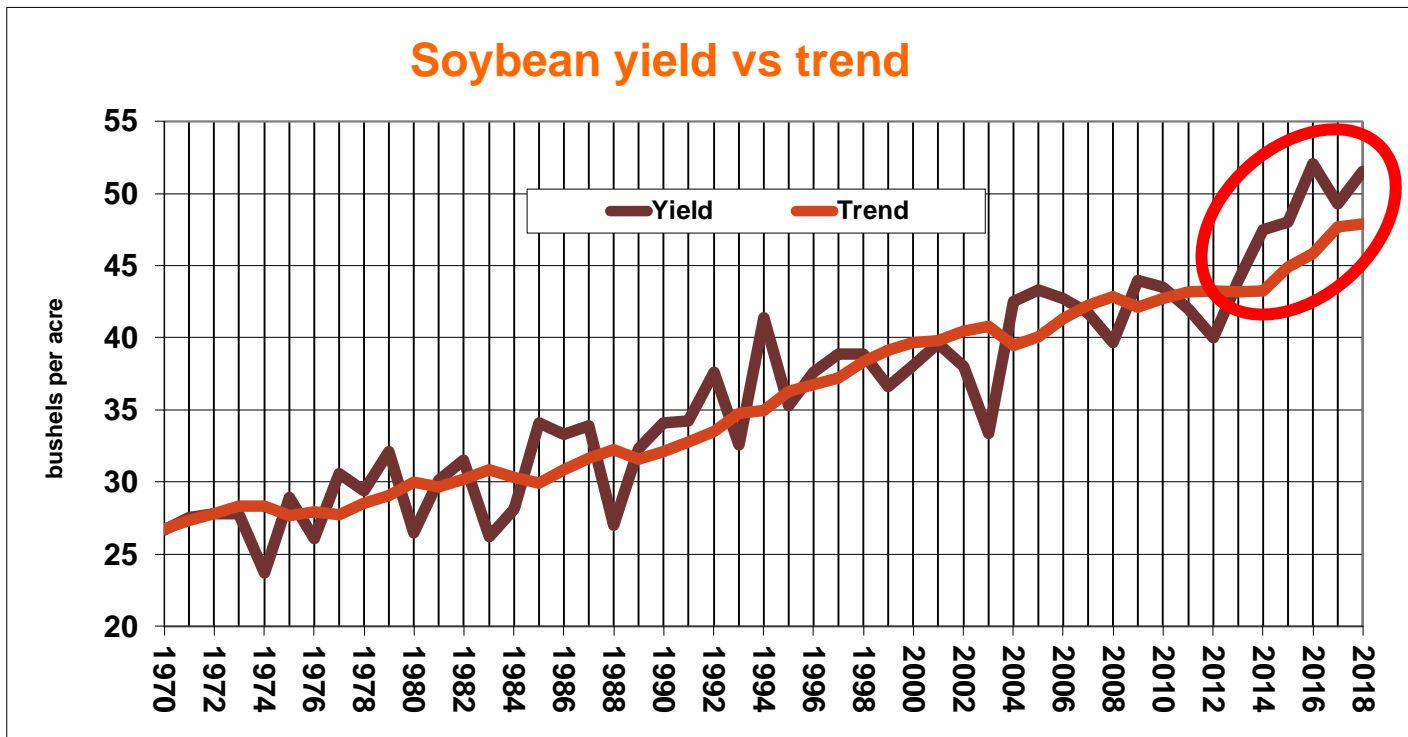
China Bean Boom On Life Support



Six Years In A Row



Six In A Row A Record



Smaller Corn Crop

U.S. 2018 Corn Production				
	Farm Futures	Average Trade Guess	Range Of Guesses	USDA November
Harvested (<i>millions</i>)	81,413	81,680	80,850-82,100	81,767
Yield	177.2	177.9	176.7-179.9	178.9
Production (billions)	14,423	14,532	14,343-14,760	14,626
Source: USDA, Reuters, Farm Futures				

Lower Yields, Less Acres

U.S. 2018 Soybean Production				
	Farm Futures	Average Trade Guess	Range Of Guesses	USDA November
Harvested (<i>millions</i>)	87,364	88,187	87,364-88,509	88,345
Yield	51.6	51.8	51-52.4	52.1
Production (billions)	4,505	4,572	4,490-4,620	4,600
Source: USDA, Reuters, Farm Futures				

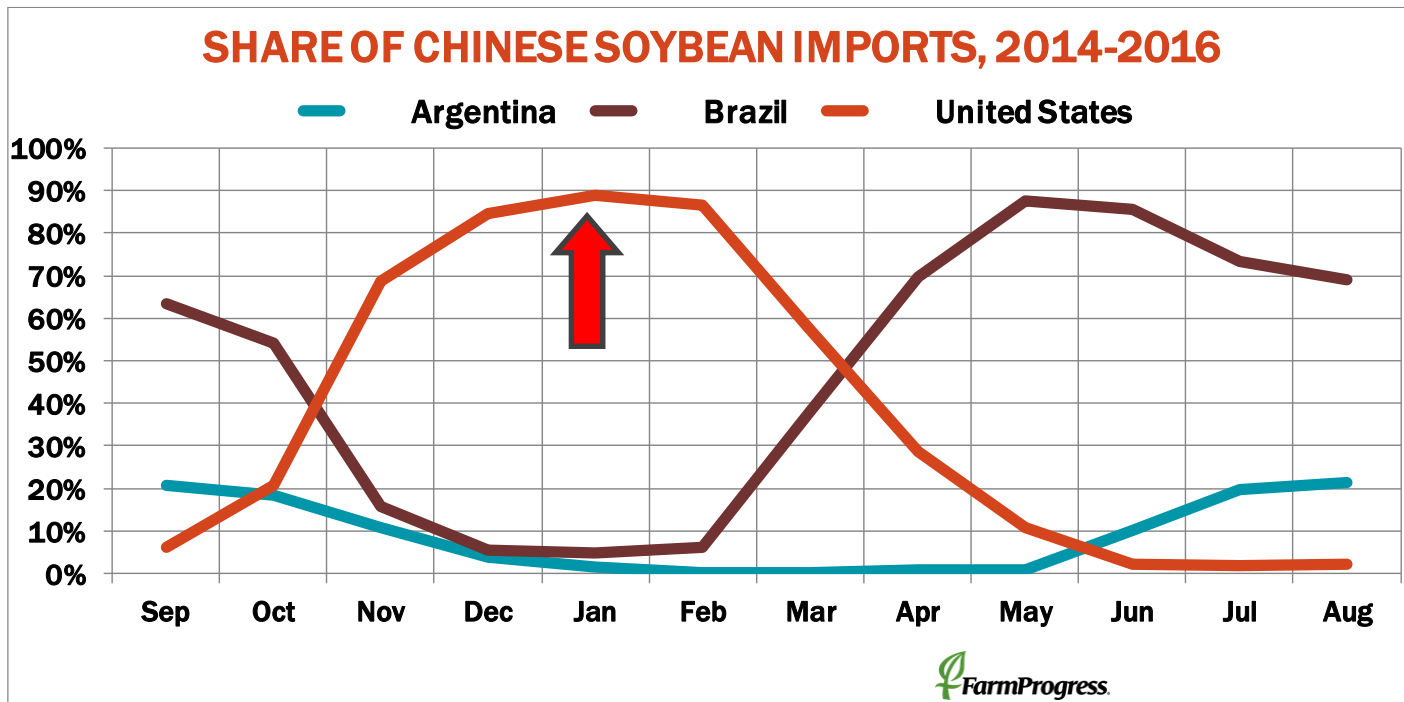
Carryout Trend Mixed

U.S. 2018-2019 Ending Stocks				
<i>million bushels</i>	Farm Futures	Average Trade Guess	Range Of Guesses	USDA December
Corn	1,684	1,708	1,621-1,787	1,781
Soybeans	880	926	800-1,015	955
Wheat	1,028	989	950-1,028	974
Source: USDA, Reuters, Farm Futures				

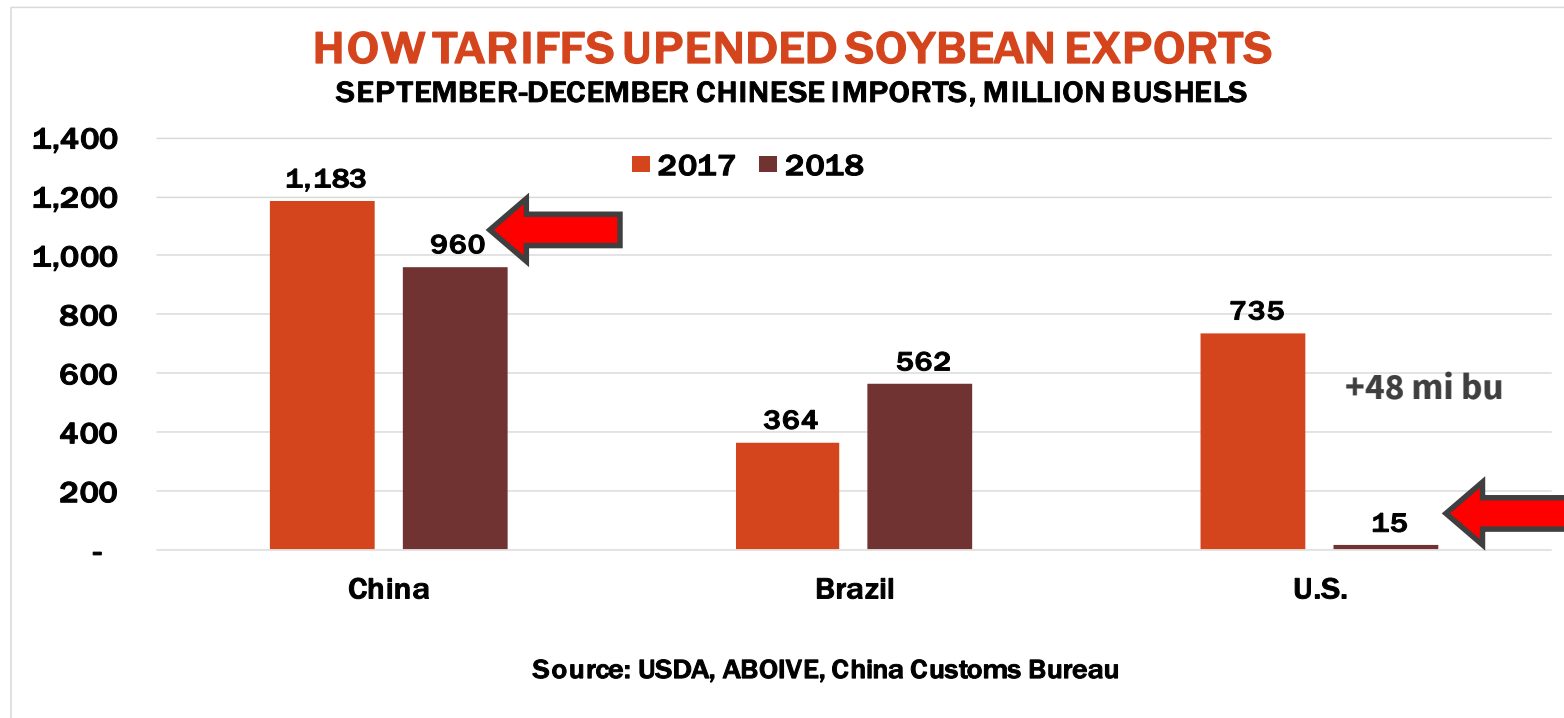
Ready For A Move Friday



U.S. Shipments To China Should Be Booming

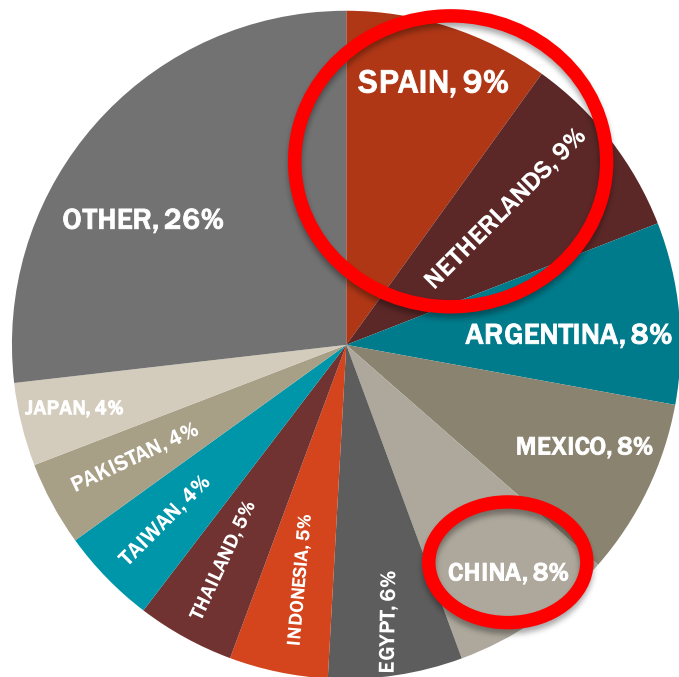


Winners And Losers

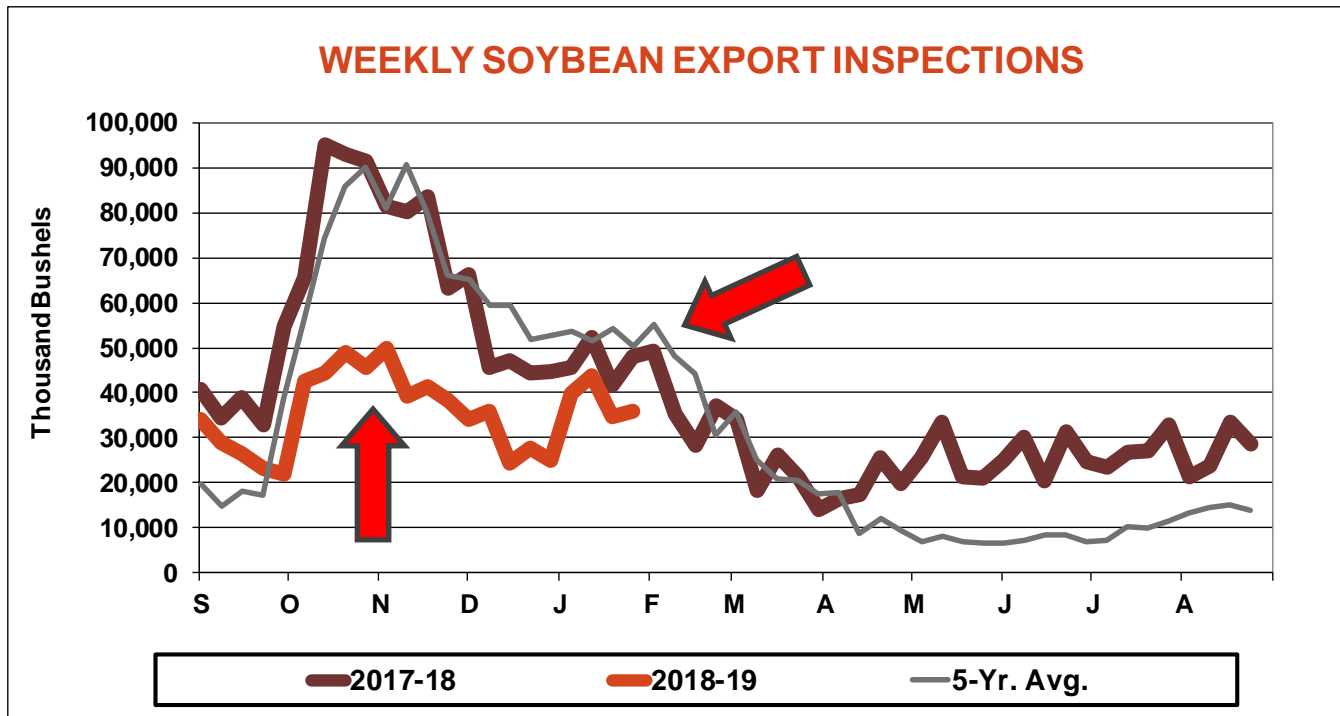


China Usually 57% to 62%

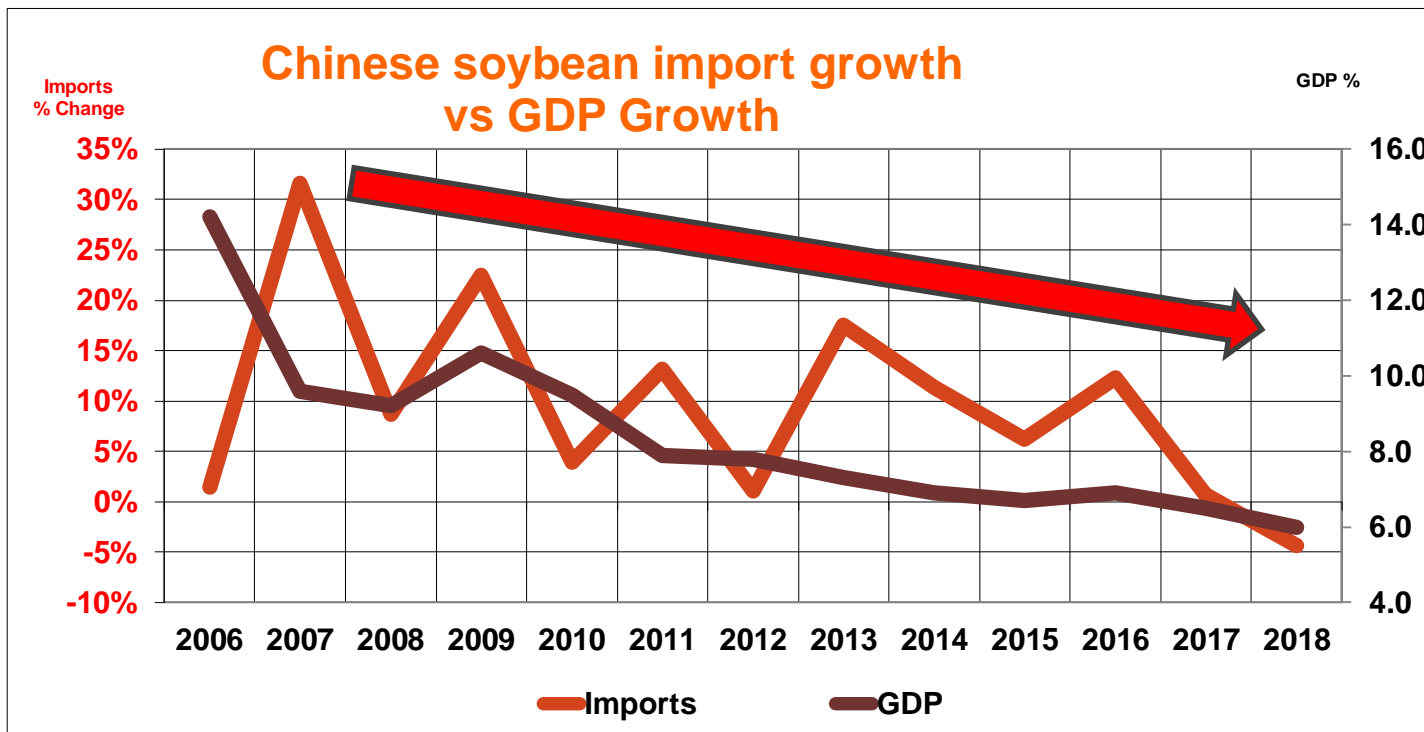
LEADING SOYBEAN EXPORT INSPECTIONS
YEAR TO DATE JANUARY 31, 2019



Long Way To Go



Exports A Problem Before Tariffs

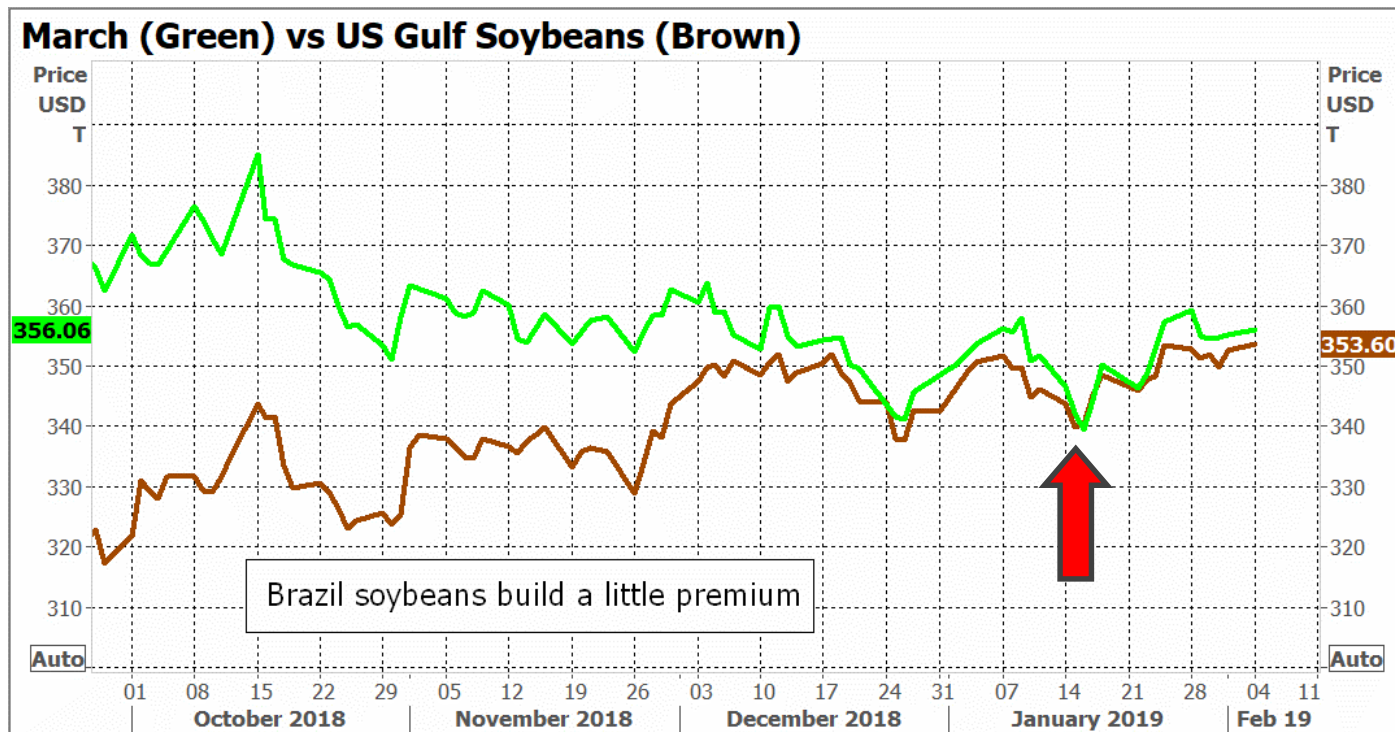


Year Of The Pig?



