Advanced Ag Program Commentary

After starting the year on a very strong note, I am forced to admit we've hit a bumpy stretch during the past two months. In the month of April, as described in my prior commentary, we were mainly dealing with aftermath of the Chinese announcement to (possibly) impose tariffs on US soybean imports and their additional push to source all beans from other sources (primarily Brazil). That storyline lingered into May as well, but additionally late during the month of May we've dealt with what appears to be a major speculative-player liquidation event in corn and soybean markets as crop conditions are off to a very strong start here in the US.

The ongoing and back-and-forth nature of the US / China (and US / World) trade spat along with the solid start to the US growing season are both very important factors that certainly change price action dynamics. However, these items aren't taking place in a vacuum, and there are other very important price-sensitive developments that are being overlooked at the moment. Consider the following:

- Brazilian corn production is getting hammered. In April WASDE estimated Brazilian corn production at 92 mmt. I'm currently forecasting production now at 80 mmt with a downside bias. Perhaps more importantly, commercial contacts *with boots on the ground* in Brazil are implying that production could be 78 mmt or possibly even less. Hope for last-minute rainfall in southern Brazil has been disappointing vs. expectations. This loss of 12+ mmt of corn production from Brazil is a HUGE deal which supports higher US corn exports in 18/19.
- Argentine soybean production estimates continue to shrink. The effects of the drought have been discussed for a while now, but the production estimates continue to shrink further. Now we have the added problem of quality issues, with heavy rains delaying harvest and affecting the quality of the crop. The Argentine farmer has little interest in selling soybeans with the rampant inflation, but what little he is parting with has to be blended with imported Paraguayan supplies to make up for the poor quality. This will continue to prevent Argentina from being a major player in the bean/meal export market, and keep in mind Argentina is typically responsible for about half of the world's total soymeal exports.
- Chinese imports of soybeans have been very slow in the past three months, implying to me (and others) that they are destocking during this pivotal negotiation stage vs. the US. It is likely that imports will pick up in the months ahead as Brazilian shipments arrive, but at some point it is likely China will need to go through a "re-stocking" phase. I would anticipate this could possibly take place after (IF?) US / China relations become at least a bit more normalized.
- Although crop conditions and weather are favorable here in the US right now, on the other side of the northern hemisphere in the FSU (Former Soviet Union) we're looking at a pattern featuring mostly below normal precipitation and above normal temperatures. Our in-house meteorologist believes the current pattern has "staying power", so this is definitely an area to focus our attention in the coming weeks. IF Ukraine corn production gets hit (too early to tell) it would mean supplies are down from all three major competitors in the global corn export market.

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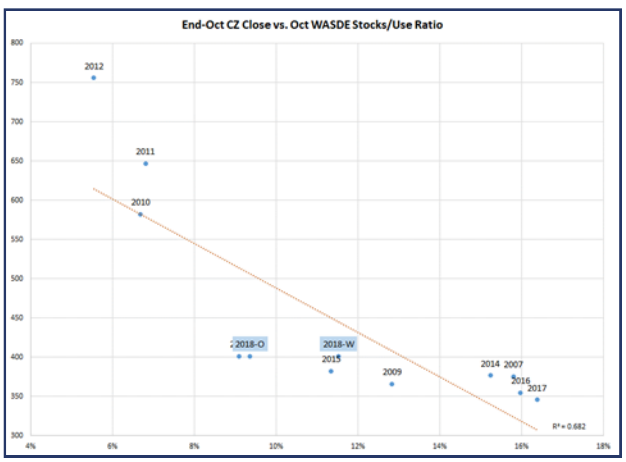
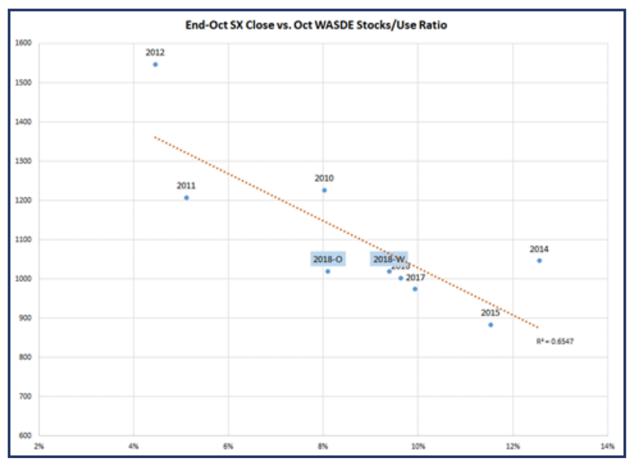
Obviously the focus in the above bullet points is potential US demand. *Demand, demand, demand, demand.* I will continue to pound the table that US demand prospects are far greater than WASDE or most other private analysts are considering. However, I have to be honest and admit that at this point in the year, the market's clear focus is *supply*, and specifically on US production. As you know current crop ratings and the weather outlook in the US appear to be mostly favorable, and this is leading to the selling pressure the market has experienced in the past week or so. That said, I believe it is far too early to start plugging in any above-trend yields for either corn or soybeans. We have a very long way to this summer, and WASDE (and many others) have statistically shown that June weather is not strongly correlated to final yields. That being said, IF US weather does continue to cooperate and above-trend yields are realized, it will certainly take some of the pressure off from our huge (and growing) demand base and likely allow for a further relaxation of markets. However, keep in mind that even assuming trend yields likely allows for price upside into the fall. The price scatter charts below show October closing prices for December corn and November beans vs. WASDE stocks/use estimates. For 2018, you'll see two figures. One is the current WASDE projection and the other is my current forecast with a larger demand base. Even with WASDE's demand projections (too low in my estimation), I could make an argument that price downside from here is limited. We will need realization of above-trend yields to push prices sharply lower…and that realization should be weeks away if at all.





Best Regards,

David Zelinski

June 6, 2018

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