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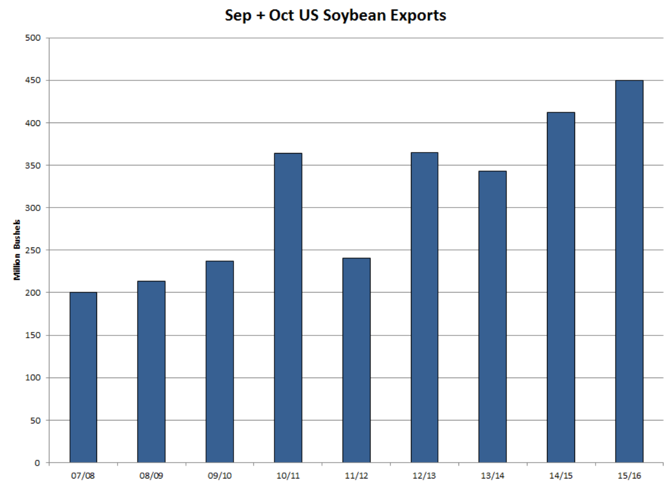
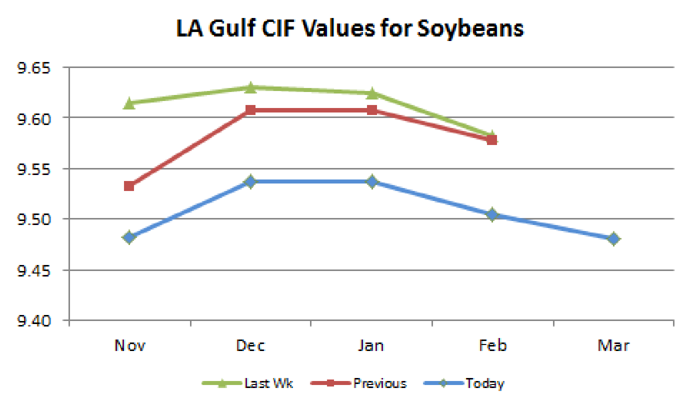
November 4, 2015
Agriculture Market Highlights:

October proved to be an especially difficult month. Since early spring, the market has been singularly focused on corn and soybean production prospects. That means most attention was spent on crop conditions and weather forecast, among a few other items. As we've moved into fall, the market is forced to transition to other areas of interest in terms of price drivers, and these might include export commitments, cash basis levels, and foreign planting prospects. The transition has not been smooth, and over the past month we've seen markets basically chop back and forth in a wide range. It has not been an easy market to navigate over the past month, and unfortunately, I'm not sure I see this choppy price action changing in the near future.



We're only two months into the 15/16 marketing year, but for now US soybean exports are off to a record pace.

Let's look back at last month's commentary and review what has changed. In last month's commentary, I made two points regarding soybeans. I pointed out that the market was understating soybean production potential and overestimating demand. It appears at this point in time that neither situation is true. Consensus on soybean yields seems to be between 47.5-48.0, which I feel is a pretty reasonable expectation based on my own crop observations. On demand, export shipments so far this marketing year have been off to a record pace. It is hard to argue, at this point in time at least, that we're still overestimating demand. In all likelihood, it now appears we could be understating demand, though admittedly it is hard to tell. Chinese buying protocol has seemingly shifted from buying deferred cargoes to spot purchases, and this is making it difficult to forecast final soybean demand.



Note the cash market for soybeans is not presently inverted, which reduces the need for buyers (mostly Chinese) to book deferred cargoes. US exporters are seeing more spot business, making projections of total demand difficult to quantify.

With all of the above in mind, I have backed off my negative thoughts towards the soybean market and have turned more neutral. In fact, for the short term I actually feel soybean prices could have some upside. The overall balance sheet remains ample and South American production appears likely to set new records, but in the short term we have a cash pipeline that needs to be filled and farmers that are not aggressively marketing their crop at these price levels. Soybean price upside will be likely capped at levels that encourage farmer sales, but I feel comfortable that we're not near those levels right now. Over time, I expect soybeans to settle into a range as we oscillate back and forth from price levels where physical are not moving back to levels where the farmer is willing to make sales.

Several items have changed since my corn commentary last month as well. Again, at that time I thought the market was underestimating corn production potential, but we're now looking at a near 168 bpa consensus, and I feel comfortable with that level (though admit it could still turn out slightly larger). The biggest change relative to my commentary last month is a complete lack of export demand. I noted last month that it was possible that the market was understating export prospects, but at this time it instead looks like I've been overstating them.

