November 2015 Monthly Commentary

Corn, wheat, beans, and meal made new lows in Nov. The USDA raised yields and carryout more than expected and the Arg election weighed on everything. Beans bounced back however after the Arg election took place to close nearly unchanged for the month. Oil was the only gainer – it gained on its own and versus meal. Meal demand is weak, animal margins weak, cold storage large, and crush margins worked lower throughout the month. On the oil side, you have a share that was well below historical norms, the potential for increased biodiesel demand – both due to mandates and also possible legislation, in add'n to drought in palm areas. Oil share is getting back to the low end of the historical range but has more room to strengthen especially if Congress passes legislation for a producer's credit (previously was a blender's credit).

Beans could work to the low 800's or below if SAm performs and the US increases area again but in the near term there are some concerns about the weather pattern in Brazil. Mato Grosso which grows 30% of their crop has seen roughly 50% of normal rain the last few months and the forecast may be turning dry for Dec. Southern Brazil (Parana/RGDS) has been inundated with rain for the last couple months and would like drier weather. We have already seen Oil World lower their crop forecast to 95 mmt (96.2 year ago). CONAB (Braz gov't) is forecasting 101.2-102.8 mmt and the USDA is using 100 mmt. A 95 mmt crop is still quite large but what is intriguing me the most is how short the funds are in everything. The Arg president elect has vowed to lower export taxes on beans and products by 5% when he takes office on Dec 10. That would mean beans going to 30% and meal/oil to 27%. He has also said he plans to devalue the currency which is what the Arg producer has been waiting for with their hoarded beans. I do not think the 5% tax reduction will move the beans, the producer is still going to wait for the devaluation and that is a bit more complicated. I am expecting short covering to take place in beans into year-end especially if Brazil weather is dry in the above mentioned areas in Dec. The US producer is likely to sell some but would rather wait until Jan. In add'n, they will have an incentive to wait if they think there is a SAm issue. They can also sell corn if they need to sell something.

The Arg election was more bearish for corn and wheat as Macri will remove the 20% and 23% export taxes immediately upon taking office. The Arg producer has also been hoarding corn and wheat with some estimates quite large. Arg corn area was set to be down as much as 20% until it looked like Macri was going to win. They are still planting corn and area ideas are going up. The Arg producer would like to go to a more normal rotation and corn area/prod'n should increase in the longer term as well. Arg wheat area has been cut in half since 2001/02 and wheat prod'n should also see growth in coming years. They have been reduced to a minor exporter as well given the tax and license system but that could also change. Both supply and demand in wheat remain quite bearish. There is some concern over Ukraine's winter wheat crop – area was down and germination was poor. It is hard to get too excited after last year's concerns were unfounded. Short covering bouts are possible and then we'll have to see how crops get through the winter and spring moisture. Unwind of dollar length could also be supportive into year-end.

Regards,

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