August 6, 2018

Advanced Ag Program Commentary

We finished the month of July with a modest gain and it feels good to back on the positive side after a few months of losses. In the months that have followed the imposition of tariffs on US soybeans we've dealt with choppy and unpredictable markets. This is largely due to the on-and-off negotiations and various headlines related to those negotiations with China and also with NAFTA partners. "Headline risk" has never been more real in ag markets, as it seems at any moment a headline (or Tweet) can hit the market with a sharp and unexpected move. In addition to the trade war induced volatility, US summer weather also seasonally increases volatility at this time of year. The combination of both factors has produced an environment that has been unpredictable and, at times, frustrating.

That being said, my outlook towards markets is very little changed this month and this commentary will be shorter than usual. I still believe in the same themes presented in last month's commentary. Firstly, corn prices were sold off too aggressively following the implementation of tariffs and we have upside to corn prices in the months ahead. I am not presently aggressively long corn, due largely to seasonal considerations. However, as EU & FSU crops shrink it is looking more and more apparent that US corn demand will be very big in 18/19 and this should support prices on dips. My second continued theme from last month is that soybean prices remain bearish with Chinese tariffs in effect. The market is surprisingly enthusiastic towards US soybean demand as export commitments are relatively "average" for this time of year. Still, I feel the market doesn't yet quite understand what it will feel like when the US is not shipping soybeans to China this fall. In Sep/Oct of 2017, the US shipped roughly 10.5 mmt of soybeans to China. That number will likely be <1 mmt this year. There is no amount of increased EU or Argentine demand that can make up that sort of demand *right in the teeth of harvest*. US crop prospects are looking very solid and we could be looking at the double-whammy of a record crop with exceptionally poor demand prospects. I expect significant further downside in soybean prices if weather conditions remain favorable. The third continued theme from last month's comments is that I expect that meal prices will eventually find solid footing as South American supplies decline and the US is left as the lone supplier of meal to the world. Admittedly, Chinese crushers have not been very aggressive in securing Brazilian soybeans for Oct/Nov/Dec at this point. This is allowing the Brazilians to potentially crush more soybeans than I had previously expected and for now this is preventing meal prices from finding a floor. Still, I think it is only a matter of time before Brazilian supplies are essentially exhausted and the US meal market catches a bid.

I have to admit that I missed the wheat rally experienced in July and so far into early August. The market has exploded following dry conditions across Europe and Australia. This is leading many analysts and traders to increase their projections for US wheat exports, but I think this will eventually prove mistaken. US wheat export commitments are not impressive and the rally in wheat prices will not entice additional business. I think most analysts are failing to account for a reduction in wheat feeding that should take place with the higher prices. I am not inclined to take a short position in wheat, but I personally think the trade associated with the European crop losses is additional length in corn rather than wheat. I believe US corn demand is more likely to see an impact than wheat as US corn replaces wheat in rations.

We're 7 months through 2018 and our performance is roughly flat YTD. While that is not where I expected to be at this time of year, the themes mentioned above still allow for excellent opportunities through year end and I am optimistic about a great second half of 2018.

Thank you,

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