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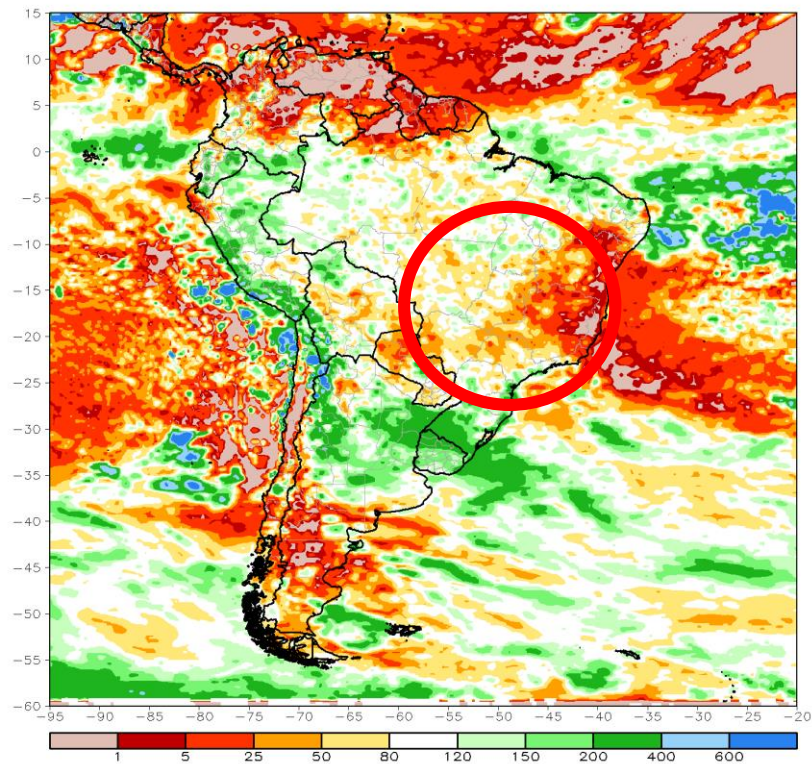
Price Discount Starting To Widen



Dryness In Brazil

CMORPH 30-Day Percent of Normal Rainfall (%)

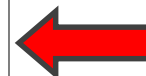
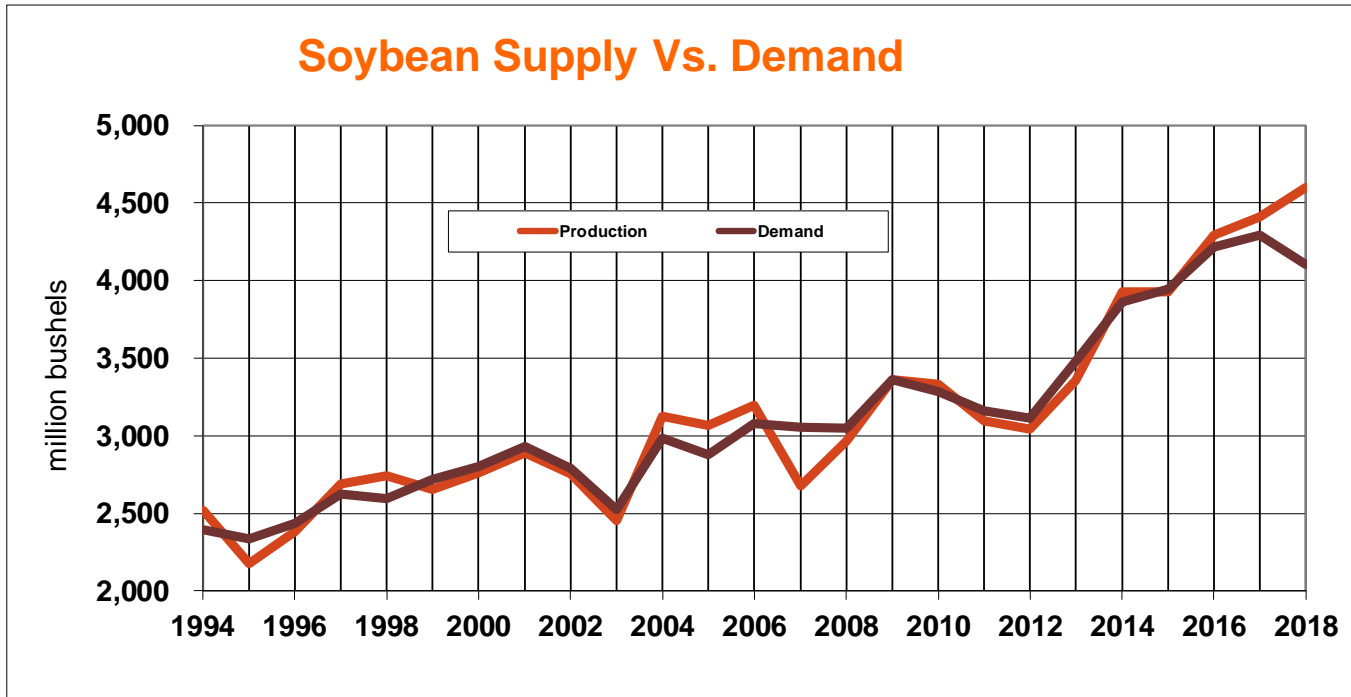
Period: 05Jan2019 - 03Feb2019



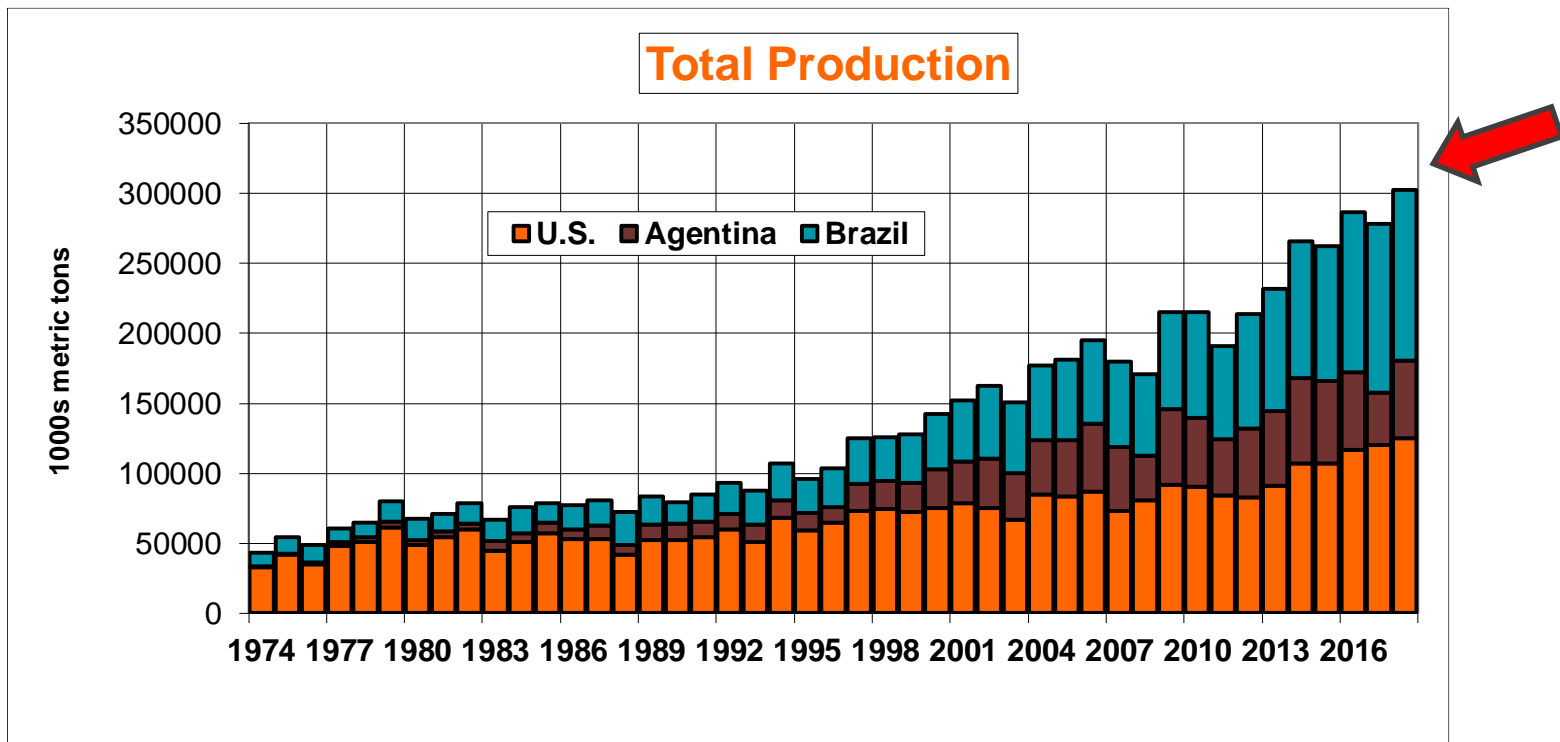
“Truce” May Not Help Much



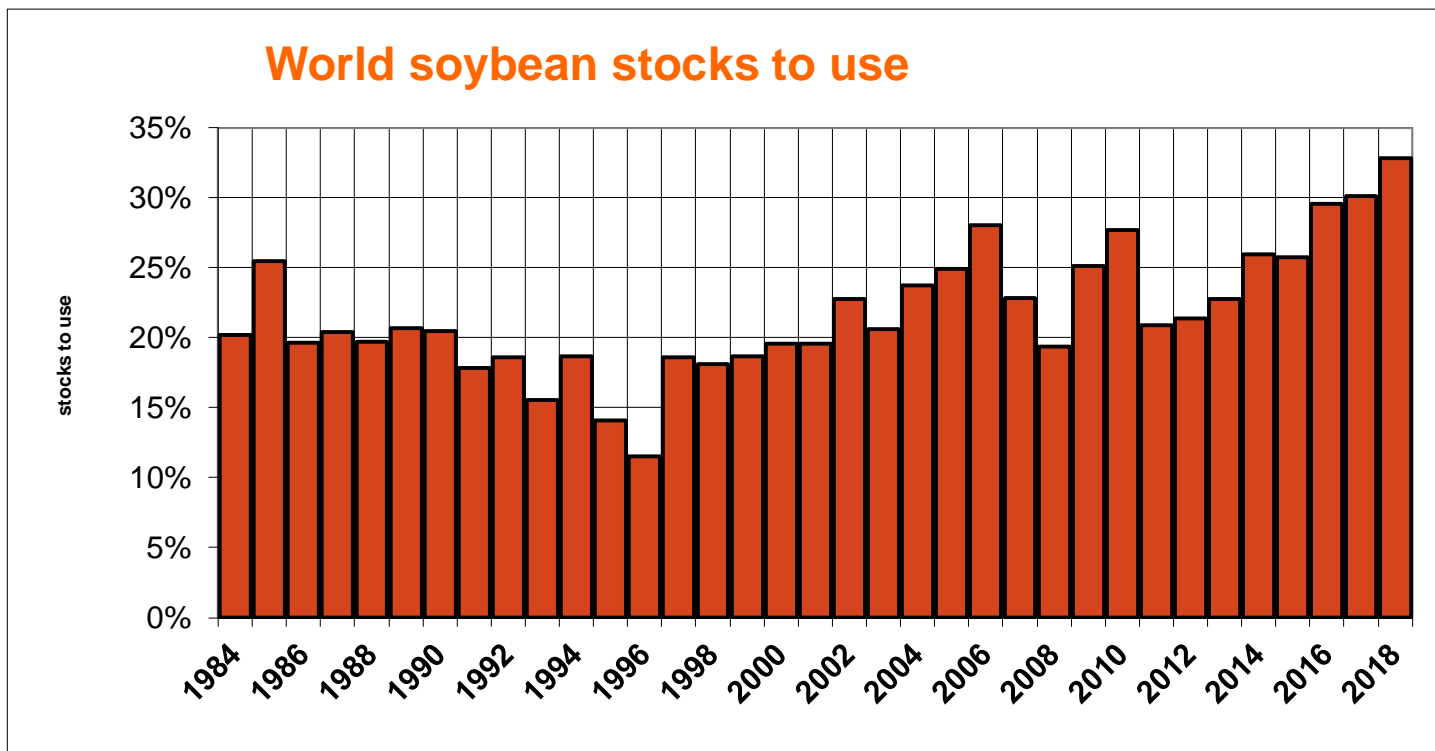
Excess Production



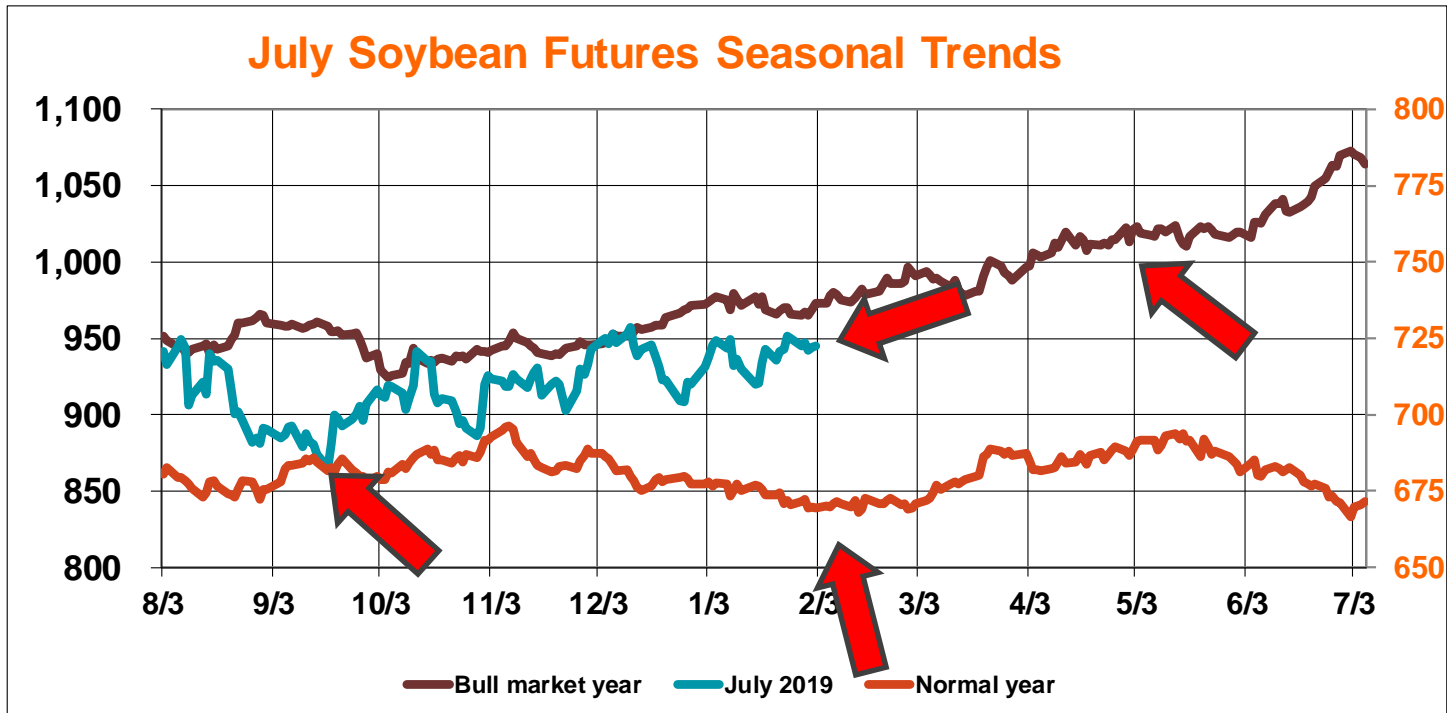
Rising World Production



Historically Large World Supplies



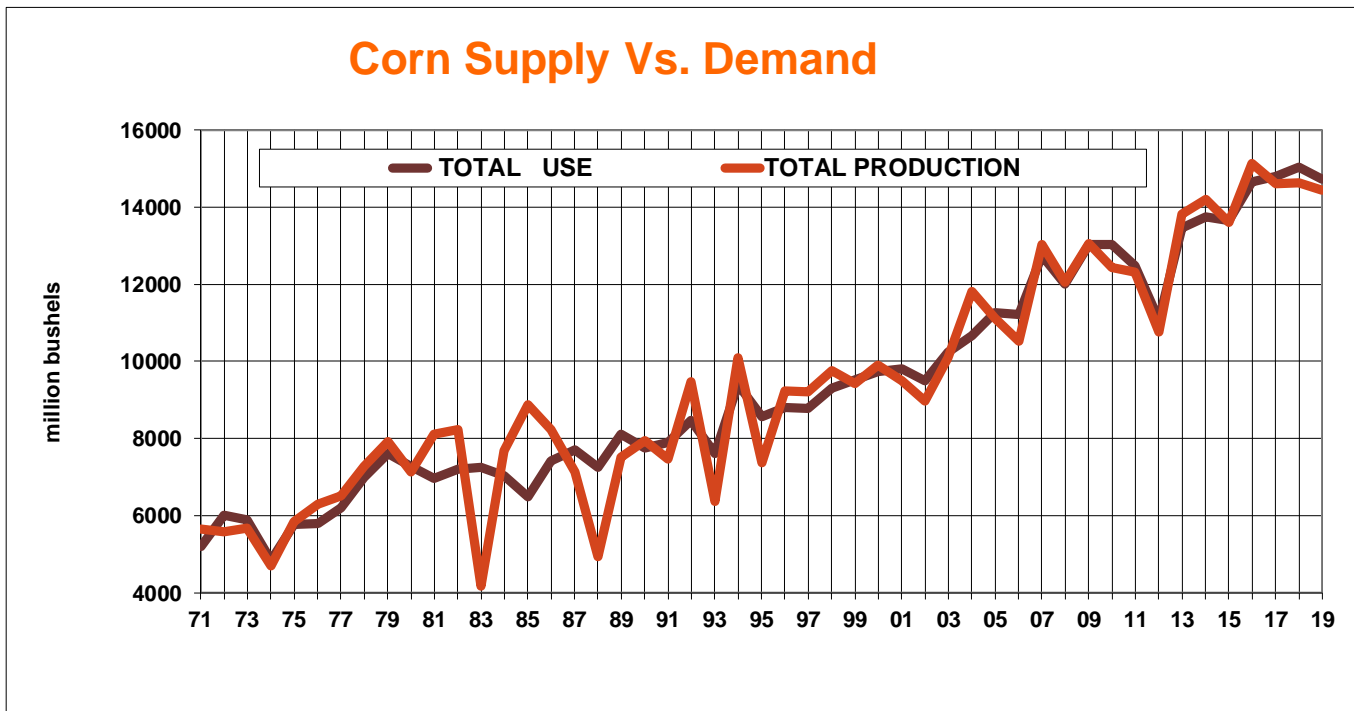
Bearish Fundamentals, Bullish Trend



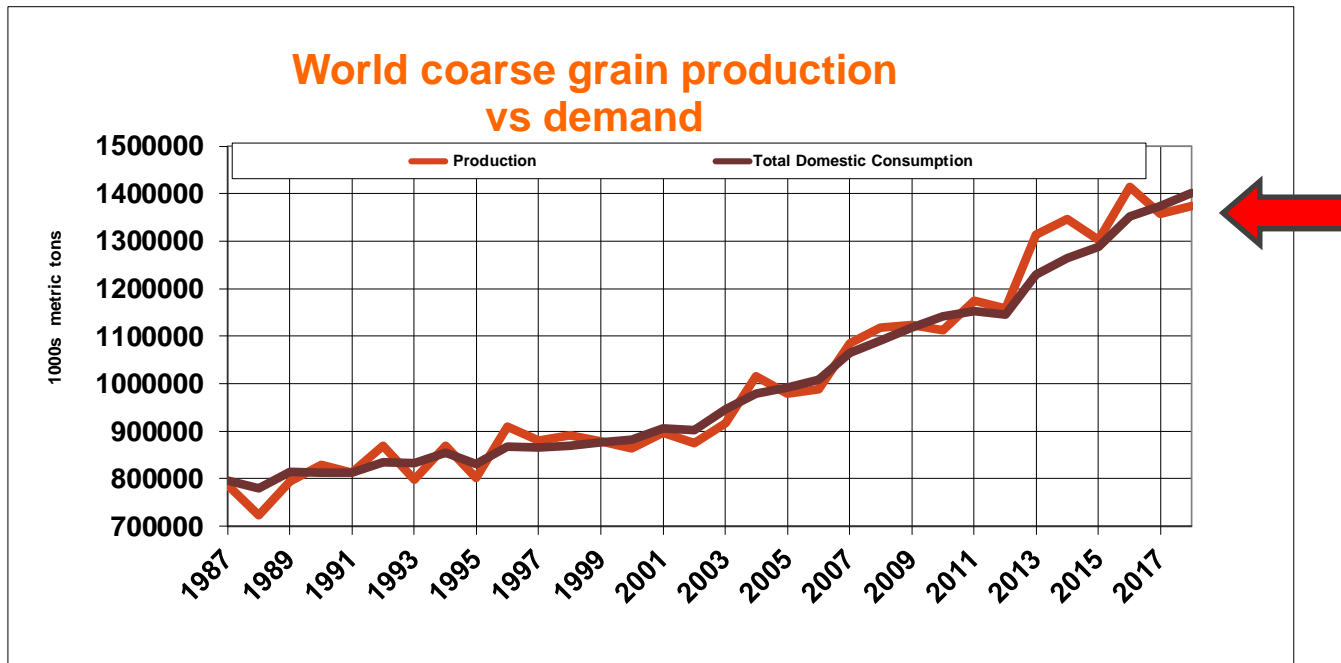
Corn Market Waits For USDA



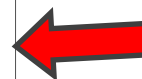
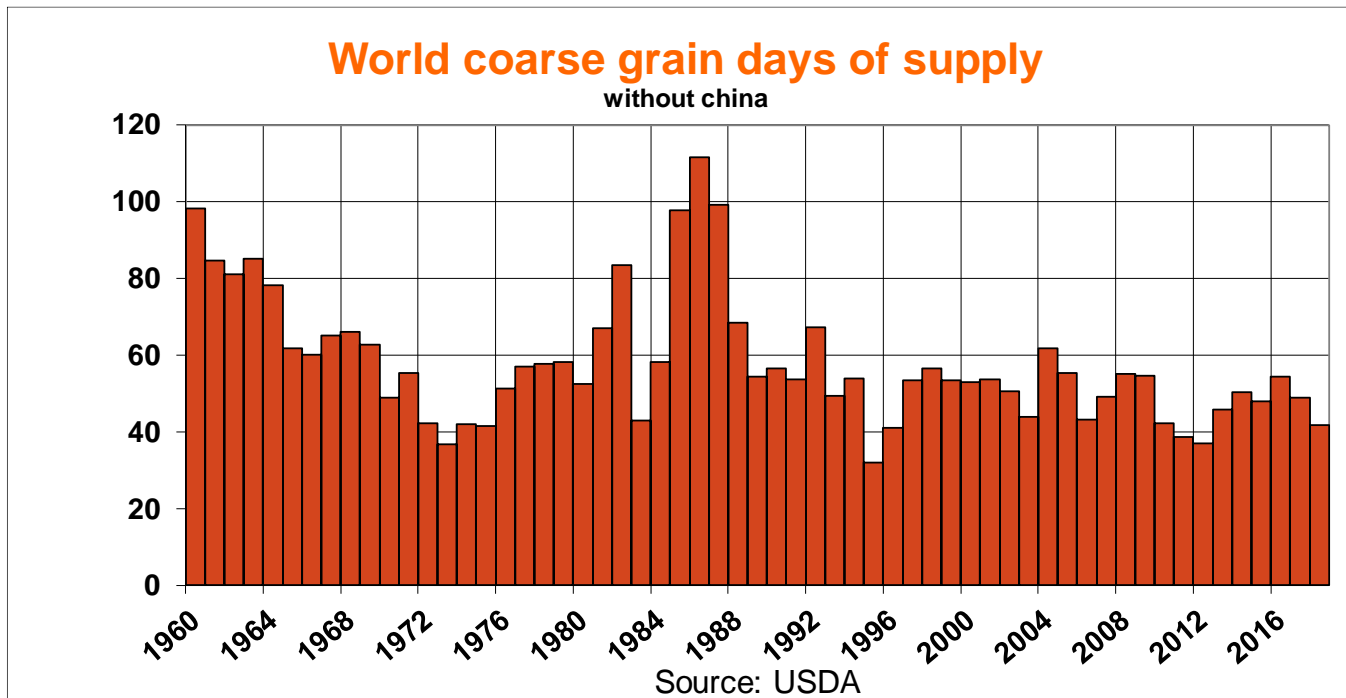
Usage Could Top Production In 2018



