AM Grain Notes 3 29 17

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More short covering and consolidation ahead of Friday’s crop report with only nominal 2 day changes affirming view that negative news largely priced as market awaits more clarity on weather conditions for spring planting.

Weather leans negative with more rain headed for the US plains, a warm US temp backdrop for mid-April which should aid drying between showers, a dry week ahead to facilitate Breazil soy harvest and light preci for both the FSU and PRC. 1/3 of Morocco unfavorably dry while pockets of Argentian may see excess rains over next 7 days.

Brazil soy basis down 7-8 cents yesterday with cash traders reporting PRC temporarily withdrawing from market for soy cargoes.

Trade estimates for March 1 stocks indicate gains over last year of 726 mb corn, 153mb beans and 255mb wheat. Suspect farmers and commercials will be anxious to sell rallies Friday if crop report perceived as bullish.

Trade estimates for combined 2017 C/B/W area at 225.3 ma or 2.27 ma below last year. Look for total crop area to advance on late June acreage report if 2017 planting season unfolds normally.

Global soy demand outside of PRC relatively stable—thus making an informed call on growth in 2017/18 PRC soy import demand vital to accurate soy price forecasting in year ahead.

Even though setting 2017 row crop acreage based in important—the much larger and more important variable driving 2017/18 grain/oilseed supplies is yield which is driven by weather which takes center stage next Monday.

Palm Oil: Up 14 ringgits at 2721

Dalian: Up 2.25 cents/bu, meal down $0.10/ton, soy oil up 3 and corn down 8.75 cents/bu

Matif Wheat: Up 3 euros at 440.50

Outside Markets:

- (JPM on overnight) The US political narrative stayed largely the same although the risks of a shutdown (after Apr 28) are falling (as Republicans will propose a bill void of some of the more controversial spending proposals) and it sounds like the GOP could be moving towards a “small” tax bill (note that Gary Cohn is expected to brief Trump on tax options this Thurs 3/30). The broader domestic equity macro backdrop remains the same as before.
• (WSJ on taxes) Republicans basically face three options – go for a quick but small win, try for reform via reconciliation (very difficult w/o having any changes sunset after 10 years), or seek the cooperation of some Democrats. Republicans will prob. wind up pursuing the first option (a quick but small tax package).

• (Bloomberg) -- The proposed introduction of a border adjustment tax (BAT) to the US corporate tax system could have sizeable adverse spill-overs to other countries, if implemented, Fitch says. Proposed border adjustment tax could: raise the burden of US dollar-denominated debt in emerging markets, precipitate strains on US dollar-linked exchange rate regimes, worsen current account balances and GDP growth for major exporters to the US, reduce FDI inflows and lead to a loss of tax revenues for countries that host US multinationals.

• (Bloomberg) -- Most emerging Asian currencies weaken, led by the Taiwan dollar, after a dollar gauge climbed on the view President Trump will intensify efforts to pursue his pro-growth agenda. The region’s bonds are mixed. “Asian currencies are down mainly because it reflects the dollar strength overnight,” said Sim Moh Siong, a foreign-exchange strategist at Bank of Singapore. “The view here is starting to change that perhaps the failure of the health-care bill may even give the Trump administration stronger incentive to make sure that they succeed with the tax reform.”

• (WSJ) Republicans give up on controversial spending priorities (for the time being) in order to avoid a shutdown – after the ACHA failure GOP leaders are eager to avoid a shutdown and thus probably won’t include controversial spending provisions (like funding for Trump’s wall and defunding of Planned Parenthood) in the upcoming budget bill (the current budget bill expires on Apr 28). Republicans are likely to address the more controversial pieces of the budget under reconciliation at a future date.

• (Bloomberg) “Trump and markets are moving on, with the help of better U.S. data,” Societe Generale SA strategists, led by Ciaran O’Hagan, wrote in a client note, referring to the rebound in risk appetite after last week’s failed health-care bill curbed reflation bets.

• (Washington Post) House Republicans insist they aren’t giving up on repeal/replace – Speaker Ryan spoke Tues morning and said lawmakers will continue to work on replacing ACA. However, there aren’t any signs of a shift in the political fundamentals that led to ACHA’s failure.

• (Washington Post) Fate of ACA private exchanges could be determined by two upcoming dates: May 22 and June 21. May 22 is an important court date during which reimbursements paid to insurance companies providing coverage for low-income people through the exchanges will be considered. Without these reimbursements insurers could withdraw from the exchanges (and/or dramatically raise premiums). June 21 is the date by which insurers need to decide whether they will participate in the federally-run insurance exchanges for 2018.

• (Reuters) China signals a desire to align w/ Europe – China is reaching out to the EU and signaling a desire to align on a host of issues. The China outreach process is a result of the Trump presidency.

