

2018 Market Outlook

DTN/The Progressive Farmer

Ag Summit

December 5, 2017

Presented by:

Darin Newsom

DTN/The Progressive Farmer Senior Analyst

Ag Summit Outlook Presentations Through the Years

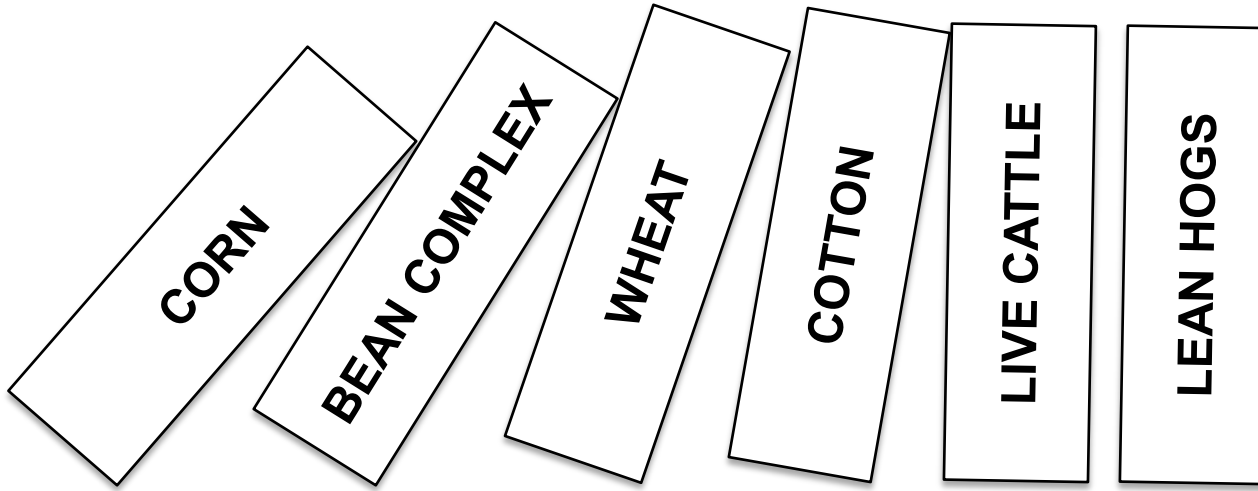
Summit	Outlook for	Title
2007	2008	Brave New Markets
2008	2009	The Day After
2009	2010	?
2010	2011	Buyers, Bubbles, and Butterflies
2011	2012	Demanding Times
2012	2013	The End of the World as We Know It
2013	2014	Are the Good Times Really Over for Good
2014	2015	Here Comes the Sun
2015	2016	A New Paradigm
2016	2017	Once Upon Another Time
2017	2018	

What's in Store

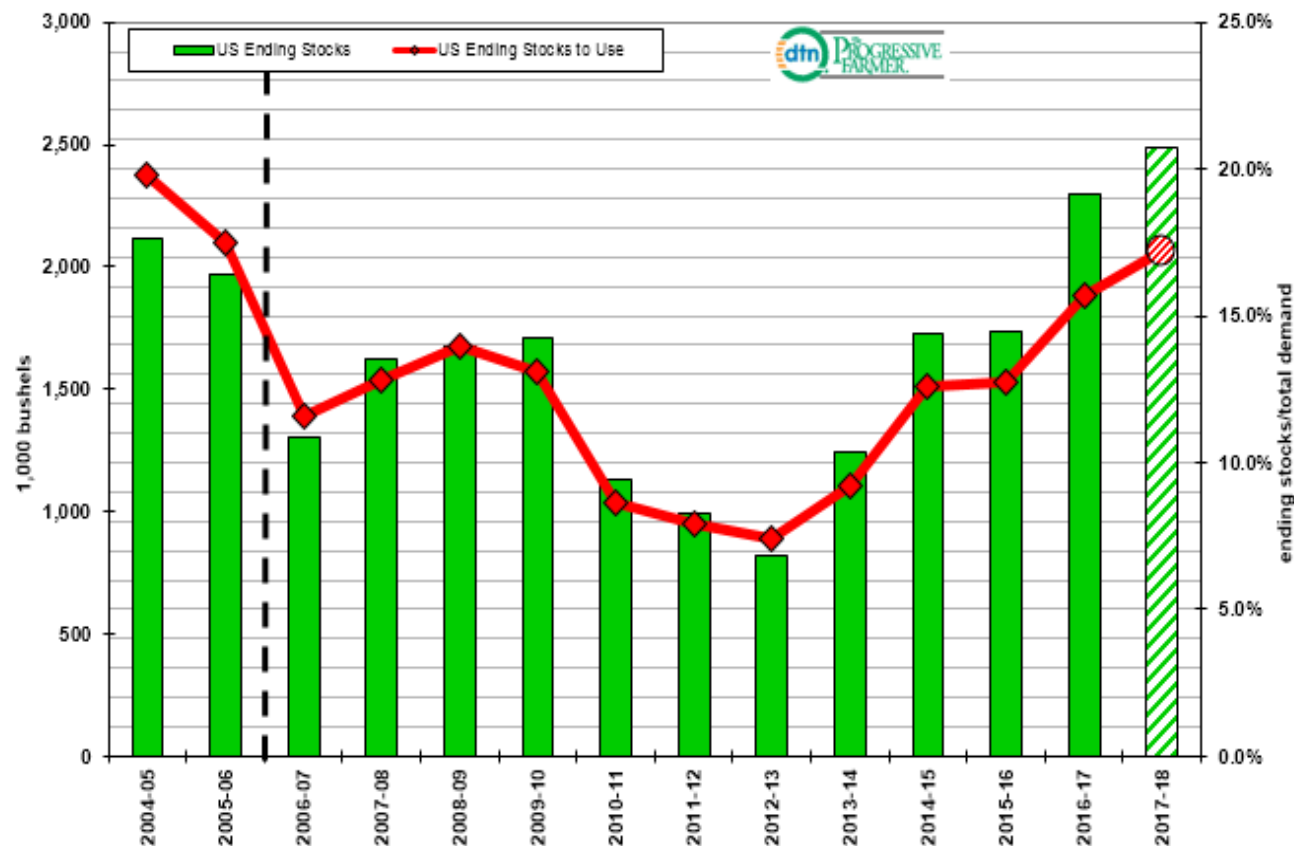
What's in Store (Statement)

(From 2013 Ag Summit Presentation)

Domino Theory (cont.)