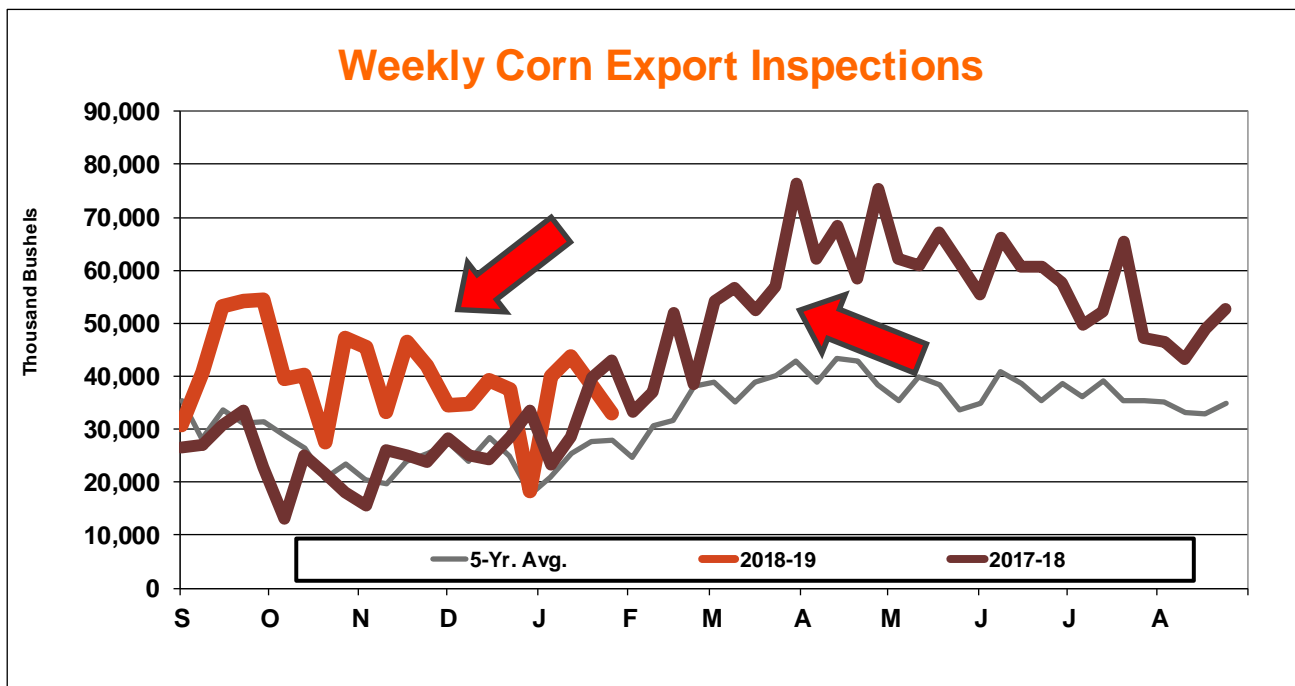
World Supply Smaller



Tight Historically

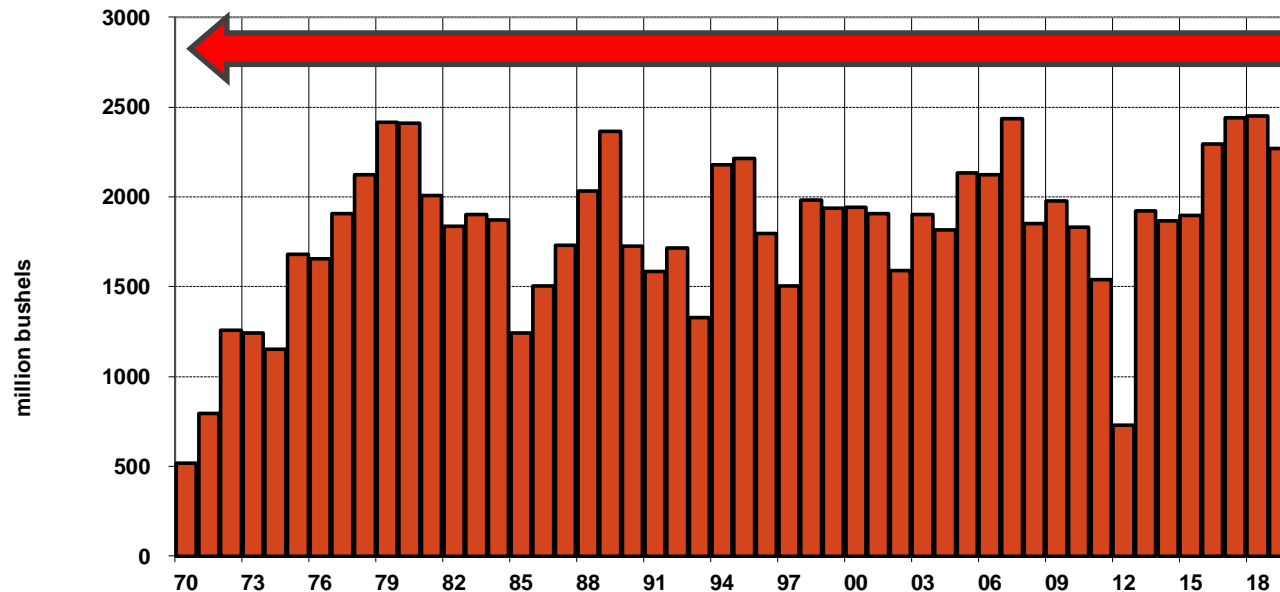


Corn Window Opens

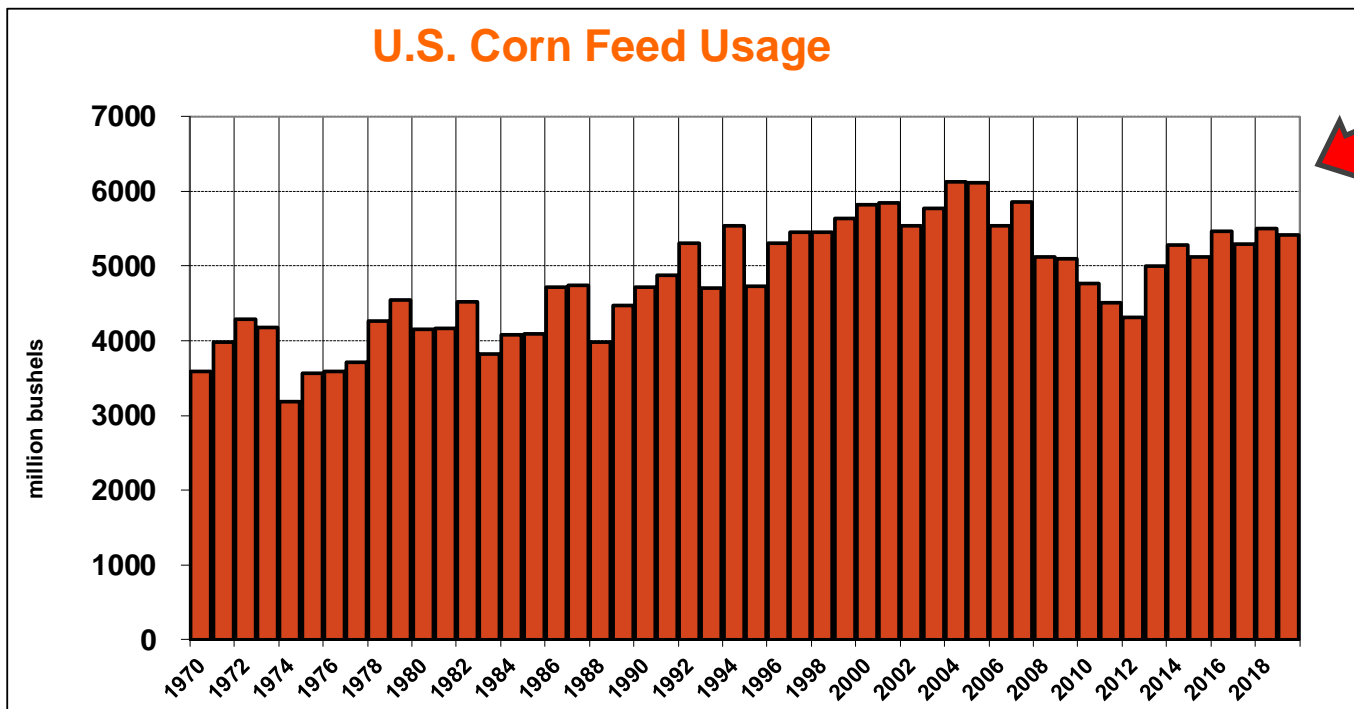


As Good As It Gets

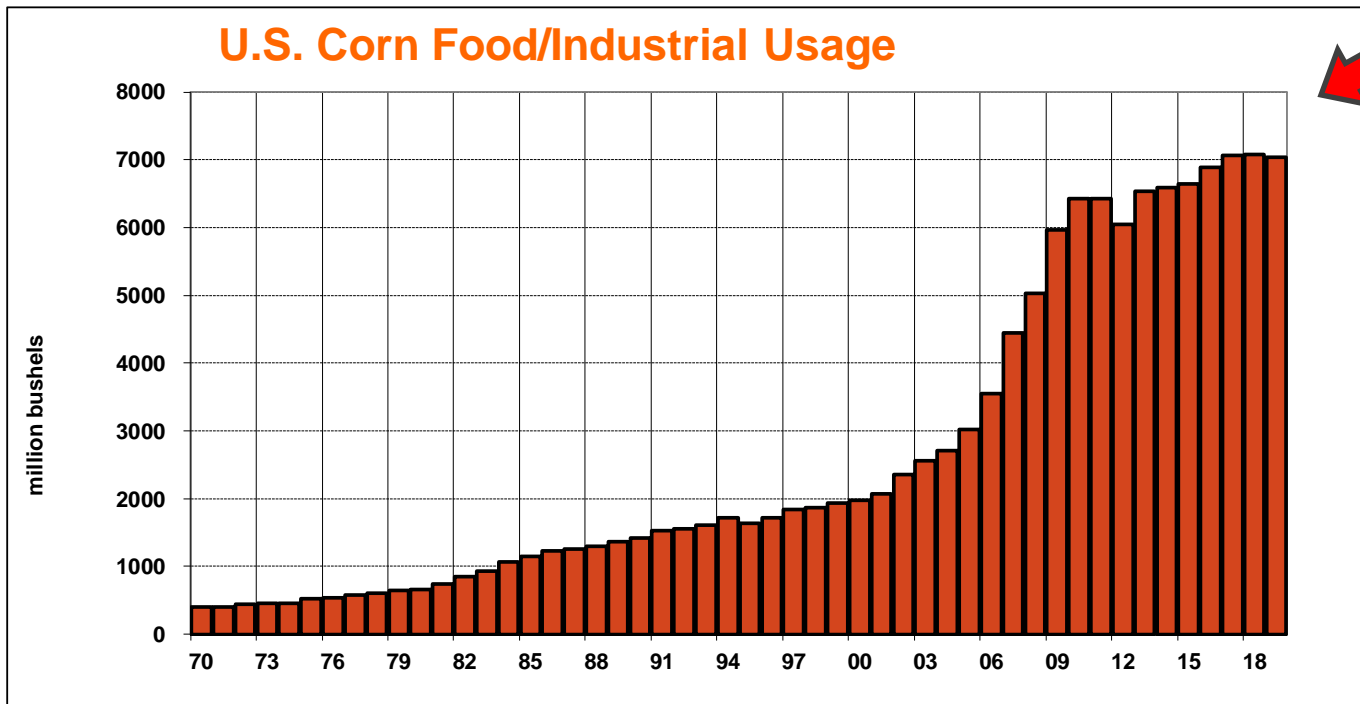
U.S. Corn Exports



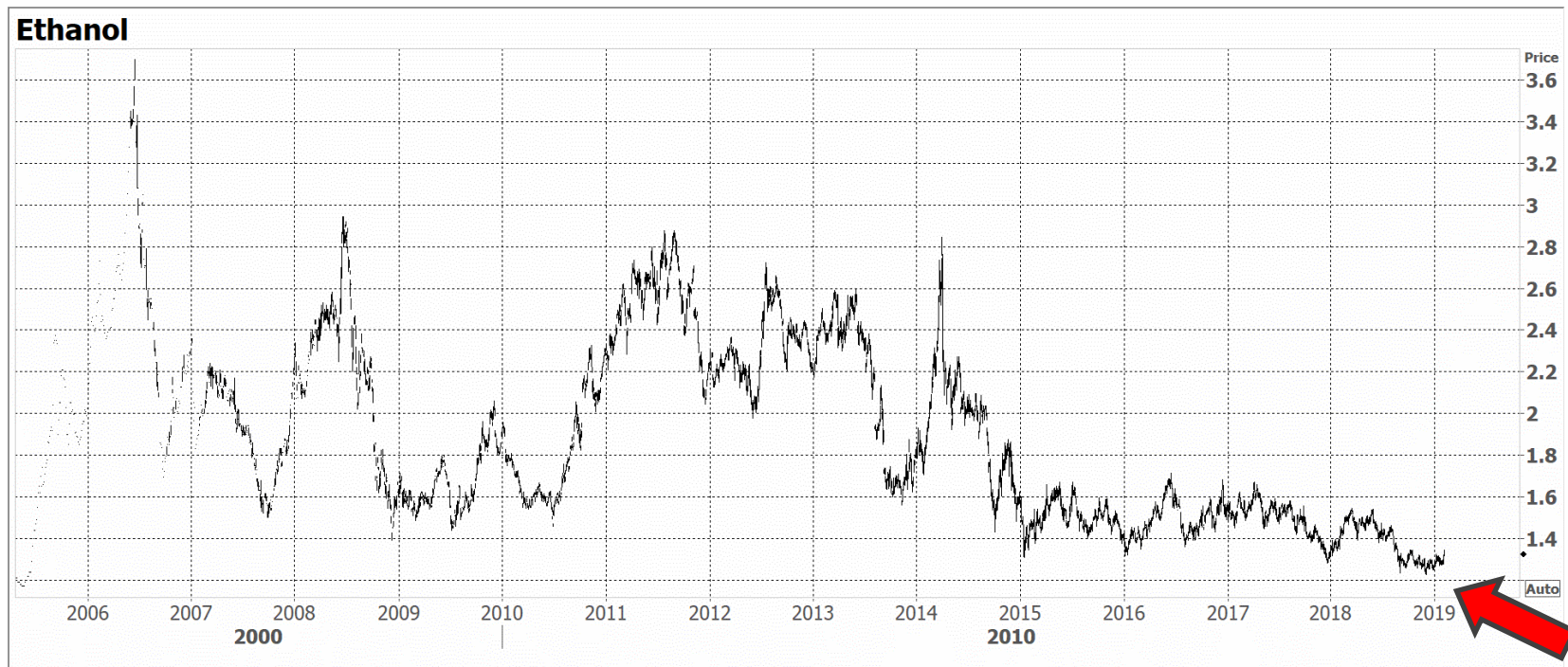
Slow Growth



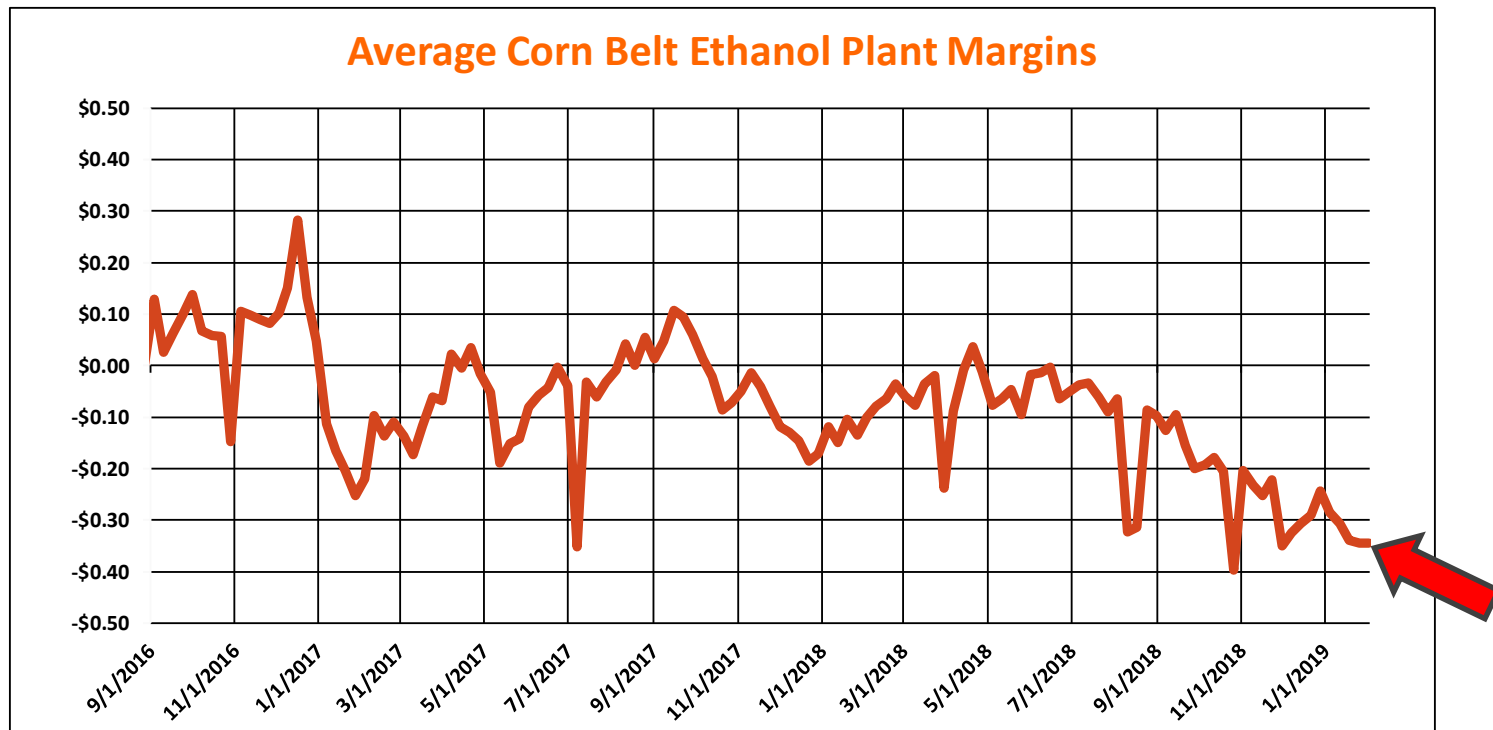
No Growth?



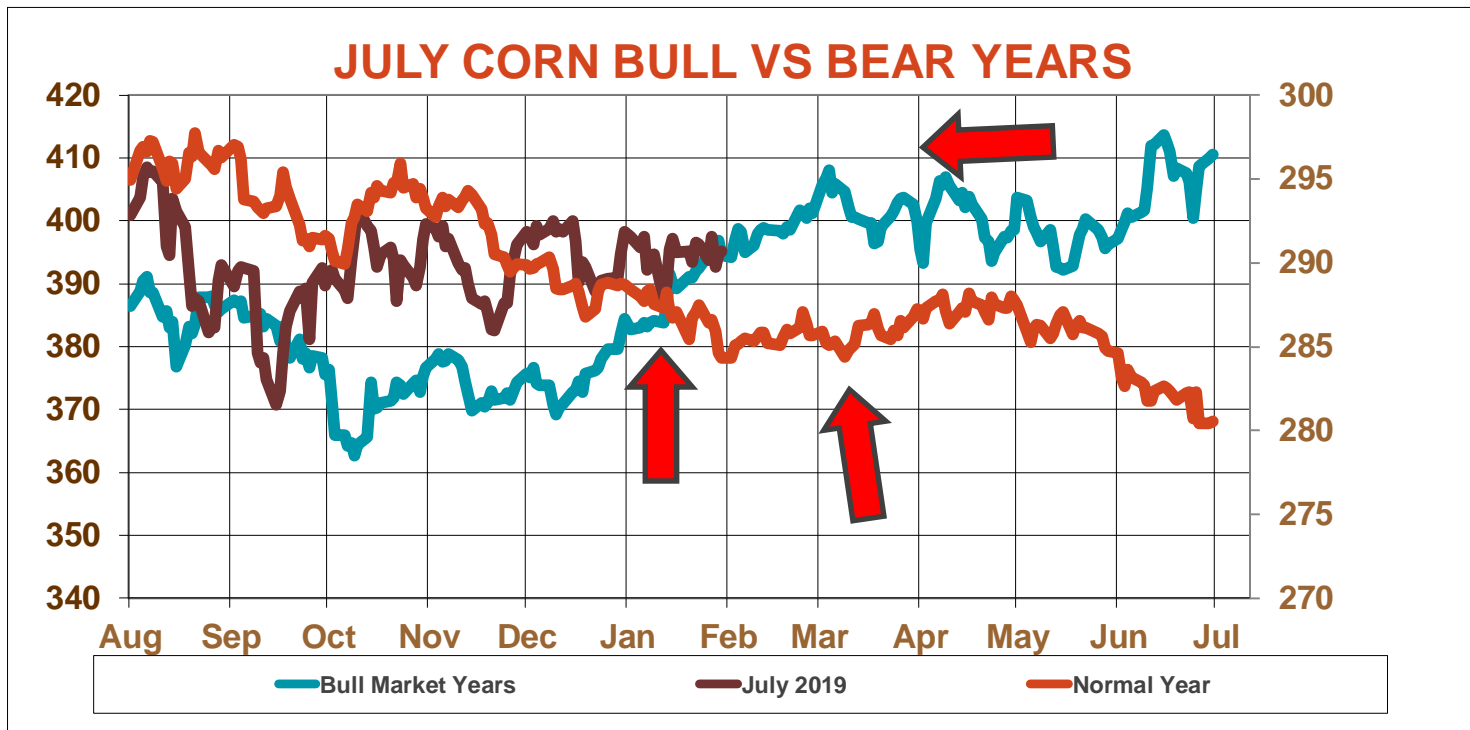
Lowest Price Since RFS Boom



Lousy Margins



September Lows Held

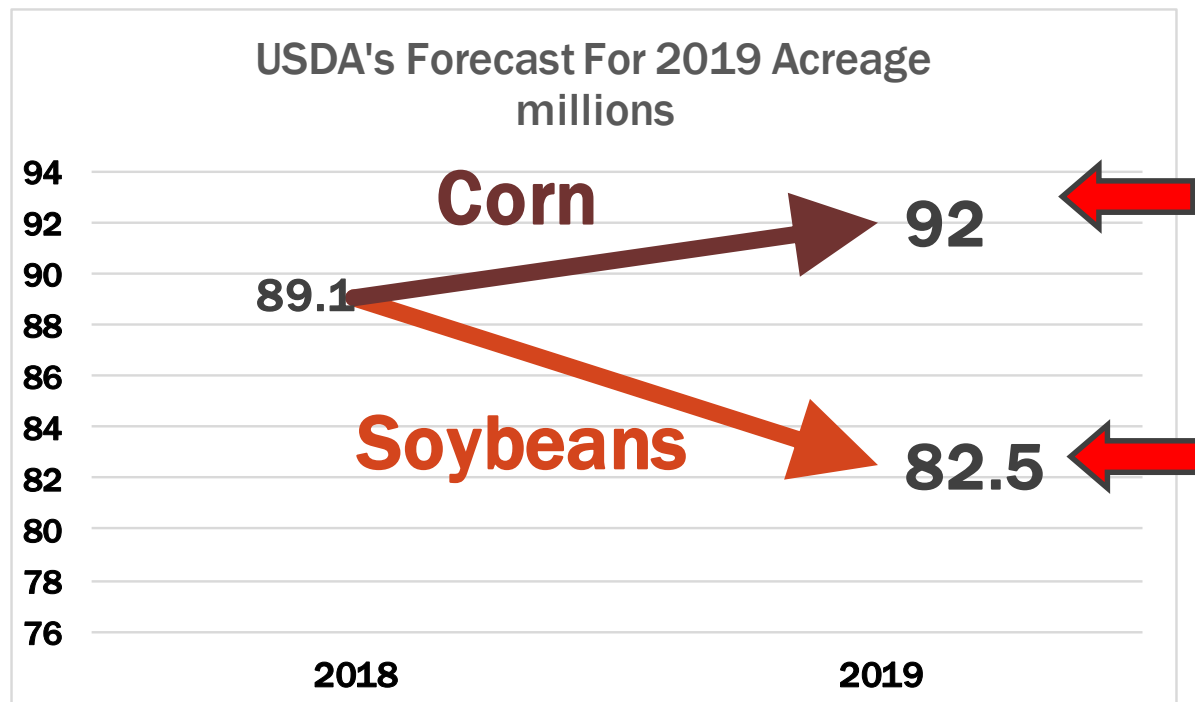


2019 Debate Begins

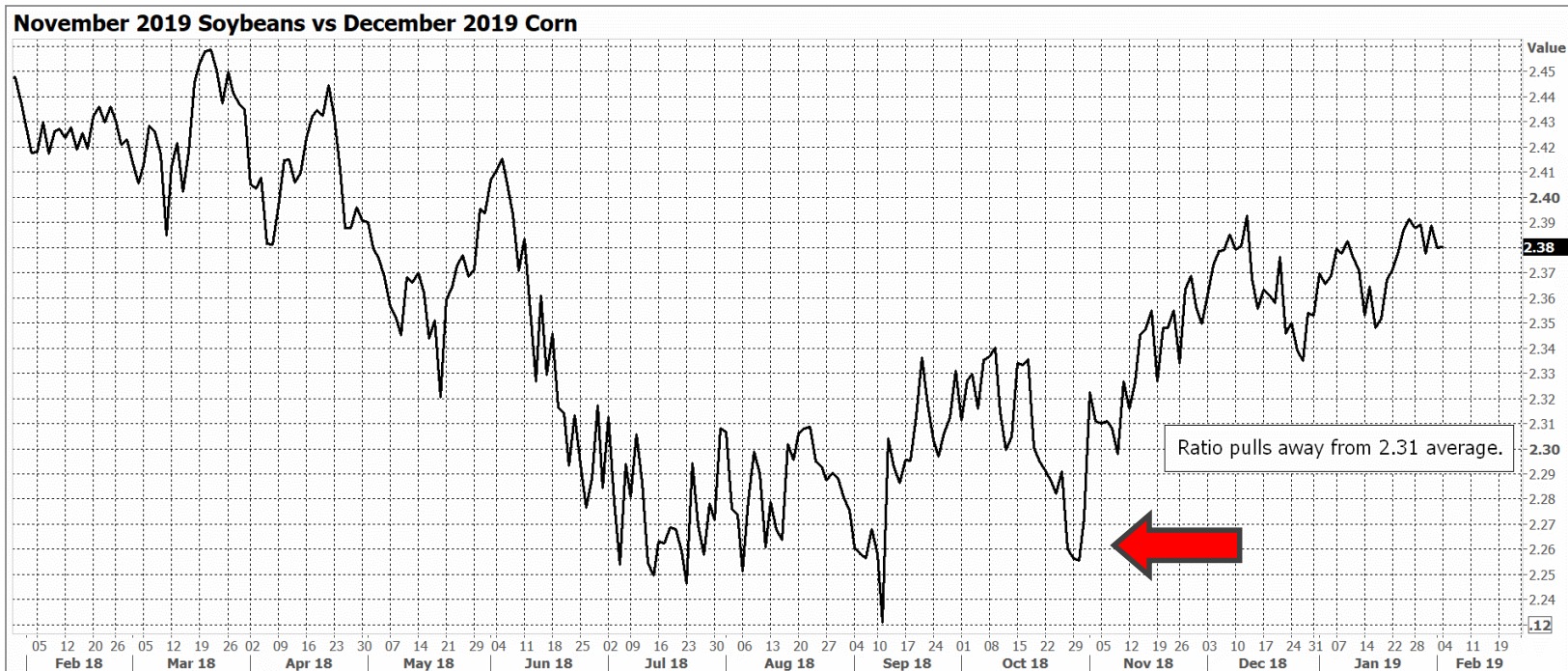
Crop	Acreage	Change*
Corn	90.3 million	1.3%
Soybeans	84.6 million	-5.5%
Soft Red Winter Wheat	5.6 million	-7.1%
Hard Red Winter Wheat	22.8 million	-0.6%
White Winter Wheat	3.2 million	-9.2%
All Winter Wheat	31.6 million	-2.7%
Spring Wheat	12.5 million	-5.3%
Durum	2.5 million	19.8%
All Wheat	46.6 million	-2.5%
Sorghum	5.1 million	-12.1%
Cotton	14.6 million	4.1%
* vs USDA August 2018 estimates		



