The Grain Service Newsletter

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MARKET OUTLOOKS?

Argentina is now poised to harvest their smallest soybean crop in at least ten years, since the drought of 2009 ('08 crop), at 40MMT or less. Brazil is nearing the end of harvesting their record soybean production of 115M tonnes or higher. Argentina's corn crop is down 20% or more despite record acres, with Brazil's corn crop also lower this year on a combination of lower acres and a small yield cut. China and the US are still engaged in tariff threats that may eventually impact soybeans. World wheat inventories remain plentiful; the story there is more about US HRW losses.

Futures have had to digest the facts to try to find value for each market. For now, $10.50 on nearby soybeans, $400 for soymeal, and around $3.90 on corn seem to be the hurdles to overcome. (See Chart 2 for an update on the strategy of forward selling new-crop soybeans and owning July Short-Dated new-crop soybean call options.) The next moves will likely depend on US/China trade developments, and/or US planting progress. Corn deserves attention: The global corn carryout is shrinking even as usage will hit a record high in 2017 crop, and China still holds around 40% of the world's entire corn carryout – stocks that are not accessible to the rest of the world. Corn may turn out to be the sleeper market of 2018.

So the ball's in our court. March and April have not been kind to US farmers, but markets aren't likely to respond much unless delays remain when the calendar rolls to May. The 5-year 18-state average for corn planted by mid-April is 5%, with 2018 at 3%, with the additional Deep South states nearly done. The two highest yielding corn years were '16 and '17 when corn planting was only 4% and 6 % complete in mid-April. And farmers can hustle when conditions allow: In 2013 they planted 43% of the 95.4M US corn acres in a single week!

The corn 'story' may be slow to develop but this lull looks like an opportunity for end users and farmers alike to use options to manage risk. Conservative farmers may want to set a corn price floor by selling cash and owning call options. We suggest end users be more patient and look for further weakness to extend ownership scale-down, buying calls rather than futures as an alternative.

With futures perhaps peaking short-term, the world cash market is busy moving the chess pieces around the board. One surprise has been that the Brazil export soybean basis didn't break – it skyrocketed in early April to +200 FOB as China and other importers snapped up cargoes ahead of potential trade disruptions. That in turn raised the US Gulf and PNW FOB bean basis as world traders quickly arbitraged the spread, buying US soybeans against S. America. This pulled up PNW and Gulf basis, with barges climbing from +40's May to nearby bids of +70May and the PNW to mid +90's. Upriver soybean basis recovered some but gains were limited by rising freight costs.

Chart 1: Global Corn Carryover is Shrinking

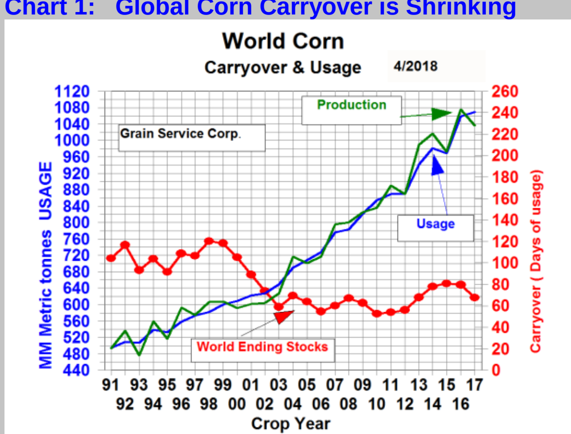
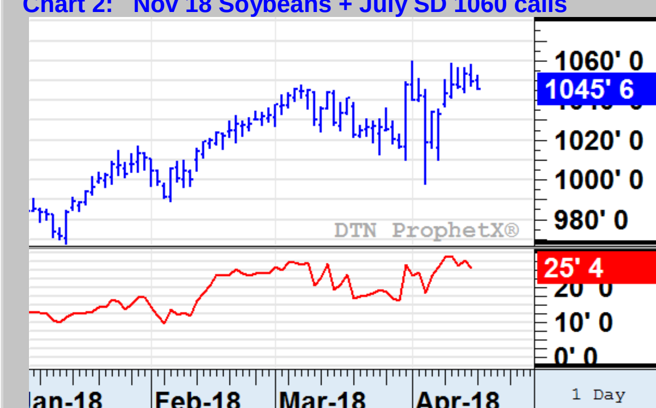
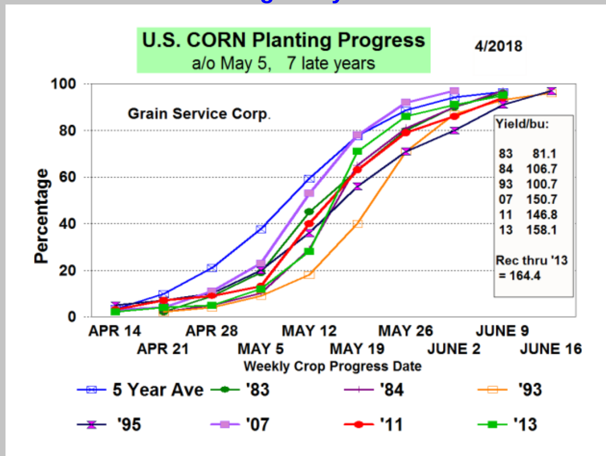


