Hello Colorado Wheat.

Last week I wrote about the coming USDA reports “Actually, there’s a pretty good chance this data will NOT be market moving, but what fun would that be?”

That’s exactly what happened. All of the reports were bland. I get the feeling commission house futures’ brokers, and possibly even real famers are long corn and beans, hoping for a big breakout to the upside, but while the Friday reports were not super bearish, they were definitely not friendly. Thus the Market Bulls are reduced to hoping for bad planting weather this spring/summer, or some major breakthrough in the USA-China trade negotiations. While either of those could happen, neither happening has the higher probability.

The risk is…our old friend Gravity takes over, and we know where that leads.

Last week I also wrote, concerning my Export Pace Scorecard, “I don’t see any reasons from this table to make me expect the USDA to change their 2018/19 USA wheat export projection.” That proved true. The USDA did not change their USA wheat export forecast. Here’s an updated look at the table:

THIS WEEK’s (01/31)	Weekly loadings	Accumulated in season (estimate)	USDA projection	Amount needed	# of weeks remaining	Bu per week needed
HRW	2.972	163.6	320.0	156.4	17	9.20
HRS	4.148	167.0	300.0	133.0	17	7.82
2 WEEKS AGO (01/24)	Weekly loadings	Accumulated in season (estimate)	USDA projection	Amount needed	# of weeks remaining	Bu per week needed
HRW	7.966	160.6	320.0	159.4	18	8.86
HRS	3.197	162.9	300.0	137.1	18	7.62

And here we see the issue. We’re running out of time, and inspections, especially of HRW, for the week ending Jan. 31, were not good at all. To hit the USDA’s 320 million HRW export forecast for 2018/19, we would need to load 3x what we loaded in the Jan. 31 week for the next 17 weeks straight. HRS needs to do about double for the next 17 weeks.

Houston, and Portland… we have a problem.

IF wheat export loadings don’t substantially increase SOON, for CONSECUTIVE weeks, the USDA will have no choice but to drop their USA wheat export forecast in one of the next 3 WASDE updates.

Charts and discussions follow, with the goal of giving you useful information to help you with your business. My disclaimer remains the same: these are my sometimes rapidly changing opinions, but I believe you should: 1.be willing to store your wheat, 2. apply 30# of N at planting, and if it’s a wet spring, re-apply 30# 3. don’t sell your wheat unless you have discussed protein premiums

Admittedly, my table is based on AMS data, not FAS data, which has not yet caught up to reality (and the possibility is the Gov goes out on shutdown again next week, but surely cooler heads will prevail. Well probably...). Anyway, the possibility exists I'm way too low on my numbers, but…I doubt it.

This is a bearish development. We'll see AMS data tomorrow; rumors indicate the USA Gulf had a big HRW week.

Let's look at the Winter Wheat Seedings report and compare it to the Informa data I extensively covered last week, when I wrote "That's about a 10% drop in acres in Kansas and Colorado, which seems fairly drastic to me."

planted acres						informa	USDA 02/08/19
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20**	
KS	9,600	9,200	8,500	7,600	7,700	6,984	7,200
CO	2,750	2,450	2,350	2,250	2,250	2,081	2,250
NE	1,550	1,490	1,370	1,120	1,100	1,059	930
OK	5,300	5,300	5,000	4,500	4,400	4,592	4,200
TX	6,000	6,100	5,000	4,700	4,500	4,364	4,500
SD	1,210	1,420	1,180	910	830	890	800
ND	870	200	130	70	85	91	110
MT	2,500	2,350	2,250	1,750	1,650	1,933	1,800
CA	490	450	425	385	380	418	330
total	30,270	28,960	26,205	23,285	22,895	22,413	22,120

The USDA numbers show about a 5% drop in KS and CO. These numbers are survey based and will be revised in May. Overall, Informa did a pretty good job though, and I don't see a reason to change their bottom-line on expected wheat production, which called for about a 70 million bushel increase in HRW, and a 40 million bu increase in HRS. Yields are key, and I lean towards spring wheat acres will be higher than Informa thought, especially if the Trade Negotiations spiral downward.

Grain stocks led the USDA to reduce their wheat as feed, seed and residual category by 30 million bushels, which went directly to this year's expected carryout, now expected to be over a billion bushels. And probably growing, based on the export pace discussion.

Increased 2018/19 USA wheat carryout, expected increase in USA 2019/20 wheat production, and flat at best wheat exports, year-on-year, and more than likely a big increase in world wheat production in 19/20…all set the stage for wheat prices grinding lower, unless…we get a surprise Russian drought, or back-to-back Aussie droughts.