CORN: US ENDING STOCKS AND ENDING STOCKS TO USE

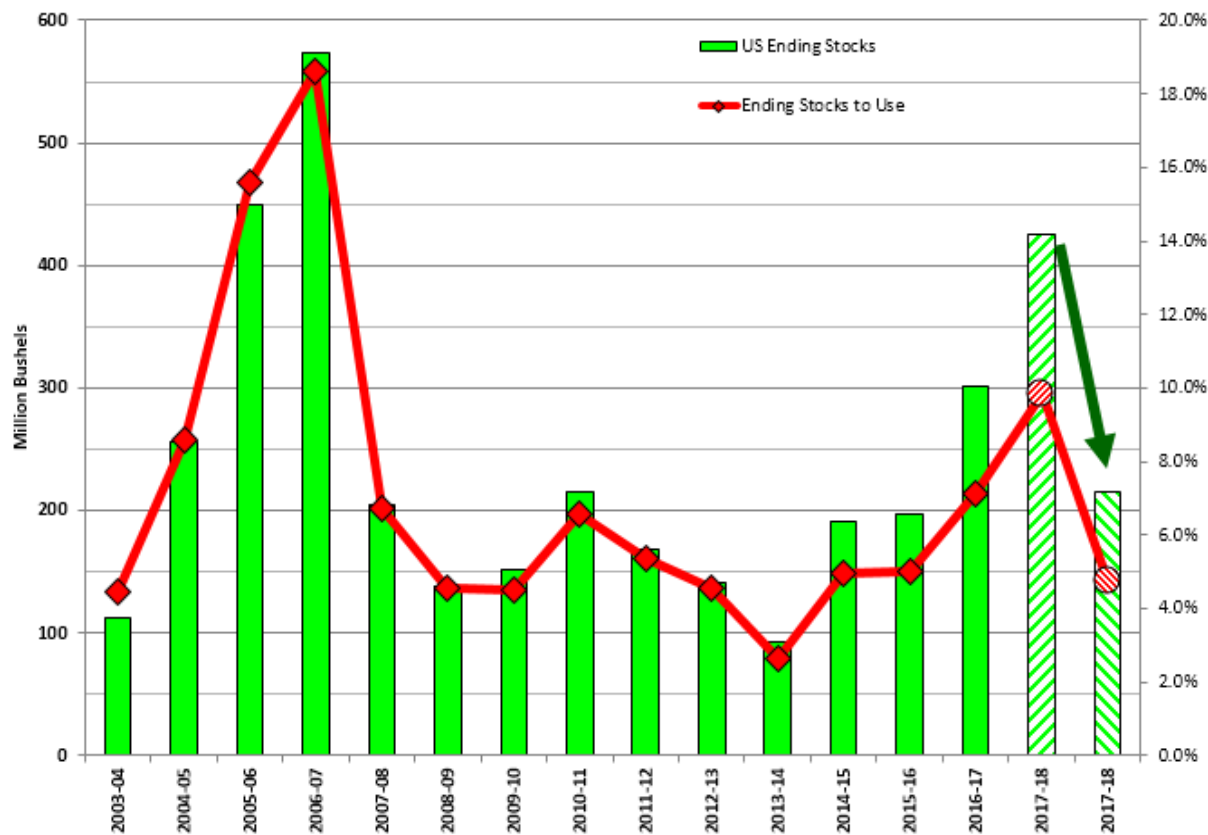


**2016-17 Ending Stocks
as of Sep 1 QS Report:**

**2.294 bb
Highest in 30 years**

**ES/U of 15.7%
Highest since 2005-2006
or prior to RFS and
corn's demand market.**

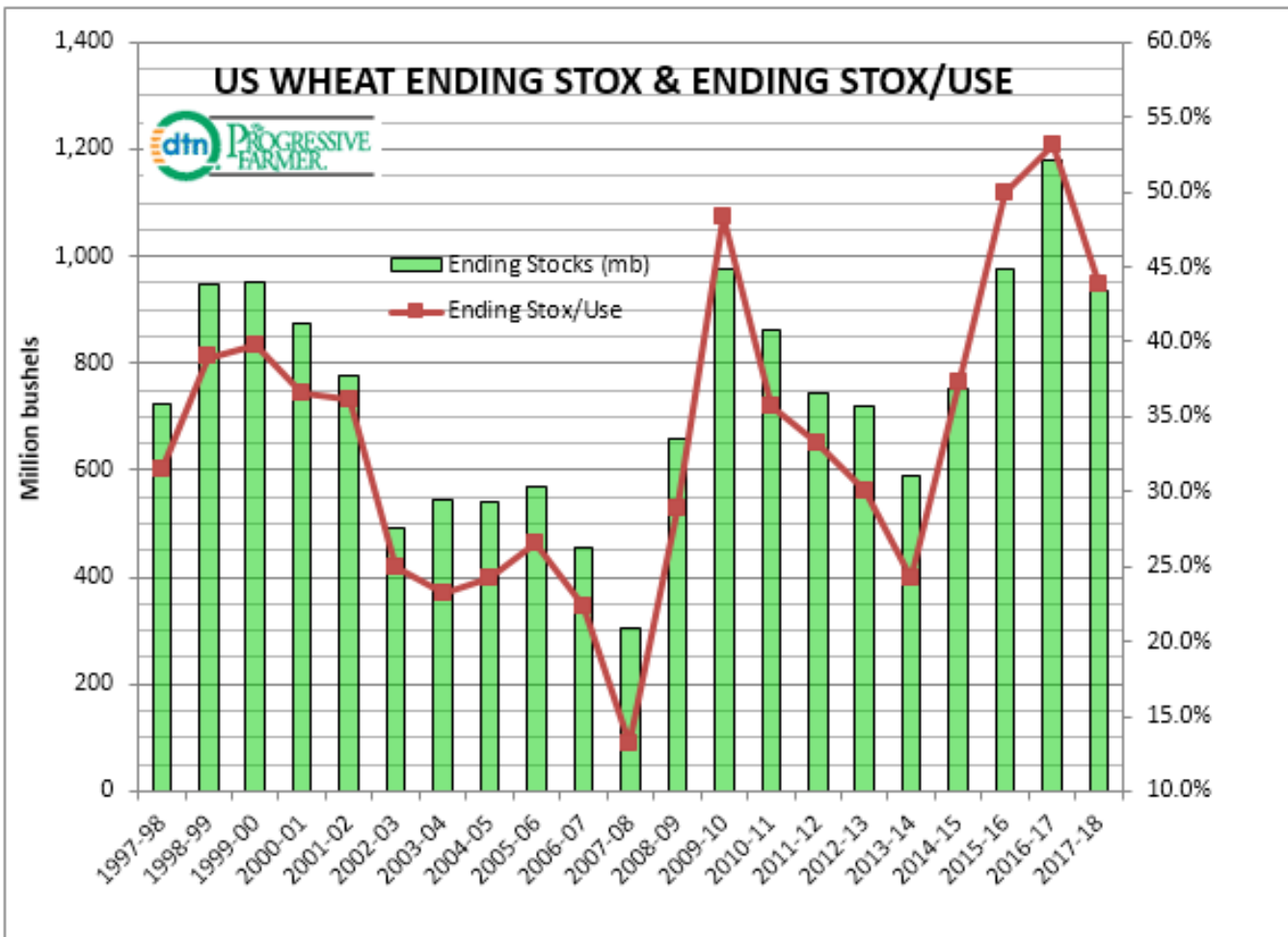
US SOYBEAN SUPPLY AND DEMAND



**2016-17 Ending Stocks
as of Sep 1 QS Report:**

**301 bb
Highest since 2006-2007**

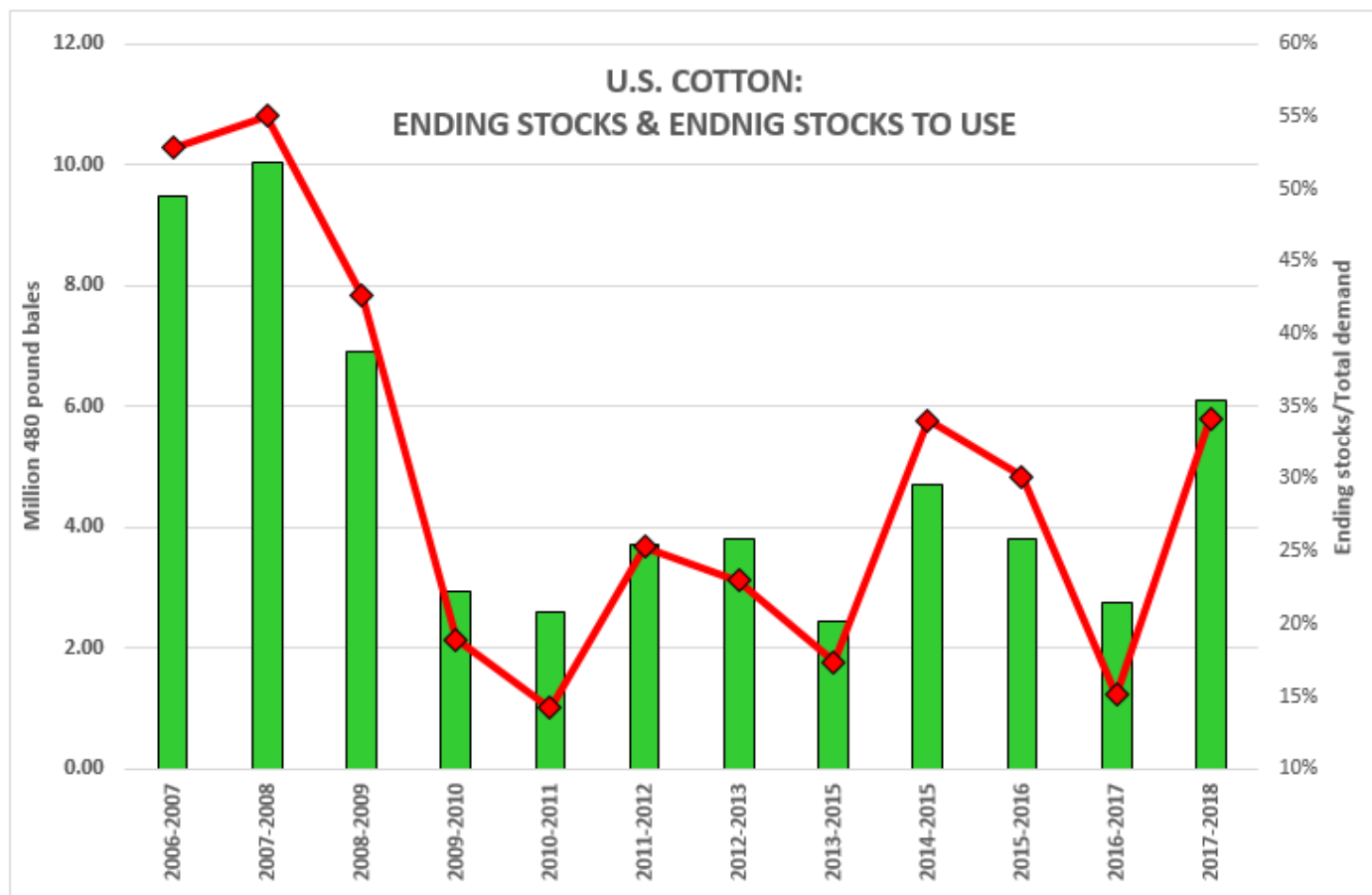
**ES/U of 7.1%
Also most since 2006-07**



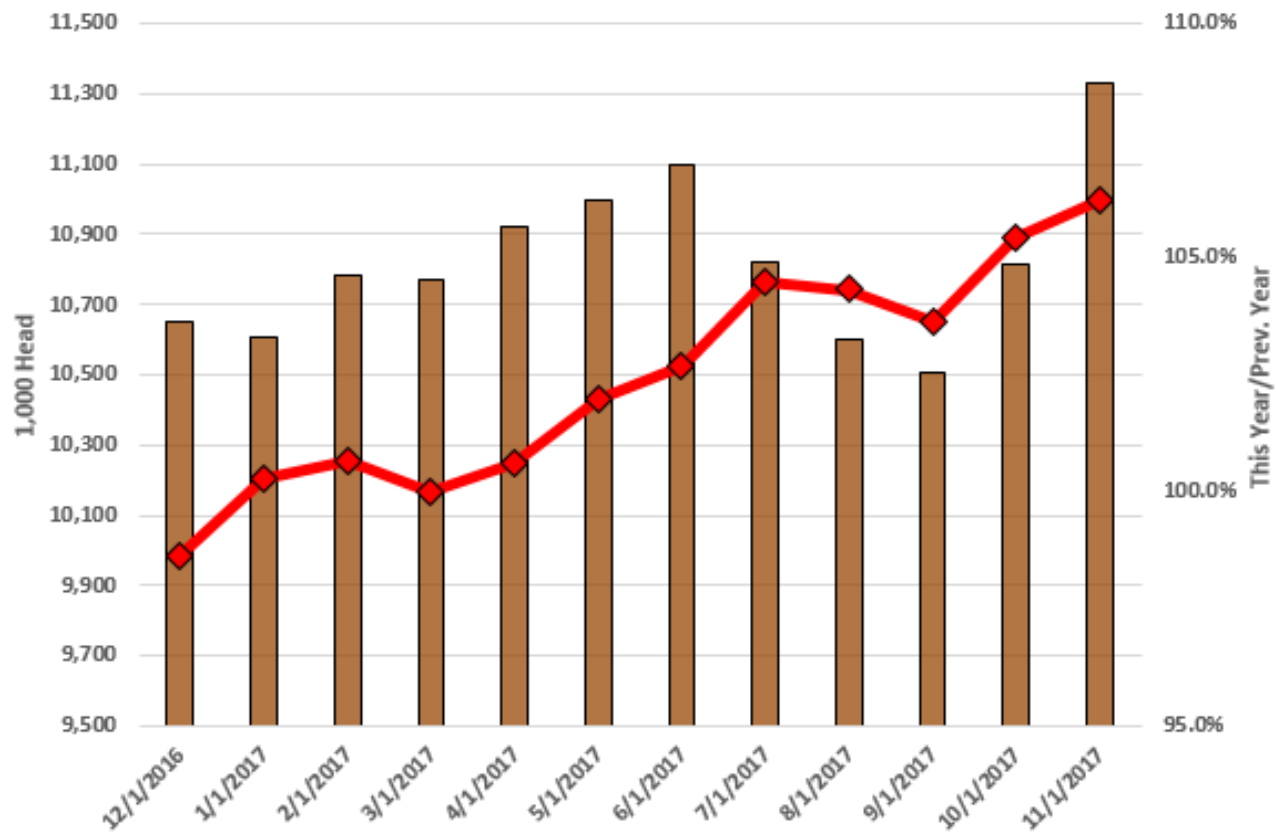
**2016-17 Ending Stocks
as of Sep 1 QS Report:**

**1.181 bb
Highest in 30 years**

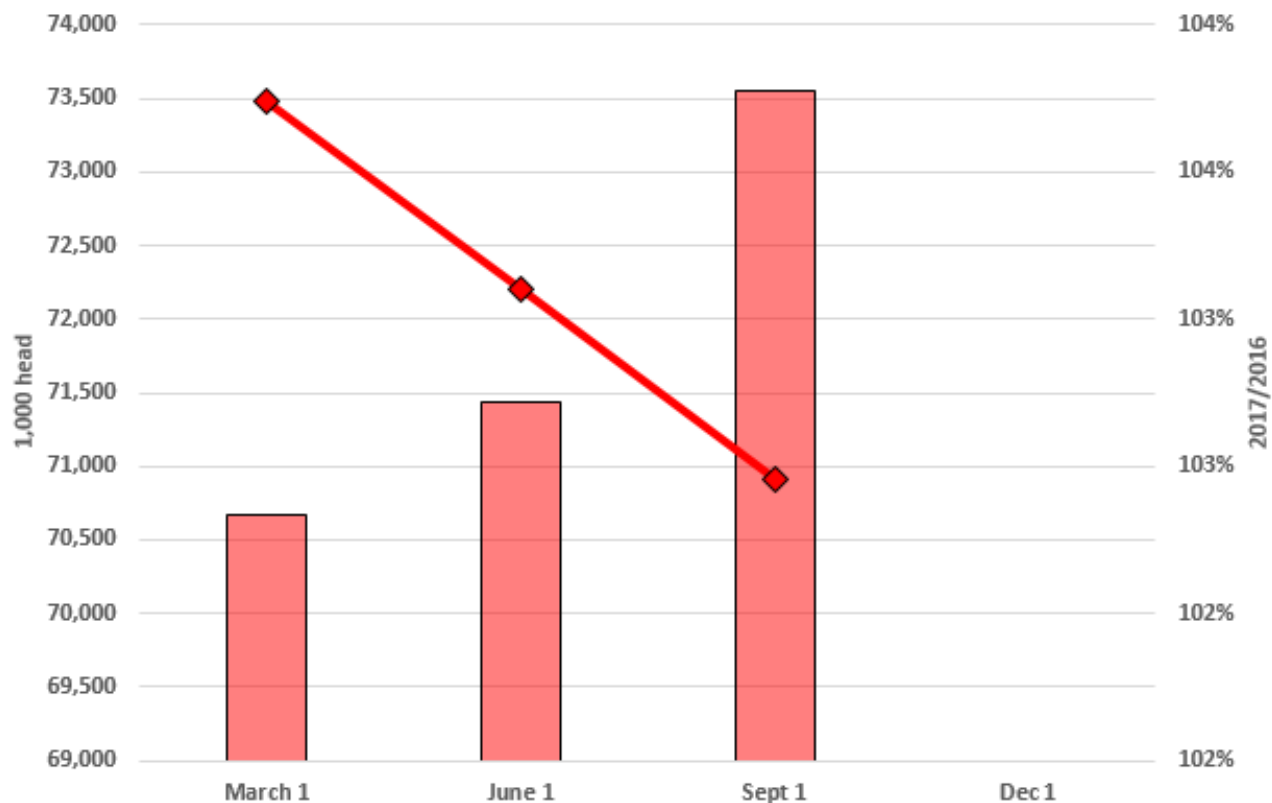
**ES/U of 53.2%
Also highest in 30 years**



U.S. CATTLE ON FEED



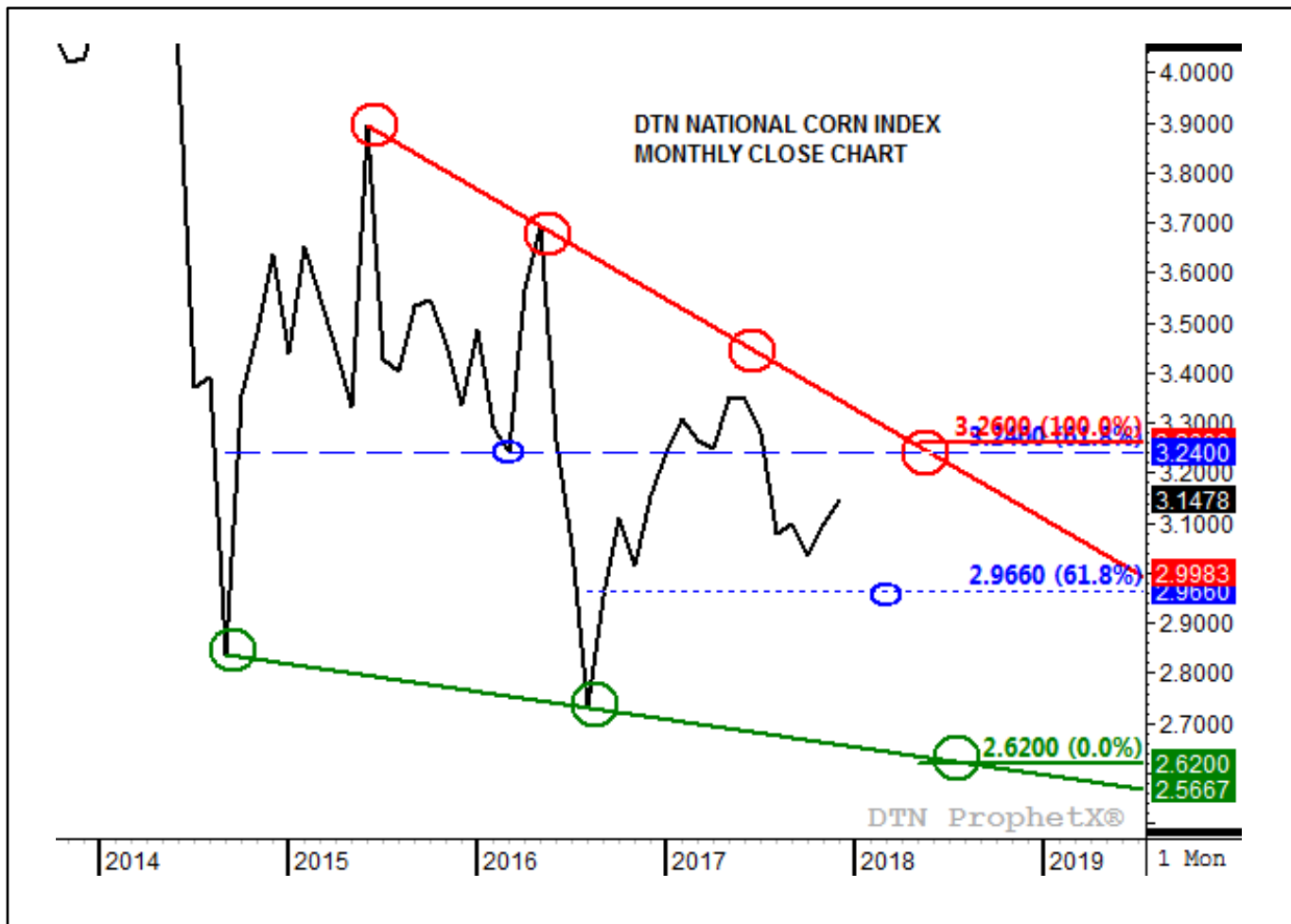
2017 ALL HOGS AND PIGS



What's in Store (Question)

What's in Store?

