

Corn Techno-Fundamental Update

Aug 16, 2021

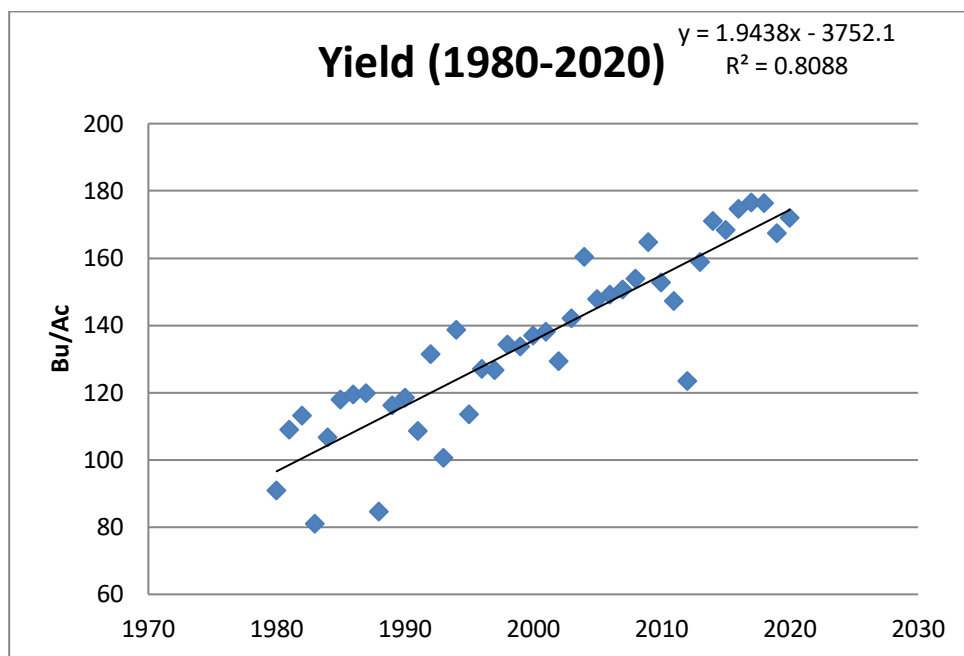
Nearby futures rallied from \$5.45 at the open on April 1 to \$7.75 at the May peak. That was a 42% gain! Old crop has been consolidating ever since. On the fundamentals side, USDA has tightened old crop projected ending stocks to 1.117 billion bushels. We see little to disagree with in the old crop balance sheet, +/- 25 mbu in residual use or exports depending on the shipping pace in late August. New crop is a different story, and the focus of the SRR.

Brugler Corn S&D Projections	USDA	USDA	USDA	A	USDA	A	A	A
8/16/2021			Aug	Best Fit	Aug	Bullish	Best Fit	Bearish
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2021/22	2021/22
Planted Acres	88.9	89.7	90.8	90.8	92.7	92.7	93.2	93.6
Harvested Acres	81.3	81.3	82.5	82.5	84.5	84.5	85.3	85.7
Yield	176.4	167.5	172	172	174.6	172	176	180
Carryin (Sept 1)	2140	2221	1919	1919	1117	1118	1118	1118
Production	14340	13620	14182	14184	14750	14530	15020	15428
Imports	28	42	25	25	25	25	25	25
Total Supply	16509	15883	16127	16128	15892	15673	16163	16571
Feed & Residual	5429	5903	5725	5700	5625	5625	5650	5675
Food/Seed/Ind	6793	6282	6510	6510	6625	6625	6625	6625
Ethanol	5378	4852	5075	5075	5200	5200	5200	5200
Domestic Use	12222	12185	12235	12210	12250	12250	12275	12300
Exports	2066	1778	2775	2800	2400	2400	2450	2500
Total Use	14288	13963	15010	15010	14650	14650	14725	14800
Carryout	2221	1919	1117	1118	1242	1023	1438	1771
Stocks/Use	15.5%	13.7%	7.4%	7.5%	8.5%	7.0%	9.8%	12.0%
Farm Price	3.61	3.56	4.40	4.40	5.75	5.95	5.50	5.10
Dyn. Poly Range HI			6.37	6.37	7.40	7.95	6.92	5.97
Dyn. Poly Range LO			3.52	3.52	5.01	5.06	4.87	4.71
Big 3 Rng (\$3.89) High			6.87	6.87	8.22	8.42	7.97	7.57
Big 3 Rng (\$3.89) Low			2.98	2.98	4.33	4.53	4.08	3.68
Max Range \$4.45 High			7.85	7.85	9.20	9.40	9.72	8.55
Max Range \$4.45 Low			3.40	3.40	4.75	4.95	4.27	4.10
Appx Current Futures			5.65	5.65	5.69	5.69	5.69	5.69
MY High to Date	4.6425	4.025	7.75	7.75	NA			NA
MY Low to Date	3.355	3.01	3.43	3.43	NA			NA
MY Range	1.2875	1.015	4.3175	4.3175	NA			NA
Percent of Poly Rng			74.6%	74.6%	28.3%	21.8%	40.0%	77.5%
Percent of Big 3 Rng			68.6%	68.6%	35.0%	29.8%	41.4%	51.7%
Percent of Max Rng			50.6%	50.6%	21.1%	16.6%	26.0%	35.7%