I'm no Nostradamus, but that's the way I'd bet.

SO, when I look at this weekly long-term continuous KC wheat chart, with KC Dec'19 overlaid in blue:

My best guess is the disappointing export picture causes old-crop futures to take out the dotted uptrend line, and prices sink to longer-term red line support at $4.75, and KC Dec'19 then goes there.

Here's a KC March old-crop futures closer look:

KC March wheat needs to hold now, this week. Like, right now. Actually, this Friday's close is all that matters. Tomorrow's AMS data, if the big export rumors are true, should help. If the rumors turn out to be a bust, we're heading lower, and KC Z, will follow, unless we get an unforeseen world production problem.

The weekly futures table shows what happened when the 11/23 week rolled off the table:

CLOSE	KWH19	KWN19	KWZ19	CH19	CN19	CZ19	W**H**19	MW**H**19	MW**Z**19	S**H**19
02/08	**$4.94**	**$5.09**	**$5.37**	**$3.74**	**$3.90**	**$3.99**	**$5.17**	**$5.69**	**$5.93**	**$9.15**
02/01	$5.09	$5.26	$5.50	$3.78	$3.95	$4.02	$5.24	$5.76	$6.03	$9.18
01/25	$5.10	$5.29	$5.55	$3.80	$3.97	$4.03	$5.20	$5.75	$6.01	$9.25
01/18	$5.06	$5.25	$5.53	$3.82	$3.97	$4.04	$5.18	$5.74	$6.05	$9.17
01/11	$5.05	$5.26	$5.54	$3.78	$3.94	$4.02	$5.20	$5.70	$6.01	$8.99
01/04	$5.06	$5.28	$5.57	$3.83	$3.98	$4.04	$5.17	$5.70	$6.03	$9.10
12/28	$4.96	$5.20	$5.50	$3.76	$3.91	**$3.98**	**$5.12**	**$5.51**	**$5.86**	**$8.96**
12/21	$5.03	$5.26	$5.55	$3.79	$3.94	$3.99	$5.14	$5.61	$5.95	$8.98
12/14	**$5.18**	**$5.39**	**$5.67**	$3.85	**$3.99**	**$4.04**	$5.30	**$5.84**	**$6.12**	$9.14
12/07	$5.12	$5.32	$5.62	**$3.86**	**$3.99**	$4.03	**$5.31**	$5.82	$6.09	**$9.29**
11/30	$5.00	$5.22	$5.50	$3.78	$3.92	$4.00	$5.16	$5.76	$6.10	$9.08

That's right. Because the 11/23 week rolled off, which included the red KC H number of $4.86, last Friday's $4.94 became the new red number.

What does that mean? It means on a Friday close, either it holds as support, or it it's not going to hold, sell-stops will appear and trigger.

IF KC at -24 under Chicago holds, then Chgo H wheat will go test support at $5.12; if the spread support (KC-Chgo) can't hold, KC will head lower independently. This is KCH – Chgo H:

I lean towards Chgo support caves in too.

Another bearish way I'm leaning is short KC Z19-KC H20, as I expect deferred carrying charges to continue to develop and widen wheat calendar spreads.

KC Z'19 came in to only a 9c discount to KC H'20. That's only 3c/month storage. Since I'm bearish based on new-crop fundamental expectations, although admit there's a chance of world problems, this seems like a decent way to be a Bear Spec. This is KCZ19-KCH20, now at -11:

That implies I think we will eventually see the VSR mechanism reverse itself and increase storage. I think that will happen on the KC N-U (July-Sept), also shown, now at -11, after fading from a bulled-up hope for a wild report at -7.

And we're maybe seeing the Gulf bids retreat, with more coming. Remember I've shown many historical basis charts, which are all higher than "normal". If we get a wet spring, with big yields, and guys don't put the N to it in a big way, leading to a low pro crop…the basis charts will not be pretty.