Market Trades USDA's "Baseline"



Futures Start To Favor Soybeans A Little



Potential For Rallies

2019 Corn Supply and Demand Estimates

Yield	174
Production	14,432
Use, total	14,710
Ending stocks	1,475
Ave. cash price	\$3.94

Top Third

\$4.33
to \$4.48

November Close To Top Third

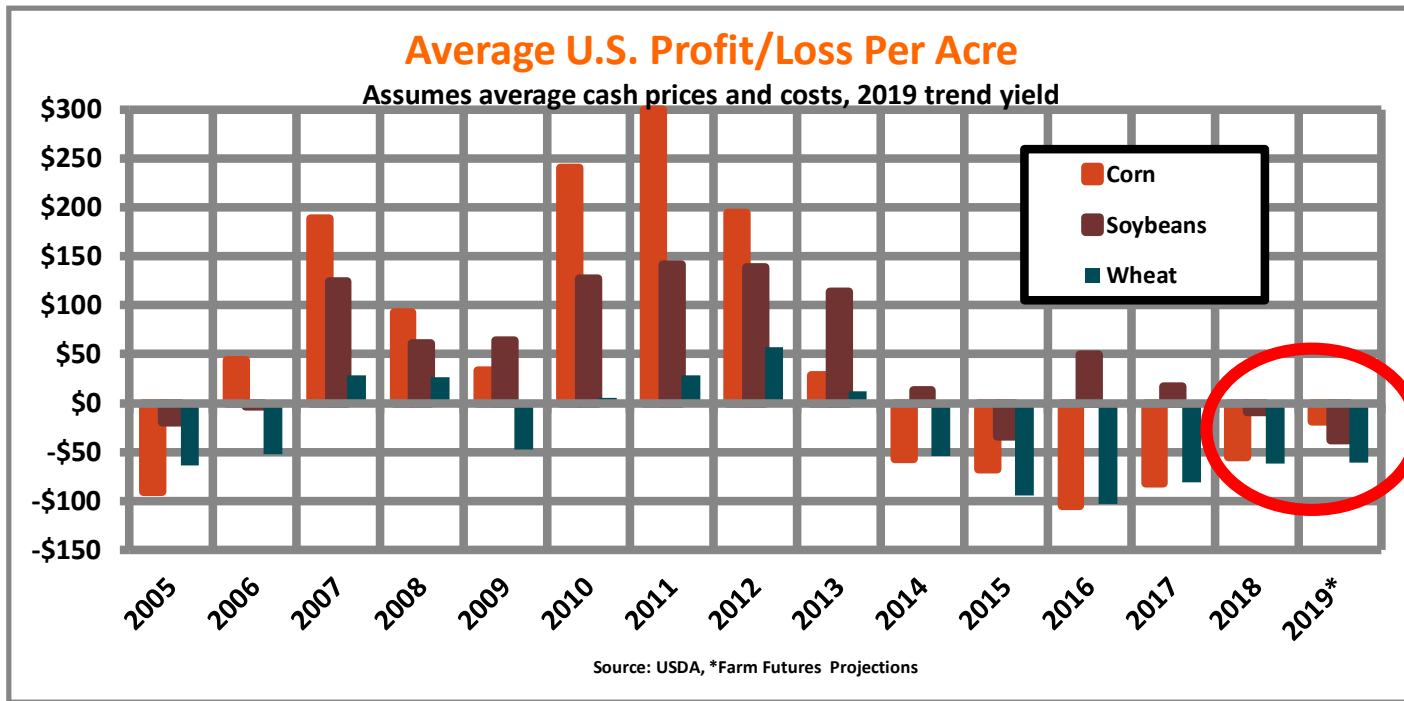
2019 Soybeans Supply and Demand Estimates

Yield	50.3
Production	4,210
Exports	1,994
Use, total	4,147
Ending stocks	876
Ave. cash price	\$8.38

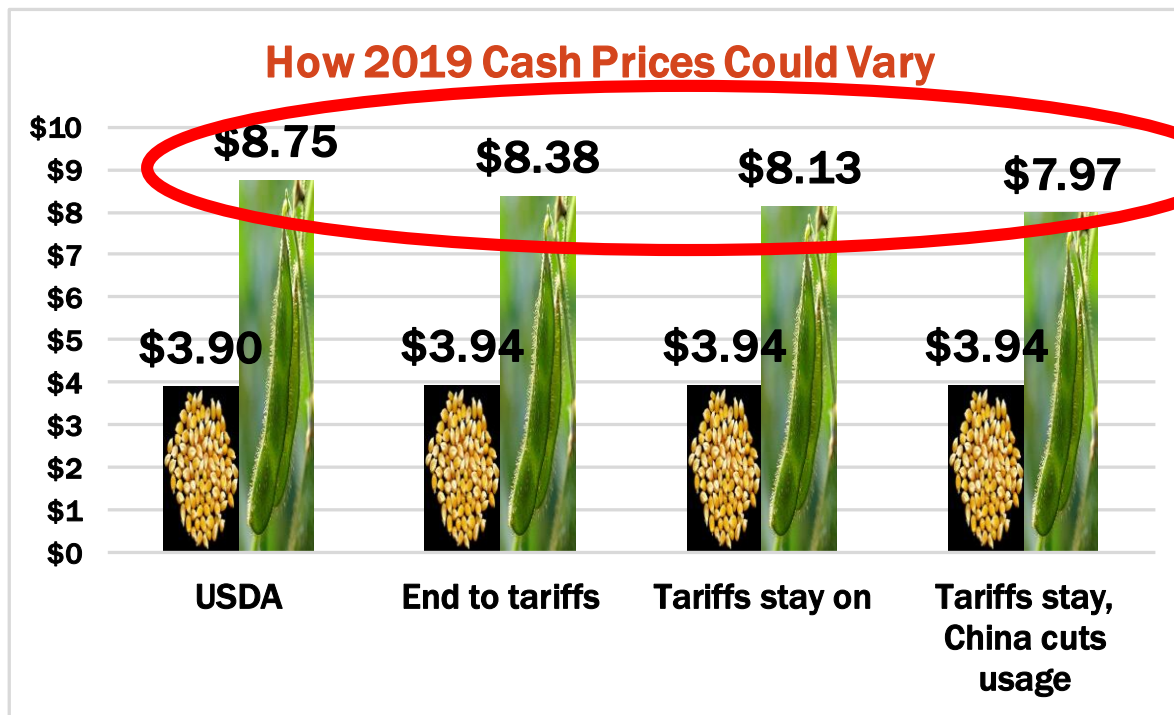
Top Thard

**\$9.73 to
\$10.11**

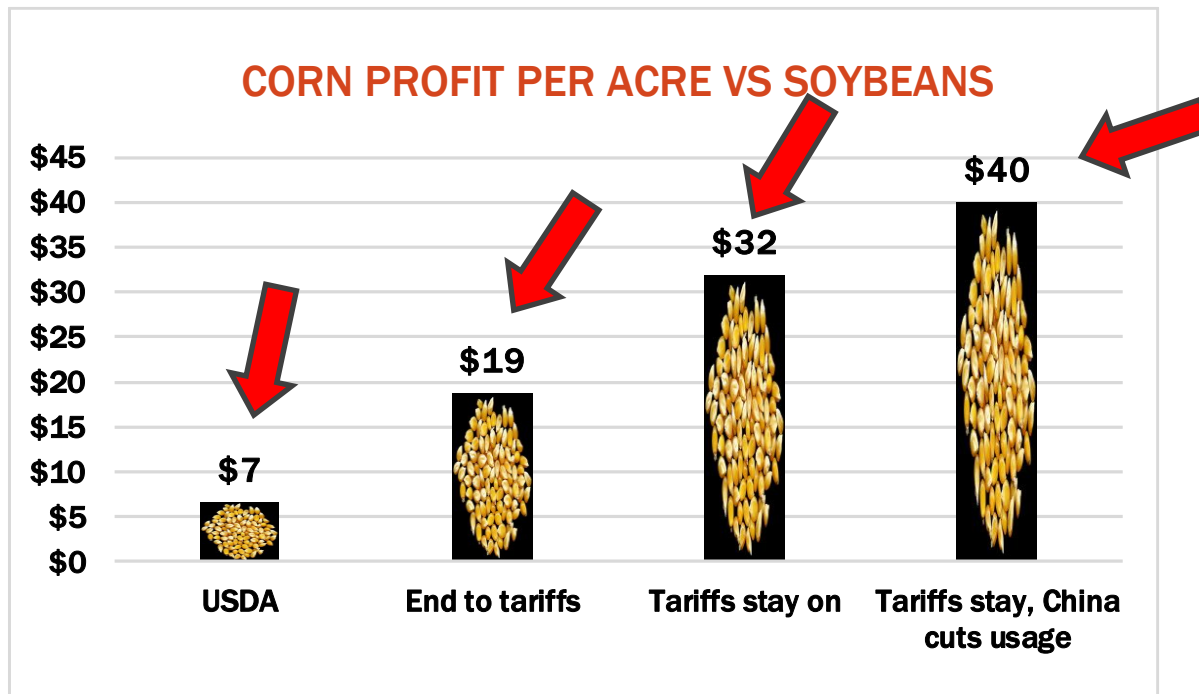
Corn Loses Less



Tariff Deal Matters



Profit Potential A Factor



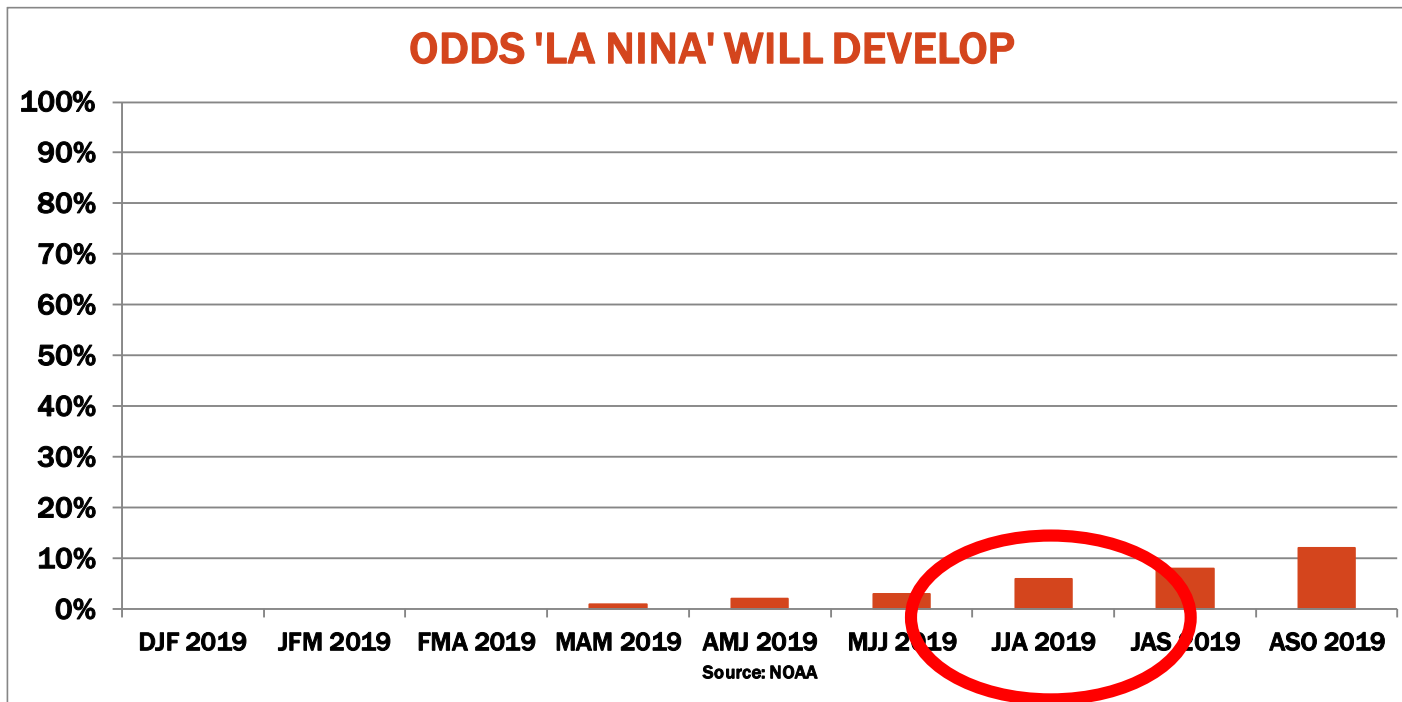
Soybeans Limit Downside

Corn Vs Soybeans													
		\$7.05	\$7.64	\$8.23	\$8.81	\$9.40	\$9.99	\$10.58	\$11.16	\$11.75	\$12.34	\$12.93	
		\$3.00	\$3.25	\$3.50	\$3.75	\$4.00	\$4.25	\$4.50	\$4.75	\$5.00	\$5.25	\$5.50	
42.3	149	48	42	44	70	73	13	9	25	44	46	61	
43.9	154	47	41	47	71	55	18	4	18	38	39	54	
45.5	159	47	41	47	72	32	11	11	26	46	47	62	
47.1	164	47	38	48	56	26	5	18	34	54	55	71	
48.7	169	46	38	48	48	21	2	25	41	62	63	80	
50.3	174	39	38	42	42	15	8	32	49	70	72	88	
51.9	179	37	38	36	37	9	15	39	56	79	80	97	
53.5	184	37	45	31	32	3	21	47	64	87	88	105	
55.1	189	37	42	25	27	3	28	54	72	95	96	114	
56.7	194	43	37	20	22	9	35	61	79	103	104	123	
58.3	199	55	32	14	16	15	41	68	87	111	112	131	
59.9	204	55	26	9	11	22	48	76	95	119	121	140	

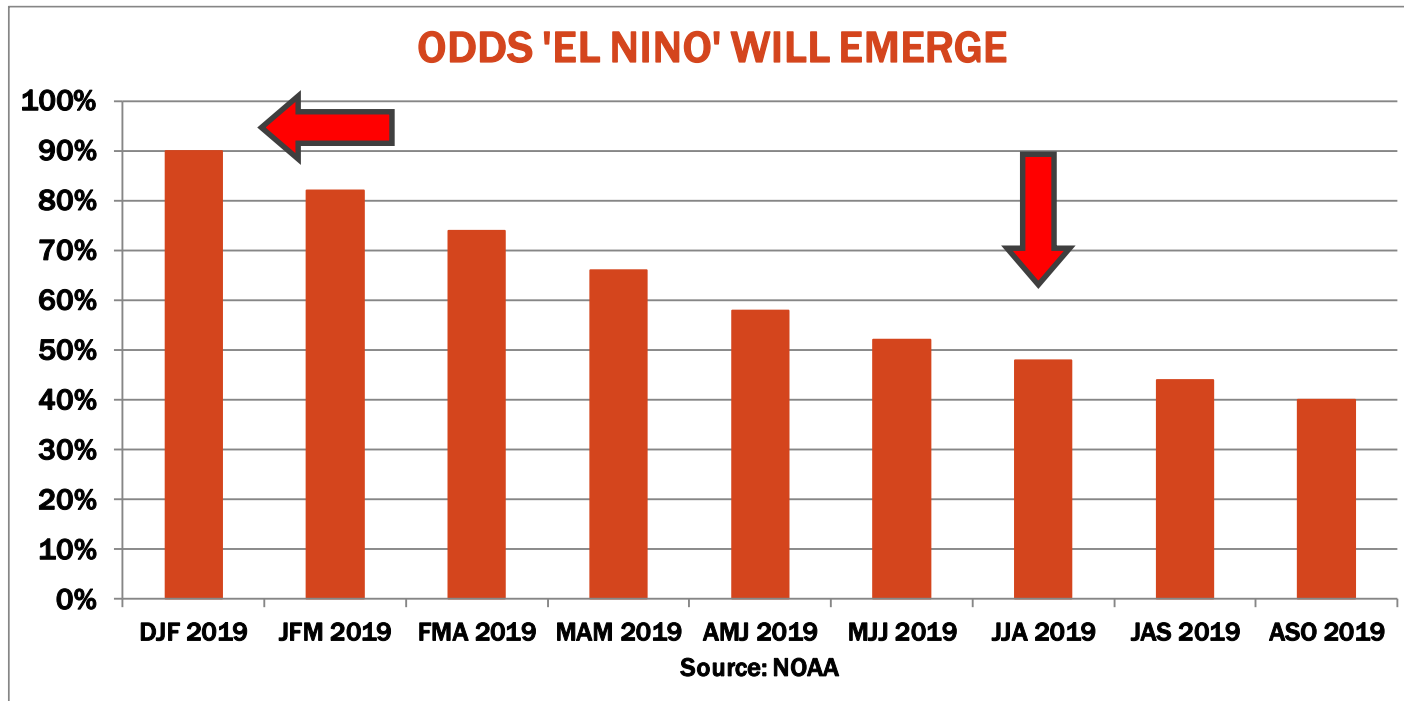
What About Weather?



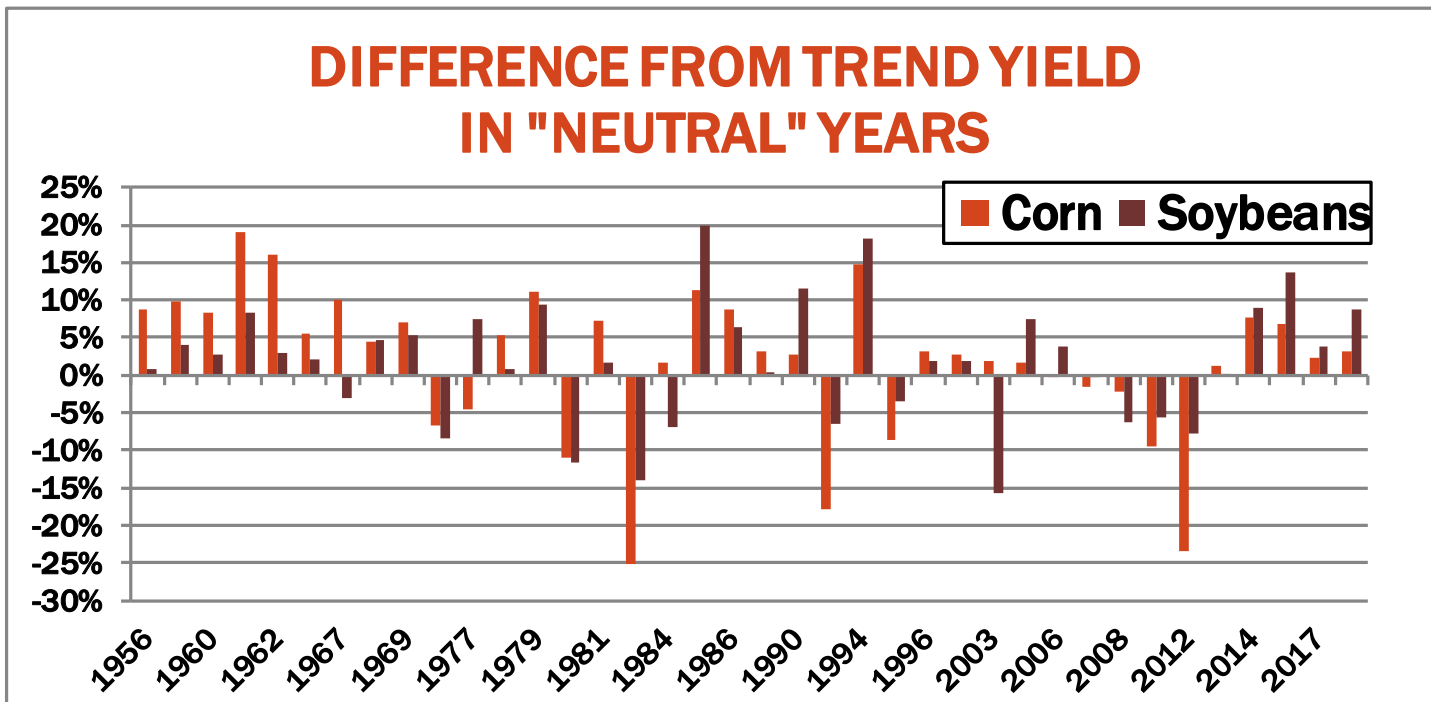
No La Nina In Sight



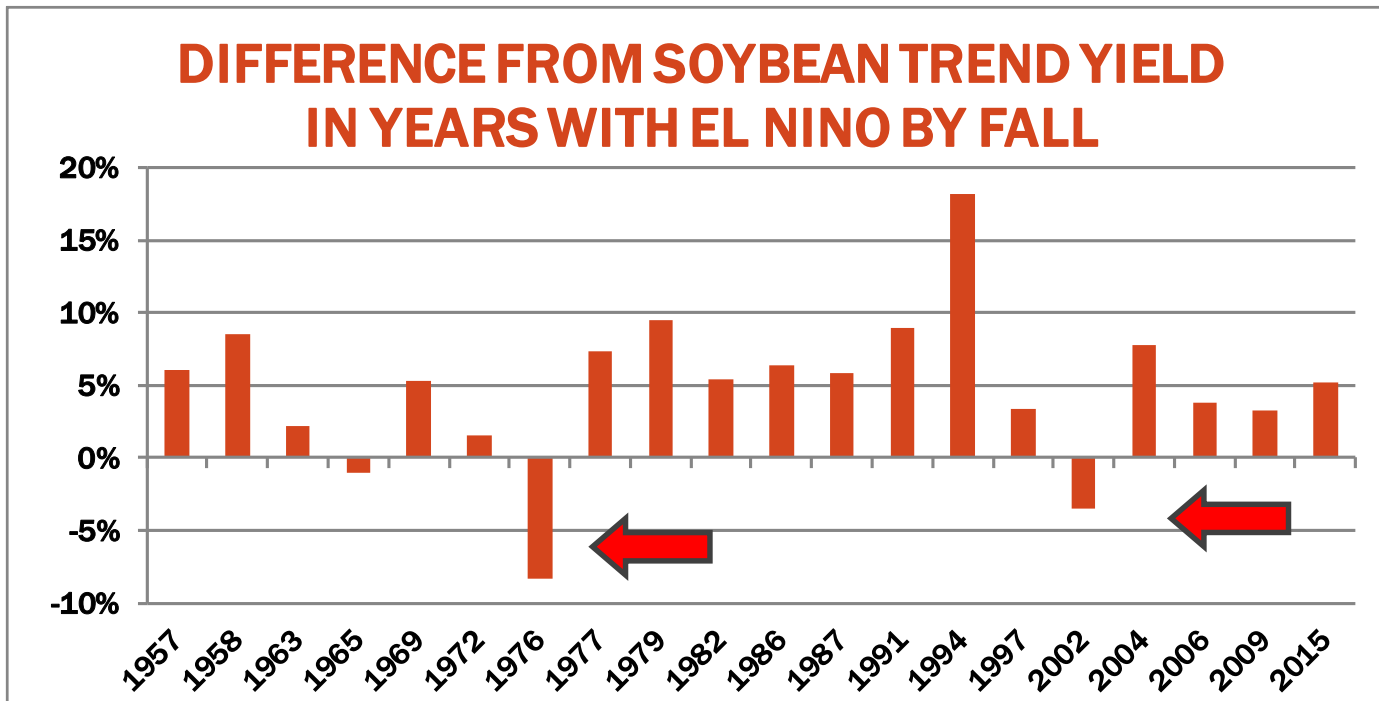
Weak, Short-lived El Nino Expected



Neutral = 177.2 BPA Corn, 51.2 Soybeans in 2019



Late Rains Help Soybeans More



What We Know ...