- **For argument's sake, let's say I didn't sell cash grain in 2017. Will cash markets give me a better opportunity in 2018?**



2018 Cash Corn Cycle:

Mar trend low ~ \$2.97

May trend high <= \$3.25
(**'17 high ~ 11cts < trend**)

Aug/Sep trend low ~
\$2.62

Basis should stay weak



2018 Cash Soybeans:

**Continue to consolidate
between trendlines**

**NSI.X with a tightening
range between \$9.60
and \$8.40**

**Decreasing USDA ending
stocks guesses could
provide support**

Basis should stay weak



2018 Cash HRW Wheat:

**Major (long-term)
uptrend from 2016.**

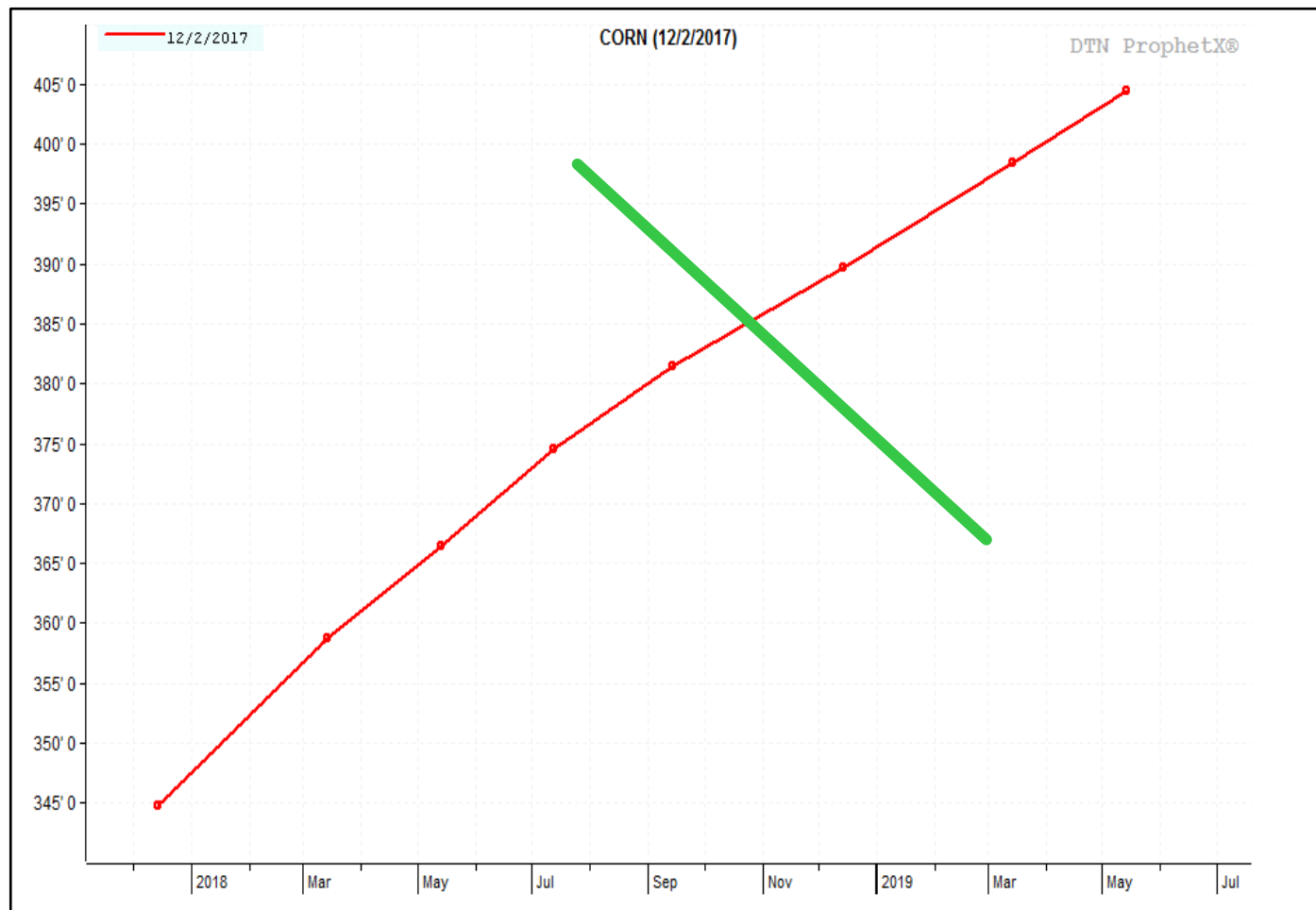
**Summer '17 rally (led by
spring wheat) may have
taken a lot of buying out
of the market.**

**Smaller old-crop
supplies could lead to
slightly tighter ending
stocks situation.**

**Basis still weak, but
improving.**

What's in Store?

- **I hedged my 2017 production, then rolled to deferred futures based on the strong carry in the market. Will basis appreciation reward me for my efforts?**

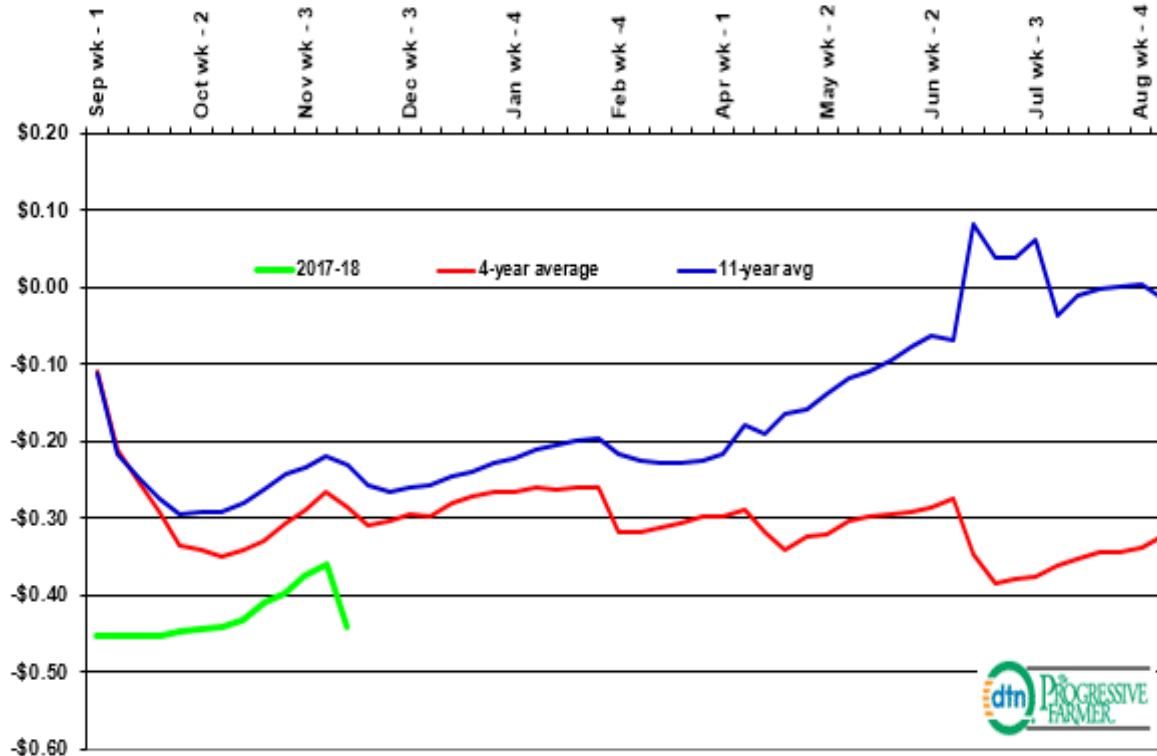


	Month	Price		@CH18	@CK18	@CN18	@CU18	@CZ18	@CH19	@CK19	@CN19	(^
@CZ17	Dec 17	344' 6s	Market Carry	14.00	21.75	29.75	36.75	45.00	53.75	59.75	64.50	
			Cost of Carry	17.52	29.40	41.08	53.34	71.06	88.58	100.46	111.94	
			% Full Carry	79.90%	73.99%	72.42%	68.89%	63.33%	60.68%	59.48%	57.62%	
@CH18	Mar 18	358' 6s	Market Carry		7.75	15.75	22.75	31.00	39.75	45.75	50.50	
			Cost of Carry		11.95	23.70	36.04	53.87	71.50	83.45	95.01	
			% Full Carry		64.86%	66.45%	63.12%	57.55%	55.59%	54.82%	53.15%	
@CK18	May 18	366' 4s	Market Carry			8.00	15.00	23.25	32.00	38.00	42.75	
			Cost of Carry			11.79	24.18	42.06	59.75	71.74	83.34	
			% Full Carry			67.83%	62.04%	55.27%	53.55%	52.97%	51.30%	
@CN18	Jul 18	374' 4s	Market Carry				7.00	15.25	24.00	30.00	34.75	
			Cost of Carry				12.43	30.38	48.13	60.16	71.80	
			% Full Carry				56.33%	50.20%	49.87%	49.87%	48.40%	
@CU18	Sep 18	381' 4s	Market Carry					8.25	17.00	23.00	27.75	
			Cost of Carry					18.00	35.81	47.88	59.55	
			% Full Carry					45.82%	47.47%	48.04%	46.60%	
@CZ18	Dec 18	389' 6s	Market Carry						8.75	14.75	19.50	
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			% Full Carry						48.96%	49.19%	46.76%	
@CH19	Mar 19	398' 4s	Market Carry							6.00	10.75	
			Cost of Carry							12.16	23.92	
			% Full Carry							49.35%	44.95%	
@CK19	May 19	404' 4s	Market Carry								4.75	
			Cost of Carry								11.79	
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NATIONAL AVERAGE CORN BASIS (DTN National Corn Index - front month futures)



2017-18 national average basis is lagging 4-year average.

Rightfully so, given 17-18 is reportedly year 5 of cumulative growth in ending stocks.

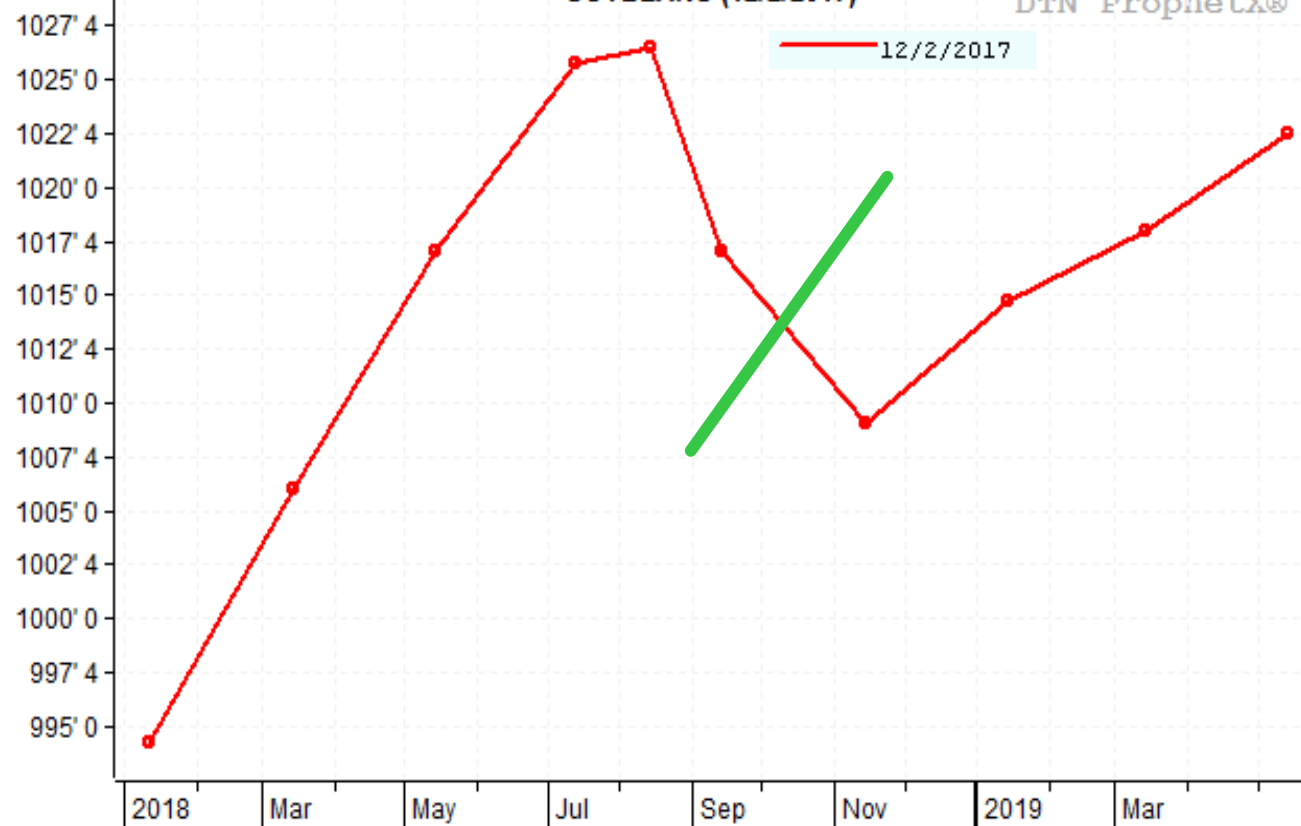
Basis tends to flatten from late November through end of marketing year.

Approx. 15 cents below average ~ 45 under July in June.

