Zenger Management

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Zenger Comments

Tuesday, May 21, 2019

	Today's Finish	Chg		Settle
Corn				
July 19	3.942	5.2	**Corn Spreads**	
Dec 19	4.104	6.0	Dec 19 - Mar 20	$0.096
Dec 20	4.124	2.2	Dec 19 - Dec 20	$0.020
Soybeans			**Sbean Spreads**	
July 19	8.220	(9.6)	Nov 19 - Aug 20	$0.448
Aug 19	8.286	(9.6)	Nov 19 - Nov 20	$0.481
Nov 19	8.484	(9.2)		
Wheat				
MW July 19	5.434	15.6	**Wheat Spreads**	
KC July 19	4.360	1.4	KC N19 - KC N20	$0.710
KC July 20	5.070	1.0	Ch N19 - Ch N20	$0.330
Ch July 19	4.786	0.0		
Ch July 20	5.116	(3.2)		

Corn rallied today on fund short-covering amid technical buy signals and a growing belief that the 2019 planting pace will be record slow in next Tuesday's Progress Report. This afternoon's 7-day precipitation forecast is "a little less wet" than previous days—but it is still extremely wet for the Plains and Midwest. Farmers will struggle to plant many acres this week.

Yet this short-covering rally remains "disciplined" versus "crazy". The corn pit could still go nuts with fund managers trying to jump ship on large shorts at the same time. But to date the increased farmer selling—both in the U.S. and abroad—has "let the big spec shorts out".

Wherever this corn market peaks—and it will probably peak this week or next—expect a dramatic pull back in the price from the "high". A drier forecast that suggests plantings will run could cause market to tip over. A surprising planting pace on Tuesday with a somewhat less wet forecast could do it. But fresh bullish fodder will be scarce once the crop is in or perceived will be in. December corn might reach $4.40 or $4.50 . . . and be at $3.70 again by the Fourth of July. However, this exceptionally slow planting pace and wet, chilly start to the growing season will justify acreage and yield discussions all summer. The corn market should be a rollercoaster ride until harvest.

I want to remain disciplined and lock up profitable price levels for a high percent of the 2019 corn/milo crop. However, I also want some "bullets" left to fire once all the 2019 production is contracted or hedged that individuals are comfortable with. Therefore, I'm raising the targets on the marketing plan for the 2020 sales so that we are not pricing much 2019 and 2020 at the same time. We can lower them again if necessary.

Corn Marketing Plan & Actions: HEDGER

% to Cover	Date	Contract Month	Target Sell Order	Target Sell Stop	Action	Executed Date	Executed Price	% Covered	Ave Price
10%	Spring	Dec-19	$4.00	none	Hedge/contract 10% of 2019 prod.	22-Mar	$4.00	10%	$4.00
25%	13-May	Dec-19	$3.90	none	Hedge/contract 25% of 2019 prod.	15-May	$3.90	35%	$3.93
15%	17-May	Dec-19	$4.10	none	Hedge/contract 15% of 2019 prod.	21-May	$4.10	50%	$3.98
10%	17-May	Dec-19	$4.20	none	Hedge/contract 10% of 2019 prod.		$4.20	60%	
25%	17-May	Dec-19	$4.35	none	Buy $3.90 Dec 2019 Put options			85%	
10%	17-May	Dec-20	$4.20	none	Hedge/contract 10% of 2020 prod.			10%	
20%	17-May	Dec-20	$4.29	none	Hedge/contract 20% of 2020 prod.			30%	
10%	17-May	Dec-20	$4.37	none	Hedge/contract 10% of 2020 prod.			40%	

***<u>Today's Recommended Actions:</u>* (Tweak blanket recommendations to fit personal circumstances)**

- Old crop corn and milo . . . suggest cleaning up the balance of the 2018 production on this price rally. Do it now or later, just try to not "miss" this pricing opportunity.
- Target $4.20 December 2019 futures to hedge another 10% and bring total 2019 coverage 60%.
- Target $4.20 on the <u>2020</u> December corn contract to hedge the first 10% increment of the anticipated 2020 corn/milo production.
- Targeting <u>$4.60</u> KC 2019 July wheat futures or <u>$4.99</u> Chicago July to hedge or contract a 10% increment of 2019 production. *<u>These targets could be hit tomorrow!</u>*
- Target $5.20 KC 2020 July wheat or $5.25 Chicago 2020 July wheat futures to price 10% of the anticipated 2020 production.

