

June 6, 2017

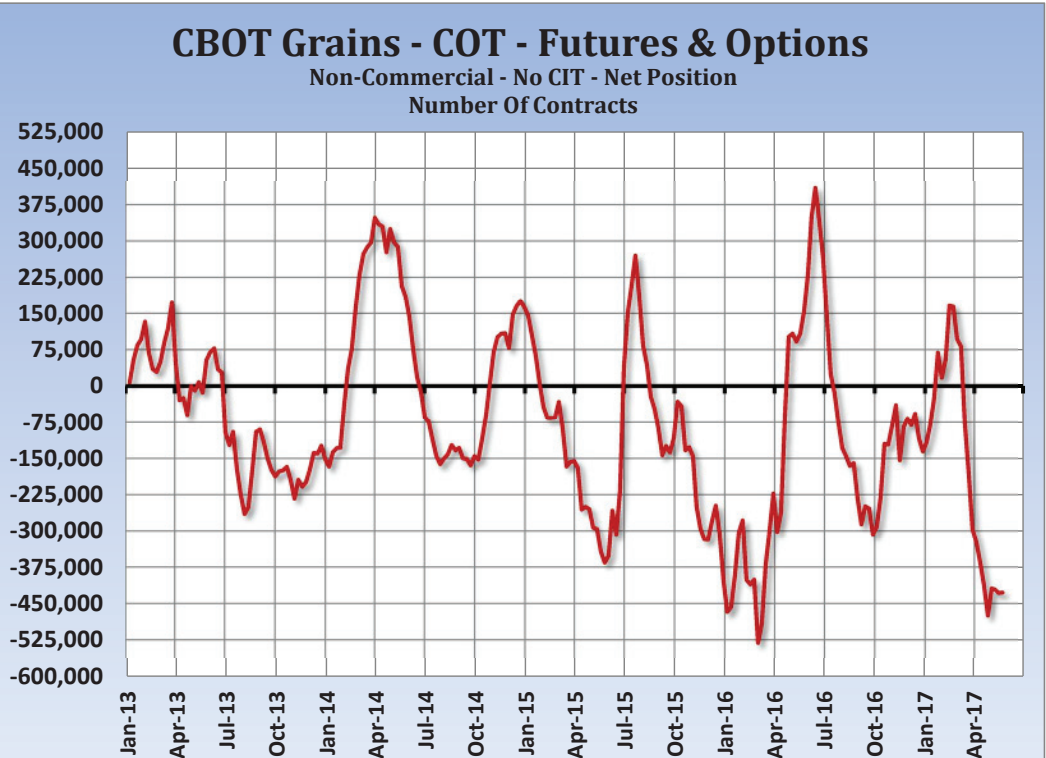
## Grains: End Users Should Not Become Complacent

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.



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## 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										2017/18
	09-10	10-11	11-12	12-13	13-14	14-15	USDA 15-16	USDA 16-17	USDA 17-18	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

