INSIDE THIS ISSUE:

"WHERE FARMERS FUEL AMERICA"

PUBLICATION #29 MAY, 2020

There is little doubt by definition that we are headed toward a recession. By definition, a recession is more than 2 months of negative economic growth. Since 1980, there have been 4. A depression is a long lasting recession, last seen in the 1930s that lasted 10 years. All recessions and extreme grain price moves have been tied closely to the price of oil and Government intervention in an attempt to prevent a looming financial disaster. There are many parallels we are running currently with the start of the great depression. Many economists believe that the great depression could have been avoided with significant infusions of new money...sound familiar.

https://www.history.com/topics/great-depression/great-depression-history

It was historic when there were 15 million unemployed during the great depression with a population of 122 million. If you were not a farmer, the unemployment rate was closer to 40%. Today, there are 30 million unemployed and rising.

Today, everyone is focused on ending this self induced recession quickly. Today, the world runs according to fast food economics. We expect immediate action when money is given or received. But, history would tell us that while economic falls may be immediate, economic recoveries are usually anything but, and the reality of this has yet to sink in.

Do you believe that we are poised for a recovery anytime soon? Ask yourself these questions.

-When I go to the store, do I find myself thinking that I can do without an item or less of something?

-Do I think that if I wait a while, some of the things I want to buy will be cheaper?

-Am I socking away cash for a rainy day?

-Are the things I have good enough for now?

-Do you find yourself willing to do a job yourself?

-Has your focus moved from making money to saving money?

Most of our mindsets already indicate that a recession is being made through our present and future planned actions and a quick recovery is not likely. Are you going to be the first to run out and do things just like you were 3 months ago? Would they let you? Probably not.

Are all jobs in the U.S. being cut due to required closures? No. Some jobs are being cut in anticipation of a recession. Some jobs are being cut to change the way business will have to be conducted in future. Some jobs losses are convenient timing, easier to blame on a world wide pandemic than having to admit to adding too much fat in recent years. For whatever the reason, it is unrealistic to think that where 30 jobs may be cut, 30 will be hired again...my guess is half, and months from now.

But that is the least of our worries as previously bankrupt States barely running on a shell game of cash flow and higher taxes are now *really* broke. The U.S. Government at some point will have to cease the bailouts. Governments will not be able to support its obligations and that eventually takes wealth directly from the people to reset the Government as it defaults on what it owes to its citizens...pensions, bonds, services, etc.

Current falls in the price of livestock and commodities are more pronounced in our fast food economy. Within hours of a person not ordering at the drive thru, it backs up the food chain all the way to the farm as just-in-time processing and inventories designed to minimize production costs and provide the freshest foods have little tolerance for short term supply/demand changes. You know this as it has made every major news channel for once. But that is just going to be the start as long term, commodity prices have already sunk to future expectations where farm income does not exist. We are planting for a fast food economy next year with little indication that is in the cards. Farmers are placing a bad bet, going long when the market is already indicating that their commodities are not wanted. Our mindset is much the same and why oil prices recently traded into the negatives. Funds are not that short in the market, only about a third of the historical max. We have the potential to move much lower yet when logistics rule.

Recent slowdowns have brought back a remembrance of a time when things were not so busy and not so crowded. People would get in a car just to drive around and see what's new. Going to town for groceries was planned for once/week. Businesses were closed on Sunday. You butchered your own animals. It predated the fast food economy and ran to a slower beat...but we needed much fewer Ag products then. Production ag can only go back to that era if enough farmers go broke in the process.

On many levels, I can see where we've lost quality for quantity in this fast food economy. There is little quality found at the speaker of a fast food restaurant. Those few in Agriculture that have avoided the fast food economy, the same ones told that they must get progressive to survive in modern Ag, have found themselves uniquely positioned to survive this. Which one are you? If the questions on page 1 were your mode of operation, before, now, and after; that's you.

Poet's Futures Only type programs lean toward risk management of price. While they may not hit the highs when prices are on the rise, they certainly avoid the lows. Who would take some $3.75-$3.90 new crop today with corn going in the ground ahead of pace?

Market Manager:

Prog #7 vs July '20…..100% priced @ $4.01 vs $3.20 board

Prog #8 vs July '20…..100% priced @ $4.2327 vs $3.20 board

Prog #9 vs Dec '20…..53% priced at $3.89 vs $3.3725 board with additional 25% protected below $3.40

Prog #10 vs July '21…42% priced at $3.91 vs $3.63 board with additional 15% protected below $3.67

Average Price:

Prog #20 vs July '20…80.6% priced @ $3.68 vs $3.20 board

Prog #21 vs Dec '21…66% priced @ $3.7475 vs $3.3725 board

December '20 Futures declined 22 ½ cents during April closing the month at $3.37 ¼ after hitting a low of $3.25 ½. This was the 4th month in a row to see a decline in December corn futures with prices falling 65 ¼ cents over that time period.

EXPORTS: When will China step up to buy significant amounts of U.S. commodities? We've seen some buying take place, but it has been only on a small scale. China has continued to source the cheapest corn they can with decent quality. It's my opinion, that the quality of this year's corn crop has kept China from buying higher levels of U.S. corn. We're currently very competitive otherwise, but that only lasts thru June then South American values become even cheaper. If you're China, why buy today when you can buy it even cheaper a few months from now especially when there's not an immediate need for imported corn? I would also point out that Brazil and Argentina currency weakness has contributed to very high prices to the producer so they have been active sellers making supply readily available.