Dec to July carry ~ 30 cents

SOYBEANS (12/2/2017)

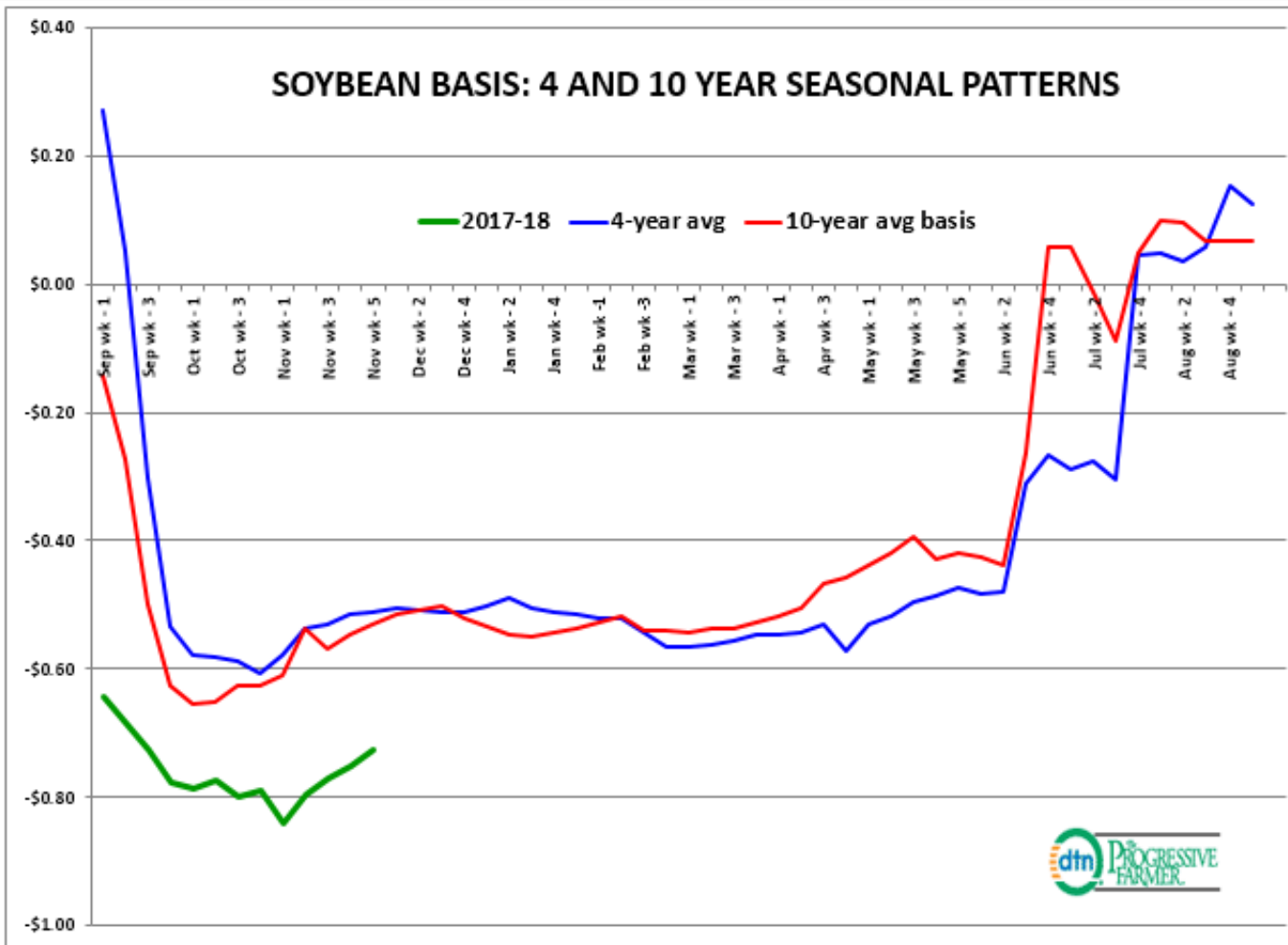
DTN ProphetX®



	Month	Price		@SH18	@SK18	@SN18	@SQ18	@SU18	@SX18	@SF19	@SH19	
@SF18	Jan 18	994' 2s	Market Carry	11.75	22.75	31.50	32.25	22.75	14.75	20.50	23.75	
			Cost of Carry	15.29	30.58	45.61	53.63	61.40	76.69	91.98	106.76	
			% Full Carry	76.86%	74.41%	69.06%	60.13%	37.05%	19.23%	22.29%	22.25%	
@SH18	Mar 18	1006' 0s	Market Carry		11.00	19.75	20.50	11.00	3.00	8.75	12.00	
			Cost of Carry		15.35	30.45	38.50	46.30	61.65	77.00	91.84	
			% Full Carry		71.66%	64.87%	53.25%	23.76%	4.87%	11.36%	13.07%	
@SK18	May 18	1017' 0s	Market Carry			8.75	9.50	0.00	-8.00	-2.25	1.00	
			Cost of Carry			15.15	23.24	31.07	46.47	61.88	76.78	
			% Full Carry			57.74%	40.88%	0.00%	-17.21%	-3.64%	1.30%	
@SN18	Jul 18	1025' 6s	Market Carry				0.75	-8.75	-16.75	-11.00	-7.75	
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@SQ18	Aug 18	1026' 4s	Market Carry					-9.50	-17.50	-11.75	-8.50	
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@SU18	Sep 18	1017' 0s	Market Carry						-8.00	-2.25	1.00	
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			% Full Carry						-51.92%	-7.30%	2.19%	
@SX18	Nov 18	1009' 0s	Market Carry							5.75	9.00	
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@SF19	Jan 19	1014' 6s	Market Carry								3.25	
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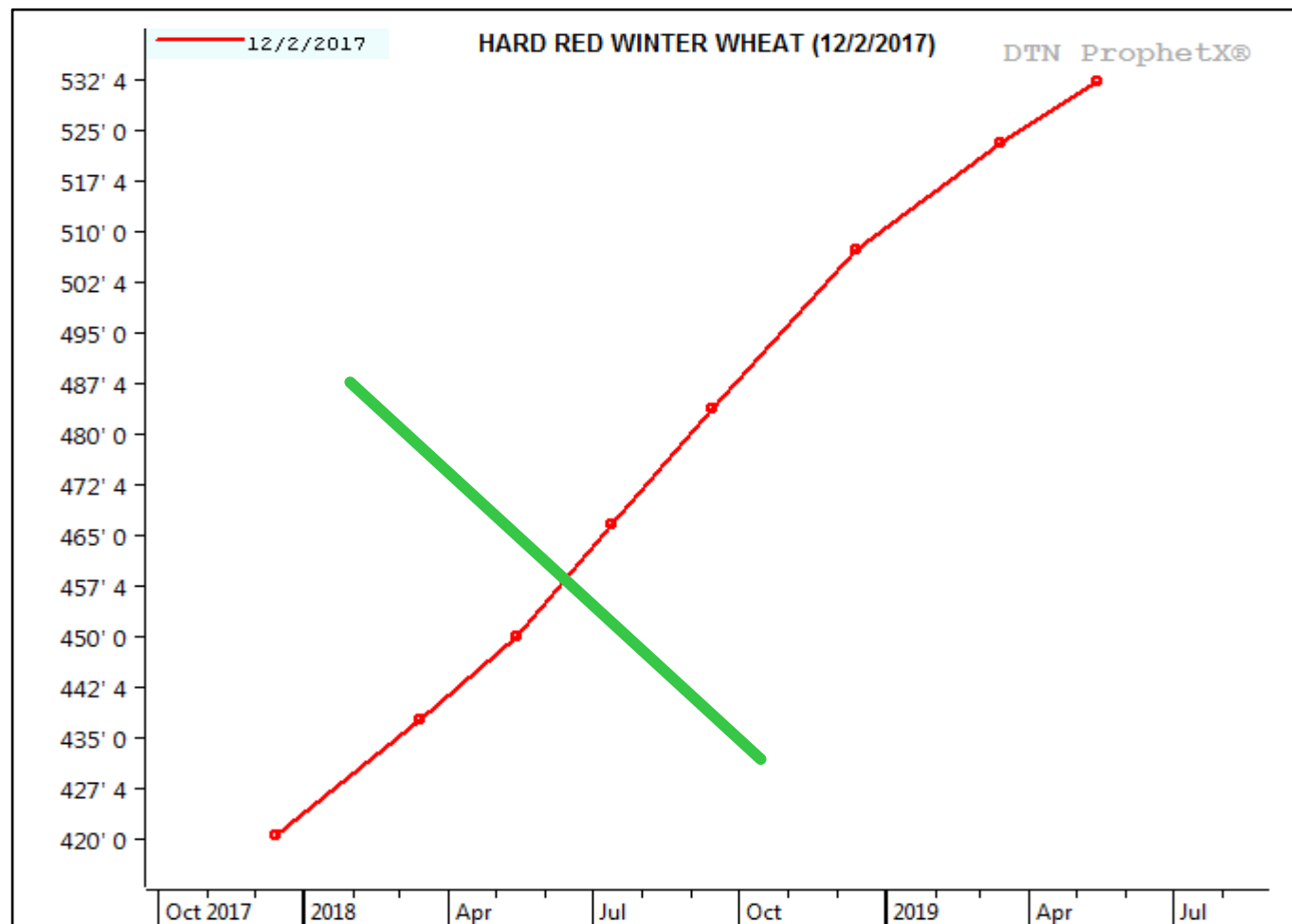
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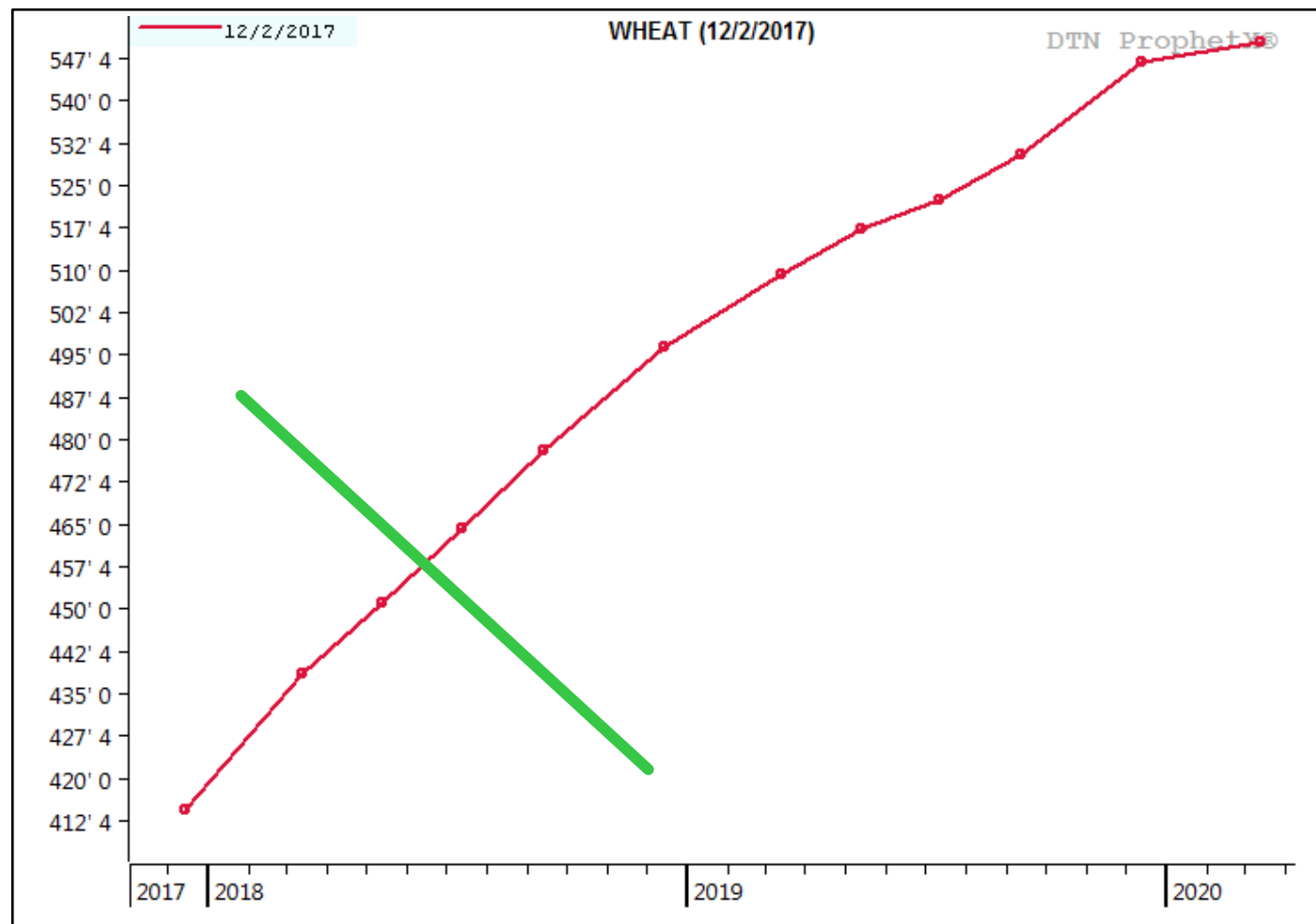
2017-2018 could reportedly be year 4 of increasing domestic ending stocks.

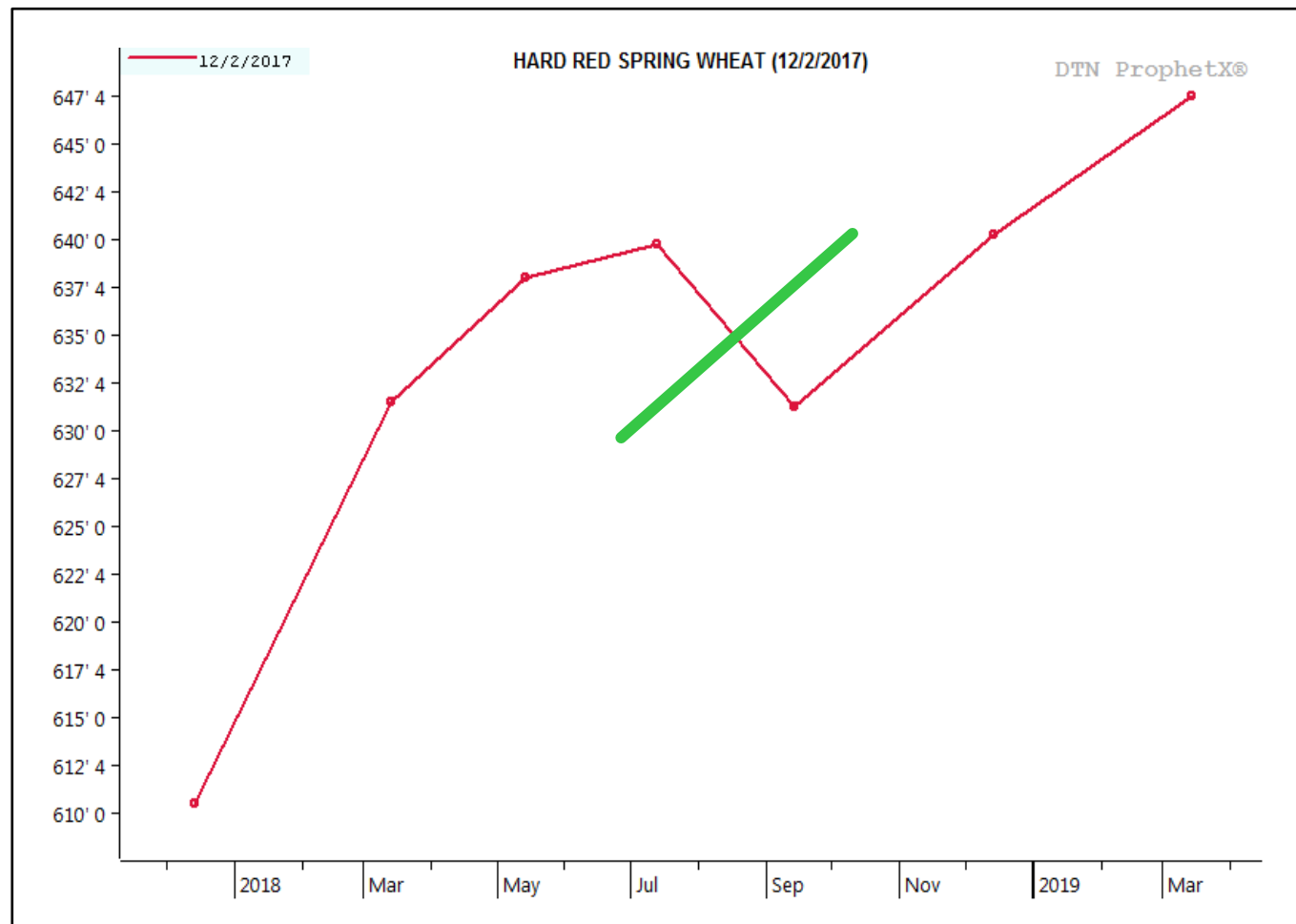
Late MY strength is seen both 4-year and 10-year seasonals.