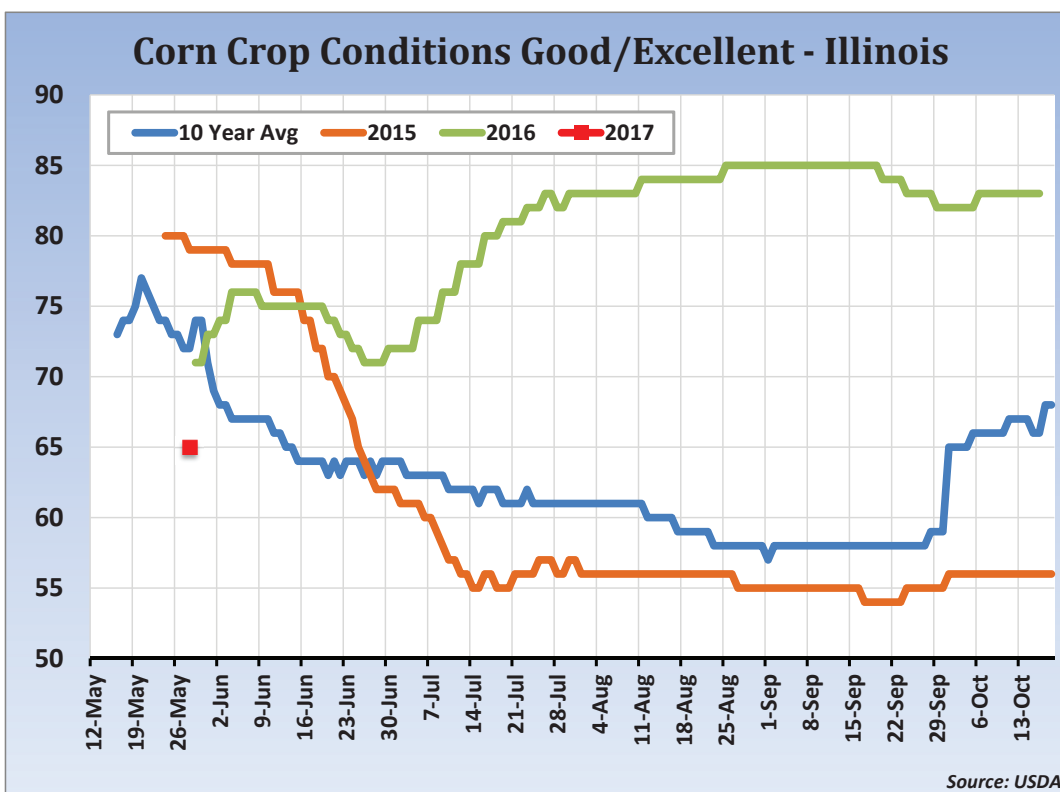
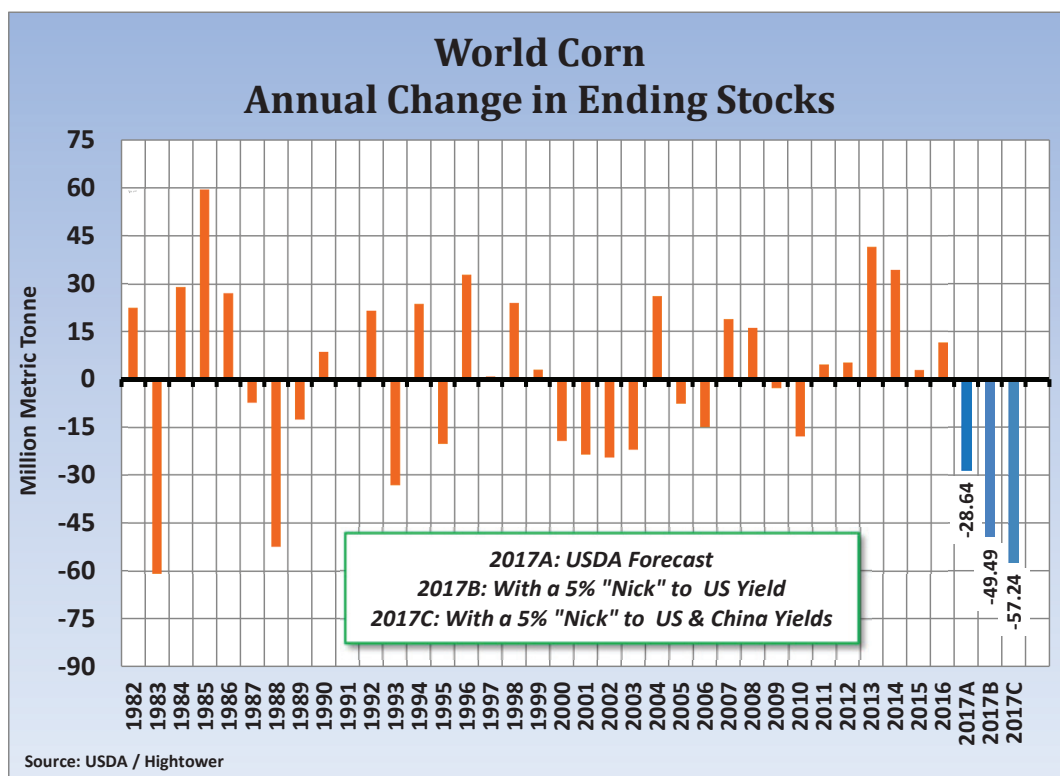
For corn, the huge ending stocks that China has built in recent years are starting to come down, as the government there is focusing on increasing demand for ethanol, other industrial usage, and feed. Their planted area is down as well.