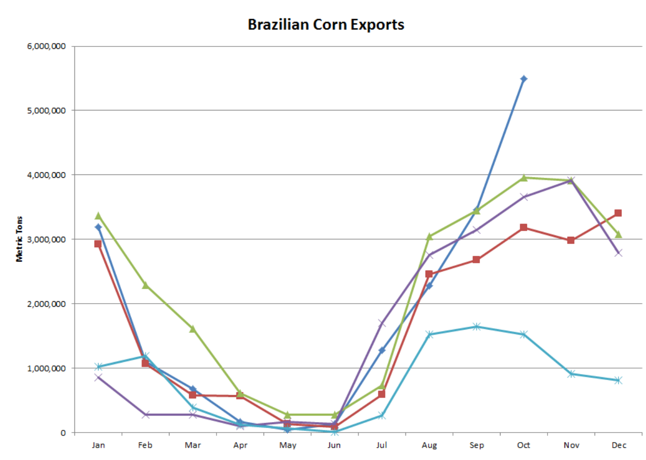
The culprit to this poor US corn demand is last year's record Brazilian production level. Brazil's fall export pace has been exceptionally large and has dramatically undercut US export prospects. I still believe it is probable the pace of US shipments will pick up significantly in the second half of the year, but every week of poor export sales data adds doubt to my mind.

That being said, I still hold the viewpoint that any significant downside in corn prices would be a buying opportunity. Global corn demand remains very strong, and a production shortfall in Ukraine will likely add to some US corn demand, though this may come very late

US Soybean Quarterly Supply and Demand

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16*
Carryin (Sep 1)	449	574	205	138	151	215	169	141	92	191
Production	3,197	2,677	2,967	3,359	3,329	3,094	3,034	3,358	3,927	3,889
Sep-Nov Imports	2	2	3	3	4	3	4	7	8	7
Total Supply	3,648	3,252	3,175	3,500	3,484	3,311	3,207	3,506	4,027	4,087
Sep-Nov										
Crush	459	467	420	445	443	412	452	446	439	475
Exports	374	328	387	536	622	425	618	677	812	780
Seed	-	-	-	-	-	-	-		-	-
Residual	113	97	92	181	141	105	171	229	248	200
Total Use	946	892	899	1,162	1,206	942	1,241	1,352	1,499	1,455
Stocks (Dec 1)	2,701	2,360	2,275	2,339	2,278	2,370	1,966	2,154	2,528	2,632
Stocks/Use	286%	265%	253%	201%	189%	252%	158%	159%	169%	181%
Needed Sales	495	316	691	1,021	1,051	724	1,068	1,204	1,400	1,264
Needed/Crop	15%	12%	23%	30%	32%	23%	35%	36%	36%	32%

Despite strong production, the nearby cash soybean market remains tight. Note that Q1 stocks/use is larger than the past few years, but still relatively small when looking back more than just a few years. Also note that we're basically requiring the farmer to market 30-35% of his crop immediately to satisfy cash demands. That level of sales has likely been met, but getting any additional movement will likely require higher prices.



Brazilian exports have been phenomenal this fall, which is creating a demand vacuum for US corn right now.

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in the year. South American production prospects are also lower this year as farmers are opting to plant more soybean area this year. Current new crop price levels are not providing a strong incentive for the US farmer to plant more corn next year, which could lead to further tightening in the US stocks/use ratio. And US farmers aren't just holding on to their soybeans. Corn prices are not at levels that encourage physical movement and flat price will eventually need to work to a level to move these supplies.

In other words, I believe that corn has to "fight" for additional acreage for the US 2016 crop via higher prices. One might argue this could be accomplished through lower soybean prices, but as noted above I believe there is limited downside to US soybean values until at least the South American harvest is in full swing. I fully concede, however, that this bull case for corn prices is a very long term viewpoint and the negative export demand situation nearby will hang like a weight on prices. It is likely going to be a choppy stretch ahead for corn prices.

To summarize, I still feel like corn prices have long term upside and I feel soybean prices have near term upside. However, in the current environment prices are likely to be especially choppy and a clear trend is not likely to present itself any time soon. These are not enjoyable markets from my perspective, but right now it's all we've got.

Regards,
David Zelinski
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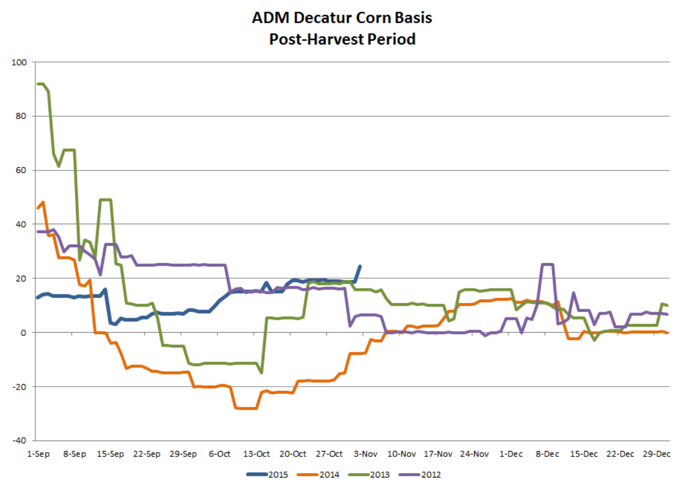

Decatur is just one example in the Corn Belt where basis levels are stubbornly high immediately following harvest. Typically basis weakens as harvest progresses, but as you can see above the opposite has taken place so far this year. This illustrates that physical movement of grain is coming very slowly and higher prices will likely be needed to move significant amounts.

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