Chart 2: Nov 18 Soybeans + July SD 1060 calls



4/16/18 a.m

Chart 3: Corn Planting Delays vs Yields



But US river values for the June slot climbed sharply, showing sizable carries versus nearby basis. We continue to encourage selling into carries and keeping your logistics program intact. It's a manageable problem when the railroads are slow in the winter, or when the river system was largely shut down in early March due to high water. Your merchandising program had time to recover from that. It's a much bigger problem if logistics are sidelined in mid-summer.

Not only are traders arbitraging US against Brazil soybeans, now Argentina has bought several vessels of US soybeans, scheduled to load off the US East Coast – their largest purchase from the US in twenty years. Argentina is the world's largest soymeal exporter but their small soybean crop will force a combination of imports as well as reduced crush.

A BUSY SUMMER

After a slow start last fall, US corn export sales and shipments are ramping up. Brazil will be shipping their record soybean crop this summer, tying up port capacity, and Argentina's corn exports will be reduced due to their drought-reduced crop. The combination will keep the US as a primary corn exporter through the summer. Last year from May through August the US shipped approximately 52 to 62M bushels of corn plus soybeans each week. This year exporters need to ship closer to 76M bushels of corn plus soybeans to reach the current USDA projections by September 1.

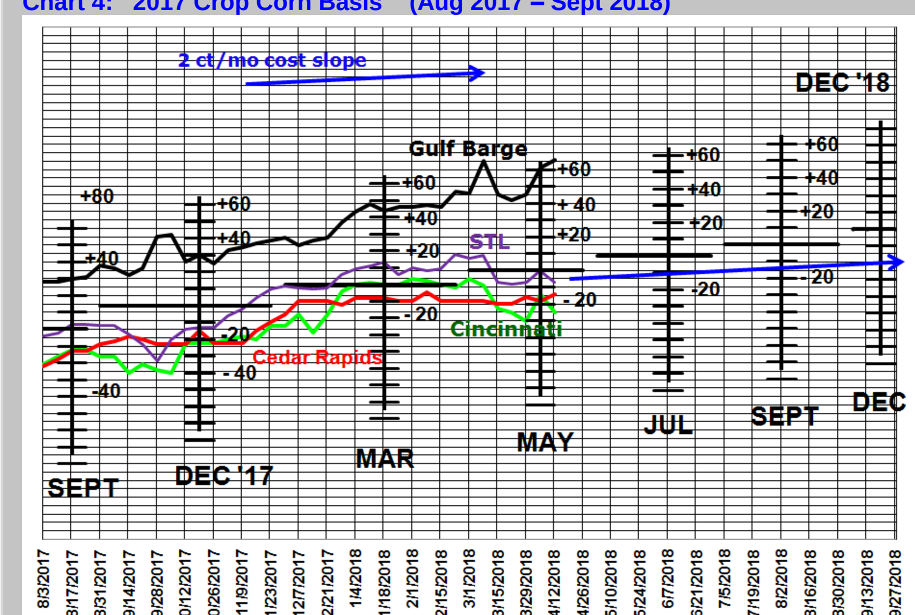
Wheat exports will not be a big program this summer so it appears US port capacity may be sufficient to average 76M bushels per week on corn and soybeans. But that pace will certainly force the river and terminal markets to compete more aggressively than usual this summer.