• (NYT) Robots are winning the race for American jobs – robots are increasingly capturing jobs formally performed by humans according to a new research paper. Manufacturing has been the most impacted (automation has been a far greater headwind to blue-collar employment than trade and offshoring). Increased automation won’t necessarily result in a net economy-wide employment benefit. Men were affected by robots at nearly 2x the rate as women.
• **(JPM on taxes)** The Republican leadership faces enormous obstacles to executing on their tax ambitions (maybe as great as the ones encountered by the ACHA) and the final bill (to the extent one is even passed) is likely to disappoint. However, investors aren’t looking for tax progress imminently and thus for the next several months promissory headlines (such as the ones that have clogged the wires for the last several days – “Republicans pivot to taxes”, “Republicans begin work on taxes”, “Ryan at White House to discuss taxes”, etc.) will help buoy equities (although its hard to imagine how tax hopes alone can help get the SPX to fresh highs).

• **(Wire services)** The Senate will vote on Gorsuch on Fri Apr 7.

• **(Fed’s Fischer on CNBC)** “We are watching fiscal developments in Washington very closely as this will obviously have an effect on growth and monetary policy …..we prob. won’t see a sig. tax cut until 2018….the expectation of fiscal policy could have a positive effect on the economy and we will monitor this…..the forecast for two additional hikes this year seems about right but we are continuously monitoring the economy….the risks for more/less hikes vs. two additional ones are more or less balanced….in the short-run increased fiscal stimulus should improve GDP but this doesn’t necessarily enhance the long-term growth potential of the economy…. …..overall the EM countries have a pretty good chance of handling Fed tightening vs. what we were thinking a few months ago”.

• **(Bloomberg)** - Russia Can Wait for $70 Oil Before Returning to Arctic Waters- Russia can wait for a sustained recovery in oil prices before drilling again in Arctic waters, relying for now on less costly regions even as rival producer Norway accelerates development of its northerly fields. “We estimate production costs for the Russian Arctic offshore in the range of $70 to $100 a barrel,” Energy Minister Alexander Novak said by email. These reserves “are our backup stock,”

• **(Bloomberg)** - Shale Drillers Face Uncertain 2018 With Most Hedges Running Out- A surge in hedging contracts is helping U.S. shale drillers ride out the turmoil in global oil markets this year. Next year may not be so easy. As of March, the biggest explorers had hedged 28 percent of this year’s production, according to Warren Russell and Michael Cohen of Barclays Plc. Those contracts, which lock in future payments, are expected to help U.S. output reach a “multi-decade high by December, within sights of the all-time high

• **(DJ)** Oil prices crept up on Wednesday amid supply disruptions in Africa and renewed commitments by major oil producers to rein in production. Crude prices received support after Libya reported the closure of key pipelines as tension between the government and a militia flared up again removing about 250,000 oil barrels a day from the market. “We are seeing tighter supply and this is very likely to continue well into April,” said Georgi Slavov, the global head of energy research at Marex Spectron. "But demand remains weak which is why oil is not flying at the moment." United Arab Emirates announced plans to reduce its production by about 200,000 barrels from March to May, "which is actually more than was agreed," said Commerzbank analysts in a recent note. A surge in U.S. production, however, is still overshadowing the market.

• **(Bloomberg)** -- Global copper mine supply will probably shrink this year for the first time in more than a decade as producers from South America to Asia face a wave of disruptions from strikes, government disputes and bad weather, according to Citigroup Inc. Losses so far this year from the interruptions, including at Chile’s Escondida and Indonesia’s Grasberg, already amount to about 385,000 metric tons, the bank said in an emailed report received on Wednesday.

• **(Bloomberg)** - Gold Seen soaring to $1,500 as Inflation Poised for Comeback- Gold is poised to rally to levels last seen four years ago as rising inflation and negative real interest rates combine
Special Report

Special Report Special Report Special Report Special Report

to boost demand, according to Incrementum AG, which says that the precious metal may be in the early stages of a bull market. Prices may climb to $1,400 to $1,500 an ounce this year, said Ronald-Peter Stoeferle, managing partner at the Liechtenstein-based company, which oversees 100 million Swiss francs ($101.5 million).

Ag Markets:

• Oil World looks for record 2017 Brazil soy exports of 61.4 mmt—up 9.8 mmt from prior year. US soy exports March onwards will decline vs. YA pace. USDA pegs 2017/17 Brazil soy exports at 61 mmt.

• (Reuters) - Algeria’s state grains agency OAIC purchased around 200,000 tonnes of durum wheat in an international tender which closed on Tuesday, European traders said on Wednesday. The durum was bought at around $250 to $253 a tonne c&f, they said. This was seen as an aggressive price. Some traders estimated the purchase at up to 250,000 tonnes with prices up to $254 a tonne c&f. The purchase would likely be Canadian western amber durum or U.S. durum, traders said. The wheat was for shipment in May.

• (Bloomberg) -- After 11 days of arrests, bribery allegations and a full-blown international food-safety scare, the worst may finally be over for Brazil’s embattled meat industry. Having been shut out of some of its most important markets, Brazilian meat companies have regained access to most of them in recent days. Hong Kong, the largest destination for Brazilian beef, was the latest to ease restrictions. "It brings relief for the industry,"

• (Bloomberg)-- Latest developments in the Brazilian probe into allegations of bribery by the meat industry and the sale of tainted meat. Tainted meat may be cause for alarm in most of the world, but Brazilians’ appetite for beef is still going strong. The EU suggests Brazil obtain an external audit of its meat production. Brazil’s Agriculture Minister Blairo Maggi plans to visit Saudi Arabia. Maggi says so far no evidence has been found of meat that’s unfit for human consumption. It’s not Brazilian beef that has given European food inspectors their greatest cause for concern in recent years, it’s the country’s chicken.

