



December 5, 2017

**Agriculture Market Highlights:**

For the past two months I have mentioned the current environment as one that did not favor an aggressive approach to trading, and for the past two months we've been largely rewarded by staying on the sidelines. Though we did finish November with a modest loss, overall I feel at ease about our steady performance in the past two months as the markets have been full of random choppiness that has created an almost unwinnable situation for those traders trying to maintain a strong bias at this time of year. While I certainly would prefer better performance over the past two months, I can still sit at ease knowing we've dodged a lot of bullets over the past several weeks.

I do see the environment changing ahead, as we gradually push further into winter and into important timeframes for South American production prospects. Weather forecasters agree that a La Nina will be present during these winter months, and there is a tendency for this to produce below normal rainfall through stretches of southern Brazil and Argentina. This heightened weather concern will likely create an environment where dips in prices are shallow and should be bought in the near term.

In the long term, I also see several potential favorable items to look towards. Global soybean demand remains very robust. Chinese imports are likely to exceed 100 mmt this year, possibly reaching as high as 105 mmt. While September, October, and November US exports are down YOY, total world exports are up indicating continued demand growth. While production levels globally have been able to keep up with the pace of demand in recent years, we also haven't seen any excess inventory building as demand is chewing through these supplies. Wheat prices could be supported further due to potential dryness concerns in the US Southern Plains in addition to prospects for another year of smaller planted area. Global corn inventories appear excessive today, but the Chinese government is encouraging rapid expansion in Chinese ethanol and other industrial consumption and our estimates would imply this could turn China into a significant importer of corn in just a few years. The bottom line is that I generally view prices near current levels as "cheap enough" with potential for significant upside appreciation should any weather concerns develop.

I also see a tremendous opportunity in the cattle market in the months ahead. Cattle futures have been very strong in recent months due to strong levels of beef demand. While demand for beef is likely to remain strong, our calculations show that the amount of cattle being placed on feed will exceed our capacity to slaughter by the time we reach summer 2018. If cattle slaughter can run at extremely strong levels during the winter and spring months it will somewhat alleviate that problem, but right now the question is whether or not beef demand would be strong enough to support that level of production? In addition to strong beef production, the US is also poised to produce huge levels of chicken and pork in the months ahead. The US consumer will be asked to consume a record amount of red meat and poultry this year, and the beef market will rely on strong export demand as well. And even if all of that goes smoothly, it still for now looks like we're likely to hit the wall on cattle slaughter capacity this summer. It should be noted that this isn't entirely about capacity. On paper, the US packing industry does have ample capacity to kill the animals due to come out this summer. However, the main problem for the US packing industry isn't their mechanical capacity but rather labor constraints. Simply put, unless something changes in their labor force, they simply will not have the ability to slaughter cattle at the rate that appears will be necessary this summer. In that case, the prices for fat cattle will likely drop sharply from current levels to perhaps levels as low as fall 2016. This is a position that will require a great deal of patience but if things go as planned, there is tremendous potential here.

I see opportunities everywhere I look these days....bring on 2018!

A handwritten signature in blue ink, appearing to read "David Zelinski".

David Zelinski

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