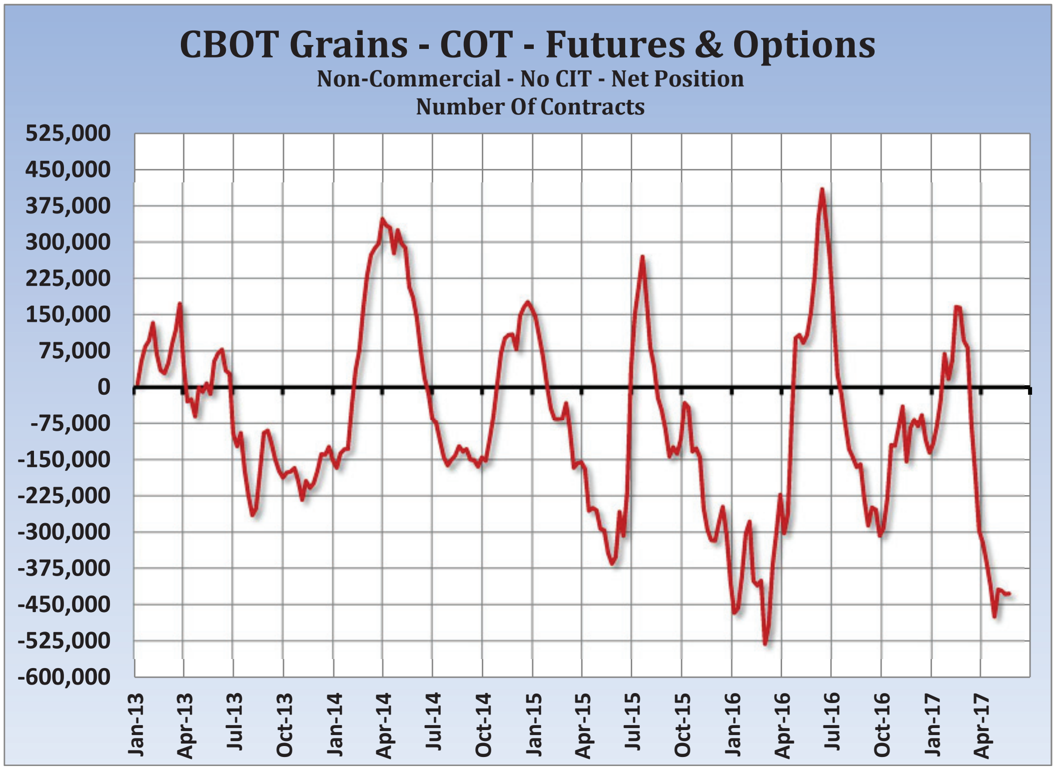
THE HIGHTOWER REPORT
Futures Analysis & Forecasting
SPECIAL REPORT
HightowerReport.com

June 6, 2017

Grains: End Users Should Not Become Complacent

Grain end-users should guard against complacency. Don't become overconfident that supply will drive prices significantly lower. On normal or seasonal declines in corn, wheat and soybeans prices, consider using option plays to define maximum prices to be paid for 2017 and 2018 needs.



With 2016/17 world ending stocks expected to be at record highs for soybeans, corn and wheat, the short-term fundamentals are clearly bearish. However, global stocks could be close to reaching a peak, and prices tend to bottom when that happens. World ending stocks of corn and soybeans are expected to be lower in 2017/18. US ending stocks of corn and wheat are expected to be lower as well. World ending stocks of wheat are expected to be up slightly because China's stocks are expected to surge higher.

We are of the opinion that the US dollar could significantly weaken this year, and this would be a supportive force across the grain markets. Also, be aware of the oversold condition of the grain markets. The most recent Commitments of Traders reports showed that as of May 23rd, managed money traders held a near-record net short position of 352,069 contracts in corn, wheat and soybeans combined. This represents more than 1.76 billion bushels.