GULF

date	12 pro	ords	diff
2/8/2019	158	138	20
2/1/2019	160	145	15
1/25/2019	152	132	20
1/18/2019	141	125	16
1/11/2019	139	122	17
1/4/2019	141	122	19

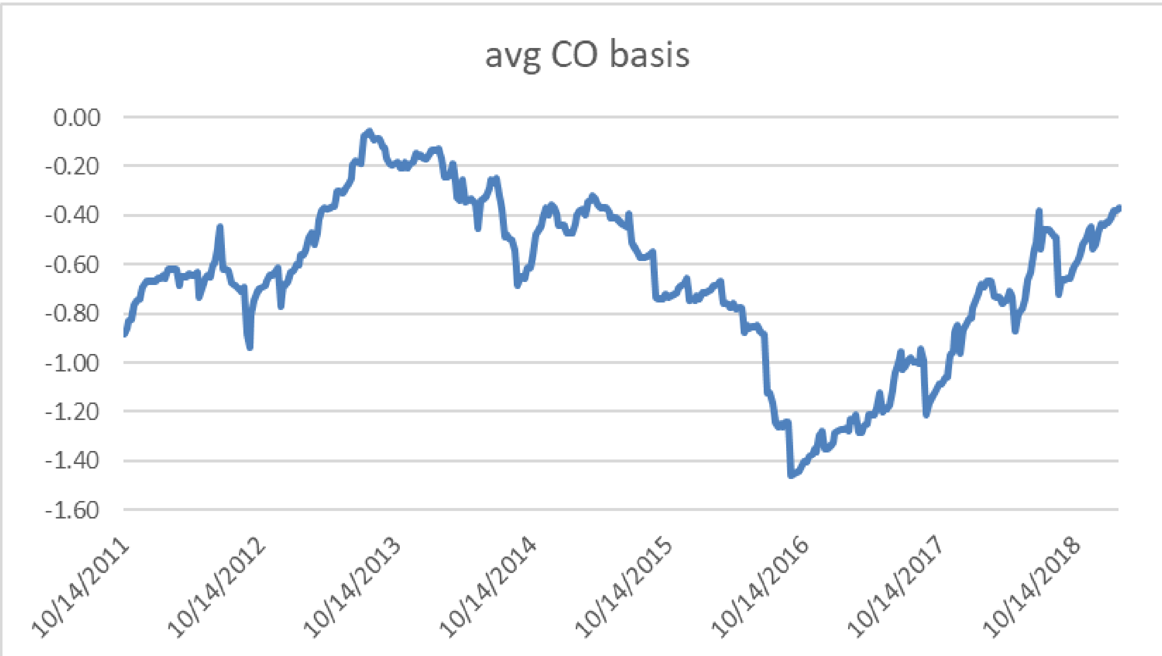
The bids in the country firmed a bit in many spots, but I feel that's mainly responding to the previous Gulf basis strength. The Gulf is still sitting on a not quite a 20c bump, and these bids have captured only about a nickel of it. (some have captured a dime.)

Date	**SE Colorado**	**Chey. Wells**	**Burlington**	**Holyoke area**	**Roggen area**
02/08	**$4.14-$4.64**	**$4.74**	**$4.49-$4.54**	**$4.33-$4.65**	**$4.84-$4.84**
02/01	$4.29-$4.79	$4.89	$4.51-$4.69	$4.48-$4.75	$4.99-$4.99
01/25	$4.30-$4.75	$4.87	$4.64-$4.70	$4.49-$4.70	$4.97-$5.00
01/18	$4.26-$4.66	$4.83	$4.51-$4.61	$4.43-$4.66	$4.93-$4.96
01/11	$4.25-$4.65	$4.80	$4.49-$4.60	$4.42-$4.65	$4.85-$4.85
01/04	$4.26-$4.66	$4.81	$4.51-$4.61	$4.43-$4.66	$4.85-$4.86
BASIS	**SE Colorado**	**Chey. Wells**	**Burlington**	**Holyoke**	**Roggen area**
02/08(H)	**-80, -30**	**-20**	**-45, -40**	**-61, -29**	**-10, -10**
02/01(H)	-80, -30	-20	-58, -40	-61, -34	-10, -10
01/25(H)	-80, -35	-23	-46, -40	-61, -40	-13, -10
01/18(H)	-80, -40	-23	-55, -45	-63, -40	-13, -10
01/11(H)	-80, -40	-25	-55, -45	-63, -40	-20, -20
01/04(H)	-80, -40	-25	-55, -45	-63, -40	-20, -20

Date	**Concordia**	**Salina**	**Hutchinson**	**Wichita**	**Ark City**
2/08(H)	**-20**	**-10, -10**	**-29, -10**	**-13, -08**	**-15**
2/01(H)	-25	-15, -10	-34, -10	-18, -10	-15
1/25(H)	-25	-15, -13	-34, -10	-18, -10	-20
01/18	-25	-15, -13	-34, -10	-18, -10	-20
01/11	-25	-20, -15	-34, -10	-18, -10	-20

01/04(H)	-25	-20, -15	-34, -15	-18, -15	-22

Ok, here's an updated average Colorado basis chart. The current average is -37. You can see at -20, upside is very extremely limited…



So if I thought KC Z'19 was headed to $4.75, and if I thought the basis had 30c downside, then that would put, oh, say Burlington (area), late next fall bidding $4.05 vs $4.54 this week.