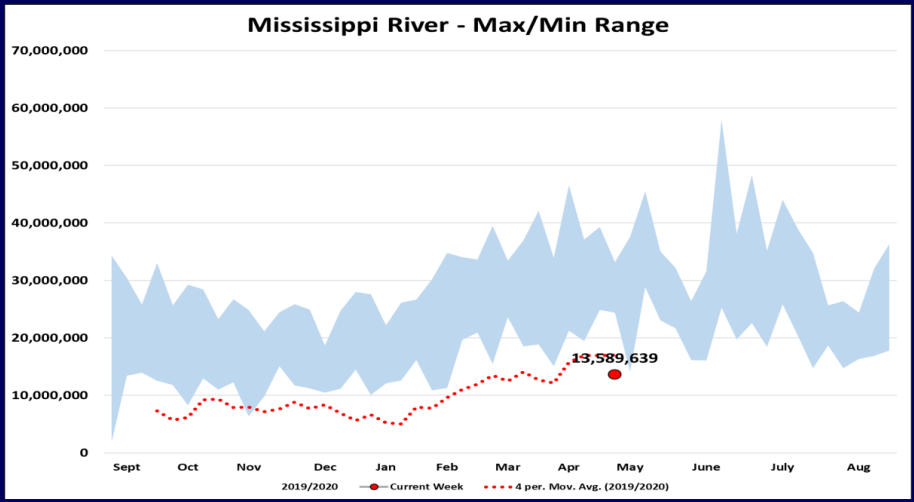
ETHANOL: With gasoline demand basically getting cut in half ethanol demand has seen a similar decline. The USDA has already reduced corn for ethanol by 375 mln bushels in the April report. We could see this number decline by another 600 mln depending on how quickly gasoline demand recovers. This is a huge problem for the corn balance sheet.

FEED: The USDA increased feed demand by 150 mln bushels in April as they adjusted for lower than expected March 1st stocks and reduced DDG feeding. As corn for ethanol decreases, we should continue to see more corn fed…however, now we face the uncertainty around getting meat and feathers slaughtered and the potential for large numbers of destroyed animals in order to avoid putting more money/feed into something that doesn't have a market or profit.

The USDA increased the old crop carryout in the April report by 200 mln bushels up to 2.092 bln. We believe, there is a chance we could see over 2.5 bln before the summer is over. As we look forward to next year, barring a crop failure it's likely that we'll see the new crop carryout swell to over 3 bln bushels. Given the poor demand scenario, large carryout, government relief programs, etc there is a tremendous amount of uncertainty in how the markets will behave going forward.

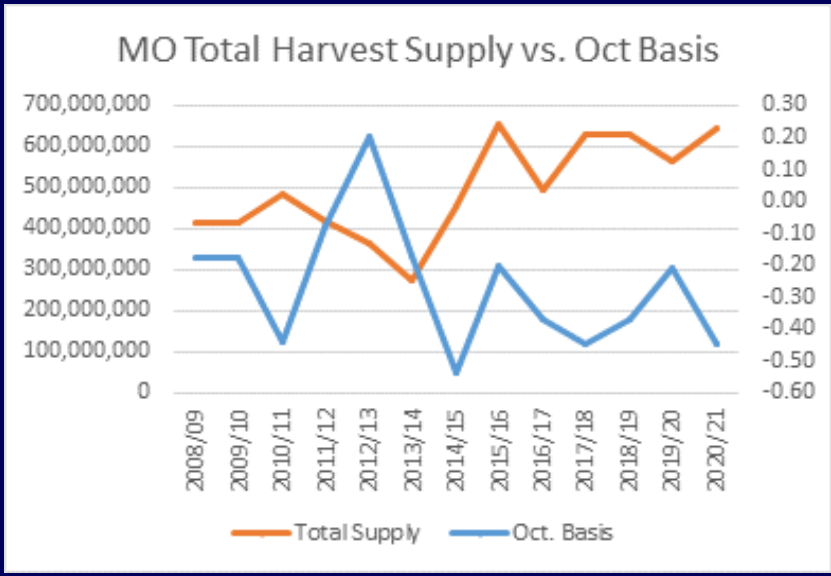
We've taken a fairly aggressive marketing approach with all of our Market Manager

NEW CROP CORN BASIS



MISS river exports continue to be less than advertised. When you combine projected carry in and expected production, we calculate a MO storage deficit of 350 million bushels. This deficit has to be shipped down the river at harvest time or crops sit in the field till space can be found. Remember fall 2017? Odds are high that we could see that type of market and logistics again.

The local market place already sees that potential. When you look at the river new crop bids, they are already a dime lower than just a month ago. As a farmer you say, "we'll I'm just going to wait it out and I'm not taking that kind of basis". However, farmers are still sitting on larger unsold old crop inventories today than ever before and very, very, little new crop has been sold to date, anywhere. Food, feed, and ethanol use continues lower in the short term. That will continue to deflate nearby basis, as eventually, it should come down to meet new crop. Between now and harvest, corn basis should steadily work some 20-30 cents lower. Our only chance between now and then is that China routinely buys grain in the summer time frame which could give the river an unexpected bounce. If so, it will be a basis opportunity that should be sold.



Farmer Spotlight Connections

"WHERE FARMERS FUEL AMERICA"

Bruce Buck Insurance—660-376-4000, Marceline, MO

Richard Gunnels—Agri-Genesis LLC, Macon, MO