***<u>Current Targets:</u>* (Today's changes in red)** *(The following are broad recommendations for a large audience. They are guidelines that must be adjusted for personal circumstances.)*

<u>Farm-stored corn/milo:</u> Have a clear objective of pricing all remaining 2018 production on this price rally—keep nothing but "gambling stocks". <u>2019 corn/milo:</u> Target $4.20 December corn to hedge/contract 10% of the anticipated 2019 corn/milo production. This would bring the total covered to 60%. <u>Farm-stored soybeans:</u> Have 75% of the farm stored soybean inventory sold or hedged with August futures. <u>2019 soybeans:</u> Have an order at $9.00 November to hedge/contract the first 20% of the anticipated 2019 soybean production. Plan to target $9.50 November to hedge/contract 20% increment of 2019 production. <u>2019 wheat:</u> Target $4.60 KC July and $4.99 Chicago July to make a modest incremental sell/hedge of old and/or new crop wheat. <u>2020 wheat:</u> Target $5.20 KC 2020 July and $5.25 Chicago 2020 July to make a modest incremental sell/hedge of old and/or new crop wheat.

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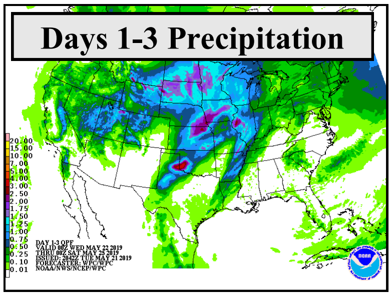
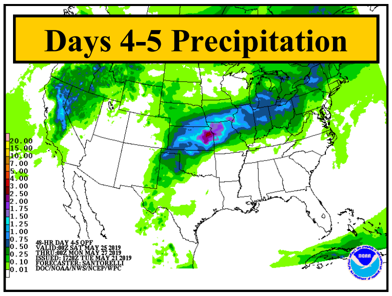
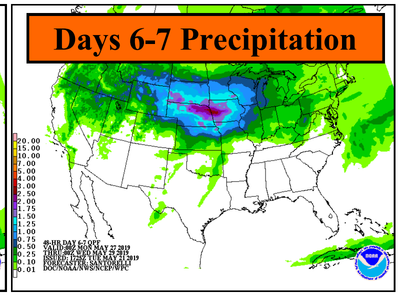
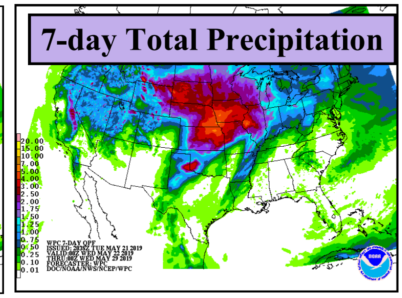
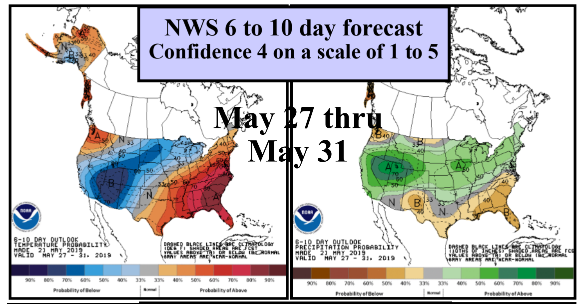


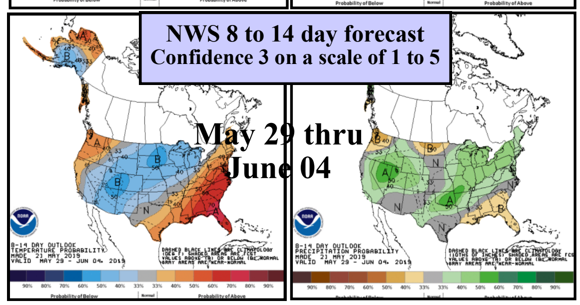








The 8-14 day outlook shows a little breakdown in the cold and wet pattern—but not much. Confidence is lower today at a 4 our of 5 on the 6-10 and a 3 out of 5 on the 8-14 day outlook.