So that's about 50c/bu downside, with a high probability, ALTHOUGH…if we get a Russian killer wipeout drought, like 2010, then the futures would pop $5.00.

So 50c downside, with a very high probability, vs $5.00 upside, with a very low probability is my scenario.

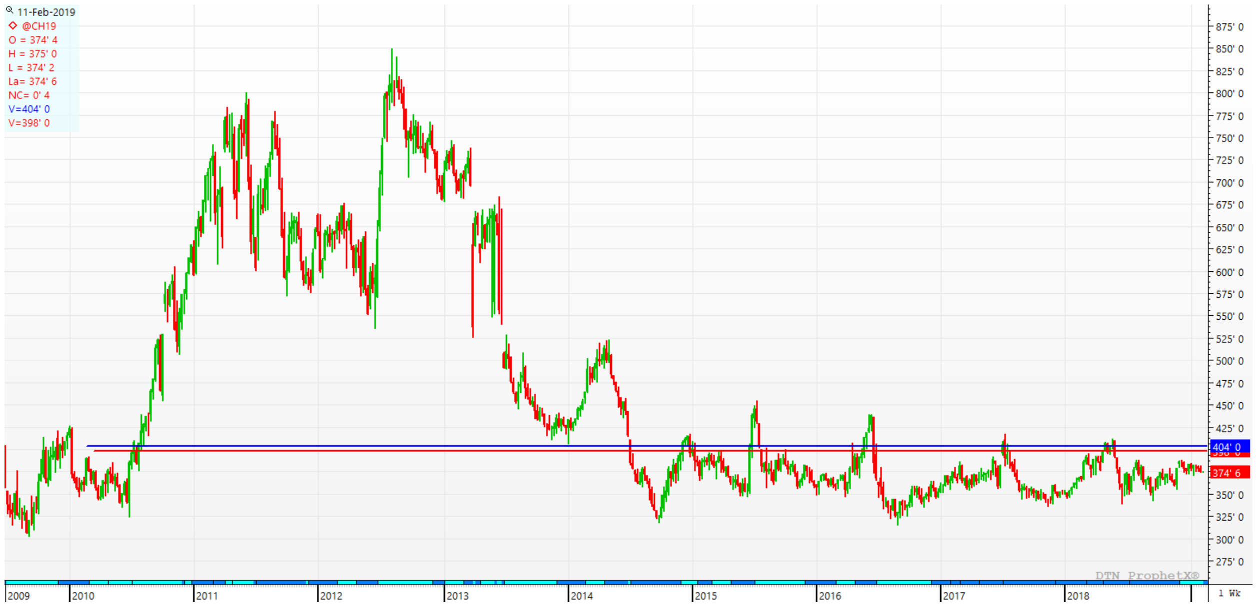
For even Nostradamus, that's fairly specific about where I think we're headed.

A look at corn from the futures table on page 4 shows a new red number, like KC wheat, which means sell-stops will appear when "the Funds" are pretty sure a Friday will close below that. The USDA did indeed drop their final yield by 2.3 bu/ac to 176.4, resulting in a 200 million bu drop in production, but they also cut their demand. Feed usage dropped by 125 million bu, and ethanol usage slipped 25 million bu. The 50 million reduction in this year's carryout wasn't viewed as "enough", especially as South American weather seems a little wetter, AND…if we're planting 5% less wheat in The States overall, does that mean we're shifting those acres to corn? Or soybeans? If Trade Negotiations don't work something out with China, it might not be more beans get planted.

This is a Dec'19 corn chart. (Ok, I widened the scale to emphasize my point…) which is it's bounded by $4.04 to $3.98. !!

That's crazy.

Here's a long-term weekly continuous corn chart with the same blue line at $4.04, and same red line at $3.98:



Similar to wheat…50c or so down side, almost surely coming, with a $4.00 upside, that not quite impossibly could come.

Huh, how about it depends on the weather…(?)

Beans, sitting on an 80c bubble, that will absolutely collapse if Trade Negotiations don't "Make a Deal"

But, but, but… have way way way…more upside than downside, if things were only "normal" again.

Unfortunately, “normal” seems a long way away.

Next time you see me, and Burlington, CO bids are $4.05/bu, you can call me Nostradamus. In the meantime,…

Have a good week.