The right most white column reflects USDA's first official NASS production forecast and the associated WASDE revisions for 2021/22 in white. We have three alternative scenarios to the right with the green background. First the white: USDA's ending stocks figure was 28 mbu smaller than trade average estimates at 1.242 billion bushels. They got there via a 415 million bushel reduction in the crop estimate from last month, alongside price rationing cuts to exports (-100 mbu) and Feed & Residual use (-100 mbu). At their 8.5% stocks/use ratio, our Dynamic range model suggests the futures trading range between September 1, 2021 and August 31, 2022 would be \$2.39, wider than the 1980-present average, but much tamer than observed in the year winding down (\$4.32!). Keep in mind that this starts

September 1, so would ignore any remaining August price moves. The projected 12 month range for front month futures using USDA's \$5.75 cash average would be \$5.01 to \$7.40.

Current December futures @ \$5.68 3/4 are getting cheap (28% of range) if USDA's S&D and cash price prove to be correct in the long term. Last week's rally was primarily due to USDA's lower than expected national average yield of 174.6 bpa vs. expectations of 177.4 bpa, tempered by USDA's price rationing adjustments on the demand side.



The middle green column on the table is our working number, or best set of guesses based on current information. We believe that the June Acreage report understated total corn/soy acreage, leaving too many in the Prevented Planting category. With a dry spring and rapid planting pace, not to mention the highest prices since 2013, PP acres will be minimized. The August 12 FSA report put PP at 2.038 million acres, down from 8.99 million in August 2020 and 10.22 million in January. We're going to be conservative and add 500,000 acres to Planted. With the highest prices in years, we're assuming a bias toward harvesting corn as grain instead of silage wherever possible. Thus, we've hiked harvested acres 800,000 vs. NASS. As shown in the trendline yield plot, US national average yield is currently rising at a 1.94 bpa per year rate. Similar conditions will result in higher national average yields this year than they would four or five years ago. With this week's Brugler500 Index of 360, a simple plot vs. trend adjusted yield would put the national average yield around 177.3. In our Best Fit, we're allowing for a little further deterioration. We're slugging in 176. This is NOT our official VCT yield forecast, which we expect to release on Wednesday.

The 270 mbu higher production assumption does allow for a little lower cash average price, along with larger exports of 2.45 billion bushels and a more comfortable 9.8% stocks/use ratio.

At our current monthly sales weighting the average for the year would be \$5.50, which is 30 cents higher than we thought back in May. If that price accurately describes the final S&D in August 2022, our polynomial range model suggests futures prices of \$4.87 to \$6.92 for the September-August marketing

year. The current price is only in the 40th percentile, leaving room for a decline into harvest lows, or later on if the market rations use early. The other two green columns show the impact of an even lower final yield (Bullish column) or the combination of additional final acres and a record high yield (Bearish column). We find that 180 bpa is still within 1 standard deviation and could be reached in 2/3 of the years from where we are today. It would probably require some widespread 2+” rain totals for the last half of August across the bulk of the Corn Belt, coupled with a late fall to avoid the “nicks & cuts” of frost and freeze damage.

What do you do here?

AMP clients are 100% cash sold on old crop from higher levels. We have forward contracts on more than half of expected new crop production, consistent with our Three Buckets formula. We are reluctant to price additional new crop December corn until a little more is known about US production and the full size of Chinese and other export demands. With the 40 cent per day trading limits, and 60 cent expanded limit, you can lose a lot of money in a hurry. Some minimum price contracts or options spreads are feasible for bushels you want to hold into 2022.

Alan Brugler

P.S. These Techno-Fundamental tables are updated at least monthly and sometimes weekly. They are always available to those viewing our monthly Ag Marketing Strategy Group webinars and are updated in real time for those clients with our ChartBook I or II service enhancements. Call the office at **402-697-3623** for access information.

AMP customers are always welcome to call to discuss your personal pricing options, whether futures, cash, basis or “other”.

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