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

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**DAILY SOY COMPLEX COMMENTARY**  
6/2/17

**Shift from US tightness to record world supply: SA harvest active**

**OVERNIGHT CHANGES THROUGH 6:55 AM (CT):**  
SOY BEANS: +1.0, SOYBEAN OIL: +1.1, SOYMEAL: -0.5

**OVERNIGHT DEVELOPMENTS:** March soybeans were trading 2 cents lower near 7:00 est. Platts of Futures in Malaysia were up 1% overnight and China soybeans were up slightly. Global supply markets were higher across the board Wednesday morning, helped by follow through buying from yesterday and global economic data out of China. Even the Japanese Market closed higher for the third consecutive session in the face of much weaker than expected machinery orders. Perhaps some of the lift came after January trade data from China showed a better than 10% gain in both imports and exports. It is also possible that well-received testimony from new Fed chief Janet Yellen during the previous session and a clean debt ceiling bill passed the House last night provided an aid boost to risk taking attitudes. Upside action continued during the early European trading hours, with added support coming from upbeat earnings from Societe Generale, ING and Hsbc. The uptick showing in global markets offers US markets daily support and keeps the major indices up near yesterday's high ahead of the Wall Street opening. There is a quiet US economic calendar during Wednesday's session, which is likely to keep focus on corporate earnings from Deere & Company ahead of the Wall Street opening, with Applied Materials, Cisco Systems, NetApp and Whole Foods after the close.

**NEAR-TERM MARKET FUNDAMENTALS:** March soybeans saw some follow through buying overnight but the rally failed at the 1340 level which has also occurred on February 10th, December 23rd, December 18th and December 17th. March meal pushed up to a new contract high overnight but is trading lower this morning. Soybeans and soybean meal staged a respectable recovery yesterday following the "bearish" USDA report on Monday. The higher trade was led by soybean, which favors the bulls. China bought 116,000 tonnes of US soybeans for the 2016/17 crop year. The CIP market was also a touch firmer yesterday which bodes well for bulls, and might suggest export sales have been made or could be some light logistical issues on the river. There were rumors that up to 8 US cargoes have been cancelled, but the firm CIF market was also a touch firmer yesterday which bodes well for bulls. The Brazilian government agency CONAB estimated their nation's soybean crop at 90 million tonnes, down from 92.5 million tonnes but in line with the updated USDA forecast. There is still some concern the dry weather conditions for Brazil will prevail for the rest of February, which leaves a lot of downside risk to production. Vessel leases are trading with the highest estimated around 12% complete, well above last year's pace. With harvest moving along quickly, we should see a better loading and shipment rate at the ports which could weigh on the nearby market at some point.

**The main issue for the market over the next couple months may still be the lack of selling by the Argentine farmer. The executive president of a large farm association in Buenos Aires recently stated that "Peasos are no use - the worst thing you can do is hold Peasos". Producers continue to store their oil-crop supply in silos with an estimated 5-11 million tonnes now effectively off the market. The official and black market exchange rates have narrowed a bit during the last week but remain extremely wide. A well-known bank has estimated that farmers in the region have only sold 6% of their crop at this point, down from 11% at the same time last year and down from 25% the year before that. It is likely some sales are made as harvest gets going to pay for various bills on the farm but unless a major policy change is announced, the pipeline for crushers will likely remain thin which could keep world meal buyers active in the US market as a hedge. European buyers may be short bought for March and April. March board count hit a new 5-season high Tuesday and cash count margins remain very profitable. We should look for export demand to exhaust that before US crush demand.**

**TODAY'S MARKET IDEAS:**

**Daily Grain and Livestock Commentary**  
Wednesday February 12, 2014

2017 Soybeans

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Investors should carefully consider the inherent risks of such an investment in light of their financial condition.

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