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Advanced Ag Program Commentary

April 2018 is a month I'll be glad to have in the rearview mirror. I say that despite the fact that most of our *thematic* trade ideas are relatively unchanged vs. our discussion last month. In the case of corn, virtually nothing has changed. US export demand remains huge and ethanol production margins and export interest will continue to support the corn grind. US planted area is likely to remain lower than previously hoped for, and it is highly likely that the US 18/19 carryout declines significantly from current expectations for 17/18. In addition to this, China remains on pace for their 10% ethanol blend by 2020 as they continue to expand corn processing capacity rapidly. Current estimates imply Chinese corn demand could increase another 20 mmt in the next year. In short, the world's two largest corn producers are looking at a significant decline in corn supplies by the end of 18/19…and this should support corn prices on declines. All of that being said, we are also entering a time of year where the most important price factor is the US weather forecast. At the time of writing, corn planting progress is running slightly behind average but it would appear the weather outlook is fairly favorable for a rapid pick-up in progress in the next two weeks. We'll maintain a bullish long term bias but at times we will be required to make adjustments to our positions based on the changing nature of the weather forecast.

Most of my frustration with April 2018 stemmed from the soybean market. As you are aware by now, China announced in the early morning hours on 4/4 they would apply a 50% tariff on imports of US soybeans IF the US follows through with its threat to impose a wide array of tariffs on Chinese goods on June 1. Soybean prices initially tumbled on the news, but they've spent much of the month chopping back and forth in a seemingly random manner. While the tariffs on US soybean imports are not technically in place today, we know from commercial contacts that the Chinese government has told crushers to avoid new purchases of US soybeans. Additionally, cargoes of US soybeans are being held up at the port as the government is "conveniently" unable to process GMO certificates.

This situation with China is holding a wet blanket over the market in what would otherwise be a very bullish situation. Argentina's crop was ravaged by drought, with production likely coming in almost 20 mmt smaller than early season expectations. If not for the Chinese trade dispute, one could easily make an argument soybean futures would be trading much higher right now. However, there is some good news in all of this… at least from our perspective. With the Chinese government basically forbidding purchases of US soybeans at the moment, Chinese crushers have been essentially forced into aggressively covering all of their summer needs out of Brazil. While that doesn't necessarily sound like good news in terms of US demand, what it means is that the world will soon be short on meal supplies. With the Argentine crop losses, the world was counting on the Brazilian crush industry to crush aggressively for meal exports. Instead, China is aggressively buying Brazilian soybeans and we suspect Brazil will soon be oversold on whole soybeans and unable to fill the gap in meal production. That will mean the world comes to the US for its meal demand, and this will mean meal prices will have to work hard to encourage aggressive rates of crush capacity utilization for many months to come. It is highly unlikely that the US alone will be able to fully close this gap in supply, and as such I believe it is likely the world will have to deal with an acute meal shortage at some point within the next 4-5 months. Of course we have to get through the summer growing season and deal with the volatility associated with changing weather forecasts, however, I strongly feel that a patient approach to a bullish position in meal will be very greatly rewarded. There is of course the possibility that the trade dispute between the US and China is resolved at some point this summer, and certainly we have to hope that happens. Even if the trade dispute is resolved, I still see

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the market dealing with a significant meal shortage as the Chinese purchases of Brazilian soybeans will be very difficult to break. Chinese crush margins could take a hit on a favorable outcome of US/Chinese negotiations, but that would likely be very temporary as China continues to aggressively expand meat production. In short, nothing has changed in terms of global soy demand growth…the only change is less supply due to Argentine crop losses. This will eventually resolve itself with significantly higher prices unless we have surprising upside to the US crop this summer.

At the time of writing, I have no bias in regards to wheat prices. I do believe there is some potential upside due to probable losses in US and Russian production, but more time is needed to get an accurate gauge of crop prospects in both areas.

Best Regards,

David Zelinski

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