Sept 1 corn and soybeans stocks will be big but not burdensome – enough to maintain carries, with some caution. Corn and soybean ending stocks are likely to be around 2.1B and 500+ M bushels respectively, roughly 100+M higher than last year. Sept 1 corn stocks are typically about 2/3 in commercial space and 1/3 on-farm, with soybean stocks around 3/4 commercial and 1/4 on-farm. Farmers will own some percentage of the commercial stocks, but elevators and terminals will own a significant portion, with the balance held at ethanol plants, crushers, feedlots and mills, and exporters. Weekly disappearance of corn plus soybeans in August is around 300M bushels, or a little higher, and each destination needs to hold at least some inventory with more in-transit.

These days a two-week summer supply to cover disappearance is around 600M bushels of corn and soybeans, excluding what farmers own. Suddenly those carryover stocks don't seem quite so big, and any fear of a slow harvest could warrant attention.

Freight costs are always a factor in basis. Barge freight for April/May/June was already at record high values with the Illinois River hitting around 650/700% for April, around 550% for May, &

Chart 4: 2017 Crop Corn Basis (Aug 2017 – Sept 2018)



Best known published bids each Thurs. Spreads a/o 1st notice day
Forward spreads a/o 4/12/18. Basis thru 4/12/18

500% for June on the IL River before weakening somewhat. Illinois River freight has rarely traded above 450% of tariff in the A/M/J slots over the last nine years, and even a 50% increase equates to 6-8¢ per bushel higher freight.

St. Louis barge freight typically trades lower than the Illinois River, but even so is quoted over 500% for April, and 325 to 375% for M/J, when 200-350% is more typical. An extra 50% at STL raises the cost nearly 6¢/bushel. Some of the strength in barge freight is related to river conditions and disrupted logistics rather than volume: The 4-week average volume of southbound barges (all freight) is only 90% of 2017 levels.

Rail freight is also trading higher than usual in the secondary market for the spring slots, with car costs trading at positive values, above $800+/car on BN shuttles for April. Rail deliveries to the PNW averaged over 7000 cars on the 4-week running average ending April 4, 124% of the 4-year average for that slot, according to USDA's Weekly Transportation Report.

This will be another busy summer and basis may firm somewhat more for those slots. But we continue to caution against building more corn ownership unless you have the space and willingness to carry hedged ownership into and through new-crop.

Chart 4 shows that the best net returns on corn basis in four markets has been against ownership bought at harvest. Returns since winter have been negative (except at the Gulf), except for the negotiating push you may have gotten on a sale, or if you forward sold each slot at higher values. Now some June bids provide decent carries and some buyers are willing to negotiate values well above bids. Here's an opportunity.

TARIFF TIFF

Never underestimate the farm lobby, especially in an election year, whether on farm bill issues, disaster aid, or perhaps over fallout from the US/China trade tiff. No tariffs have even been enacted, but the farm sector has their eyes trained on Washington. Interestingly, there is a broad coalition that extends outside agriculture, and that recognizes agriculture's near sanctity. The coalition is already lobbying for relief for agriculture and there are some tools that might prove useful to Congress.

President Trump and some in Congress are eying the $1.3 trillion Omnibus Spending Bill passed in March for one possible source of relief. Buried in the Omnibus bill is language in Sec 715 of Title VII that lifted restrictions that prevented the CCC from directly supporting farm prices. (Those restrictions were added back in fiscal 2012 in a political maneuver that eliminated using CCC funding for regional programs to bolster a candidate's chances of election.)