141 West Jackson • Suite 4002 • Chicago, Illinois • 60604 • 800-662-9346 • 312-786-4450 • info@HightowerReport.com • **@HightowerReport**

Soybeans

For soybeans, the current forecast calls for only a modest decline in world ending stocks from last year, but a minor drop in yields in the US or China could quickly turn a small decline into a major reduction. Demand for soybeans from China in recent years has been like an oil tanker - difficult to stop. Furthermore, recent demand trends suggest that the USDA will need to adjust its 2016/17 estimate of Chinese soybean imports higher.

Soybean seed technology and yield growth have been impressive, but counting on having another year of exceptionally good weather in late July and into August could be risky given the recent volatile weather conditions around the world. The weather this year has been extreme to say the least. This past year, the US Corn Belt saw its second warmest December-March period in history and its fifth wettest April-May. Don't rule out more extremes this year.

If China's demand continues to expand and it drives them to increase imports and if US yield slips below trend to the simple 10-year average yield of 44.3 bushels per acre (still the 4th highest on record), the US ending stocks and stocks/usage ratio could drop to record lows. We are not predicting a drop to a four-year low in yield, but we cannot dismiss this possibility. The "what if" study below shows how quickly almost record-high ending stocks projections could slip to a record lows with a strong demand scenario and uncertain weather.

END USERS might consider scale-down buying, as a 30 to 50-cent break is all that might be expected between June and late July. The key weather period is in August.

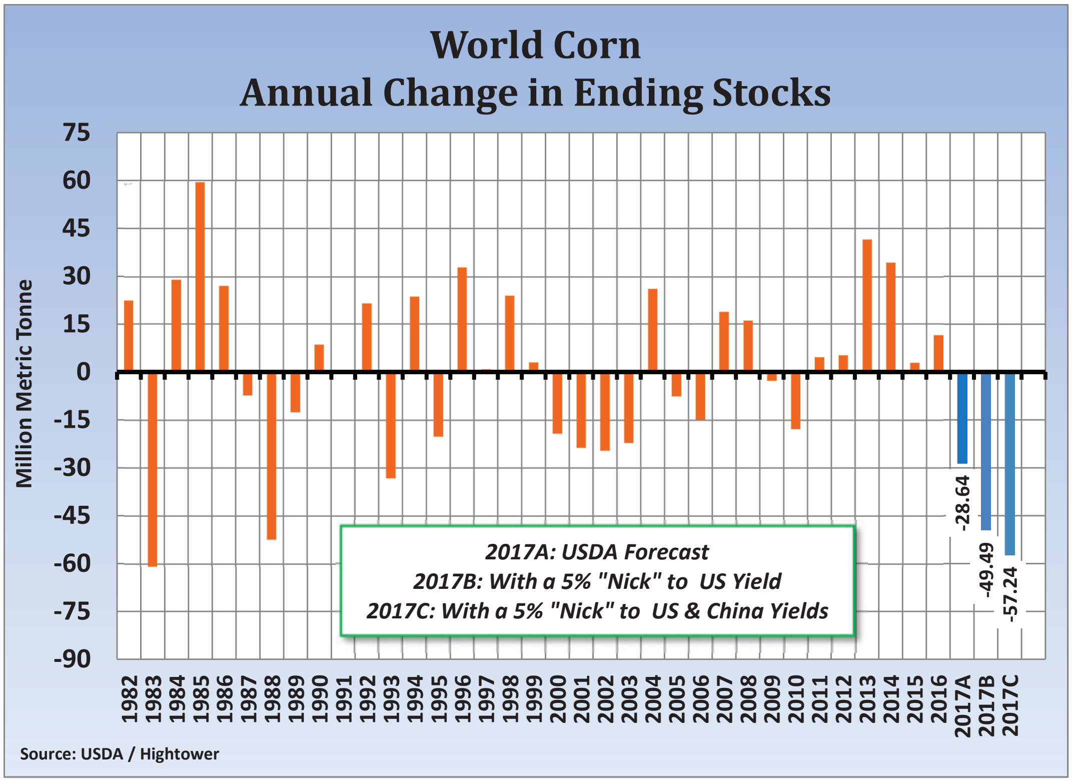
SPECULATORS: BUY the November Soybean $10.00/$11.00 bull call spread and SELL the November Soybean $8.40 put at even money on the entire combination. Look for a gain of 60 cents, and risk 12 cents from entry.