USDA's inability to calculate supplies, demand, ending stocks.

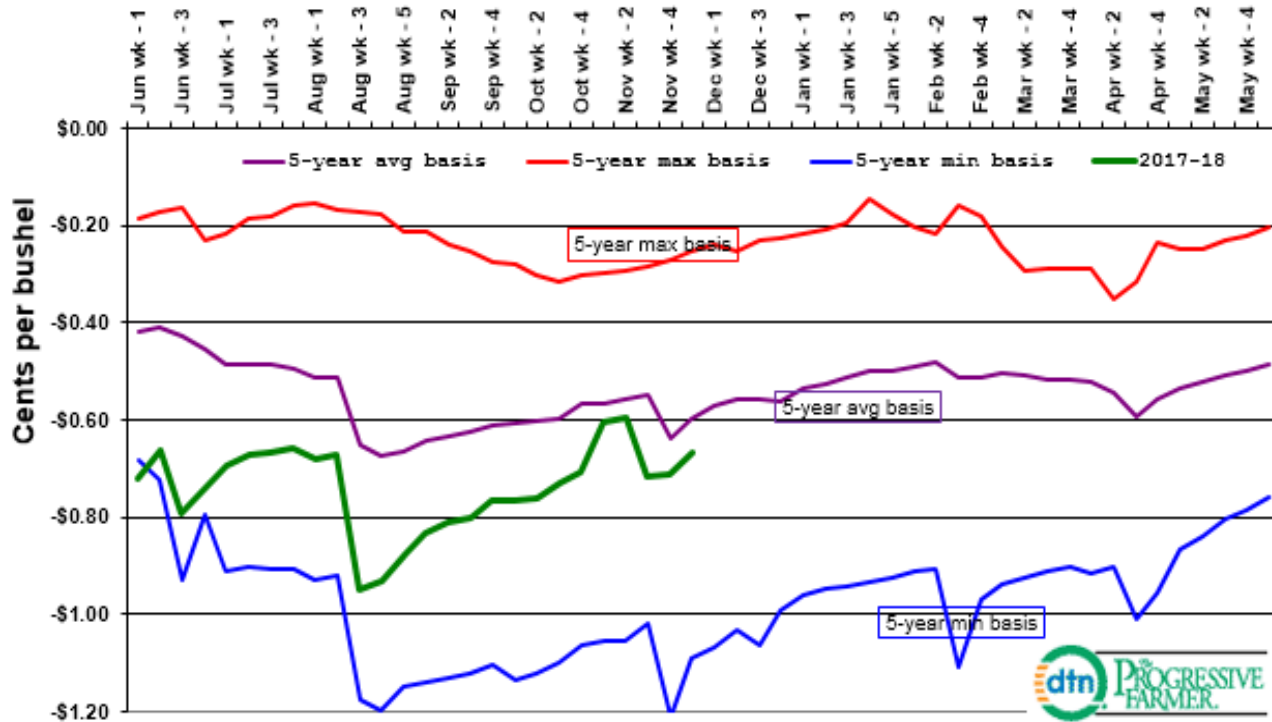
Deferred spreads not bearish yet.







HARD RED WINTER WHEAT NATIONAL AVERAGE BASIS: DTN Index - front month Kansas City futures



Strong carry in forward curves of all three futures markets.

National average basis for HRW (largest class grown in U.S.) still lags 5-year average, but is closing the gap.

Fewer planted acres, continued low futures price, etc.

Basis tends to peak in mid-February vs. March futures contract.

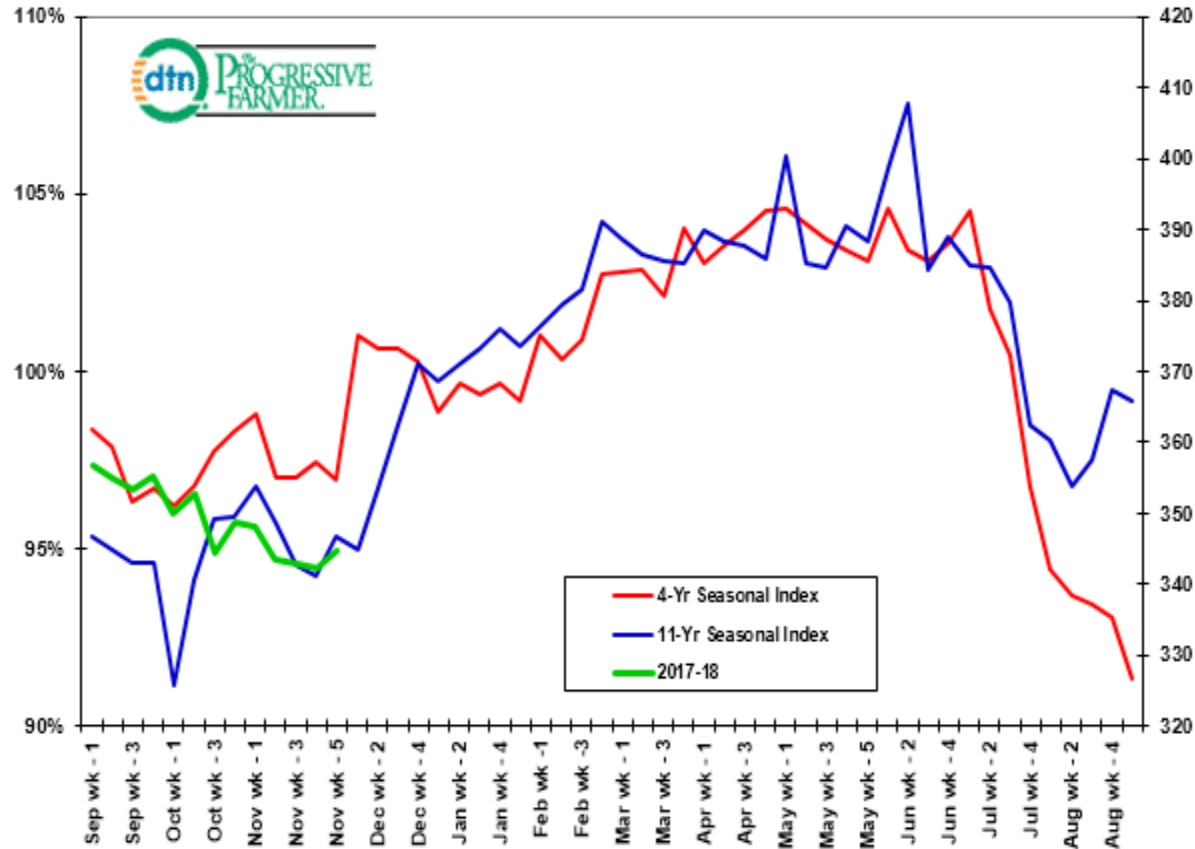
Variable Storage Rates on its way



What's in Store?

- **I sold my 2017 production as cash, to stop storage payments, and re-owned with call options. Will this strategy pay off through the summer of 2018?**

CORN FUTURES WEEKLY SEASONAL INDEX



Corn Futures Seasonals:

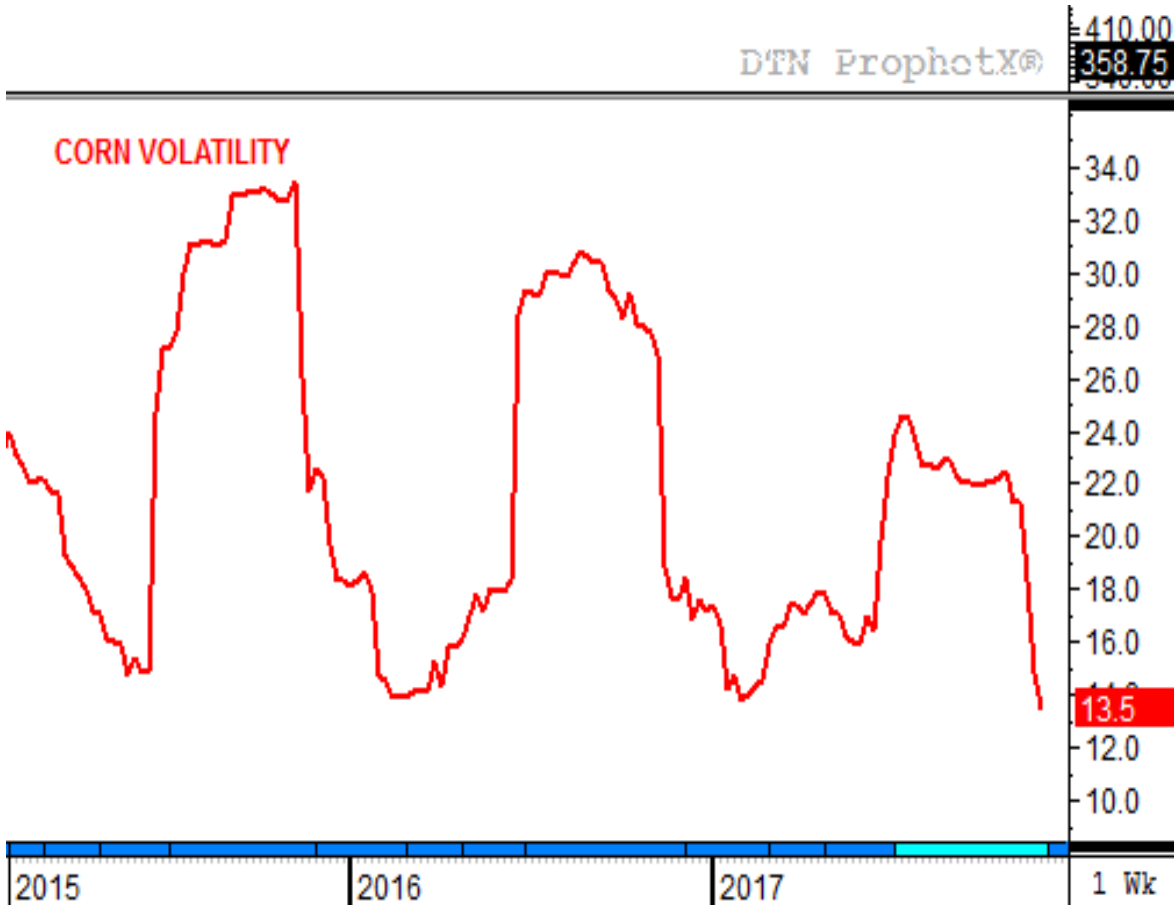
4-year study (red line)

9% price increase from early Oct through early June

**Late Nov low Dec corn ~
\$3.40 * 9% = \$3.70**

**Dec-to-July spread ~ 30
cts**

**“Down Escalator”
market expected**



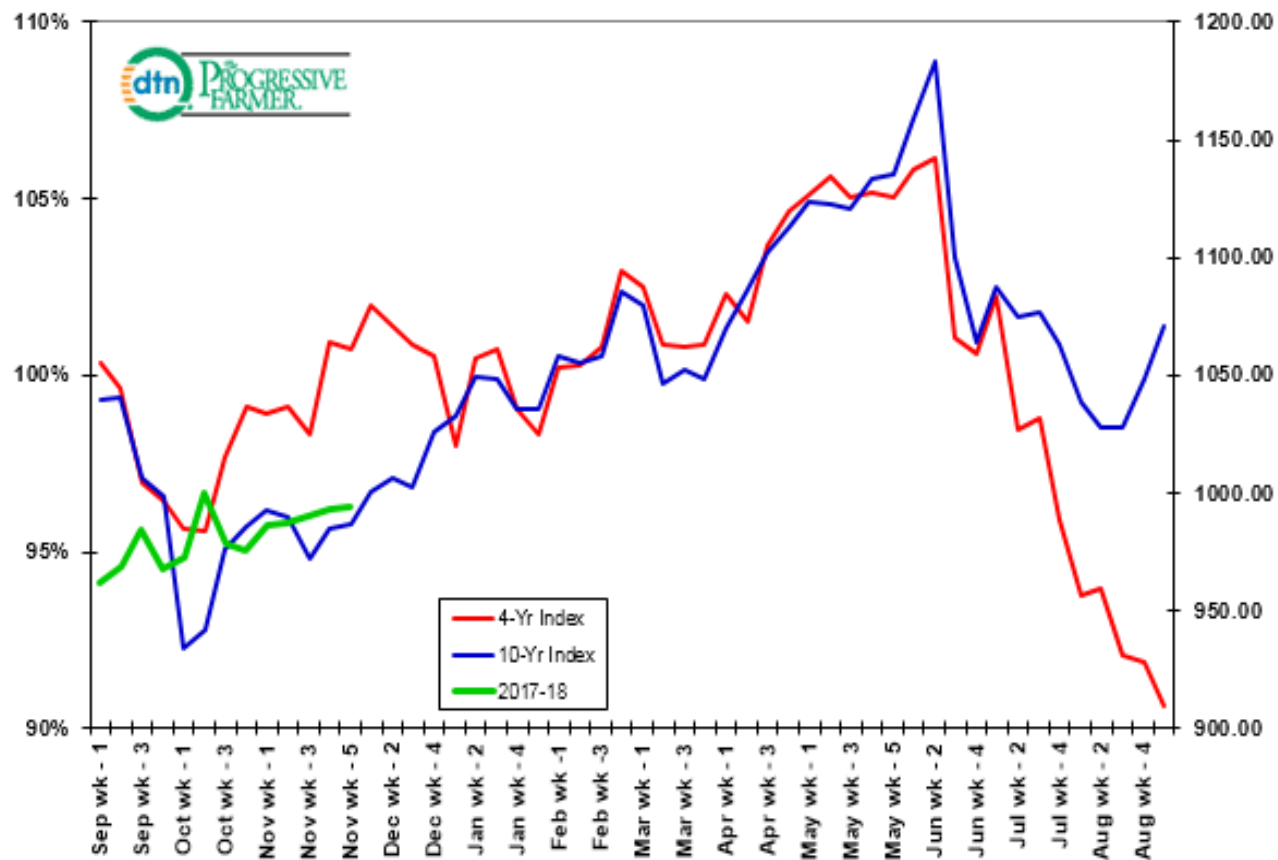
Corn Market Volatility:

Tends to bottom out in Jan/Feb timeframe.