The December corn contract reached $4.13 today. Moving above our target of $4.10 means many will have another 15% of the anticipated 2019 production hedged or contracted. The next upside target is $4.20.

The chart is technically bullish with the price trading above a bullish chart reversal and to upside open chart gaps. The futures market is also getting over brought—which does not have to matter in the present atmosphere. But if a correction occurs, the first objective is to drop to $4.05 and fill the upside gap created at last night's opening.

The next upside target for the December contract is $4.20. Resistance is at today's session high of $4.13 and again at $4.15. The clear target and resistance is last summer's high of $4.23¾.

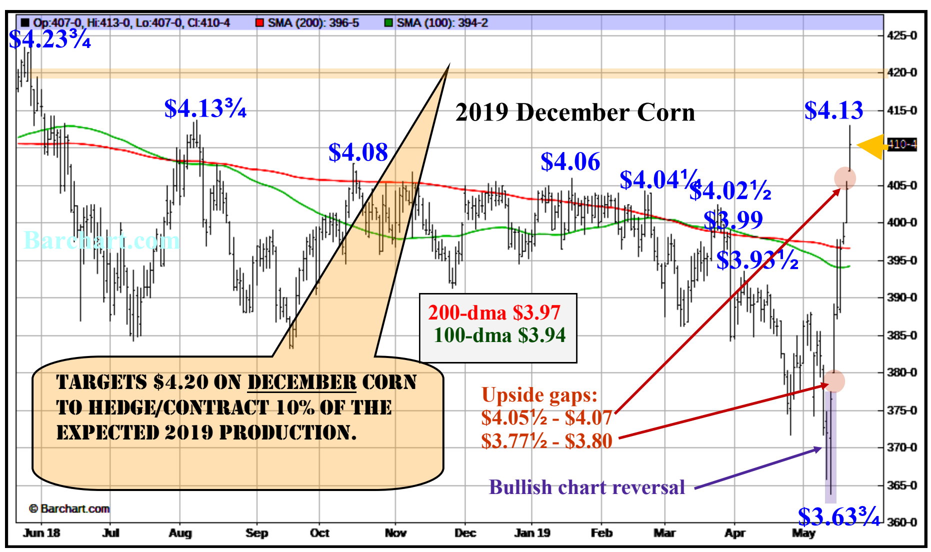
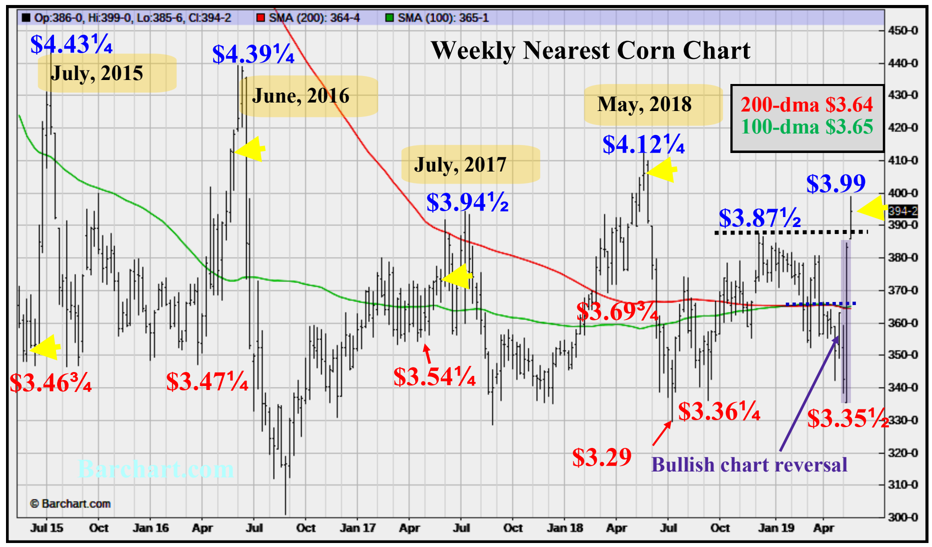


Chart support is the psychological $4.00 line, the 200-dma of $3.97, and the 100-dma of $3.94.