USDA SUPPLY/DEMAND US SOYBEANS	09-10	10-11	11-12	12-13	13-14	14-15	USDA 15-16	USDA 16-17	USDA 17-18	2017/18 10 Year Average Yield
Planted Area (M Acres)	77.5	77.4	75.0	77.2	76.8	83.3	82.7	83.4	89.5	89.5
Harvested Area (Acres)	76.4	76.6	73.8	76.1	76.3	82.6	81.7	82.7	88.6	88.6
Yield (Bu/Acre)	44.0	43.5	42.0	40.0	44.0	47.6	48.0	52.1	48.0	*44.3*
Beginning Stocks (M Bu)	138	151	215	169	141	92	191	197	435	420
Production	3,361	3,331	3,097	3,042	3,358	3,927	3,926	4,307	4,255	3,925
Imports	15	14	16	41	72	33	24	25	25	25
Supply,Total	3,514	3,497	3,328	3,252	3,570	4,052	4,140	4,528	4,715	4,370
Crushings	1,752	1,648	1,703	1,689	1,734	1,873	1,886	1,925	1,950	1,950
Exports	1,499	1,505	1,366	1,328	1,639	1,842	1,936	2,050	2,150	2,200
Seed	90	87	90	89	97	96	97	104	101	101
Residual	20	43	-2	16	10	50	25	14	34	34
Use, Total	3,363	3,282	3,159	3,111	3,478	3,862	3,944	4,093	4,235	4,285
Ending Stocks	151	215	169	141	92	191	197	435	480	85
Stocks/Use Ratio	4.5%	6.6%	5.4%	4.5%	2.6%	4.9%	5.0%	10.6%	11.3%	2.0%

