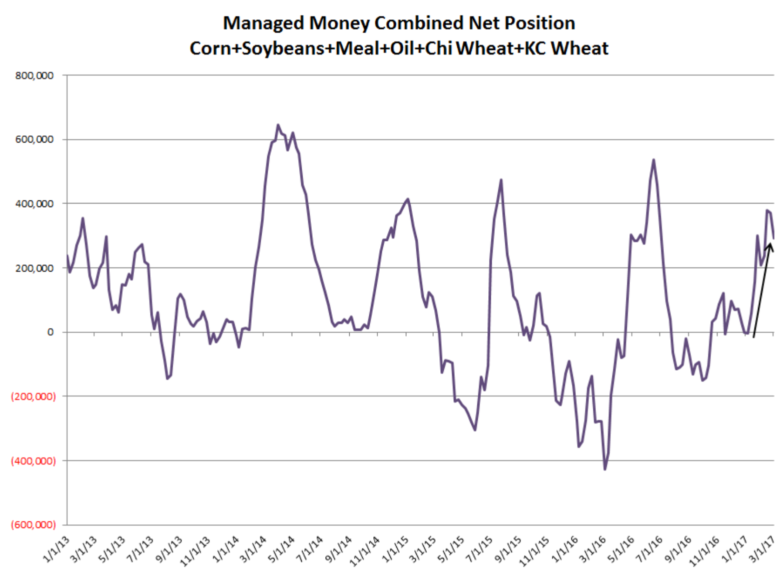
March 6, 2017

Agriculture Market Highlights:

Despite being the shortest month of the year, February did pack a lot of action. A lot has changed since our last monthly update. During the month of February, some things went right and some things went wrong. One of the items we got right in February was our wheat-corn spread. This was aided by ongoing dry conditions in the US Plains. However, our overall negative feelings towards corn were incorrect. Corn prices, much to my disbelief, churned slowly but steadily higher over the course of the month. This offset our gains from the wheat-corn spread and we finished February down slightly.

I mentioned above that a lot changed during the month, so let me set the scene. Right now we're in the final stages of the South American soybean crop cycle. Brazil is roughly halfway through their harvest. Soybean harvest in Argentina is still a few weeks away but will be here before we realize. It seems Mother Nature has once again done its job of producing very strong conditions for crop development. Thoughts for both countries' production are increasing every week. There are some whispers that Brazil's crop could be as large as 110 mmt, and some think Argentina could be as large as 57 mmt (despite difficulties seen earlier in the season). Whether or not these "whisper" numbers are realized is really meaningless...what matters is, barring some sort of last-minute problem, we've avoided any major supply hiccups from South America.

Clearing this first hurdle of supply in terms of South American production is clearly important. In fact, I think 2017 will be all about clearing production hurdles in the coming months. Obviously by now we all know that "investment" interest in commodities is very strong. Buzzwords like "reflation" and "stimulus" are driving money-flow into commodity markets like we haven't seen in years. However, in the end crop prices have very little upside potential *unless* we have a supply disruption somewhere in the world. Given the current pace of demand for these ag products, the market correctly assumes it will only take one problem to create a potentially long-lasting rally in the market. However, over the past two years the world has been blessed with phenomenal weather for crop development and record production.



It seems that before each production hurdle has been cleared recently, funds and other speculative players have taken long positions *hoping* for some sort of problem that they can ride to the upside. Over the past few years, each such hope has been misplaced as weather has been cooperative. As we've just cleared the latest South American hurdle (though safrinha corn production in Brazil still needs to be watched) I would expect some *limited* downside to prices over the course of the next few weeks. That said, the next potential hurdles for world production are quickly approaching.

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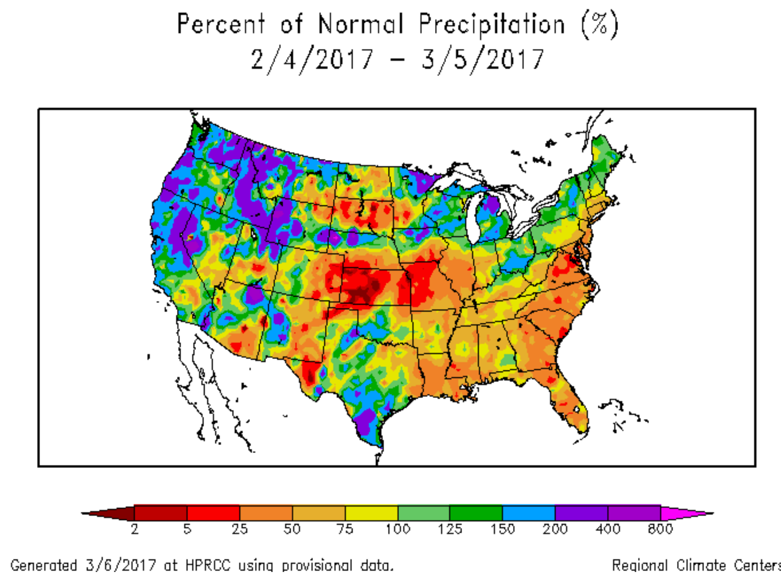
The focus now shifts to the US and we have two items to watch in the short/intermediate term. We are closely watching conditions in the US Southern Plains for HRW production and we will be watching planting conditions for corn and soybeans later as the spring advances. Looking first at HRW conditions, you'll see I've attached a map showing the precipitation anomaly over the past 30 days. That dark red spot you see over Kansas is probably the epicenter of US HRW production. I'm not entirely convinced we're going to clear this hurdle without *some* yield reduction to HRW, and as such I'm holding a small long position in wheat to take advantage of simmering concerns in this region.



As the spring advances we'll be keeping tabs on weather conditions and their influence on corn and soybean planting as well. Right now there does seem to be some concern regarding a relatively wet pattern in the southern US and what that might mean for potential slow planting progress in the area, but that might be more wishful thinking on the part of the corn/soy longs than a real problem at this point. Still, the fact remains that markets will be hyper-sensitive to even the most minor concern in planting efforts this spring.

With all of the above in mind, I think the best course of action right now is to keep our powder dry as we wait for some sort of opportunity to develop as we process these supply hurdles in front of us. As noted above we have a relatively minor long position in wheat and this is offset by a similarly small short position in corn, continuing along with our original thoughts that wheat will continue to price itself out of feed rations globally. We also have a minor position long oilshare, as I believe the sell-off there has become overextended. Be prepared to see shorter-duration of position holding than we might normally prefer, as we're really just focused on trying to take what the market gives us right now.

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