The December corn contract should hold a lot of its recent gains as long as the forecast remains wet for the Corn Belt. A fast, strong price run is possible this week if the big speculative accounts are forced to try and buy back large short positions at the same time. But it is also possible the large accounts will decide to wait out the 3-day Memorial Weekend—try to hold their short positions on the hope for a drier forecast by Tuesday. ***Friday's 7-day weather forecast will probably dictate whether the pre-weekend price action is higher or lower.***

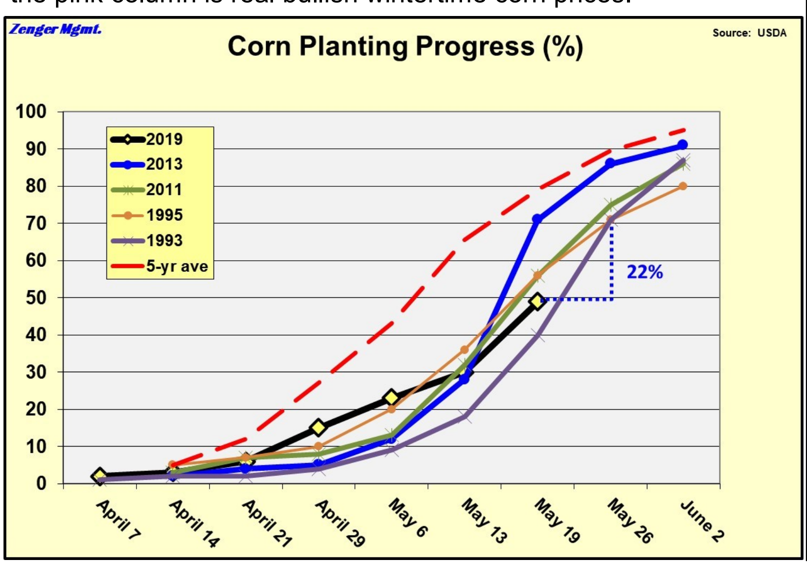
Old crop July corn failed to push above the psychological $4.00 line today. There is resistance at $3.00, $4.00, and $4.03. A move above $4.00 could quickly prompt a test of the clear upside target at $4.10½.



Note on the weekly chart that there is a clear upside target at $4.12¼. This high was made exactly one year ago during the week of May 21, 2018. Note how fast the price collapsed after posting this $4.12 high.

This year is a different cat. In May 2018 the market imploded with the soybean trade after tariffs were announced on Chinese imports. Good growing conditions made it safe for traders to sell and keep selling the corn market during the summer of 2018.

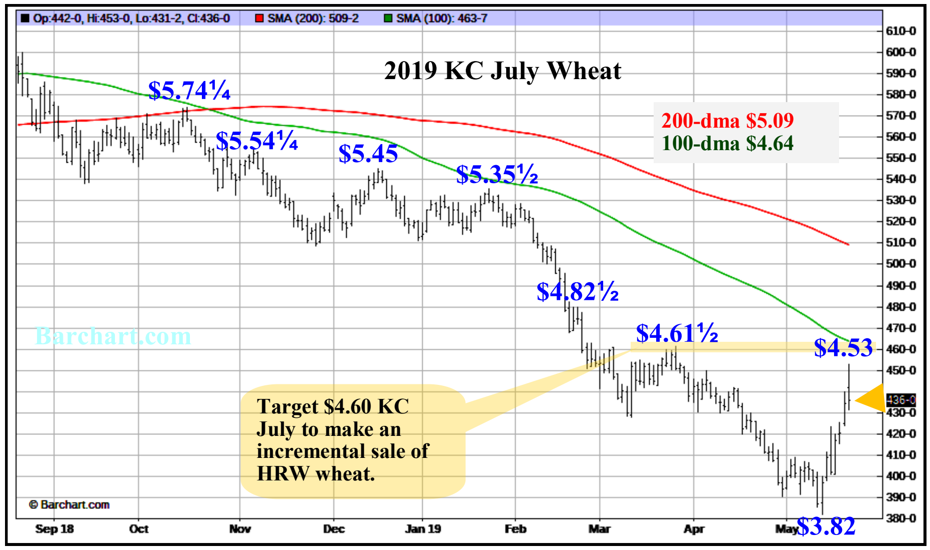
If the planting pace is below 71% in next Tuesday's Progress Report it will be the behind the extremely slow planting paces of 1993 and 1995. Farmers need to plant 22% of the nation's corn this week to reach this 71% target. If rains fall as predicted across the Midwest, it is doubtful farmers can plant 22% of the nation's corn this week. Some are predicting huge reductions to 2019 production. History teaches acres will be trimmed several million and the yield will probably be under trend. But summer weather will still impact yield a lot—for better or worse. The three scenarios are examples of what good happen in 2019. Only the pink column is real bullish wintertime corn prices.