SEC. 1107. AGRICULTURE RISK COVERAGE.

Section 1117 of the Agricultural Act of 2014 (7 U.S.C. 9017) is amended—

“(5) TREND-ADJUSTED YIELD.—The Secretary shall calculate and use a **trend-adjusted yield factor** to adjust the yield determined under paragraph (2)(A) and subsection (b)(1)(A), taking into consideration, but not exceeding, the trend-adjusted yield factor that is used to increase yield history under the endorsement under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) for that crop and county.”; and...

“(5) effective for the 2019 through 2023 crop years, in the case of county coverage, assign an actual or benchmark county yield for each planted acre for the crop year for the covered commodity—

“(A) for a county for which county data collected by the **Risk Management Agency** are sufficient for the Secretary to offer a county-wide insurance product, using the actual average county yield determined by the Risk Management Agency...

Should You Update Yields?

“(1) ELECTION TO UPDATE.—At the sole discretion of the owner of a farm, the owner of a farm shall have a 1-time opportunity to update, on a covered-commodity-by-covered-commodity basis, the payment yield that would otherwise be used in calculating any price loss coverage payment for each covered commodity on the farm for which the election is made.

“(2) METHOD OF UPDATING YIELDS FOR COVERED COMMODITIES.—If the owner of a farm elects to update yields under paragraph (1), the payment yield for a covered commodity on the farm, for the purpose of calculating price loss coverage payments only, shall be equal to the product obtained by multiplying—

“(A) 90 percent;

“(B) the average of the yield per planted acre for the crop of covered commodities on the farm for the 2013 through 2017 crop years, as determined by the Secretary, excluding any crop year in which the acreage planted to the covered commodity was zero; and

“(C) subject to paragraph (3), the ratio obtained by dividing—

“(i) the average of the 2008 through 2012 national average yield per planted acre for the covered commodity, as determined by the Secretary; by

“(ii) the average of the 2013 through 2017 national average yield per planted acre for the covered commodity, as determined by the Secretary.

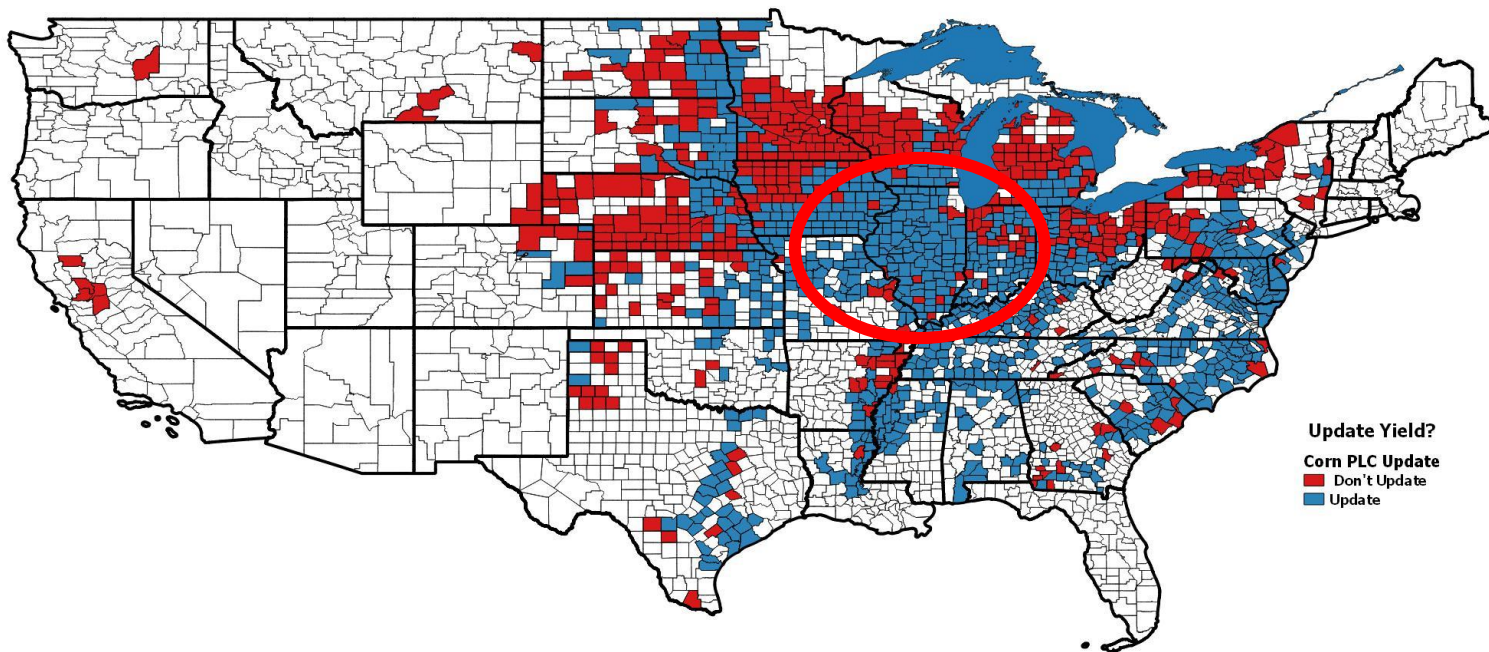
“(3) LIMITATION.—In no case shall the ratio obtained under paragraph (2)(C) be less than 90 percent or greater than 100 percent.

“(4) USE OF COUNTY AVERAGE YIELD.—For the purposes of determining the average yield per planted acre under paragraph (2)(B), if the yield per planted acre for a crop of a covered commodity for a farm for any of the crop years described in that subparagraph was less than 75 percent of the average of county yields for those crop years for that commodity, the Secretary shall assign a yield for that crop year equal to 75 percent of the average of the 2013 through 2017 county yield for the covered commodity.

“(6) TIME FOR ELECTION.—An election under this subsection shall be made at a time and manner so as to be in effect beginning with the 2020 crop year, as determined by the Secretary.”.

Updating Not A Slam-Dunk Decision

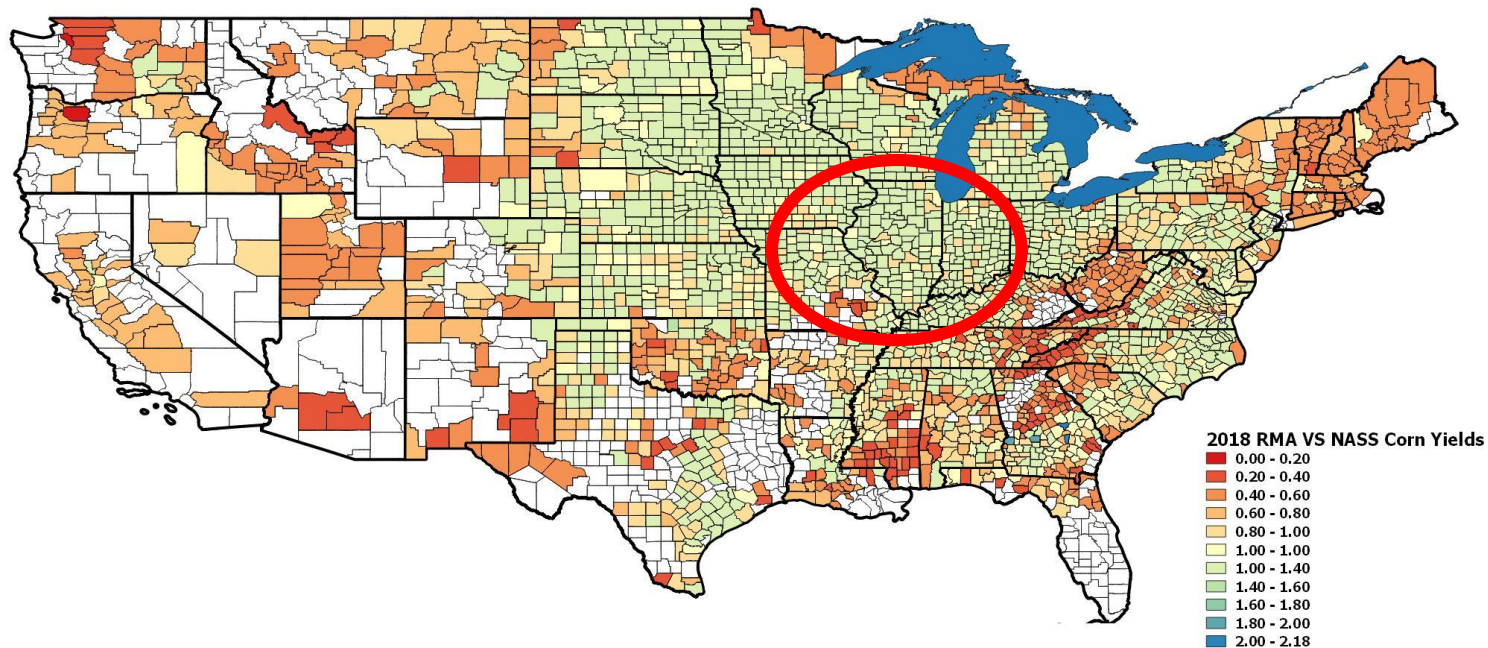
DOES IT PAY TO UPDATE CORN YIELDS?



Update Yield?
 Corn PLC Update
 ■ Don't Update
 ■ Update

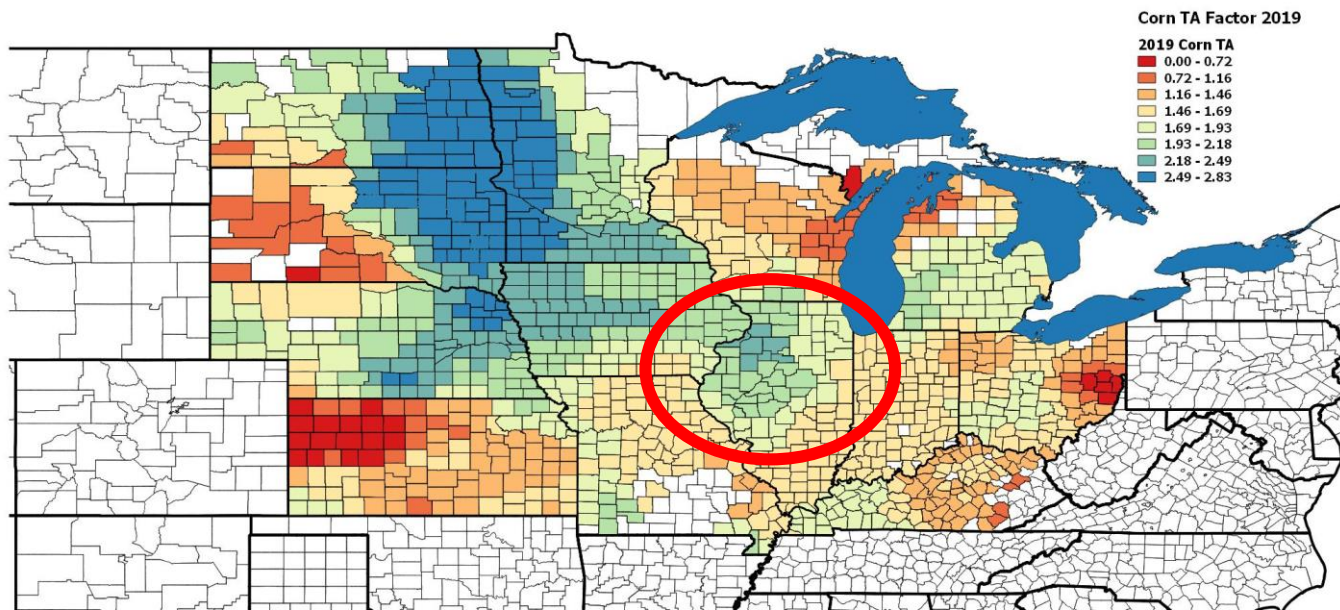
Most Should Gain

2018 RMA VS NASS CORN YIELD FOR ARC



Will The Process Be Like Crop Insurance?

2019 CORN TREND YIELD ADJUSTMENTS FOR ARC



Falling ARC Corn Protection 2014-2018

Year	Yield	Price	Revenue	Guarantee
2014	149	\$5.29	\$790	\$679
2015	149	\$5.29	\$790	\$679
2016	155	\$4.79	\$741	\$637
2017	163	\$3.92	\$638	\$548
2018	168	\$3.56	\$597	\$514
2019-Old	171	\$3.52	\$601	\$517
2019-New	179	\$3.52	\$632	\$543



Increased ARC Protection Could Add Up For Corn

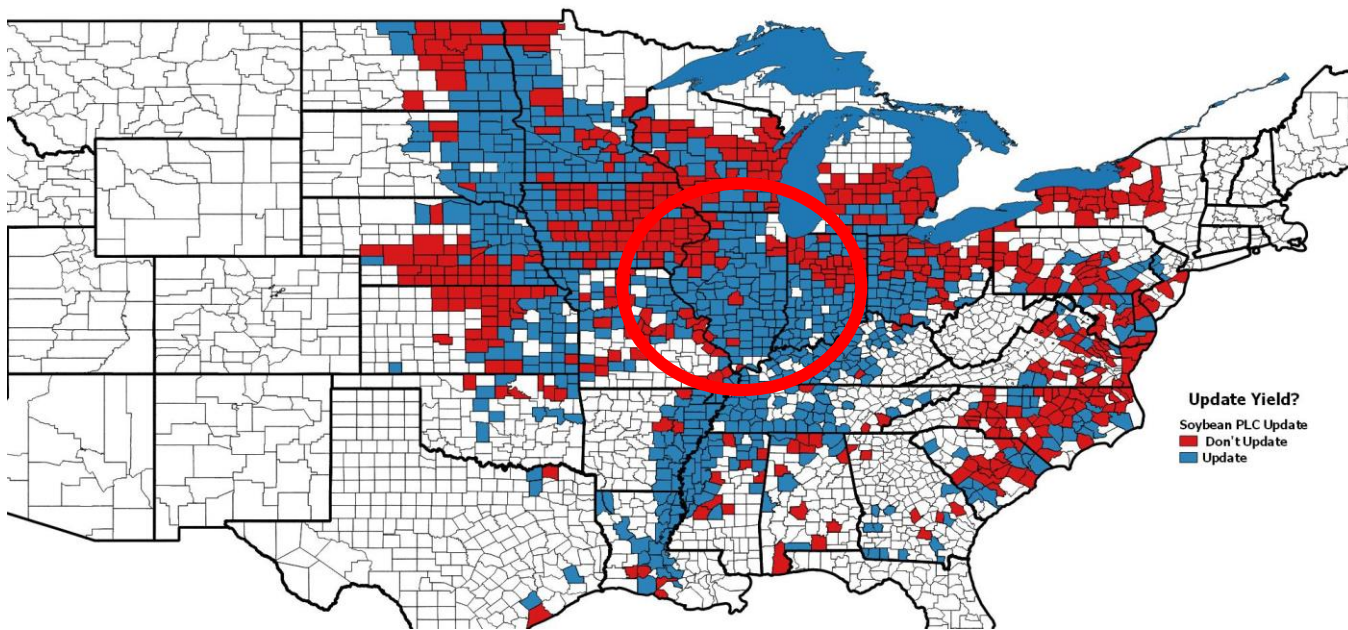
Trend Yield Adjustment: +1.68 BPA

RMA Vs NASS Yield: * 2% BPA

Revenue Guarantee: + 5%

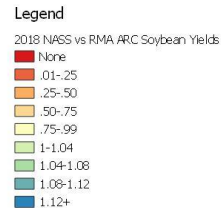
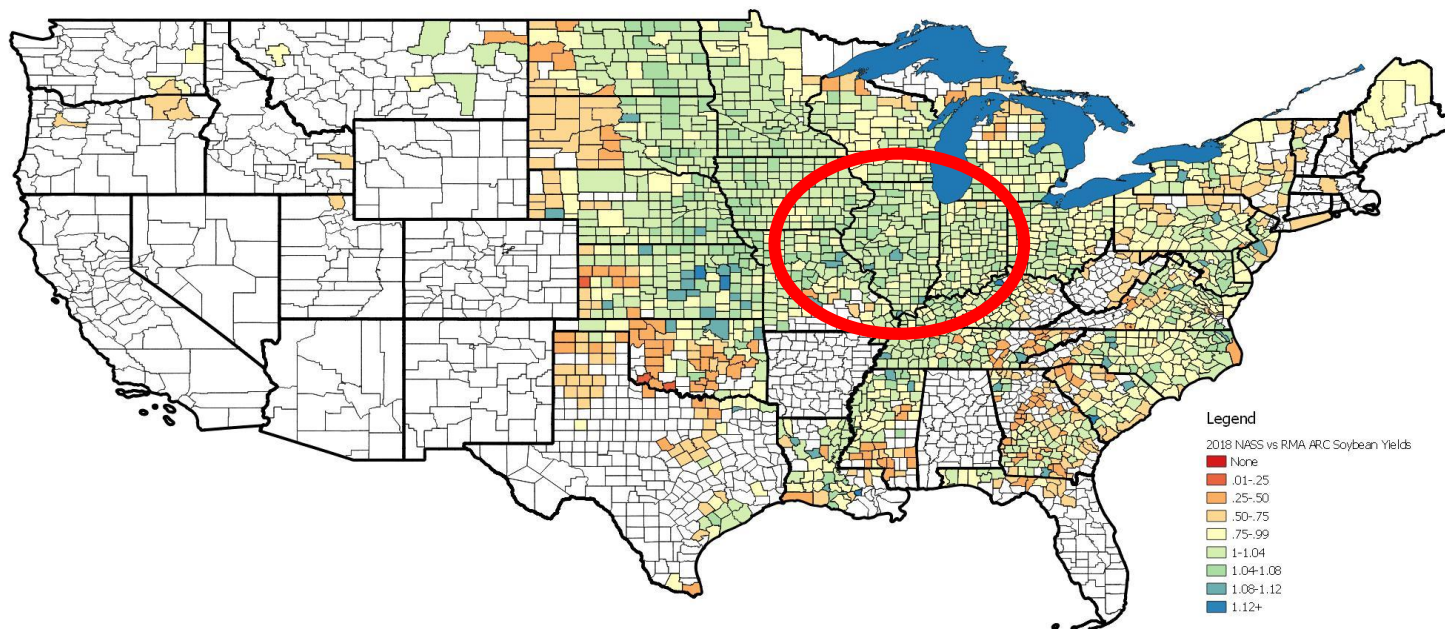
More Could Update Soybeans

DOES IT PAY TO UPDATE SOYBEAN YIELDS?



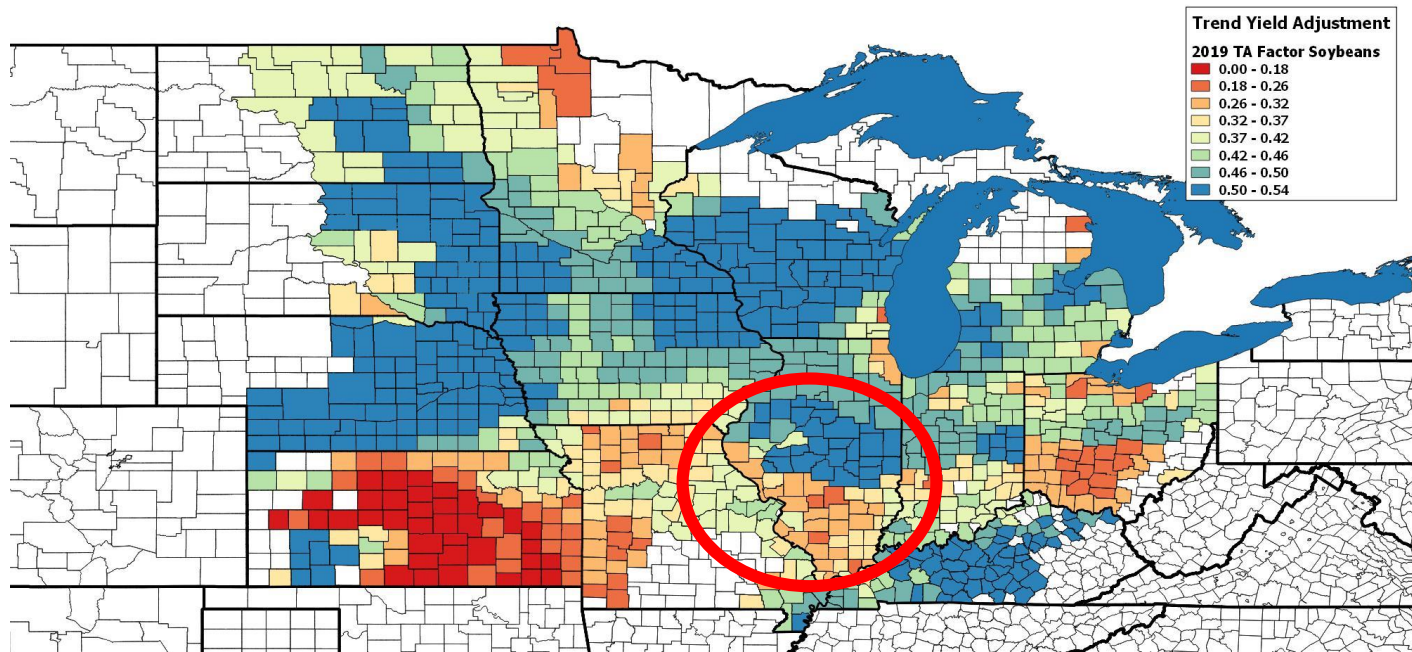
Will ARC Be More Fair?