Increase through June on weather.

Could lead to some call option appreciation, but remember “Down Escalator” market from before.

SOYBEAN FUTURES SEASONAL STUDY



Soybean Futures Seasonals:

4-year study (red line)

10% price increase from mid-Oct through mid-June

Jan beans moving to new contra-seasonal low ~ \$9.90 ~ \$10.90

Jan-to-July spread ~ 30 cts

July beans could rally ~ \$0.70

27-Nov-2017

◆ SIV.X

La= 12.52

NC= 0.45

SOYBEAN VOLATILITY INDEX



Soybean Market Volatility:

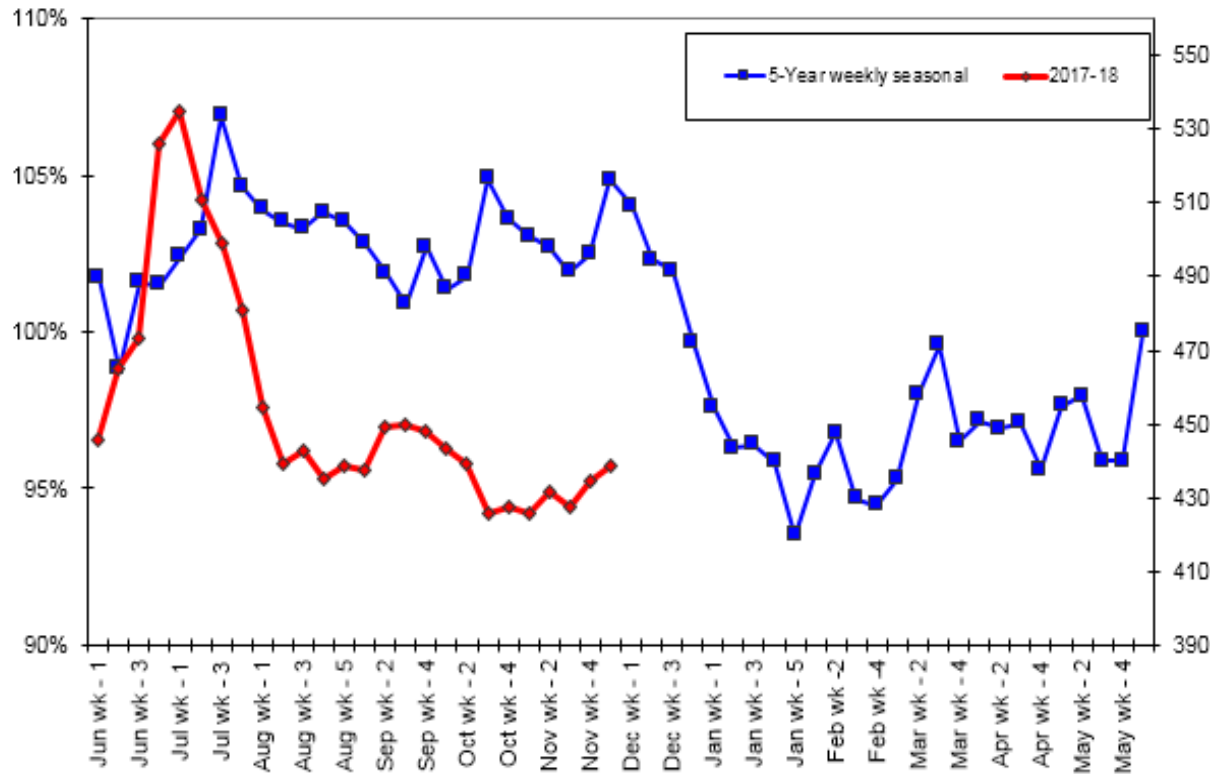
Tends to bottom out in
February.

Increase through June
on weather, tightening
USDA ending stocks
projections.

Solid likelihood of call
option appreciation.

Recall that deferred
2017-2018 forward
curve is not bearish, as
of early December 2017.

5-YEAR CHICAGO WHEAT WEEKLY SEASONAL INDEX



This shows the trend of the front-month futures contract (red line) as it relates to the 5-year seasonal tendency (blue line).

Winter Wheat Futures Seasonals:

5-year study (blue line)

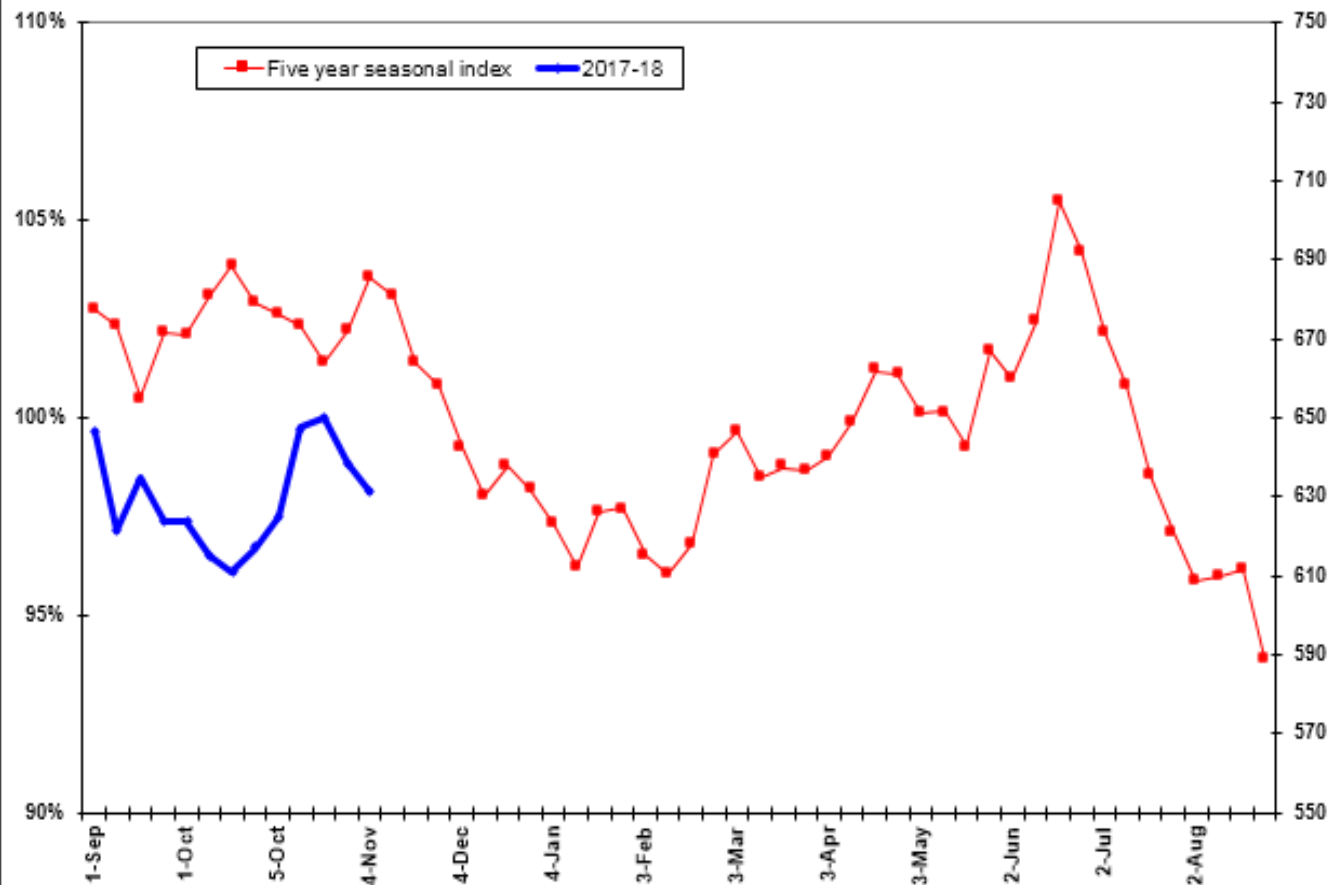
11% price decrease
from late November
through late January.

Dec Chi Wht ~ \$4.10
* (-11%) = \$3.65

Mar Chi Wht ~ \$4.30

Largely a sideways
move from late
January through late
May

MINNEAPOLIS WHEAT 5-YEAR SEASONAL INDEX



**Spring Wheat
Futures Seasonals:
5-year study (blue
line)**

**8% price decrease
from late November
through late January.**

**Dec Mn Wht ~ \$6.10
* (-8%) = \$5.60**

Mar Mn Wht ~ \$6.27

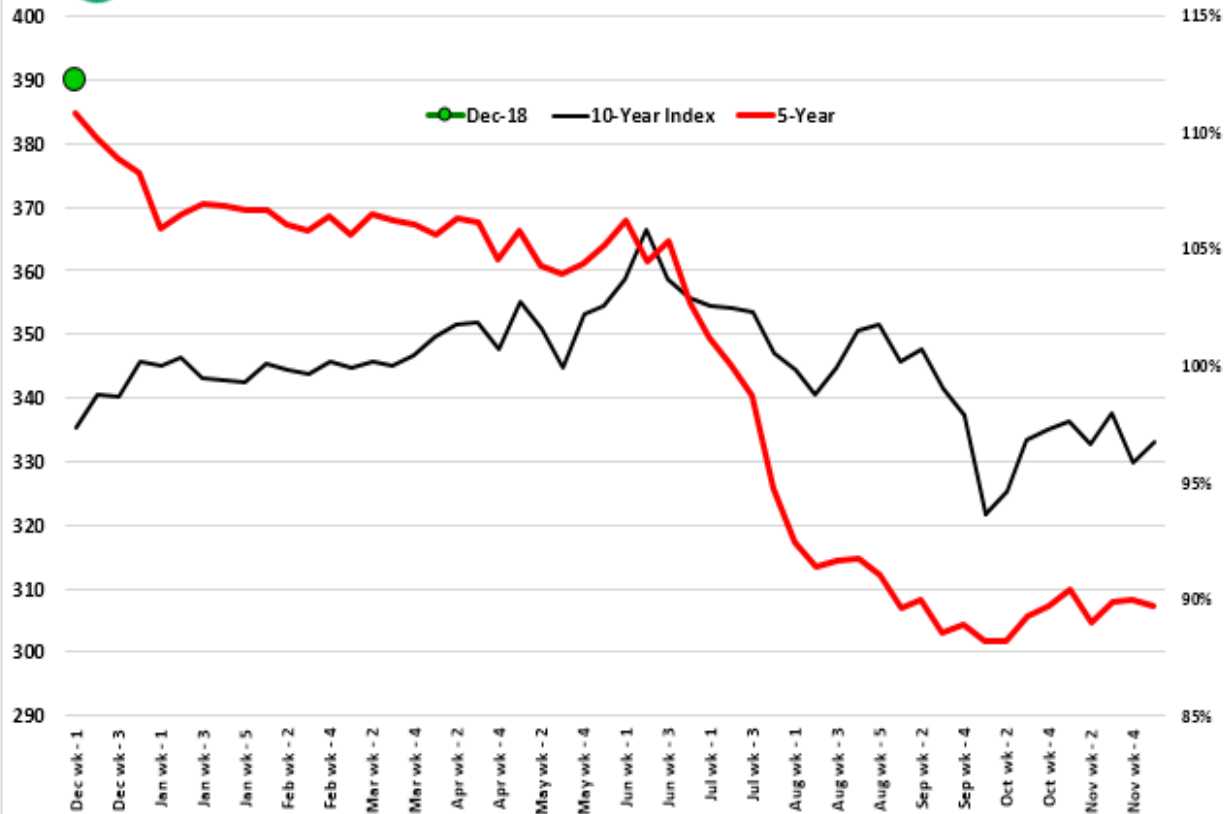
**9% price decrease
from late Jan through
late June.**

**July futures high ~
\$6.10**

What's in Store?

- **What are the prospects for a seasonal rally in new-crop futures?**

DEC CORN SEASONAL PATTERNS



New-Crop Corn Futures Seasonals:

5-year study (red line)

23% price decrease from first week of Dec (this wk) through mid-Oct.