U.S. Corn *2019/20 Final Marketing Year* Outlook

	May WASDE 2019/20	-2.0 mil ac; -3.0 bpa yield	-4.0 mil ac; -3.0 bpa yield	-5.0 mil ac; -6.0 bpa yield	2019/20 Outlook
Planted	92.8	90.8	89.8	87.8	95.1
Harvested	85.4	83.6	82.6	80.8	87.5
Yield	176.0	173.0	172.0	170.0	176.2
Production	15,030	14,456	14,214	13,736	15,420
Carryin	2,095	2,095	2,095	2,095	1,650
Imports	35	35	35	35	50
Total Supply	17,160	16,586	16,344	15,866	17,120
Feed/Residual	5,450	5,450	5,450	5,450	5,600
Food/Industry	1,450	1,450	1,450	1,450	1,480
Ethanol Prod.	5,500	5,500	5,500	5,500	5,650
Exports	2,275	2,275	2,275	2,275	2,550
Total Demand	14,675	14,675	14,675	14,675	15,280
Ending Stocks	2,485	1,911	1,669	1,191	1,840
Stocks/Use	16.9%	13.02%	11.37%	8.11%	12.0%

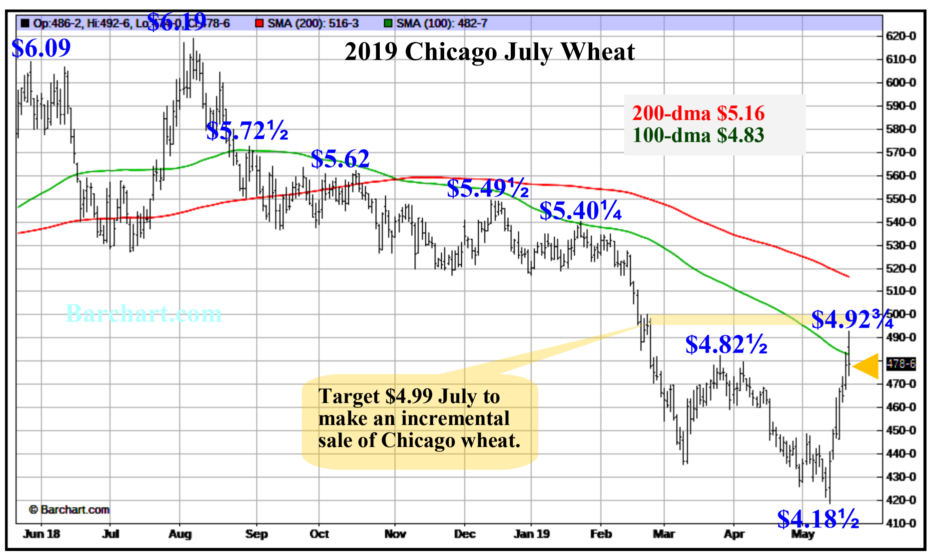
The KC July 2019 wheat contract reached $4.53 and Chicago July hit $4.92¾ today. The targets to add to sales are $4.60 KC July and $4.99 Chicago July. These targets could be reached tomorrow.