2018 RMA VS NASS SOYBEAN YIELD FOR ARC




Higher Yielding Counties May Benefit

2019 SOYBEAN TREND YIELD ADJUSTMENTS FOR ARC



Soybean ARC Could Improve Under New Bill

Year	Yield	Price	Revenue	Guarantee
2014	43	\$12.27	\$530	\$455
2015	43	\$12.27	\$530	\$455
2016	45	\$11.87	\$528	\$454
2017	47	\$10.86	\$505	\$434
2018	48	\$9.62	\$464	\$399
2019-Old	50	\$9.24	\$458	\$394
2019-New	51	\$9.24	\$467	\$402



Soybeans Gain Less From New ARC

Trend Yield Adjustment: +.4 BPA

RMA Vs NASS Yield: * 2% BPA

Revenue Guarantee: + 2%

PLC Vs ARC Corn Advantage (Disadvantage)

Profit/Loss Per Acre

		ARC-PLC	December Futures At Harvest							
		\$3.00	\$3.25	\$3.50	\$3.75	\$4.00	\$4.25	\$4.50	\$4.75	\$5.00
	144	\$16	\$9	\$34	\$30	\$1	\$0	\$0	\$0	\$0
	149	\$16	\$9	\$24	\$15	\$0	\$0	\$0	\$0	\$0
Y	154	\$16	\$9	\$10	\$0	\$0	\$0	\$0	\$0	\$0
i	159	\$16	\$3	\$4	\$0	\$0	\$0	\$0	\$0	\$0
e	164	\$16	\$10	\$18	\$0	\$0	\$0	\$0	\$0	\$0
l	169	\$16	\$23	\$20	\$0	\$0	\$0	\$0	\$0	\$0
d	174	\$26	\$36	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	179	\$38	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	184	\$50	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	189	\$62	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	194	\$70	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	199	\$70	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0
	204	\$70	\$45	\$20	\$0	\$0	\$0	\$0	\$0	\$0



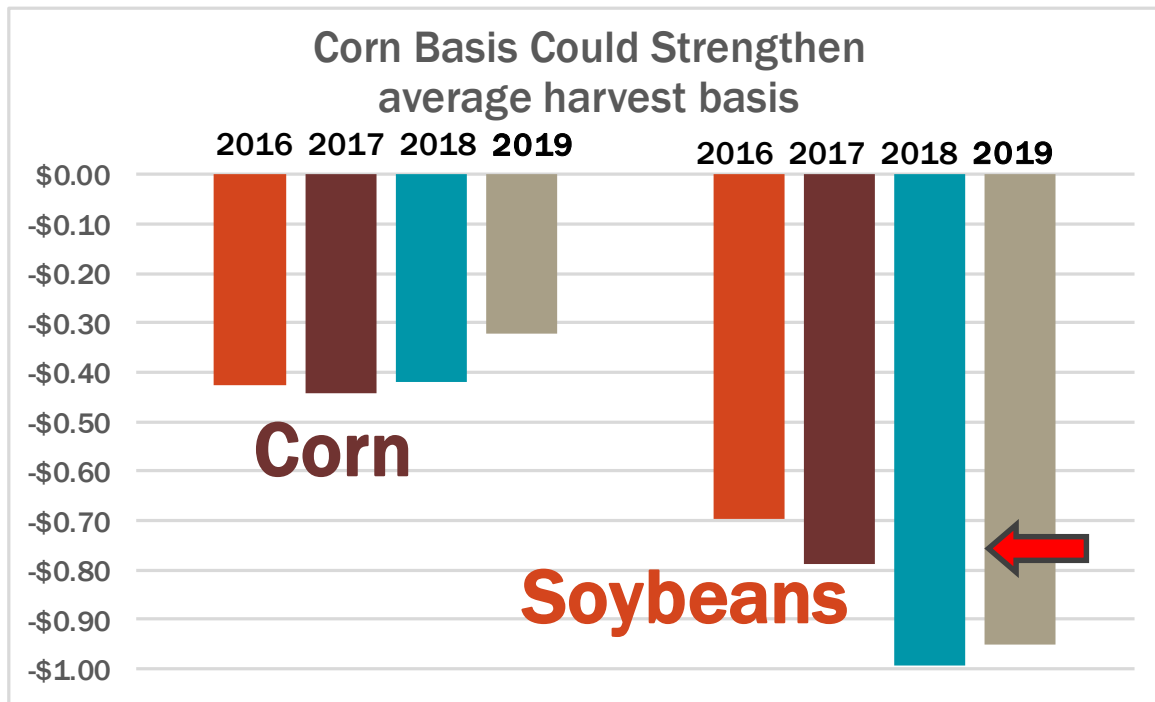
PLC Depends On Your Outlook

	ARC-PLC		November Futures At Harvest							
	\$7.00	\$7.50	\$8.00	\$8.50	\$9.00	\$9.50	\$10.00	\$10.50	\$11.00	
	41.6	\$14	\$0	\$14	\$23	\$16	\$10	\$0	\$0	\$0
	43.4	\$14	\$0	\$14	\$8	\$0	\$0	\$0	\$0	\$0
Y	45.1	\$14	\$0	\$1	\$7	\$4	\$0	\$0	\$0	\$0
i	46.8	\$14	\$4	\$13	\$10	\$4	\$0	\$0	\$0	\$0
e	48.6	\$14	\$17	\$27	\$18	\$4	\$0	\$0	\$0	\$0
l	50.5	\$19	\$30	\$32	\$18	\$4	\$0	\$0	\$0	\$0
d	52.0	\$31	\$43	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	53.8	\$44	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	55.5	\$56	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	57.2	\$61	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	59.0	\$61	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	60.7	\$61	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0
	62.4	\$61	\$47	\$32	\$18	\$4	\$0	\$0	\$0	\$0

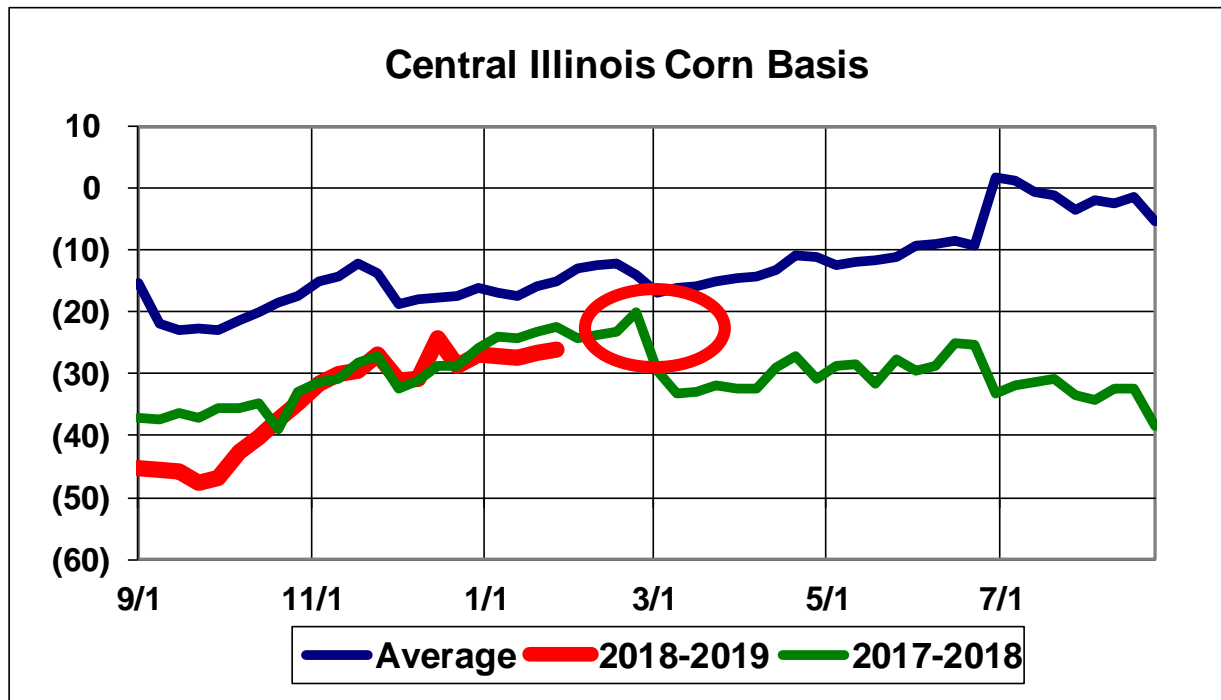
Profit/Loss Per Acre



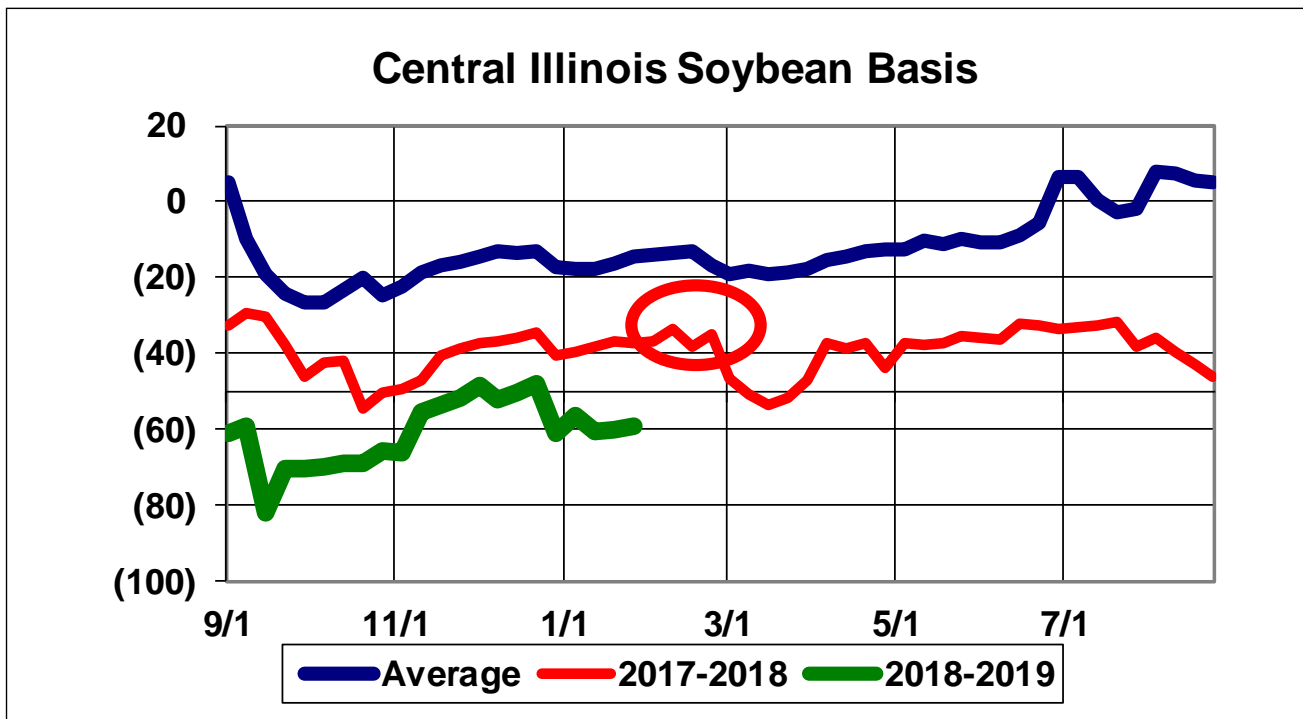
Will CBOT Plan Work?



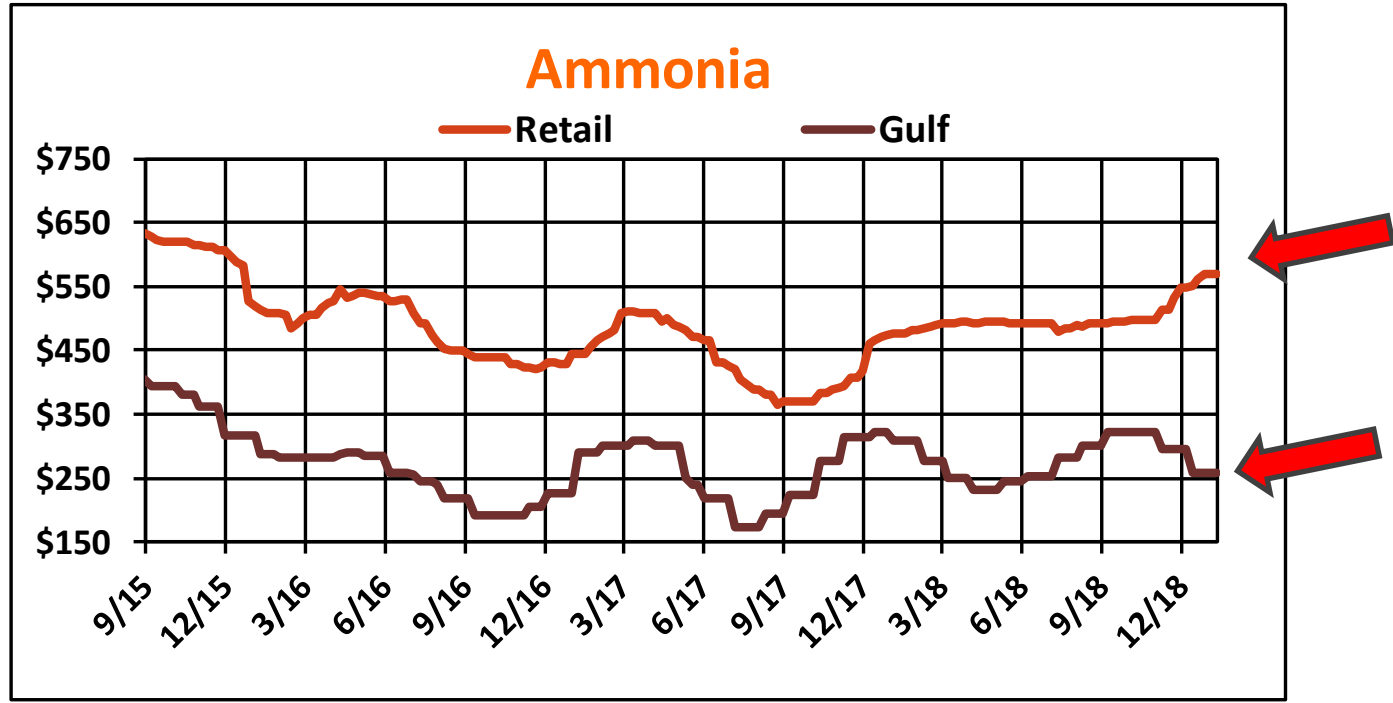
Corn Basis Flat Since Dec Roll



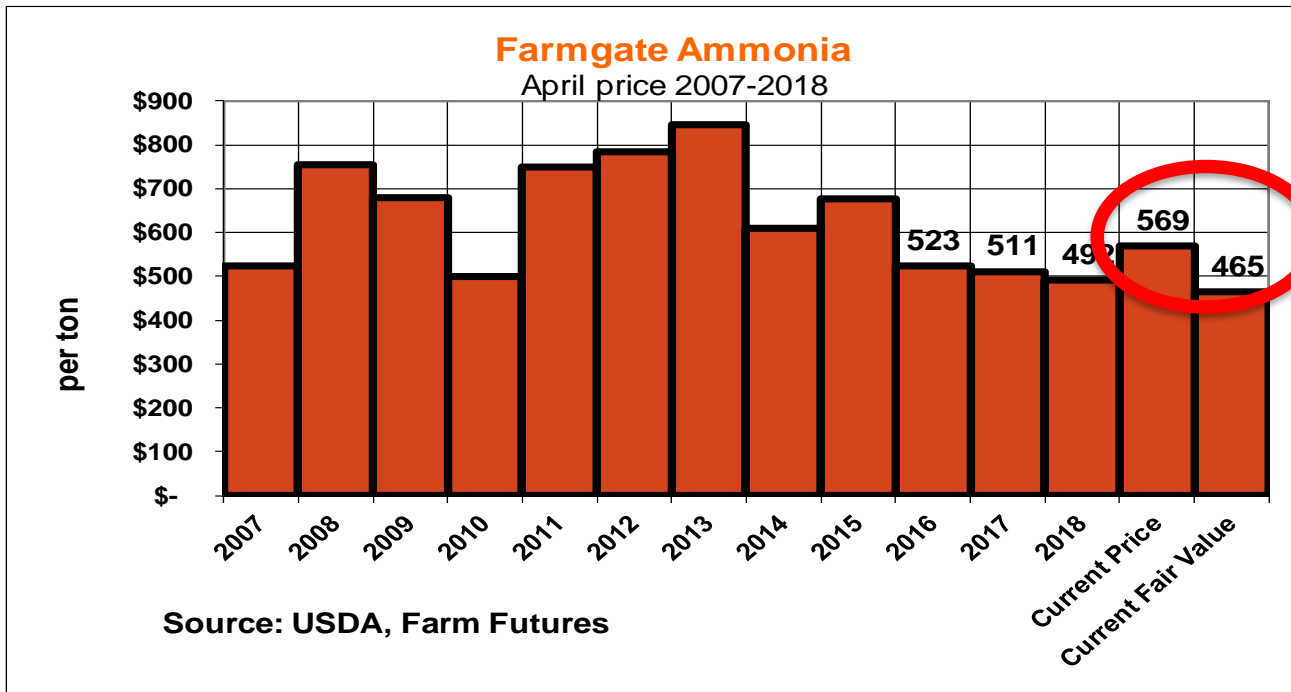
Storing For Carry



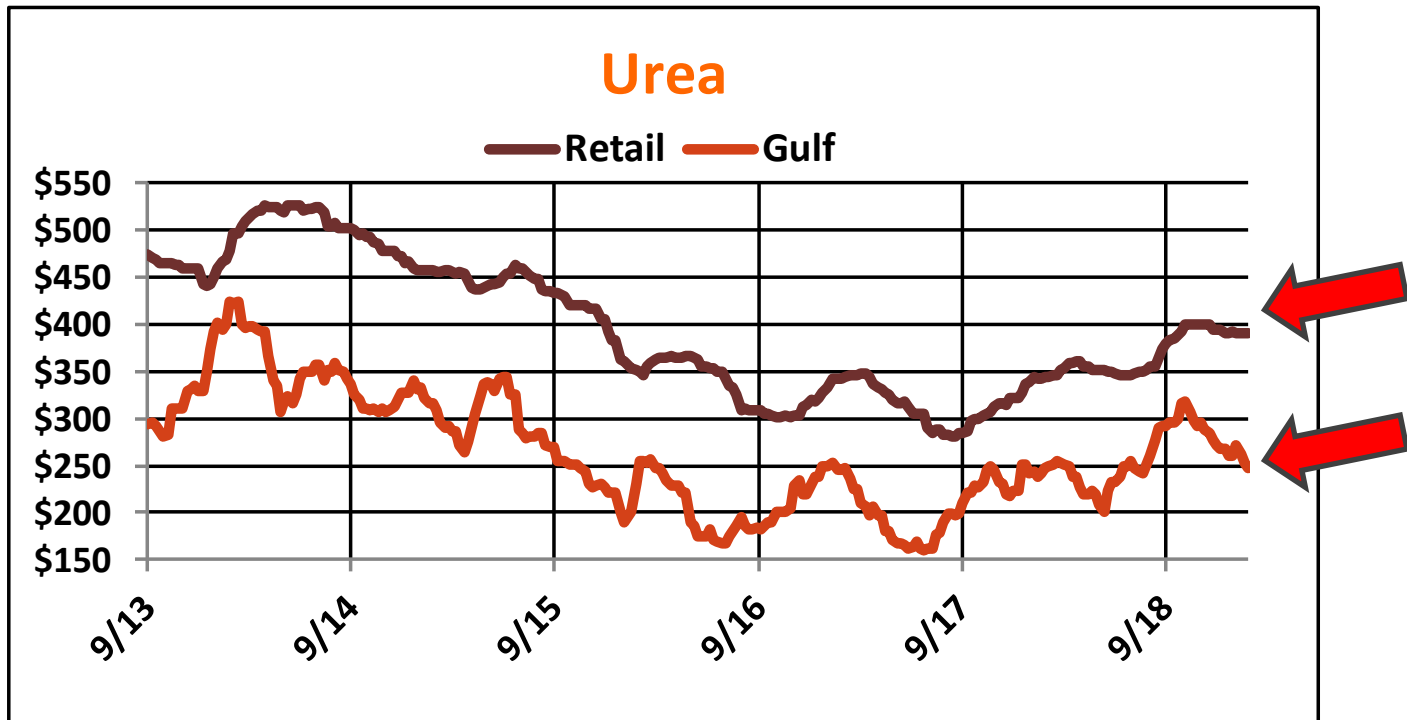
\$600 And Rising For Spring



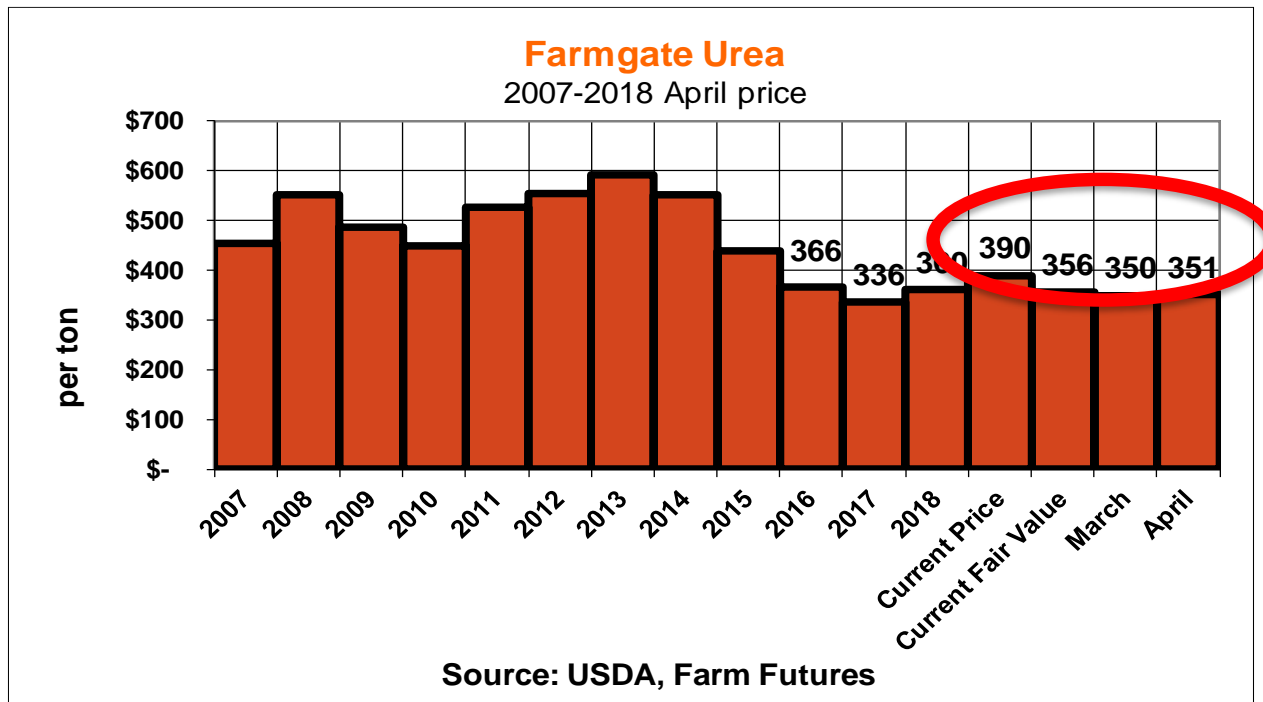
Rent A Barge!



