Advanced Ag Program Commentary

A successful month of February is in the books, and for the most part our ideas are largely unchanged from the commentary last month. There is little new to report today and for now market positions are mostly performing as expected.

Our long position in wheat was a key driver in performance last month. We are long HRW as we continue to see dry conditions build throughout key production zones in KS and the TX/OK Panhandles. There were some beneficial rains in eastern portions of the HRW belt to close last month, but this misses the key production zone and the current forecast will likely lead to further deterioration in crop prospects. Not only are yields likely to suffer unless spring rainfall materializes, but we are likely to see a higher level of abandonment in area that will lead to sharp reduction in production. Elsewhere in the world, wheat production prospects look fairly solid at the moment (particularly in Russia) and that is something we will need to be carefully mindful about.

The soybean market was another successful area for our performance last month. If you recall last month's commentary, I mentioned I was a bit torn about soybean price prospects. On one hand we had underwhelming US demand and on the other hand we had initial concerns about Argentine crop prospects. Well, those initial concerns on Argentina's crop have developed into a full-blown disaster. At this time I'm expecting Argentine soybean production to total somewhere near 40-42 mmt, compared to last month's WASDE projection of 54 mmt. This is a major blow to global soymeal supplies, and quite frankly it doesn't appear there is enough soybean crush capacity outside of Argentina to make up the difference. Additionally Argentina exports about 8 mmt of whole soybeans annually, and with a crop near 40 mmt that figure probably drops to near zero (as the Argentine industry focuses on crushing what it can). The combination of these factors should result in sharply higher soymeal and whole soybean prices in the months ahead. Though Brazilian production is still likely larger than WASDE is accounting for, the losses in Argentina are likely to prove too much to offset. US acreage thoughts are starting to expand somewhat on this price rally, and US weather will quickly start to shift into greater focus in the weeks ahead. The southeastern US has been very wet recently and current projections call for more of the same. If planting efforts get off to a slow start, it could provide another leg higher in this rally.

Our long corn position worked during the month as well, though admittedly there wasn't the same degree of excitement as with wheat and soybeans. For wheat and soybeans, we have immediate weather concerns prompting a reevaluation of supply and demand, however the situation in corn is more in the future. I continue to view shrinking Chinese supplies as an opportunity area for US corn export demand. Additionally, shrinking Argentine corn production will also benefit near term US corn demand prospects, though admittedly Argentina still does have decent inventories (on paper). While corn is a clear follower in the grain markets today, I do believe the market will be surprised by its leadership role at this time next year as the global excess the market completely takes for granted today is quickly lessened.

I think all of the above is important to keep in mind in terms of a broad-perspective of the overall grain markets. For several years we've dealt with record production of grains and oilseeds throughout the world, and this supply outpaced demand. In the past 12 months we've seen demand "catch-up" to that increased supply, but yet global supplies were still ample enough to keep a lid on prices. The potentially significant crop losses in the US and South America this winter cannot be ignored as it now potentially sets the stage for an acute deficit in terms of supply/demand over the coming year. While the effects are only felt in US HRW and global soybean markets today, there will be domino effects that are felt for months to come. It also eliminates any potential buffer the world had for any US production scare this summer. Look for increased volatility in grain/oilseed markets in the months ahead and I believe we're likely in the early innings of what could be a generally more constructive environment for the ag space in general.

Lastly, our short position in cattle during the month of February went basically nowhere. That said, the overall thought process on the position remains unchanged. I still feel that the level of placements in recent months and the relatively slower-than-expected pace of marketings will leave the cattle industry dealing with an oversupply of cattle vs. the slaughter capacity during the early summer months. I expect this to weigh heavily on summer month cattle contracts, but we've still got to get through another few weeks of tight-ish supplies on the front end before this really starts to be felt. This is not a question of beef demand—indeed beef demand and exports remain very solid. This is more a question of whether or not the US packing industry has the actual ability to slaughter the number of cattle we're projecting will be available during the summer. I suspect they do not. This will be negative for fat cattle prices but should be bullish for packer margins.

Best Regards,

David Zelinski

March 5, 2018

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

newaccounts@opusfutures.com • Tel: 901-766-4446 • opusfutures.com