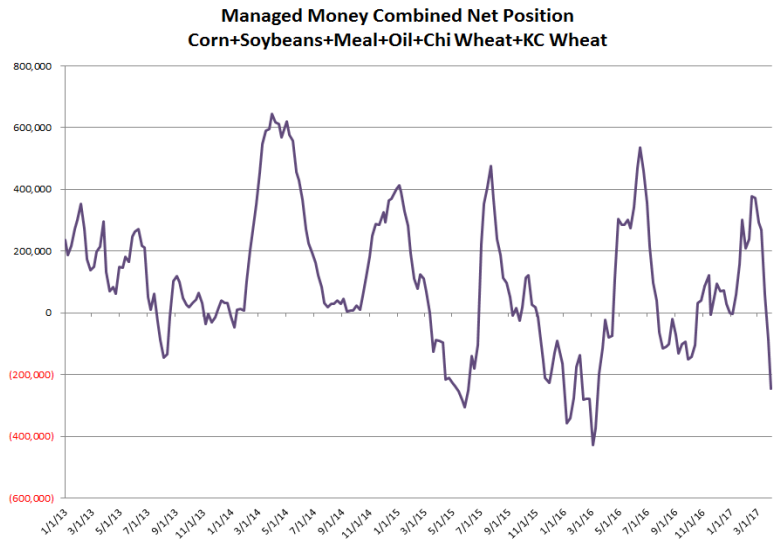


April 5th, 2017

Agriculture Market Highlights:

A fairly solid month in the books, and most things went as expected in March. If you recall, I noted last month the expectation for “limited” downside in prices in the near term as the market began to recognize the growing size of South American crops. Well, we definitely got the downside we were looking for last month; and in fact prices fell further than expected. I’m actually a bit frustrated after last month, feeling we left some profits on the table by not being more aggressive with our short positions. But as we all know, that is just the nature of markets sometimes.

It is funny how quickly these markets shift nowadays. Note I’ve attached here the same chart I showed last month. This shows the combined managed money net position across the key CBOT agricultural products. Last month I was pointing out how aggressively long these positions were in the face of growing South American production levels. This month, quite the opposite, the MM net position has shifted towards an impressive net short position. I do not question the overall bearish bias. Supply and demand fundamentals are clearly bearish across the board right now. World production levels have been nothing short of spectacular over the past 12+ months. What I do question is the timing of this aggressive stance.



From this point until early fall, these CBOT futures markets will be completely dominated by US weather and overall perception of US production potential. Anyone who will tell you today they have strong confidence in what US weather will be this summer is either a liar or a fool—I’m not sure which is worse. I think one has to be cautious about being short here considering we have such a long road ahead for this year’s US crops and the spec positioning is now leaning so heavily short. Any potential concern that pops up, no matter how minor, could set off a flurry of short-covering that leads to significant price strength. From my experience, it is rare that we don’t see at least one such concern pop up over the course of spring/summer.

I don’t want to over complicate my thoughts here. I feel a period of choppy consolidation is likely here until we get further into planting. If planting is going well, markets might make another leg lower, but we won’t really know that until early next month at the soonest. If planting does not go well, a short covering rally might provide a better opportunity for establishing shorts than we have at present. Until more is known, it is prudent to hold only small positions and simply await more clarity.

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