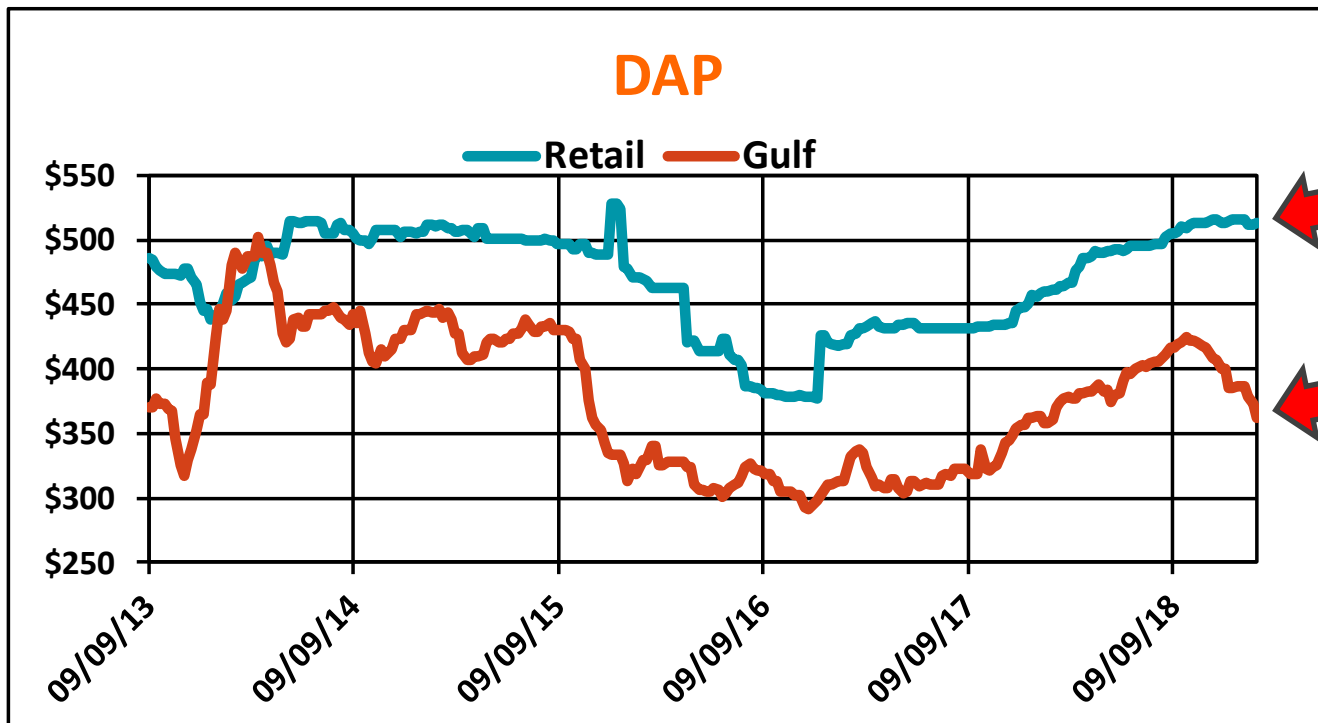
Chinese Sales Ended Urea Rally



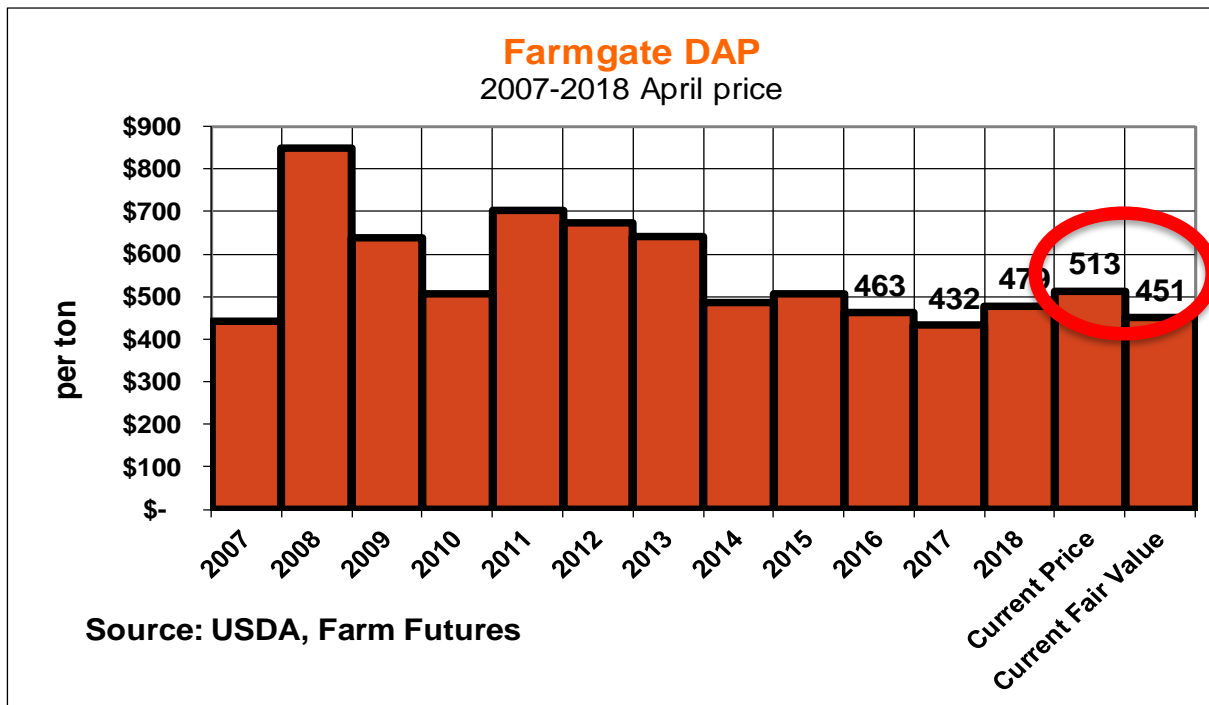
Should Get Cheaper



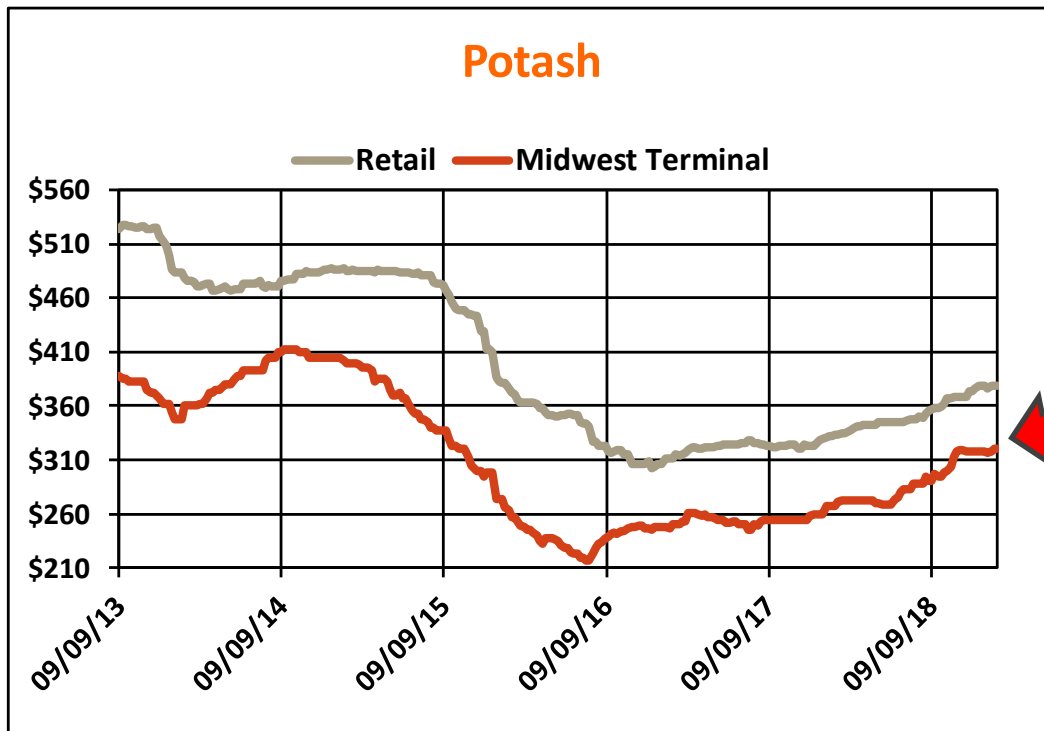
Affected By N



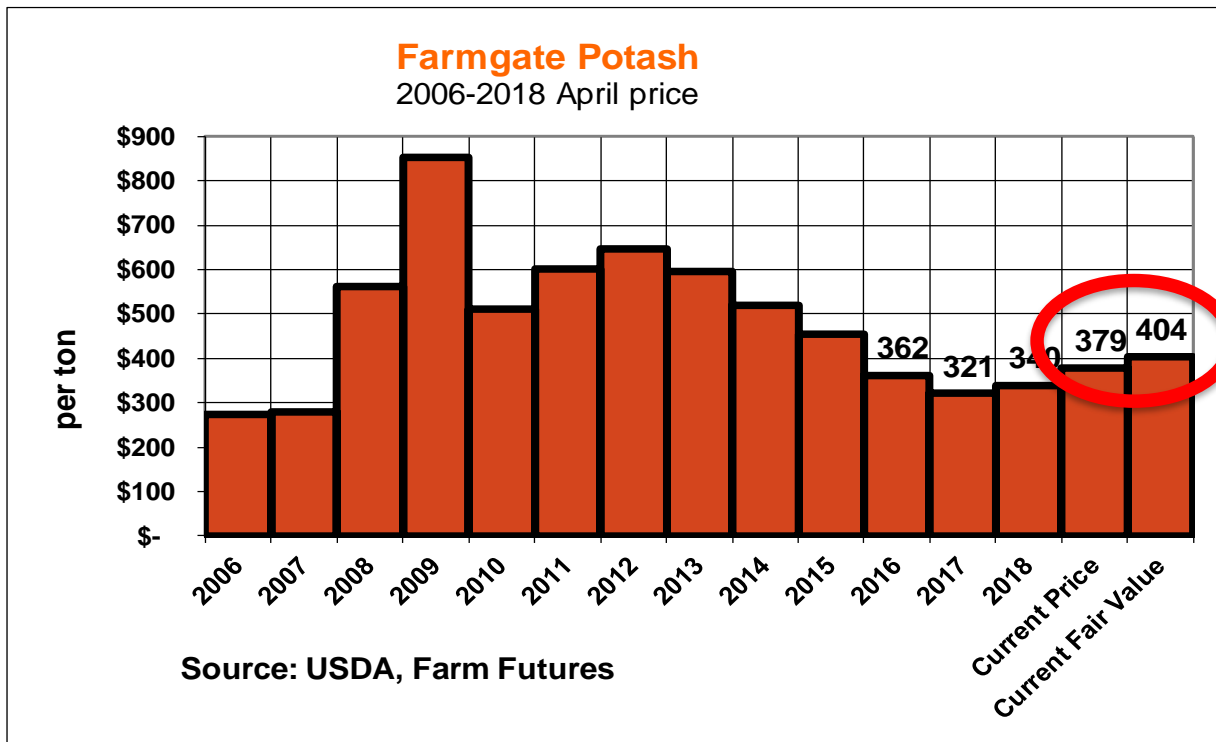
DAP Should Get Cheaper



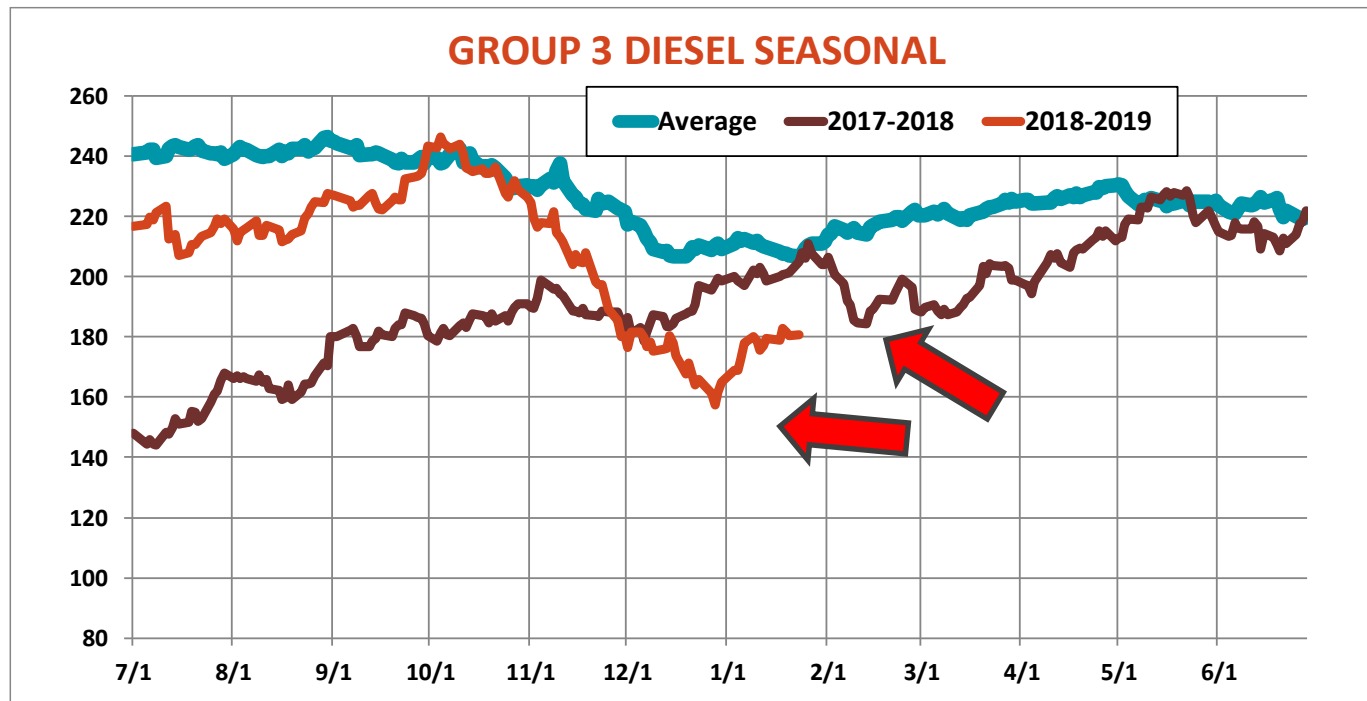
Steady Prices At Higher Levels



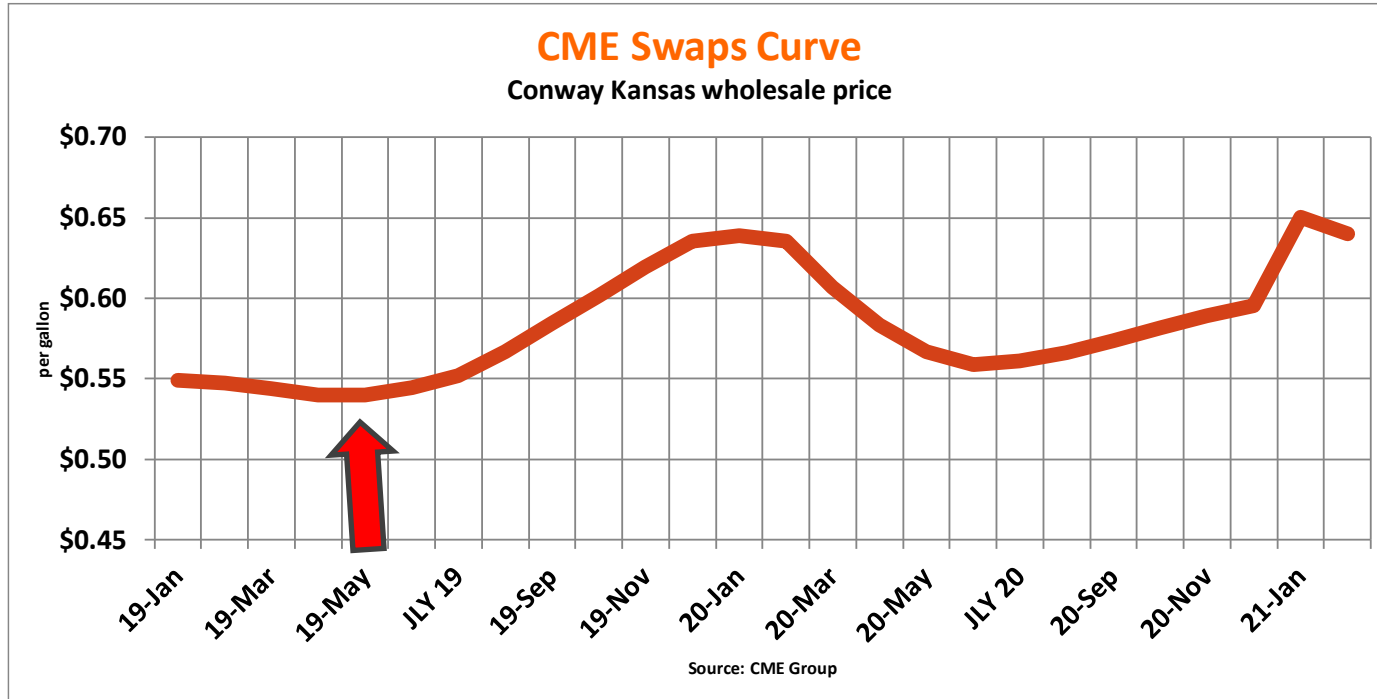
\$360 To \$400



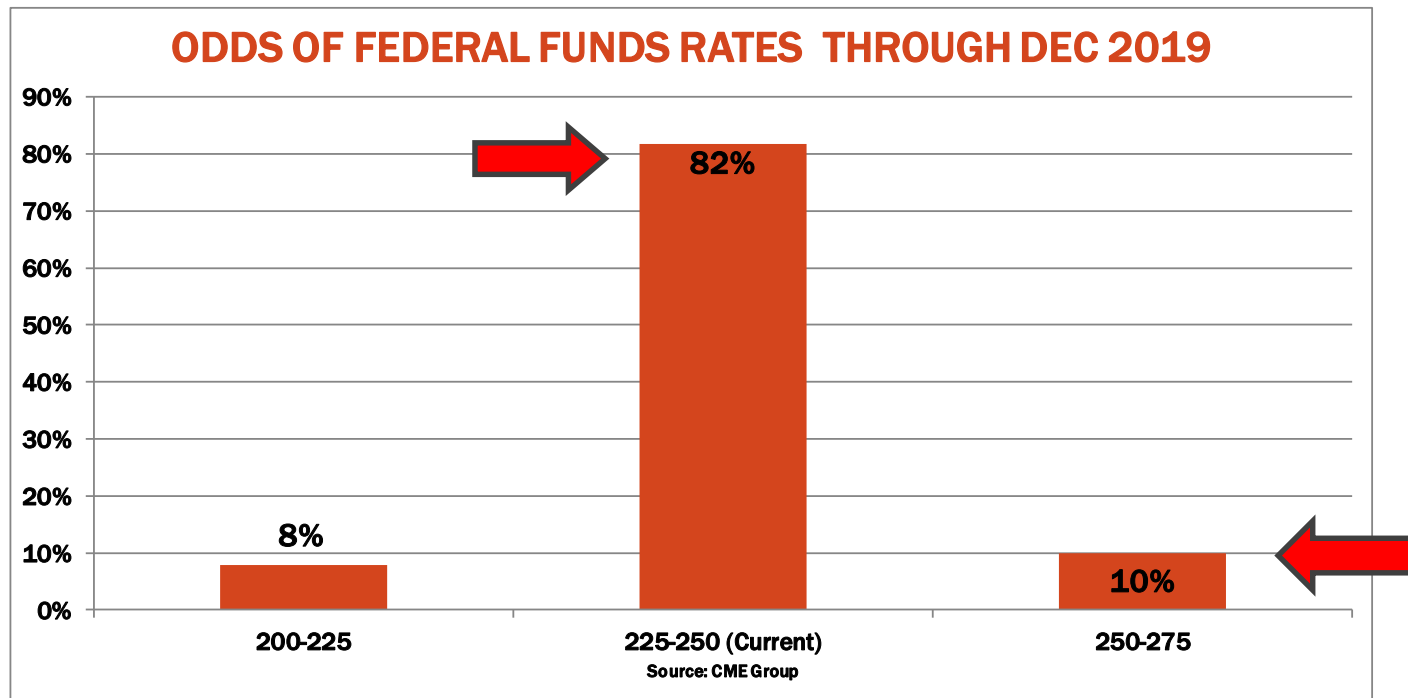
Winter Lows In



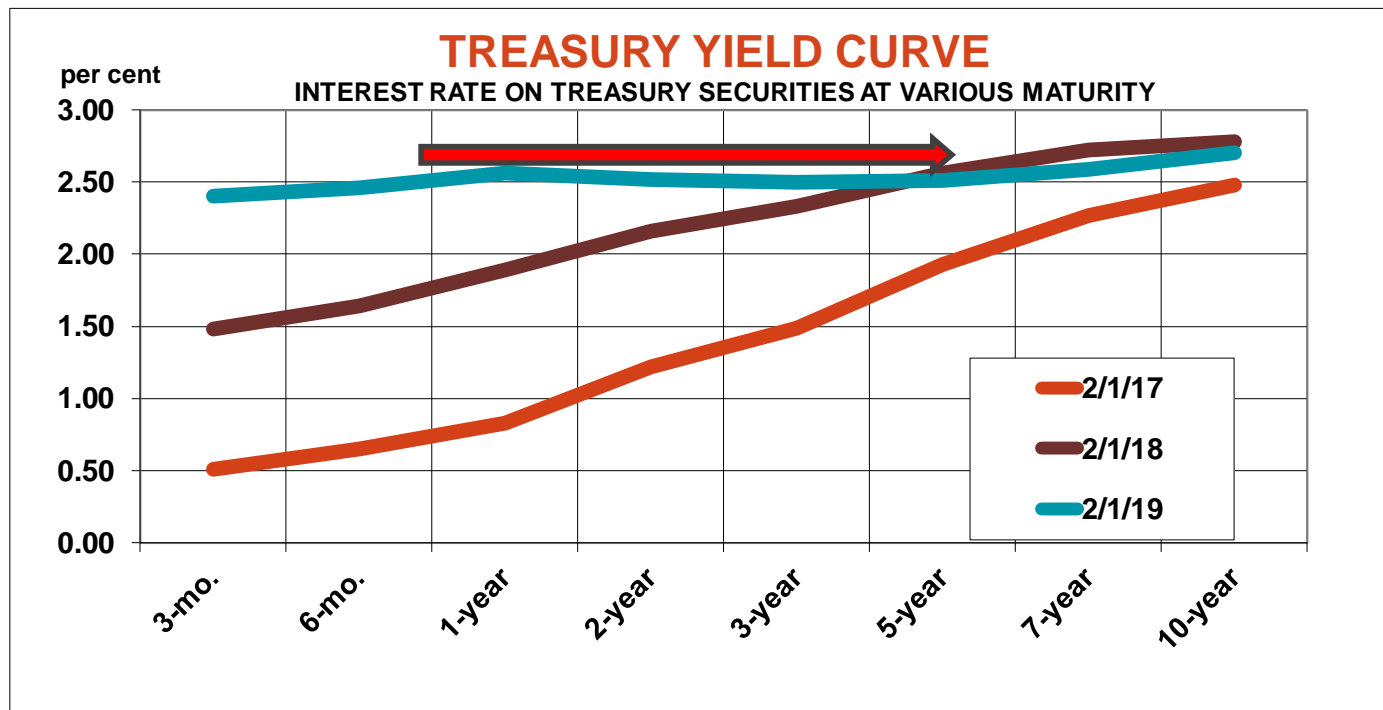
What Polar Vortex?