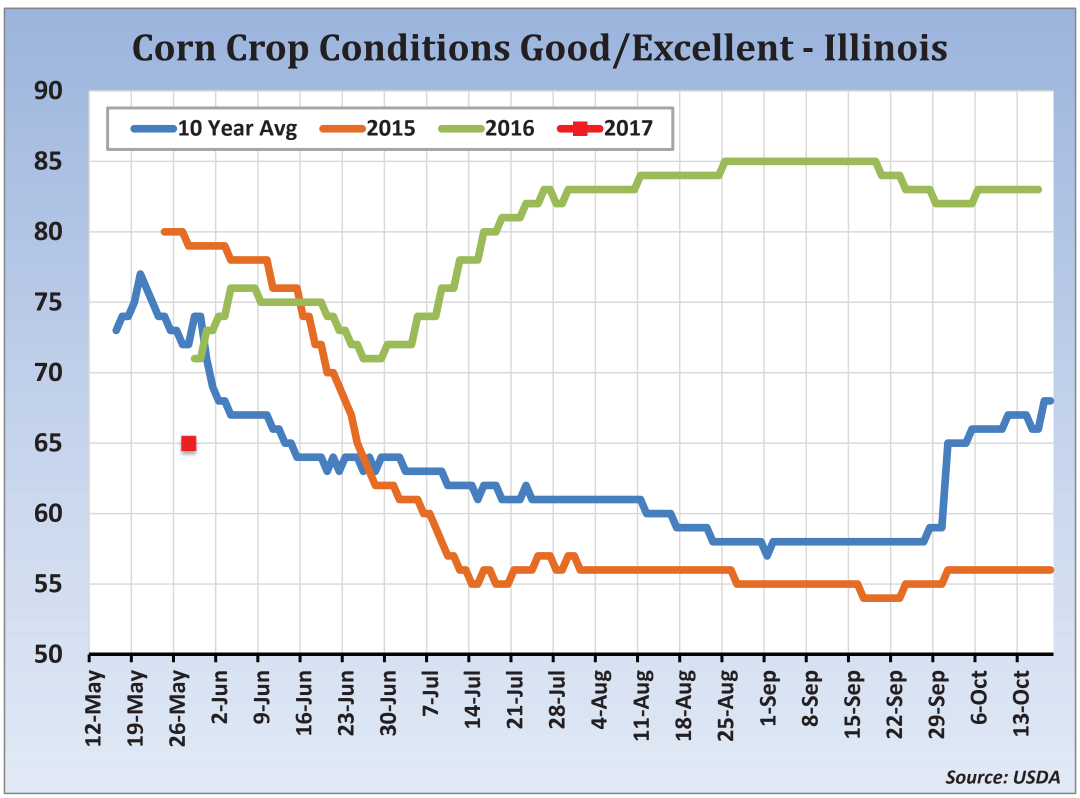
Corn

For corn, the huge ending stocks that China has built in recent years are starting to come down, as the government there is focusing on increasing demand for ethanol, other industrial usage, and feed. Their planted area is down as well.

The chart to the right shows the current USDA forecast, which calls for a drawdown in world ending stocks, as well as projected drawdowns that would result from modest 5% below-trend yields in the US alone and for China and the US combined. This chart illustrates how even a minor weather issue could result in a near-record drawdown in world ending stocks.



The weekly US Crop Progress reports are indicating that this year's corn crop is off to a slow start. Many traders are already expecting below-trend yields and a potential loss of 1-3 million planted acres from the current USDA estimate.



END USERS might consider buying futures for needs and buying puts for protection, as a minor weather problem could quickly snowball to a major drawdown in world ending stocks.

SPECULATORS: BUY December Corn at $3.85 ½ with an objective of $4.47. Risk 11 cents from entry.

Wheat

For wheat, record-high world ending stocks may have already been priced into the market, with nearby futures in 2016 reaching a ten year low. US ending stocks may have peaked for the 2016/17 season. The USDA already is showing a drop for 2017/18, mainly due to the dramatic drop in planted area in recent years. While the market may need some help from inclement weather to see any significant rally, the smaller planted area in key world exporting countries suggests that the basic supply/demand fundamentals will not get more bearish.

World ending stocks are at a record high, but 50% of the world's stocks reside in China. If we exclude those from our analysis, world ending stocks are at a four-year low. China is neither a major importer nor exporter of wheat, so excluding their stocks makes sense.

END USERS might consider scale-down buying of December Chicago Wheat out of the money calls on seasonal weakness as protection. On a break to the $4.55 to $4.40 zone, consider selling out-of-money puts to help pay for the call premium.

SPECULATORS: BUY a September Chicago Wheat $4.70 call and SELL a September Chicago Wheat $4.20 put for a net cost of 3 cents on the spread. Use an objective of 31 cents, and risk 8 cents from entry.

Disclaimer

The information in this report may be considered dated upon its release and should not be considered interpersonal advice. This report is merely an opinion on the market and is a reflection of conditions as of its publication. Market conditions change! Traders should not consider entering positions without their own independent analysis of the market's current situation, nor without further consideration of any changes to the information contained herein that may have occurred since this report was written. The authors are not responsible for any verbal or written claims and opinions that might be provided in conjunction with this report. The trading suggestions contained herein have been provided merely as a general guide and only for the purpose of quantifying the authors' opinions.

This report includes information from sources believed to be reliable but no independent verification has been made and we do not guarantee its accuracy or completeness. Opinions expressed are subject to change without notice. This report should not be construed as a request to engage in any transaction involving the purchase or sale of a futures contract and/or commodity option thereon. The risk of loss in trading futures contracts or commodity options can be substantial, and investors should carefully consider the inherent risks of such an investment in light of their financial condition. Any reproduction or retransmission of this report without the express written consent of The Hightower Report is strictly prohibited.