November 5, 2018

Advanced Ag Program Commentary

We finished the month of October with modest gains, and market action was seemingly going our way. Our primary focus, as it has been for a few months, has been downside potential soybean prices with ongoing lack of demand due to the Chinese *embargo* against US soybeans. Crop production prospects, both in the US and in South America, look very favorable and even in a situation with robust demand I would likely be making a bearish argument for price action. In the current case, with ample global soybean supplies and extremely weak demand, there is little support for anything other than lower prices in soybeans.

The game-plan for the month of November was to remain short soybeans through the NASS Crop Production report (11/8) but to eventually unwind some of that position ahead of the G-20 meeting at the end of the month. Unfortunately President Trump has thrown a wrench into my well thought out plan with a simple Tweet suggesting optimism for a deal at the end of the month. This has shifted the market into short-covering mode earlier than I had anticipated, and our short positions have been caught off-guard.

With the benefit of hindsight, I probably should have been more prepared for potential pre-midterm posturing from the President. Maybe there is more to the Tweet than the very obvious political motives, but from what I can tell there is seemingly little change in terms from either the US or the Chinese. I am not optimistic a deal will get done, but the obvious truth is I simply don't know.

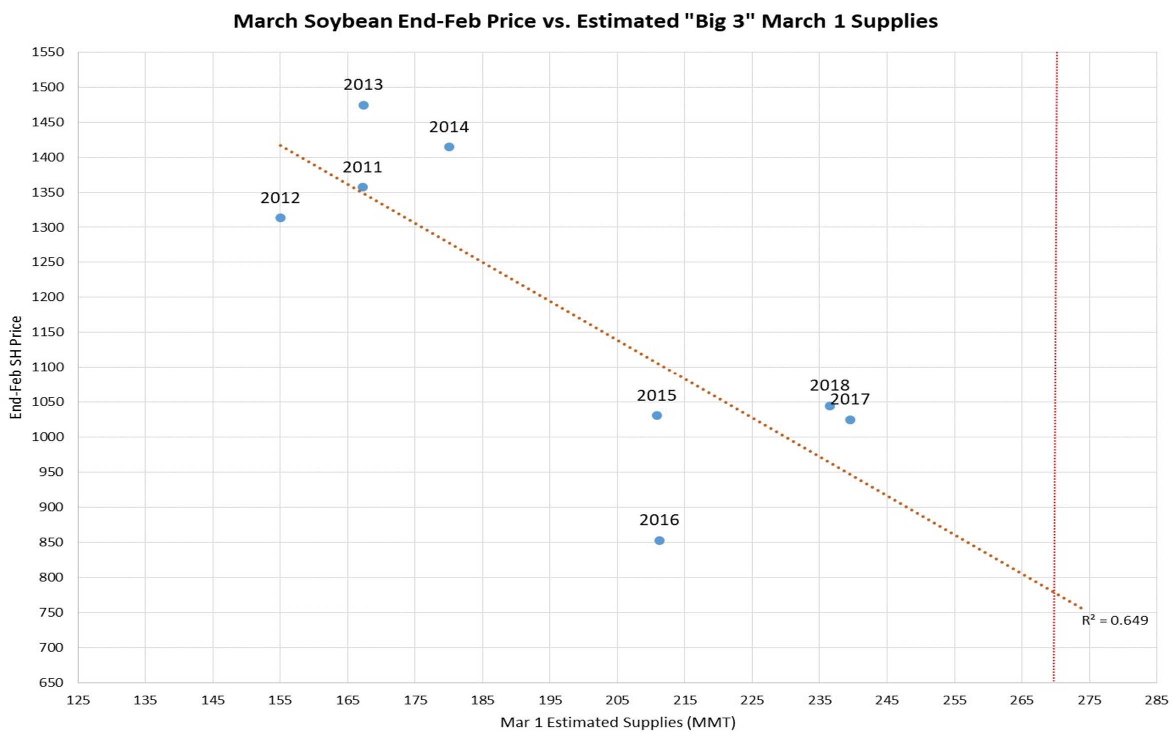
Regardless of the trade dispute, multiple bearish factors are asserting themselves at present. Consider the following:

- US production is very likely a new record and export demand is falling well short of current WASDE projections. WASDE "should" cut their export projection by 100 mb or more in their next update. In the end, WASDE might be 300 mb too big with their current projection.
- Brazilian weather so far this crop season isn't good – it's been ***great***. The latest numbers I've seen show Brazilian planting pace at 60% complete, which is much faster than usual. This not only allows for very good crop conditions, but should mean Brazilian new crop exports are able to ramp up sooner than usual. Soybean exports from Brazil could total up to 4 mmt or more compared to an average of roughly 0.6 mmt over the past 5 years. This will further hamper US export prospects.
- The Argentine planting pace is running about normal, but there too weather conditions appear to be largely favorable. As shown last month, studies of El Nino years show that Argentine yields are typically very strong with El Nino conditions. We could be looking at a 20 mmt or more YOY increase in Argentine soybean production.
- Combine all of the above with the price action we're seeing out of Brazil right now. Recall in previous commentaries that we had noted concerns of Brazil running out of soybean supplies and creating a global tightness in meal/bean supplies. Not only is this not happening, but Brazilian soybean offers are getting *cheaper*. It is looking very apparent that last year's Brazilian soybean crop has likely been underestimated.
- The lack of a hole in global soybean supplies (noted in the point above) is starting to weigh heavily on Chinese meal prices. After being on a solid uptrend since tariffs were first announced, Chinese meal prices have dropped sharply in recent weeks due to the realization that extreme tightness is unlikely to develop ahead of new crop Brazilian supplies. Chinese soybean crush margins are getting hit very hard, which certainly won't help with soybean import demand especially as the government pushes for the industry to diversify its protein sources.
- A long-term issue to keep an eye on is the lack of movement in the new crop soy/corn spreads. We continue to hear commentary from analysts and industry observers that US farmers "should" plant much more corn than soybeans in 2019. The simple math, however, is not sending a strong signal to the farmer based on our calculations.

9047 Poplar Avenue, Suite 101, Germantown, TN 38138
newaccounts@opusfutures.com • Tel: 901-766-4446 • Fax: 901-766-4406

The bottom line, in my opinion, is there is <u>nothing</u> price friendly in the fundamental situation towards soybeans right now. Admittedly, that isn't an exactly shocking position and clearly there are many shorts in the soybean market. The fear of a potential Trump-Xi deal at the G-20 is real and will prompt some short-covering into the event. Even if there is deal at the G-20 meeting, I still think a short soybean position will make sense especially if spread against a long corn position. If there is no deal at the G-20 meeting, the soybean market could be hit with *shockingly swift* downside.

Below is a scatter chart showing March soybeans vs. combined US, Brazil, and Argentine estimated supplies on March 1. My estimate for Mar 1 "Big 3" supplies is noted with the red line, and you can see this would argue for prices in the $7.50-7.75 range. I would point out, however, that this assumes "trend" production in both Brazil and Argentina. As noted previously, conditions are off to a very good start and typically El Nino years can produce even better results in Argentina. There may be further downside than what is indicated below. We will remain short soybeans until something changes.



Thank you,
David Zelinski
Opus Futures, LLC

9047 Poplar Avenue, Suite 101, Germantown, TN 38138
newaccounts@opusfutures.com • Tel: 901-766-4446 • Fax: 901-766-4406