May 2016 Monthly Commentary

It was another strong month for beans and meal with meal leading and both making new contract highs. The themes I have been discussing, including smaller than expected SAm bean crops, as well as Brazil's overly aggressive export program that has left them on fumes, provided support. The trade is waking up to the issue although some are still scratching their heads. The USDA actually went in the right direction in the May report but they did not lower SAm crops enough and their Braz exports were too high. For the month, July beans were 48.5 cents higher with Nov up 47. July meal was up $62/ton with Dec up 42. Bean oil was the clear loser – down 133 points. Given surging crush margins and expanding crush ideas, it will be very difficult to tighten oil stocks. Corn was also higher – following a bit reluctantly – up 13 cents for the month. The US corn export pace has picked up considerably with Brazil sold out until their second harvest is complete, Arg harvest stalled (they made 4% progress in a month), and Ukraine sold out until Sept. Wheat was down considerably in May with prod'n prospects in the US and in other major growing areas quite favorable on top of large stocks last year. Wheat-corn narrowed significantly and wheat is being fed and substituted for a feed grain in se Asia whenever possible. Chgo lost 24 cents, KC lost 31, and Mpls was down 27 for the month.

Brazil appears to have improved their logistics and export capacity too much- as they oversold both their corn and bean supplies. Brazilian bean and meal premiums have firmed relentlessly (leading our board and spreads) and the US is doing unexpected business for Jun, July, and Aug. Most in the trade did not embrace this possibility. I knew it was a risk, but the amount of old crop US business and the timing of Brazil slowing exports was a bit of a surprise and makes the "story" even more bullish. Brazil exports during Mch-Aug were expected to be over 49 mmt a few months ago. Last month in my write up I suggested they may be only 47 mmt. Now ideas are closer to 45-46 mmt. Soybeans priced in Reals are the highest in history but producer selling has actually slowed over the last week. Arg harvest continues to limp along despite a nearly completely dry May (some rain in the south where flooding wasn't an issue). Their harvest as of Jun 2 was 79% complete, only making 6.5% progress last week (51% on May 4). There is still considerable uncertainty about both quality and quantity. What is certain is that they will keep their best quality beans for crush (and not exports). My old crop US carryout is near 268 milbus vs the USDA's 400 milbus and my new crop is 116 milbus given the massive amount of business the US will need to fill in Sep-Feb. My new crop carryout assumes acres of 84 mil (USDA Mch 82.2) and a yield of 46.5 bu/a. We cannot afford a yield below this. The current weather pattern is a bit ominous. Private forecasters have been a expecting a warm summer all along. We have our first ridge and bout of heat expected in the second week of June without much rain. The trade will become increasingly concerned as we get closer to July/Aug if this pattern holds. The bottom line is we still need more risk premium. It has been a huge move but looking at a weekly chart, there is plenty of room to run considering the market needs to assure we have adequate supplies. I think we are undervalued even without a weather issue and am staying long via calls (rolling up as go in the money), bull spread next crop year, and bull spread meal.

Arg corn harvest has been stalled as the focus remains on getting the beans out. Corn is only 30% harvested vs 26% at the beginning of May. US is still the most competitive origin (aside from EU feed wheat). Corn does not have much downside and could have considerable upside depending on the weather. US corn got planted in a timely

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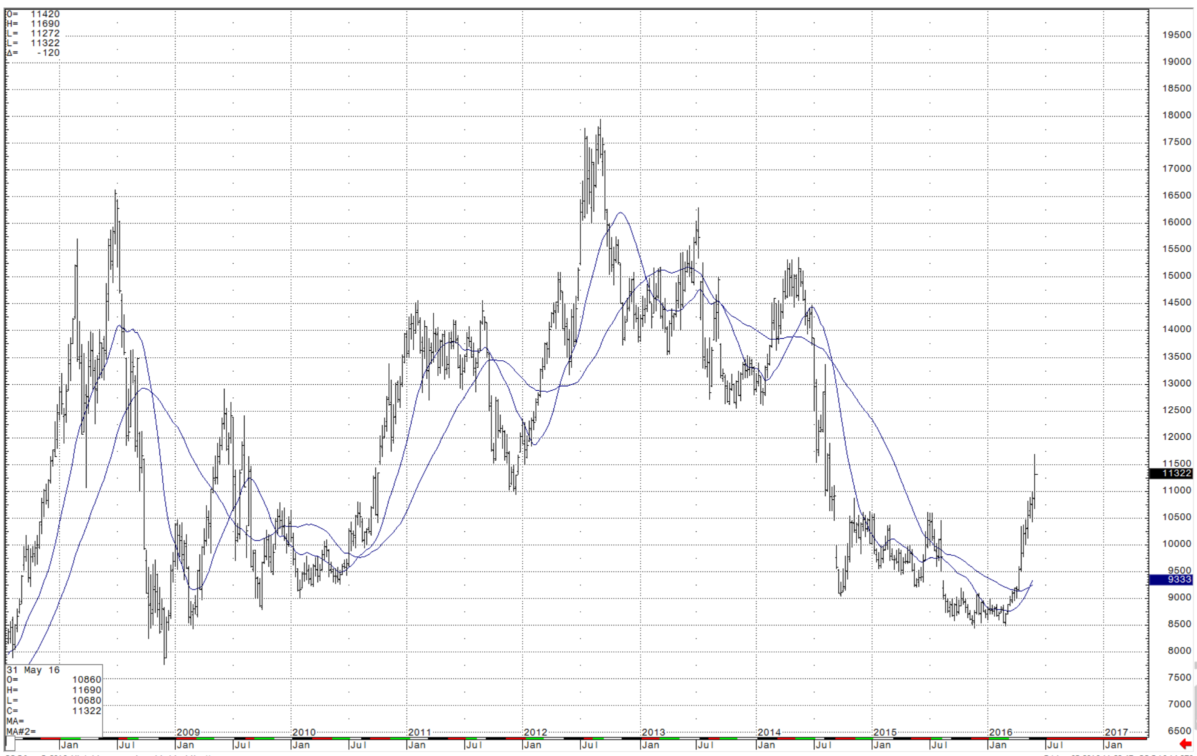
fashion and there are currently few complaints. However if there is any staying power with a warm/dry pattern and we will be off to the races. It doesn't take that much of a yield reduction to tighten the balance sheet.

I have been ignoring wheat to some extent. It is still oversupplied but there are some concerns about recent flooding in France and too wet in Ukraine. If corn has an issue, wheat will follow higher and may outrun corn given that at current spreads wheat is corn and given the structure of the market (funds still carrying sizeable wheat shorts).

Hang on to your hats. It's only June 3rd and feels like we have had a long summer already.



Regards,

Megan Bocken

June 3rd, 2016

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