Wheat prices posted nice gains during the session supported by heavy rain falling across the HRW Wheat Belt, rising corn values, and technical buy signals. The speculative funds, caught with large short positions, were forced to try and buy their way out amid light selling interest. But the nice price gains evaporated during the session with traders—still bearish fundamentals—saw the day's strength as a selling opportunity.

A seasonal high often happens during late May or early June when the crop is most vulnerable. Therefore this is a selling opportunity—a sad one, but one all the same. The KC July has strong resistance at the March high of $4.61½. The 100-dma is also there at $4.64. Pushing above these levels of resistance will make $4.82 the next upside target. Cash basis is very strong. A $4.60 futures price creates a harvest delivery cash contract of $4.50 to $4.60 at the stronger elevators in southern Kansas.

The Chicago July contract is trying to "breakout". Today's high of $4.92¾ may be all the closer the trade needs to get to the psychological $5.00 mark. However, wheat could attract buying if corn prices continue to run higher. The improving charts will force the funds to cover more of their large short position.



A move above $5.00 will made the 200-dma at $5.16 a clear upside target. But the market probably needs some fundamental reason to justify much more than the low $5.00s. Fund short-covering could lift the price to the $5.50 area. Harvest is not far away—so traders will be slow to cover shorts unless the crop is perceived as really threatened.

- Current 2019/20 corn/milo recommendation review: Hedged or contracted 10% of the anticipated 2019 corn and milo production at $4.00 December (3/22/19). Hedged or contracted 25% at $3.90 December (5/15/19). Hedged or contracted 15% at $4.10 December (5/21/19),

- *Current 2018/19 corn/milo recommendation review: Hedged or contracted 10% of the anticipated 2018 corn and milo production at $3.90, at $4.00, and at $4.10 December. We exited some of the hedges in the $3.70 to $3.80 area. The $3.79 target to contract another increment of corn that cannot be farm-stored and/or re-hedge part or all of the positions that were exited earlier was hit on July 26. On August 9 with December at $3.85, recommended those with no farm storage moving to 50% contracted or hedged. Also recommended those with storage for most of the crop move to 100% contracted or hedged on the bushels that would go to town at harvest. On September 6, recommended farmers in southern/central Kansas sell 25% of the corn in commercial storage to manage the risk of a price decline during harvest. On October 15 with December at $3.78, recommended selling 50% of the corn stored in town. On May 14* *with July corn at $3.70 we recommended selling the balance of the corn stored in town and hedging or selling cash a large increment of the remaining corn in farm storage. On May 15 with July at $3.75 we recommended hedging 25% of the farm stored inventory. The week of May 13 suggested hedging the balance of the farm-stored inventory when July hit $3.80.*

- *Current 2018/19 soybean recommendations review: Hedged or contracted 10% at $10.00 to $10.10, another 10% at $10.20, and a third 10% increment was recommended at $10.35 to $10.40. Therefore, most are 30% covered on new crop soybean production. Some moved to 40% covered at about $10.35 after the bearish March WASDE report. Some hedges were exited at approximately $9.35. On October 15 with November at $8.88 recommended selling 50% of the soybeans stored in town. On 11/02/18 January hit the $9.00 target to move to 75% sold on beans hauled to town. Also on 11/02/18, August hit the $9.40 target to hedge the first 25% of the bushels that will be stored on farm. On Monday, December 3, January futures reached $9.23—the remaining bushels stored in town were sold with futures around $9.20. It was a crazy week following Presidents' Trump and Xi meeting at the G20. Tried to get another 10% to 20% of the crop sold with deferred futures when August was around $9.60. December 14 with January at 9.07 and August at $9.51 will encourage all move to 50% hedged on farm stored inventory.*

- *Current wheat recommendations review: Had 40% of the anticipated 2018 production hedged or contracted. Suggested buying $5.40 KC September Put options for $0.25 to cover 25% of the 2018 wheat production. Recommended converting hedges and Put options to cash contracts at harvest to sell the exceptionally strong cash basis. Recommended selling most or all of the open bushels at harvest.*

- *Have 10% of the 2019 wheat production hedged in the $5.95 area and 10% hedged in the $6.09 area. On 10/31/18 recommended covering the wheat contracted or hedged with $6.20 KC July Call options for about $0.14½.*