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August 2017 Monthly Commentary

Relentless weakness across the board as August turned cooler and the Northern Plains and Western Corn Belt received better rains. Russian wheat crop ideas continued to get bigger (and bigger) which weighed on wheat. Funds went from small length to building short positions in corn and beans. Long liquidation in KC and Mpls was a feature and funds continued building shorts in Chgo. For the month, corn was down 30 cents, Chgo and KC wheat were down 66, and Mpls lost 113 cents. Beans were down 61 cents with meal down $25.50 while oil only lost 13 points. Oil found support from the ruling on biodiesel imports from Argentina/Indonesia. The bean oil balance has the potential to tighten considerably. All the markets staged a bounce on the last day of the month (with the exception of Mpls) which tempered monthly losses somewhat.

Beans broke hard on the cooler/wetter weather as visions of last year's huge jump in yields were very present in everyone's mind. In addition, China was pretty quiet and Brazil's monster crop is expected to produce a long export tail. USDA came in well above trade expectations (46-48 bu/a), printing a yield of 49.4 bu/a in their August report. Ratings improved throughout the month (although remained well below year ago). As the month went on, it became apparent that the Eastern Corn Belt was missing rain events and there are still production concerns. Also, at the beginning of the month, the cooler weather was viewed as bearish, but beans could use more heat for filling/finishing. August is going to end up as one of the coolest on record. The forecast into the middle of September is cool and dry. I am not sure I can get on board with 49+ yields. Pod counts have been rather low across the board and there could be a surprise as beans are harvested. However, I think the bigger picture issue is that the function of the market is to not lose acres next spring. Early surveys/trade ideas have bean acres down 3+ mil acres, which could tighten the US balance considerably even with a trend yield. Argentina is expected to lose acres again to corn and wheat and some are not expecting a big jump in Brazil. If Brazil yields return to normal after a record year, the world balance may have already peaked, especially if the US crop is below expectations. Both China and Brazil's currencies are strengthening, providing China more purchasing power and Brazil's producers less incentive to sell. Harvest results and China demand should determine direction in the near term. I plan to maintain a long bias (at least against grains) in beans.

Corn has been under severe pressure on continued fund selling in combination with producer selling. Producers had been severely undersold on old crop and did not have much sold for new crop. After the USDA yield came in much above trade expectations (after mostly warm/dry pollination weather), futures were under pressure daily as producers threw in the towel. Numerous crop tours and surveys have lent some credence to the high USDA yield after the trade was initially taken aback. There is really nothing exciting in the balance sheet and with ideas of corn gaining acres back next year in the US (and more in Argentina), it is a rather bleak outlook. That said, South American premiums have been firming (producers there are not selling) and US exports have been better than expected. Our export program may not be as bad as initially thought. In the dollar index, futures traded below $3.00/bu, and we may be able to find stability in the short term. My strategy is to sell a rally and be positioned long beans/short corn as corn doesn't need more acres, here or in South America. With world protein demand growing each year, the bean balance cannot handle one bad crop.

Wheat was the downside leader as Russian crop estimates went from 70-72 mmt to 80-82 mmt (could be even higher) with Black Sea values declining from $198/ton FOB at the end of July to $180/ton FOB by the end of August. Russia's export capacity is still an issue with most assuming 30-32 mmt exports, up from 26.9 mmt last year. Southern Hemisphere crops are still up in the air. Western Australia has received much better rain the last 4-6 weeks, while New South Wales/Queensland have trended dry with numerous freezes of late, along with a mostly dry forecast. Argentina has been too wet with some questions of lost area. US wheat gained competitiveness throughout the month and HRW business has picked up. Protein is going to be an issue

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especially with rain at Germany's harvest and HRW should continue to be the main source of supply. HRW has also worked into feed rations. The USDA was a wet blanket on HRS production, not addressing harvested area in the August crop report. They may not address in the September report either, but instead wait until the Small Grains Summary at the end of the month. Eastern yields have been better than expected, but western abandonment should be a feature. US/Canada combined HRS production is expected to be 7 mmt below year ago and we will likely be in rationing mode by the end of the crop year. The function should be to encourage spring wheat acres. It's hard to make a bull case in wheat, but may have reached the low end of the range. Southern Hemisphere crop outcomes and winter wheat area ideas (which have gone from much higher to up slightly) should provide direction in the near term. Black Sea values have steadied, which should provide support if continues.

Regards,

Megan Bocken

September 5, 2017