• (Bloomberg) - Agriculture traders seem resigned to the idea that low prices are here to stay. Years of bumper grain harvests, along with low prices and diminished volatility, have made it harder for the top firms to make money buying and selling major crops like wheat, corn and soybeans. Gluts, which have pushed crop prices to near the lowest since 2009, will probably last for a while yet, executives said at the FT Commodities Global Summit in Lausanne.

• (CME Daily Livestock Report) Turning to tomorrow’s Quarterly Hogs and Pigs report, analysts expect that the survey of producers by NASS will show continued herd expansion. Our assessment of the of the pre-report estimates is that the ranges are wider than typical. In terms of averages, the March 1st breeding herd is anticipated to be up 1.5% to 2.0% yearover-year. Fully a 4% increase compared to 2016’s is expected in animals kept for marketing. The range on the kept for marketing category is from up a modest 2.7% to a very substantial 5.1% jump.

• (Bloomberg) -- China’s govt. should increase or remove cotton import quotas so the industry has access to more high-quality overseas fiber, says Leng Jinggang, an official at the Cotton Textile Association. Leng spoke at meeting of China Cotton Association, excerpts of which were posted on its website. China kept its cotton import quota capped at 894,000 tons in 2017. High-quality cotton deficit seen at 2m-3m tons if cotton yarn imports keep decreasing: Cotton yarn imports in 2016 fell 16% y/y. Quality of state reserves hard to meet the gap. Imported cotton reserves almost sold out last year.
• (Bloomberg) -- Corn for Sept. delivery on Dalian Commodity Exchange -2.5% to close at 1,673 yuan/ton. Most-active contract +10% YTD, heading for biggest quarterly gain since 4Q 2010tni. “An outlook for ample global supplies is putting a drag on futures,” says Masayo Kondo, president of Commodity Intelligence, researcher in Tokyo. Low Crop Prices Are Here to Stay as Traders See Gluts Persisting. South Africa Raises Corn-Crop Forecast to Biggest in 36 Years.

• (Bloomberg) -- Russian ministry expects to soon hold “consultations” with Turkish counterparts on supplies of Russian grain to Turkey, Russian news service RIA Novosti reports, citing Alexei Gruzdev, deputy economy minister. Turkish grain processors will incur “substantial” damage if unable to import Russian grain.

• (Bloomberg) -- Ukraine imported 3,139 harvesters in 2016, most since 2008, Ukrainian Club of Agriculture Businesses, a lobby group, says on website. That’s 150% more than 2015 imports. Most supplies from countries including Germany, Poland, U.S., Belgium.

• (WSJ) Investors are pushing for a bitcoin-futures contract after the Securities and Exchange Commission rejected another bitcoin exchange-traded fund, this time from SolidX Management. "Once bitcoin futures are in the market, that paves the way for new vehicles and more liquidity that ultimately paves the way for an ETF," said ARK Investment Management analyst Chris Burniske.

• S Africa pegs 2017 corn crop at 14.7 mmt—up 6.6 mmt from YA (USDA at 14.6 mmt).

• Board crush Tuesday off 0.25 cent sto 1.5 cents May thru Dec to 77-90 cents.

Trade Estimates for March 31 Crop Report:

Grain Stocks:

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<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Corn</th>
<th>Soybeans</th>
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<tr>
<td>Average trade estimate</td>
<td>1.627</td>
<td>8.534</td>
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<td>Highest trade estimate</td>
<td>1.721</td>
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<tr>
<td>Lowest trade estimate</td>
<td>1.450</td>
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<td>USDA March 1, 2016</td>
<td>1.372</td>
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<td>USDA Dec. 1, 2016</td>
<td>2.073</td>
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Planted Area

March 31.
Figures are in millions of acres.

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<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybean</th>
<th>All Winter Other Durum Wheat Wheat Spring</th>
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<tr>
<td>Average trade estimate</td>
<td>90.969</td>
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<td>92.500</td>
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<td>Lowest trade estimate</td>
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<td>USDA 2016 planted acreage</td>
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<td>USDA 2017 Outlook Forum</td>
<td>90.000</td>
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<tr>
<td>USDA 2017 winter wheat</td>
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## Special Report

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<th>Commodity</th>
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<th>Lowest trade estimate</th>
<th>USDA 2016 plantings</th>
<th>USDA Outlook Forum</th>
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<tr>
<td>Cotton</td>
<td>11.409</td>
<td>12.300</td>
<td>10.500</td>
<td>10.075</td>
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<td>Sorgo</td>
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<td>Barley</td>
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<td>Oats</td>
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<td>Rice</td>
<td>2.843</td>
<td>3.200</td>
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