May 2018 Monthly Commentary

Late month fund liquidation weighed on markets and my equity following renewed trade war fears, strong crop ratings, and favorable weather perceptions. I should've gotten out of the way sooner, especially in light of the large fund length. For the month, only Chgo and KC wheat finished with gains – 16 and 5 cents respectively. Mpls was down 3 cents with better moisture prospects weighing on HRS late in the month. Corn finished the month down 7 cents and beans were down 29. Meal took a relentless beating – down $18/ton while oil benefited and gained 47 points. While I have been beaten up over the last week, and feel like stepping aside, these markets have absolutely no risk premium built in and may be presenting big opportunities. Given the South American shortfalls in both corn and beans, along with lower than expected area in the US, we are currently pricing in record yields below $4.00 in corn and below $10 in beans. There are also weather issues in the Black Sea as well as Australia that could significantly change the situation in wheat.

Given that combined Argentine/Brazilian corn losses are 23-25 mmt, US export potential is quite strong in 18/19. Crop year exports could be anywhere from 250-450 milbus above the USDA's current forecast of 2100 milbus. The USDA was also quite aggressive on Ukraine and Russia's crop and export potential in their initial forecasts. Using the USDA acreage and yield forecasts, and assuming 18/19 exports center in around 2400-2500, US ending stocks will be in the 1200-1300 milbus range, down from 2200 this year. That's an 8-9% stocks-to-use ratio, and would be the lowest since the 12/13 drought year. I have to emphasize, that is *with* a trend yield. This is certainly possible, but historically the markets hold risk premium until there is a better idea of pollination weather. An 8-9% stocks-to-use ratio could mean $5.00-6.00 corn and even if the weather is perfect from here out, I maintain it is priced in at current levels. The market may not yet realize the export potential.

Wheat could be facing a much tighter situation this year given that Russian crop potential is diminishing. Their key winter wheat areas have been quite dry with yield prospects declining. In addition, their spring seeding is only 80% complete and essentially the window is closed. 2.6 mil hectares (6 mil acres) have not been seeded due to cold and wet weather. Currently I am comfortable using a 70 mmt Russian crop (down from 83 mmt last year), but one cannot rule out a 65 mmt crop (USDA was 72 mmt). A 70 mmt crop could lower their export potential by 8 mmt and Ukraine's exports could be down 1-2 mmt due to dry weather. The US may need to fill in for much of this shortfall given that Canada, Australia, and the EU are starting their crop years with low stocks. There is currently some concern about dryness in Australia which will need to be watched. The major exporter balance could tighten considerably going forward and the market will be very sensitive to Black Sea and Australian weather.

Beans have been hit the hardest by trade war fears, and rightly so given China's bean import program. However, I also view beans as having little/no risk premium at current levels. The trade and USDA are both underestimating US crush and exports for both old and new crop. Brazil's currency move over the last few months has incentivized a great deal of selling. Brazil has increased crush and exports due to Argentina's shortfall as well as increased China buying. We may get to a point where they have overused their record crop. In addition, Argentina's harvest is nearly complete and their producer hasn't been selling. They are importing in order to keep their crush going, but crush is still down

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considerably from last year. This should catch up to the trade soon and I expect meal will regain leadership. Given acres are down from last year and with my higher demand expectations, we will need a 51+ bu/a yield to maintain this year's stocks levels. From current levels, and at this point in the growing season, there is little downside.

If the trade war issues are not resolved quickly, we are going to be in a situation where we are trading every weather model run and every possible whim of President Trump – could make for quite volatile trade.

Regards,

Megan Bocken

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