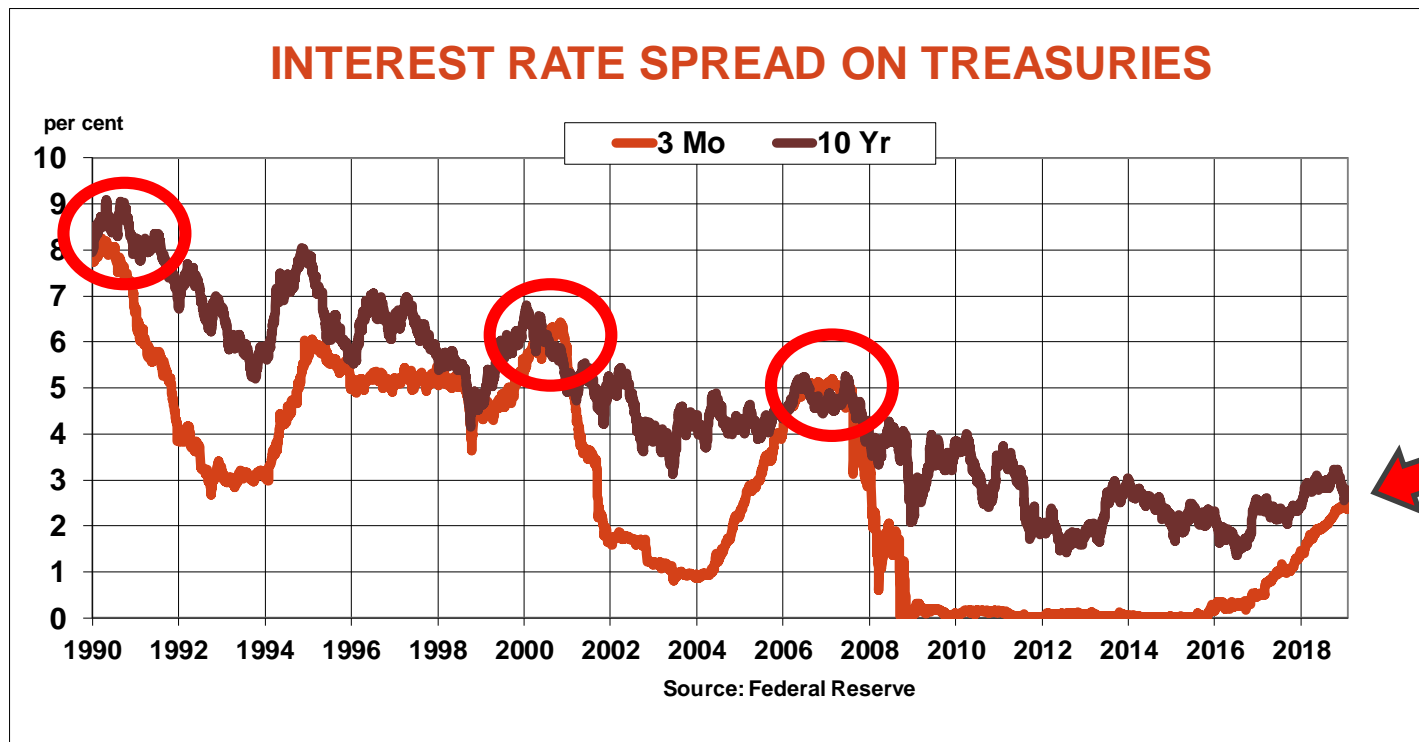
Fed's Could Hit "Pause" Button



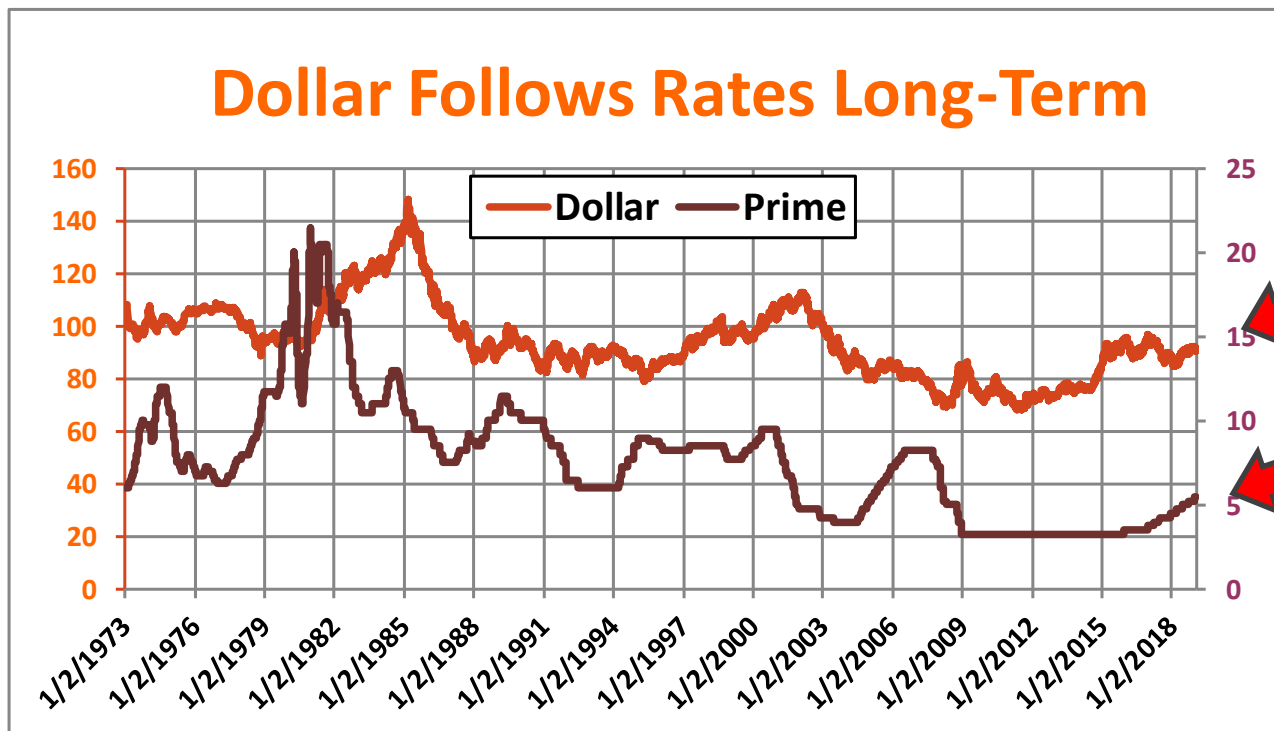
Yield Curve Starts To Invert



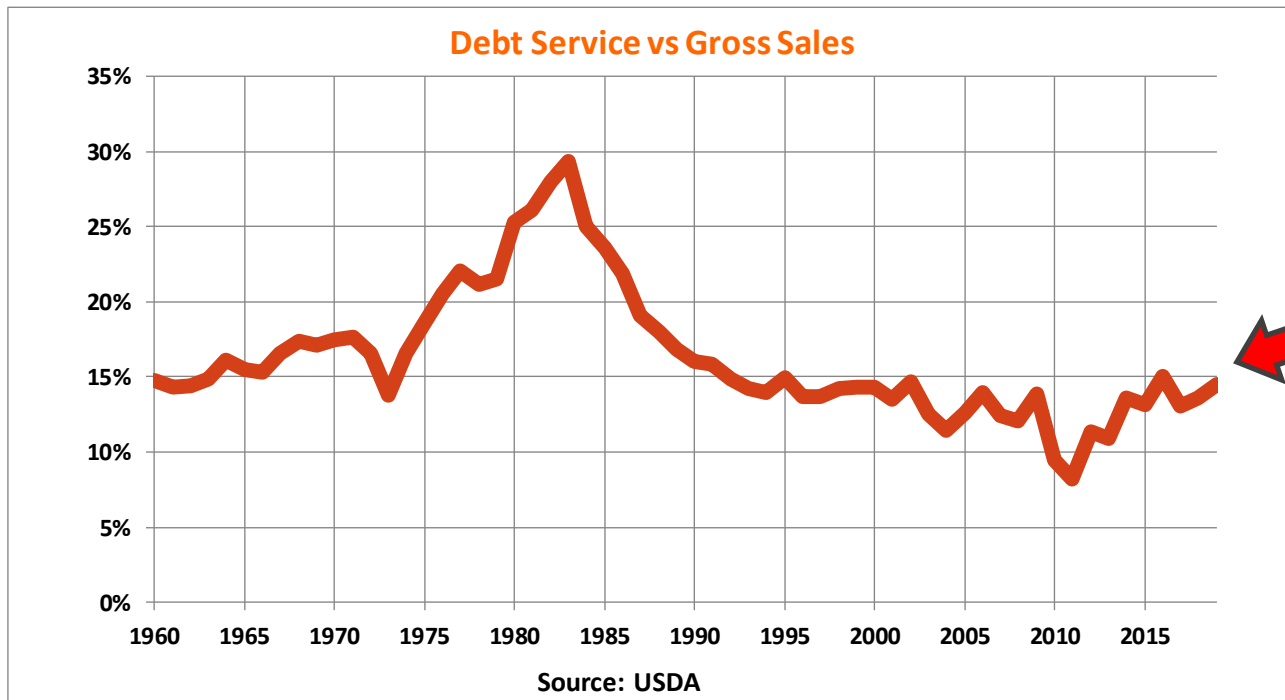
This Is Why The Yield Curve Matters



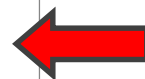
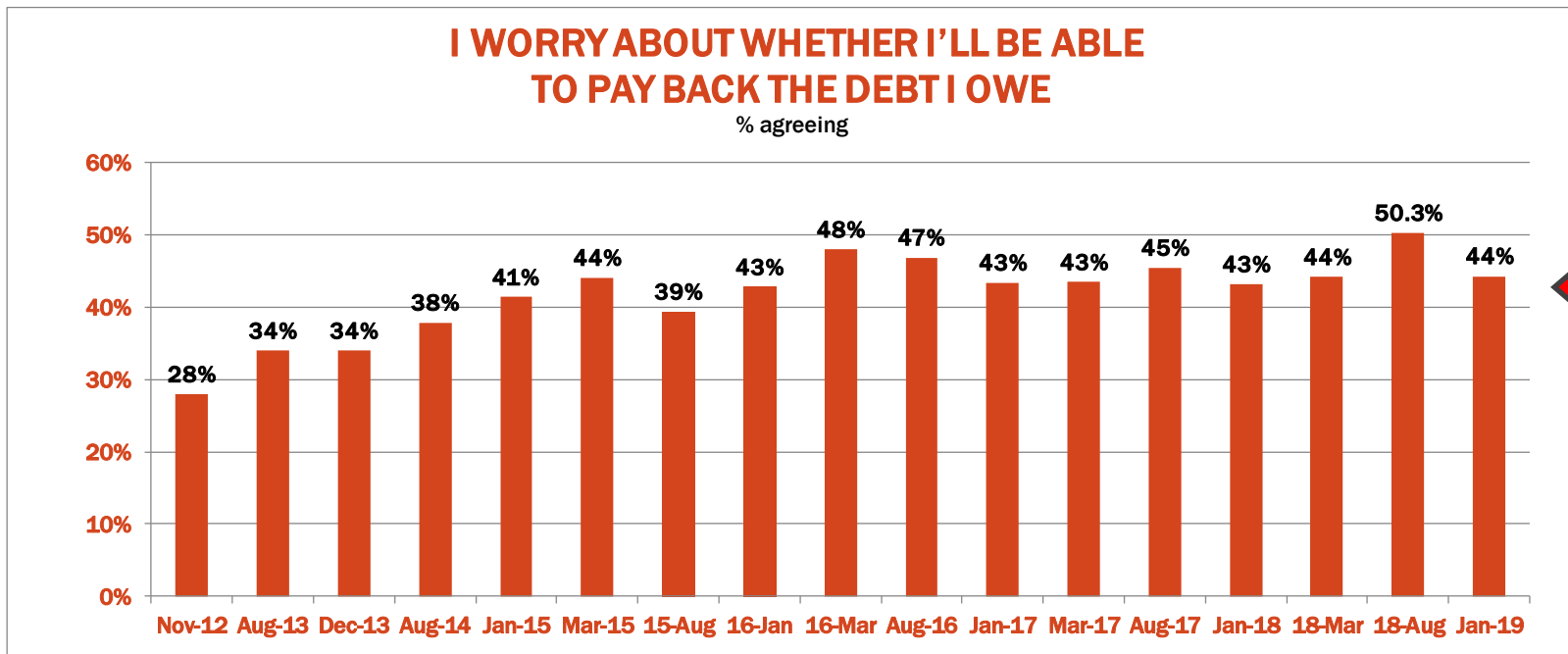
Dollar Fairly Valued



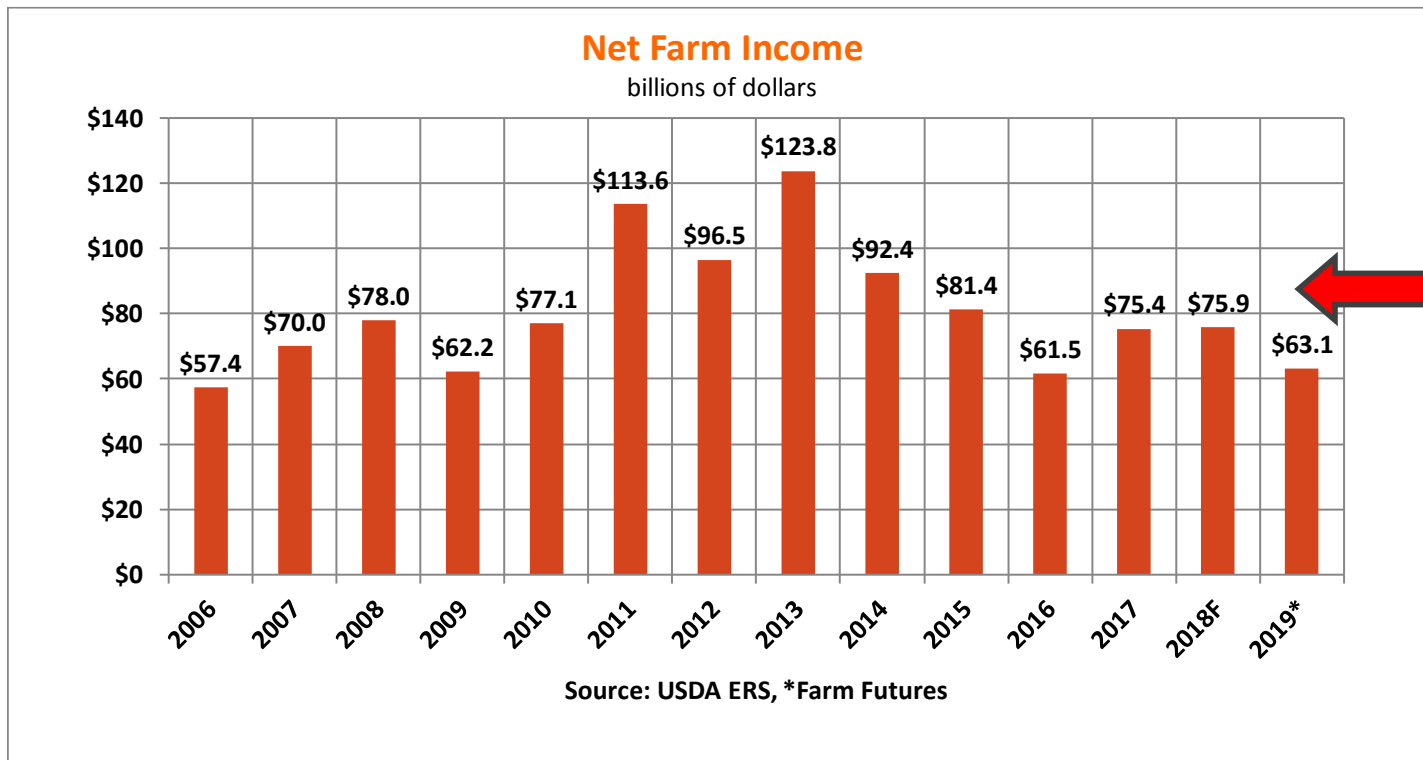
Interest Rates Bite



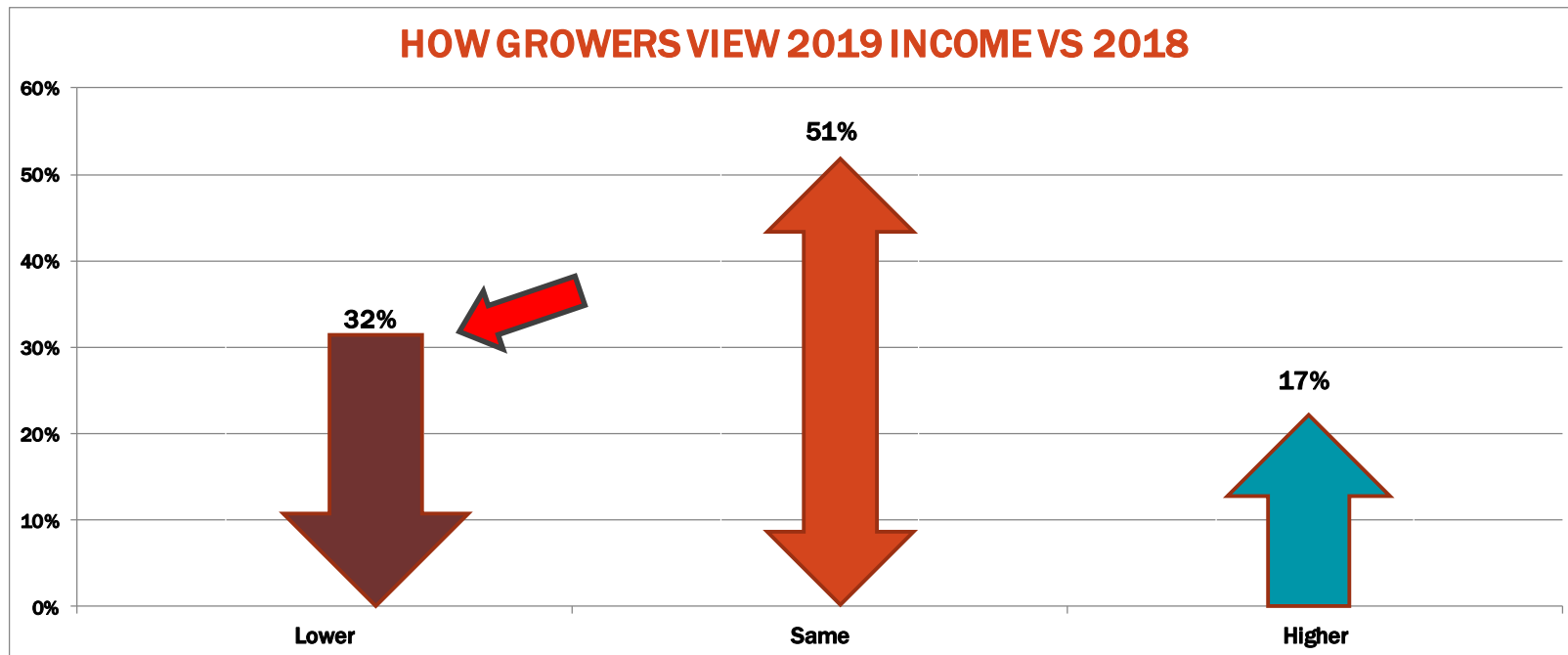
Worries Ease



MFP Raised Income



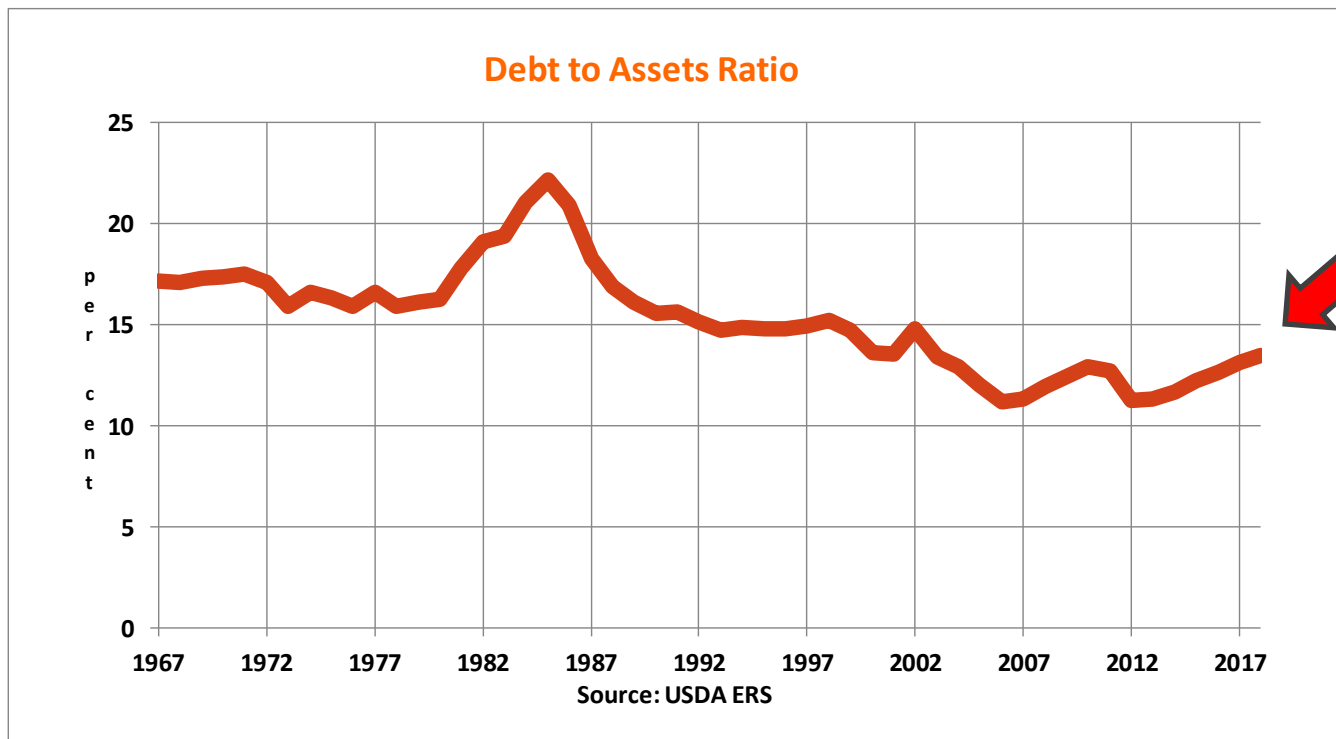
Income Down?



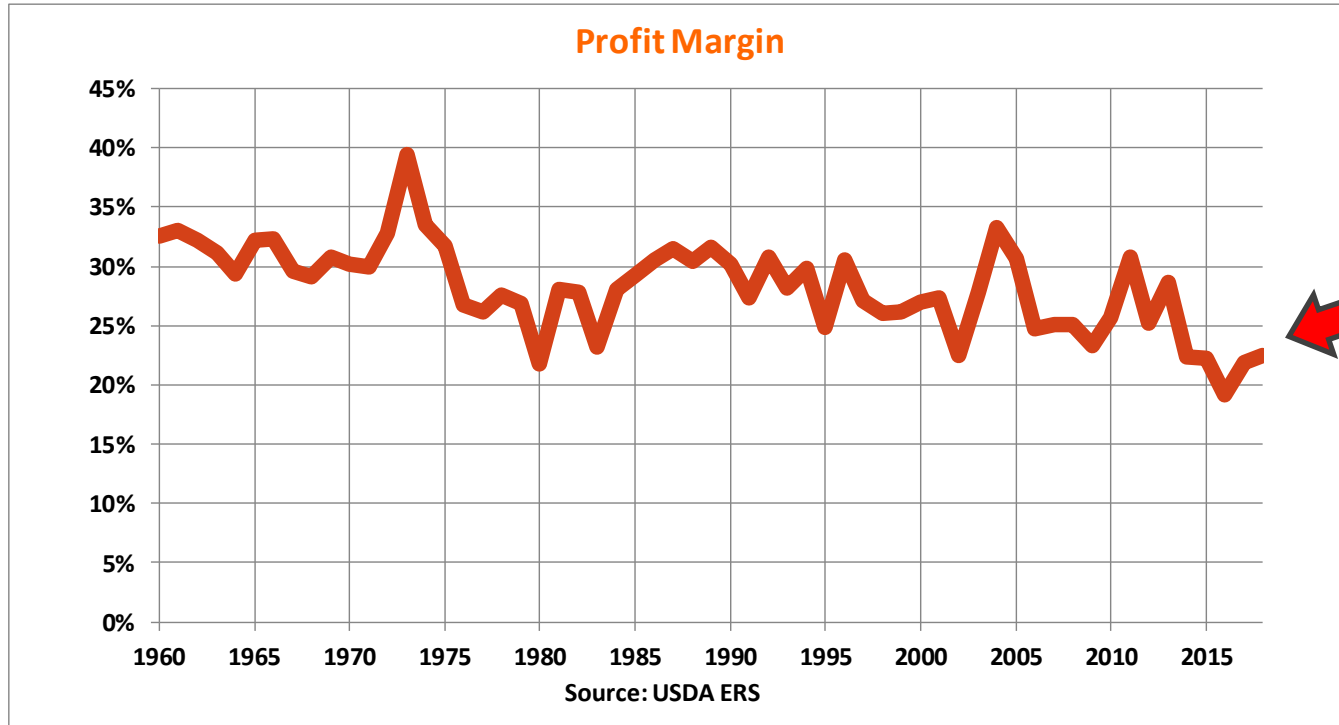
More Farms “Vulnerable”

Financial Stress Indicators			
	Marginal Income	Marginal Solvency	Vulnerable
Nov-12	3.2%	9.5%	1.1%
Aug-13	2.3%	6.2%	0.5%
Dec-13	2.9%	8.8%	1.2%
Aug-14	3.0%	9.4%	1.0%
Jan-15	4.5%	10.3%	1.3%
Mar-15	4.4%	10.5%	1.8%
Aug-15	6.3%	8.4%	1.3%
Jan-16	10.3%	11.9%	2.3%
Mar-16	11.5%	13.1%	3.7%
Aug-16	13.1%	19.6%	4.4%
Jan-17	11.5%	19.7%	3.5%
Mar-17	12.9%	12.8%	3.9%
Aug-17	11.6%	11.1%	3.1%
Jan-18	11.7%	10.8%	3.6%
Mar-18	14.6%	13.1%	4.2%
Aug-18	12.7%	16.1%	3.7%
Jan-19	16.5%	16.2%	5.5%

Not A Debt Crisis



Profit Crisis



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bryce.knorr@informa.com

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Questions?