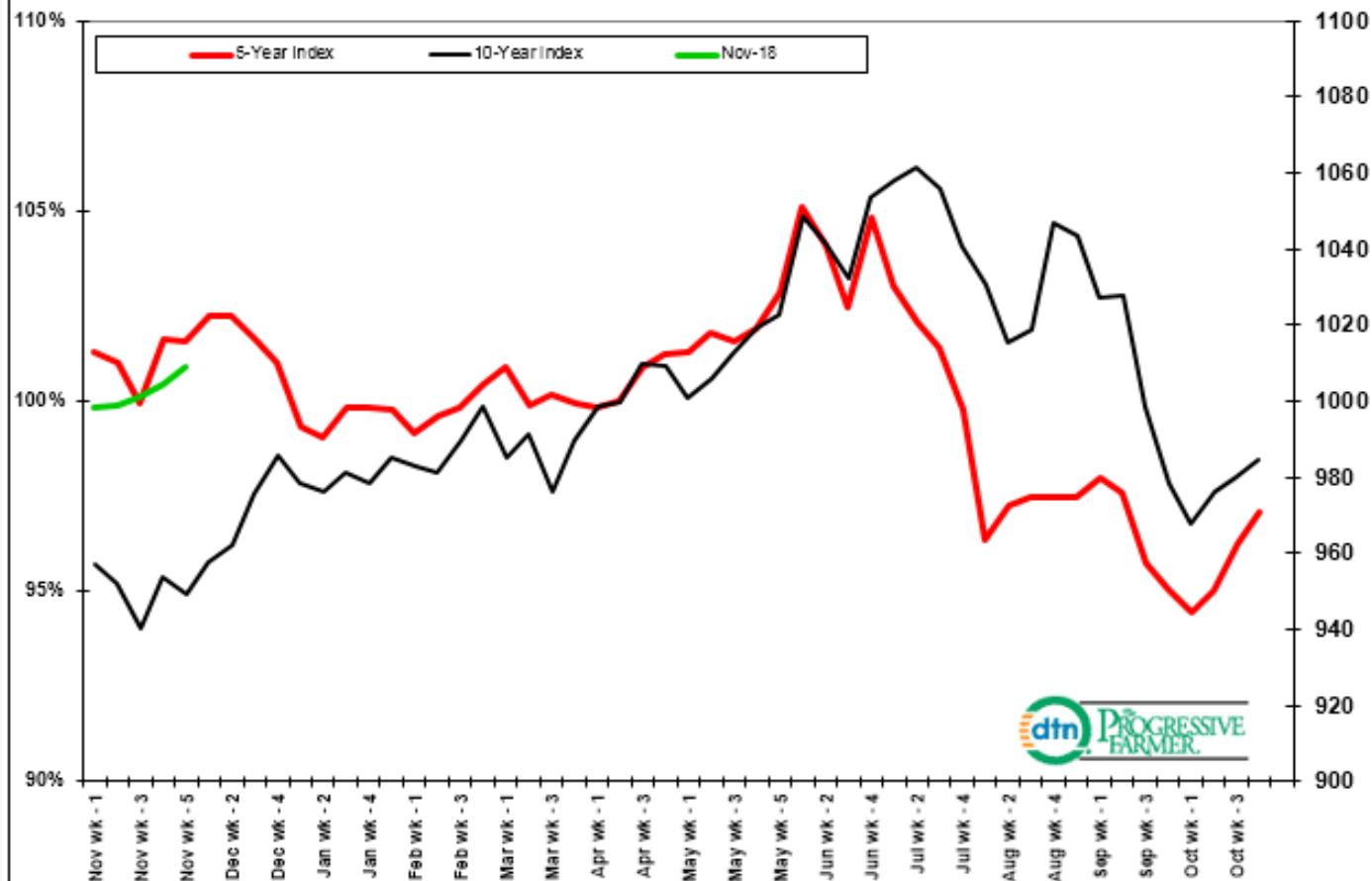
Dec 18 corn ~ \$3.90
 $\$3.90 * (-23\%) = \3.00

Largest beginning stocks in 30 years.

More acres expected.

Hard to generate a weather market.

NOV SOYBEANS SEASONAL INDEX



**New-Crop Soybean
Futures Seasonals:
5-year study (red line)**

**6% price increase from
early Jan through early
June.**

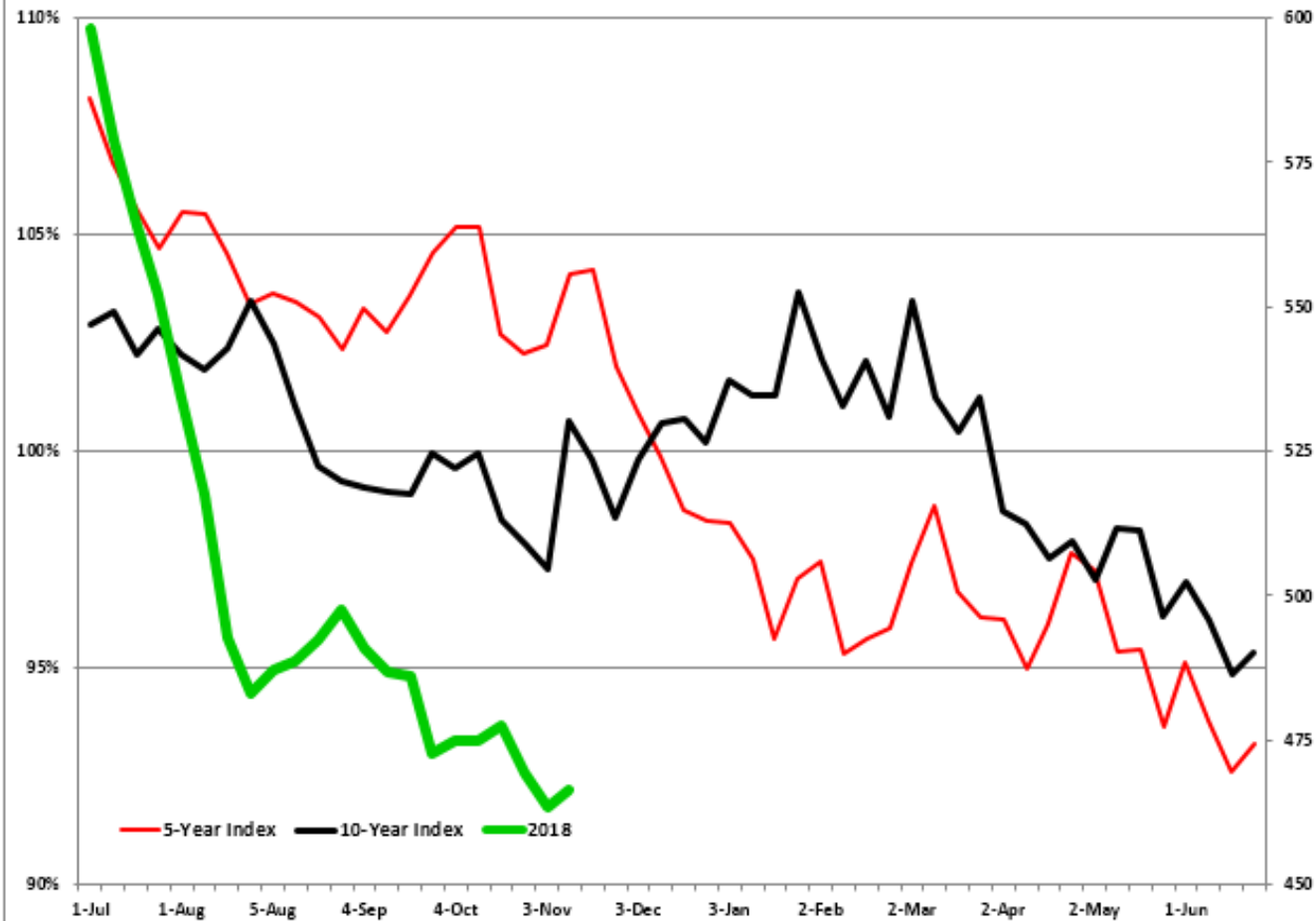
**Nov 18 soybeans ~
\$10.05
Down to \$9.85 by early
Jan, up to ~ \$10.45.**

**Largest beginning stocks
since 2006-2007.**

More acres expected.

**Hard to generate a
weather market.**

JULY KANSAS CITY WHEAT SEASONAL INDEX



**New-Crop KC HRW
Futures Seasonals:**

**Good thing the U.S. is
planting more acres...**

**5-year index (red line)
shows a downtrend
from early July through
end of next June.**

**New-crop futures tend
to lose 15%**

**July KC has already lost
24%**

What's in Store?

- **Given “what’s in store”, both as a statement and a question, is there any hope for 2018?**