Section 715 in the new bill does not state that CCC may now support farm prices; the language just omits the prior restrictions and is silent on the issue. But the new bill does state that "The CCC can borrow up to $30 billion from the Treasury Department and extend that money to farm groups." The Administration sees that as the vehicle to potentially get the funding to provide financial relief for farmers in the event of a China tariff (or worse) on US soybeans. Some in Congress are already warning this is not a solution and that it would only aggravate the trade dispute with China. Senator Pat Roberts reminded the Administration this funding is for emergency items and that the best solution is to maintain the market for farmers. But what may be most interesting is that even if the authority isn't used in this situation, the language is there with pre-set funding.

China's Commerce Ministry has taken another shot across the bow of US farmers with the April 17 notice of a 'temporary deposit' on imports of US sorghum, starting on April 18. The Ministry says 18 US firms will be affected and will be required to put up a 'deposit' equivalent to 176.8% of the cargo's value, to act as a 'temporary anti-dumping duty.' China will issue a final ruling later, according to the notice. US sorghum exports rarely top 300M bushels, with China our major buyer, so this is a measured action clearly intended to send a message to the Trump Administration.

FARM BILL 2018

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Yes, it's that time again. The draft of the 2018 Farm Bill (The Agriculture Nutrition Act) was released on April 12 and is now into 'mark-up', where the House Ag Committee members can offer amendments. This bill largely tweaks existing programs. Here are a few areas with potential changes:

- CRP ceiling rises from 24 to 29M, a 1M acre increase per year through 2023.
- Caps CRP maximum rentals at 80% of the cash rent at enrollment.

CBOT Daily Price Limits: Semi-annual Reset Effective April 30, 2018 (trade date 5/1/18)

Commodity	Current Initial Price Limit	New Initial Price Limit (Effective 4/30/18 pm)	New **Expanded** Price Limit (Effective 4/30/18 pm)
Corn	$0.25/bushel	$0.25/bushel	$0.40/bushel
Soybeans	$0.65/bushel	$0.75/bushel	$1.15/bushel
CBOT Wheat	$0.30/bushel	$0.35/bushel	$0.55/bushel
KC Wheat	$0.30/bushel	$0.35/bushel	$0.55/bushel
Soybean Oil	$0.025/pound	$0.025/pound	$0.04/pound
Soybean Meal	$20/ton	$25/ton	$40/ton
Oats	$0.20/bushel	$0.20/bushel	$0.30/bushel
Rough Rice	$0.85/cwt	$0.90/cwt	$1.35/cwt

Daily limits on spreads are 2 times the outright limit, e.g. 150¢ on soybeans effective 4/30/18.
Daily limits on mini contracts are the same as on full size contracts.
Daily limits on futures on the current month are removed effective on the 2nd business day prior to the first day of the month, e.g, 4/27/18 (Fri.) for May 18 soy futures. The CME Group previously removed all limits on **options** on grain and oilseed options contracts. Source: CBOT Rulebook; and Special Executive Report S-7900, 4/20/2017

- Tweaks allowable official inspection service agreements for grain facilities.
- Includes some work requirements under the SNAP ('food stamp') programs.
- Current Dairy Margin Protection Program is revamped as the Dairy Risk Management program, with an $880M funding boost
- Crop insurance sees little change (ARC would use crop insurance data to determine county yields).

MAY 1 RE-SET OF DAILY PRICE LIMITS

CBOT agricultural daily price limits are re-set semi-annually on May 1 and November 1. This cycle the daily price limit will rise on soybeans, CBOT and KC wheat, soymeal and rough rice as shown on the table above. The formulae for determine the price limits are set forth in the CBOT Rulebook: CBOT Rulebook
Price limits are also posted daily at: CBOT Daily Price Limits

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IN THIS ISSUE

"*There is no greater mistake than to try to leap an abyss in two jumps.*" David Lloyd George, former British Prime Minister (1916-1922)

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