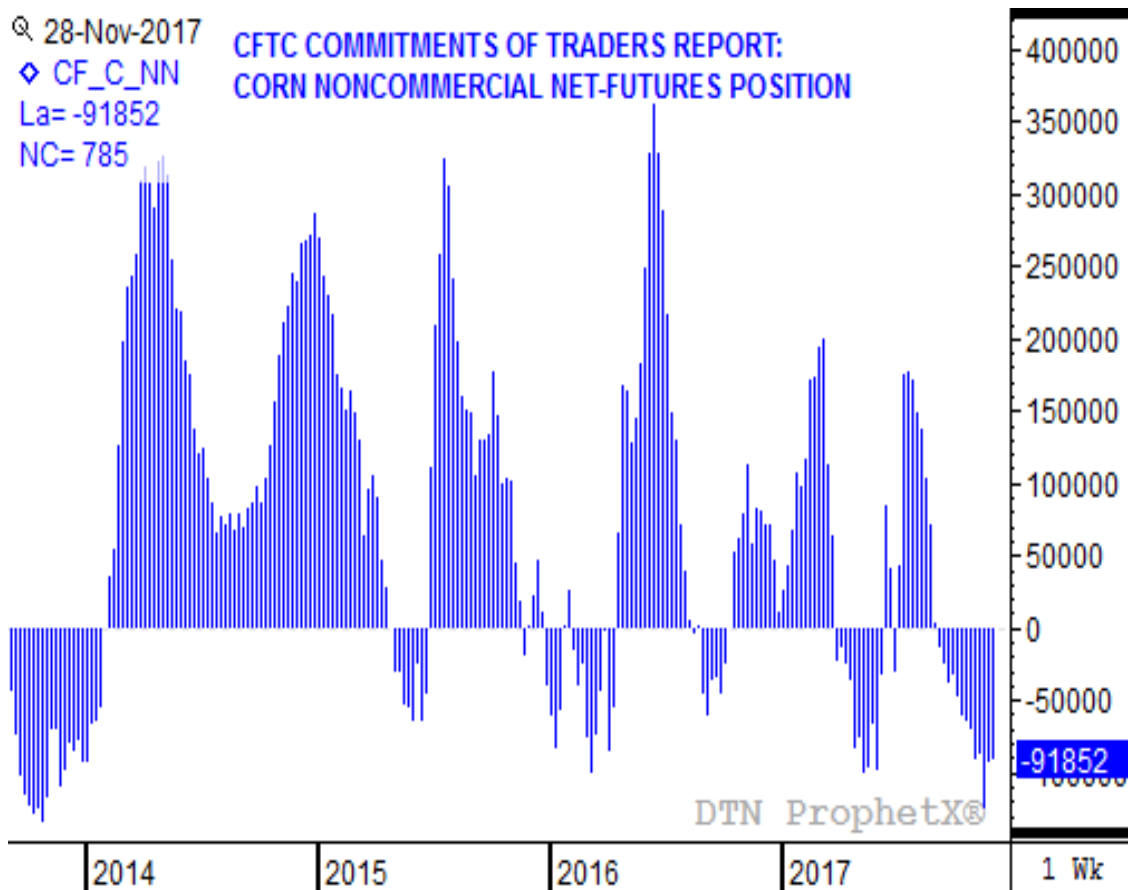
28-Nov-2017

CF_C_NN

La= -91852

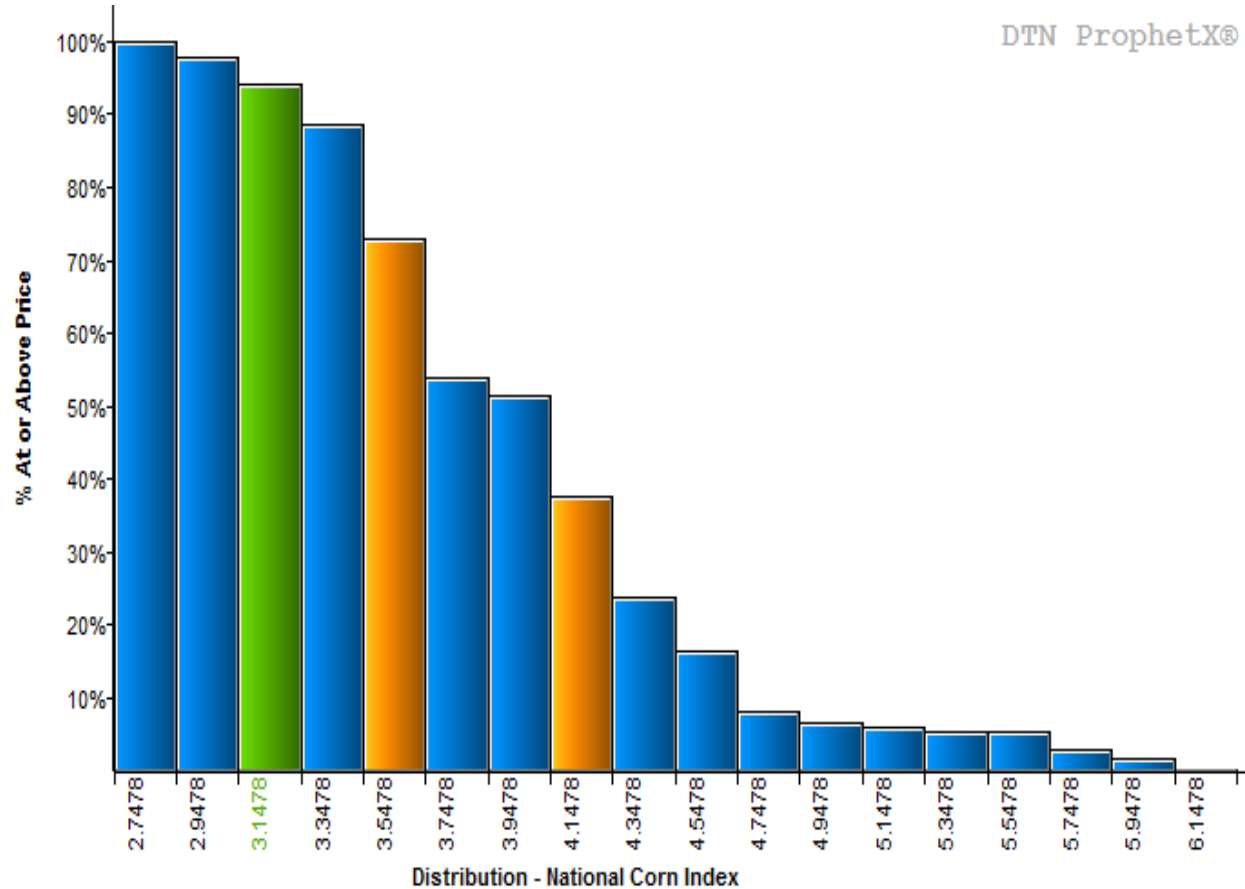
NC= 785

CFTC COMMITMENTS OF TRADERS REPORT: CORN NONCOMMERCIAL NET-FUTURES POSITION



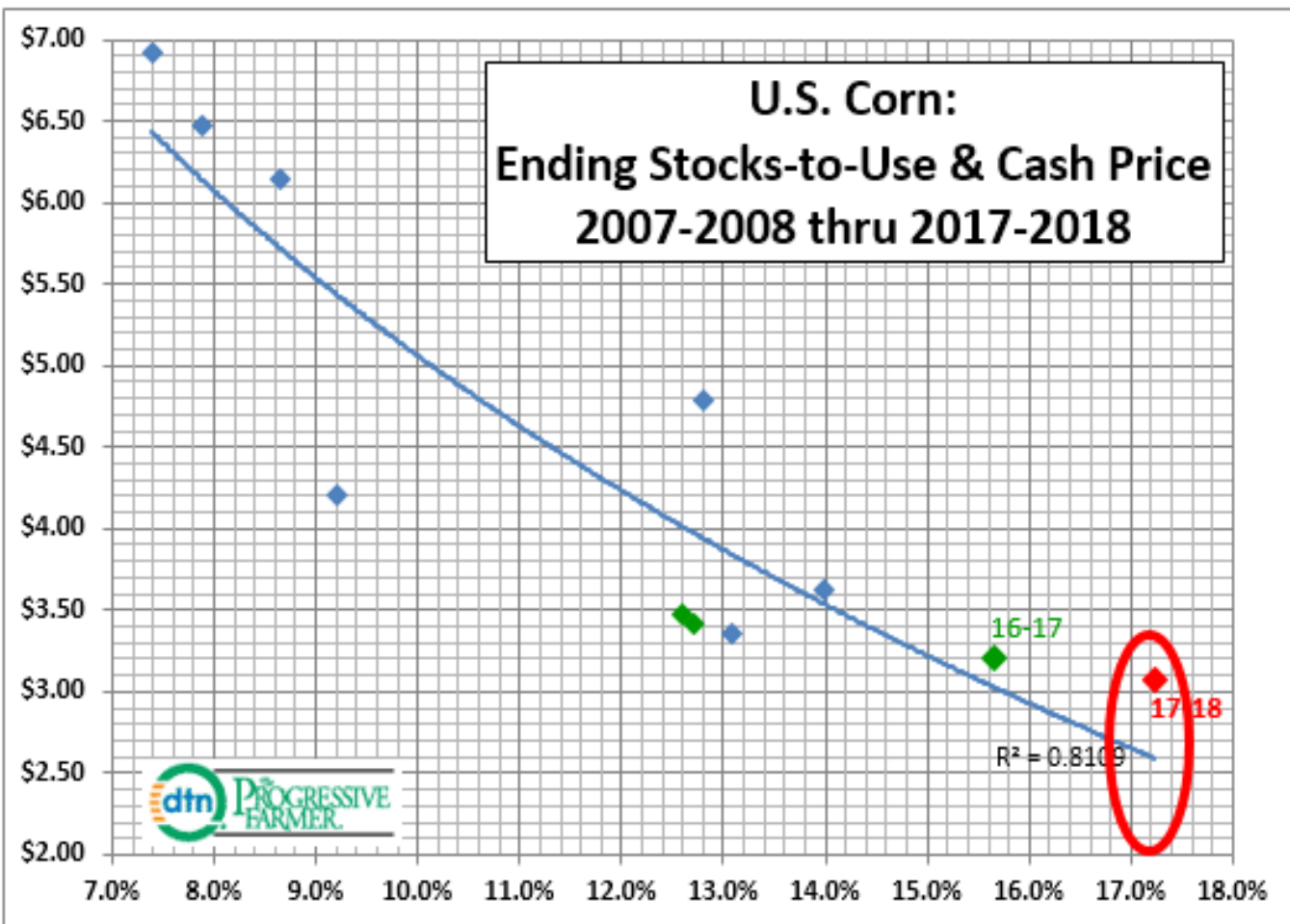
Based on weekly CFTC Commitment of Traders data (legacy report, futures only) , noncommercial interests continue to hold a large net-short futures position in corn.

If this group sees a change in long-term fundamentals, or starts to view corn as undervalued, it could lead to a short-covering rally.



Is cash corn undervalued?

The DTN National Corn Index (national average cash price) is priced in the lower 6% of the daily distribution range dating back to the beginning of corn's demand market, September 1, 2006.



Nov 17-18 ES/U = 17.2%

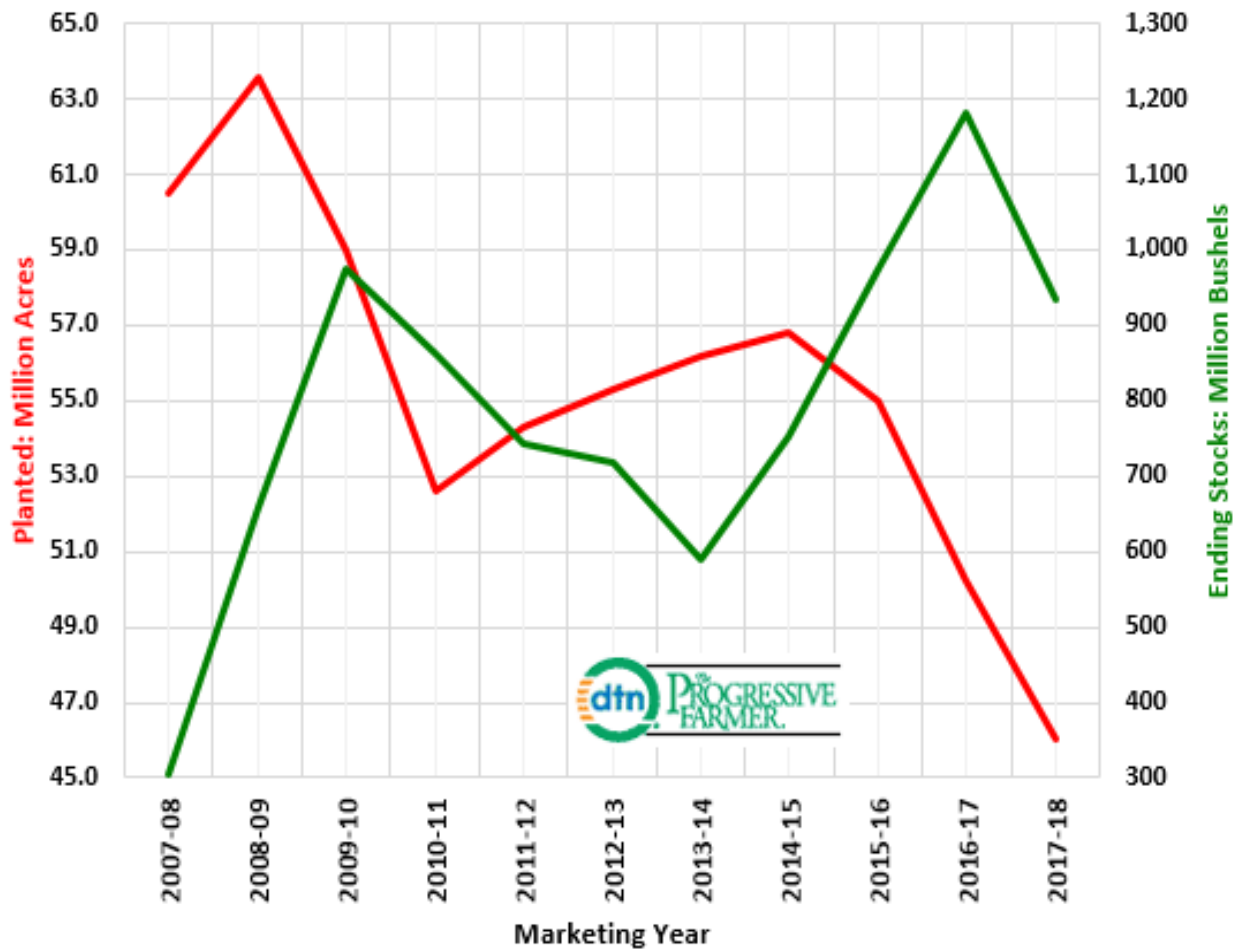
Trendline Avg \$ = \$2.60

10-yr range to trend:

High ~ \$2.90

Low ~ \$2.15

NCI.X Avg Daily \$ = \$3.06



**US Wheat Planted Acres
continue to decrease**

**2016 winter wheat
plantings (2017 crop):
The smallest in roughly
100 years.**

**2017 winter wheat
plantings expected to be
even smaller than
previous year.**

**Starting to see a
reduction in ending
stocks.**

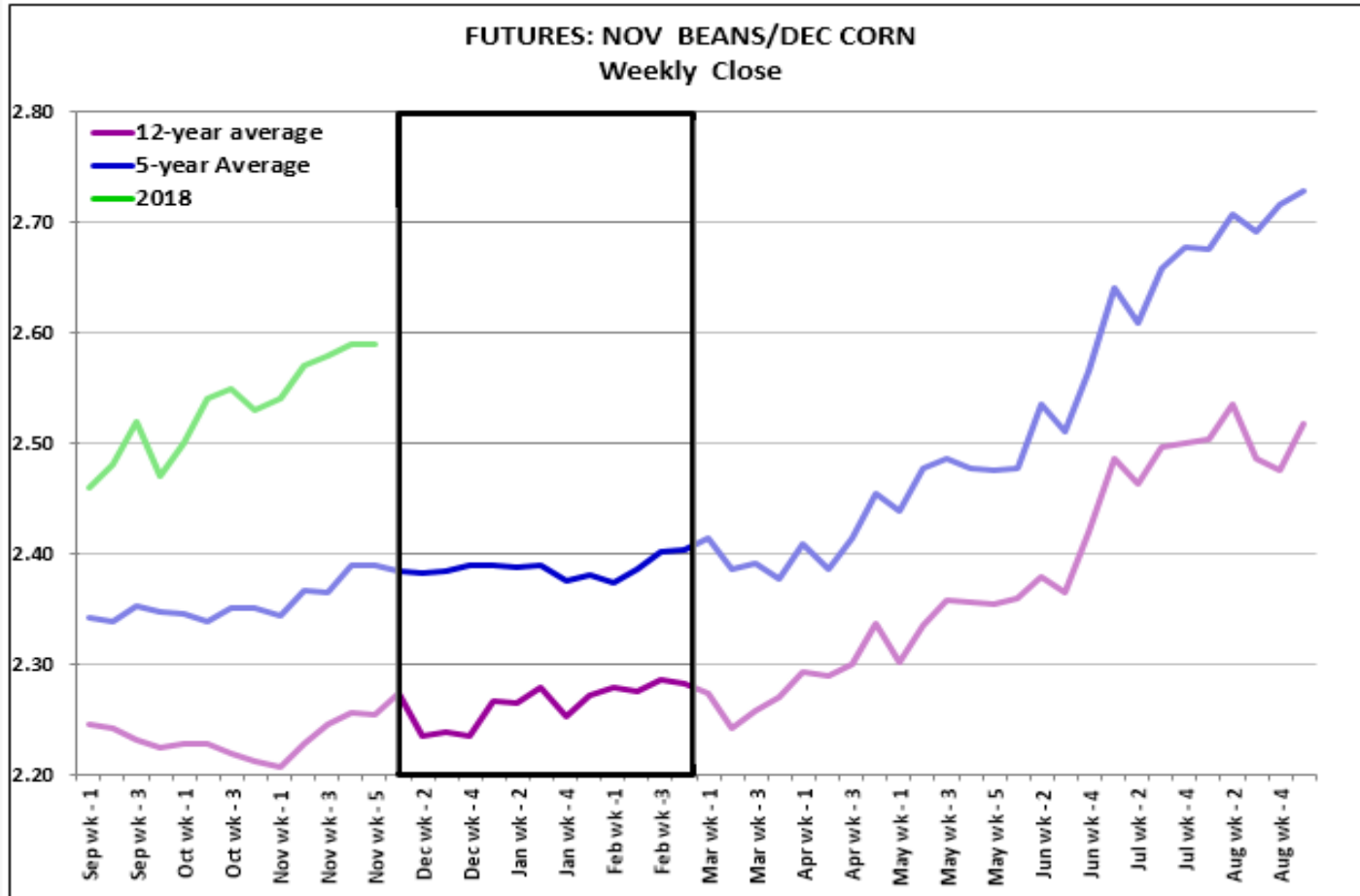
A model for corn?

Planted Acres "Phil"-osophy

		Corn	Planted	Acres		Soybean	Planted	Acres
	Shadow	Prev Yr	Curr Yr	% Change		Prev Yr	Curr Yr	% Change
2006	Yes	81.8	78.3	95.7%		72	75.5	104.9%
2007	No	78.3	93.5	119.4%		75.5	64.7	85.7%
2008	Yes	93.5	86	92.0%		64.7	75.7	117.0%
2009	Yes	86	86.4	100.5%		75.7	77.5	102.4%
2010	Yes	86.4	88.2	102.1%		77.5	77.4	99.9%
2011	No	88.2	91.9	104.2%		77.4	75	96.9%
2012	Yes	91.9	97.2	105.8%		75	77.2	102.9%
2013	No	97.2	95.4	98.1%		77.2	76.8	99.5%
2014	Yes	95.4	90.6	95.0%		76.8	83.3	108.5%
2015	Yes	90.6	88	97.1%		83.3	82.7	99.3%
2016	No	88	94.5	107.4%		82.7	83.4	100.8%
2017	Yes	94.5	90.4	95.7%		83.4	90.2	108.2%



Sir Soybeans Overthrows King Corn?



Nov Beans/Dec Corn:

Heading into winter at 2.59:1
Well above the 5-year avg

2017 acres (until Jan report):
Corn 90.4 ma
Soybeans 90.2 ma

Will 2018 be the year
Sir Soybean overthrows
King Corn?

What's in Store?

- **If you remember nothing else from this presentation, always recall that I answered this question with: “Hope is a 4-letter word.”**

What's in Store for 2018

- HRW Wheat, with fewer acres, is showing a long-term uptrend and could prove to be a model for corn.
- Oilseeds, led by soybeans, are showing signs of a bullish breakout as winter begins. Strong global demand remains the key.
- Partners, global trade that is, could be blowing smoke with talk of losing faith in the U.S. as a supplier. If the U.S. dollar falls, money trumps all.
- Eventually, markets will turn up. After all, grains in general are priced in the lower percentages of recent (10-years or so) price ranges. This could be enough to attract increased buying interest.

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Questions?

For More Information

- Visit: dtnpf.com
- Twitter: twitter.com/DarinNewsom
- Email: darin.newsom@dtm.com

THANK YOU

