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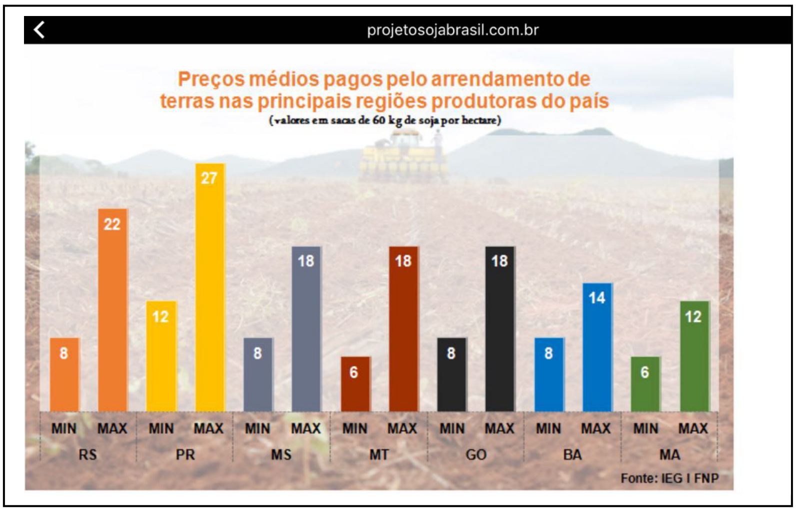


Is it just me, or does it seem like every couple of weeks; a year's worth of events have taken place?

Much has changed since June newsletter.

The soybean trade obliterated two years worth of technical work in two weeks. Once SX 18 took out 9.98, it was game over. I never dreamt we would trade down to 8.65 again so quickly. 30,60, and 90 year cycle lows were blown out like a hot knife through butter. There is a 45 year cycle due by August 14th. In May, I was of the mind that this would be the seasonal high for soybeans this year. Given market action the past month, I am now wondering if it might be a low. So much of this depends on July 6th deadline. The past month has been a political market. It reminds of Jimmy Carter grain embargo. Weather, fundamentals, and FX no longer matter. The market is looking for a new normal. I do not pretend to have the answer today. I can only relay what is going through my mind today. I want to stay positive and think this trade war will be worked out. But, even with some super duper double extra soy topping dessert trade package, a retracement rally back up of 60 to 80 cents tells me what? Is that a selling opportunity? The USA crop is huge. Brazil and Argentina crops will be huge. I fear the long term damage has been done as per USA/China soy relations. USA will be the residual soybean supplier to China. That means higher carryovers. Of course that means other countries will buy USA beans and back away from Brazil. But, China is the market. Period. If the market needs to wonder if China needs 85 mmt or 100 mmt of soy, the USA farmer will suck the hind tit if it is the former.

For those that lived through the 80s and had to deal with set asides, storage programs, Pik certificates, grain loan forfeiture, PL 480 grain donations, and all the games to survive via help from CCC, this all makes me cringe. This is not Freedom to Farm anymore- in a worst case scenario. **Are today's soybeans the wheat of the 1980s?** God I hope not, but it sure has gone through my mind in recent days.

If we get a deal in the coming weeks, the 8.65 low was probably the wash out and we can maintain the long term general uptrend. But, if this drags on into USA soybean harvest, then I ask myself was the 10.60 SX high a major high? The US$ 1.95 drop was only leg #1 down. We rally back up 80 cents to a dollar. US$ 9.50, for example. Then we drop another 2 dollars down through USA harvest and into BR new crop? *Are we at US$ 7.50 per bushel in 2019?* If so, God help us all, there will be blood in the streets in the American Midwest. **USA Ag crisis part II.** For the most part, the American farmer is protected for the 2018 crop. Crop insurance, hedging, ARC or PLC payments will come in time. But there will be nothing to work with for cash flows for 2019- this is the long term risk. Price readjustment needs to occur across many sectors if that is the new norm. Machinery, land, rent, crop inputs, fuel…….

As I sent out the June newsletter, the BR trucker strike seemed to be resolved. But for the last three weeks, there have been no new corn or soy bids in Mato Grosso. The new freight table really stuck it to the grain shipping companies and farmers. Looking back, I think many wished they would have never supported the trucker strike. We got a small drop in diesel prices, but the freight rates exploded higher. The price of gasoline to general public has increased in recent weeks. The price of soybeans at Sorriso, MT was trading 70-71 reais per sac in late May. Today the perceived bid is R$ 63sac. So wham, that knocked 7 to 8 reais off of potential cashflow for 2019 crops and subdued prices for the current corn crop. Millions of tons of grain booked pre-strike are trying to find their way to ports. This kinda knocked the wind out of Brazilian farmer's sails too. It is still a green light for 2019, just not quite as bright as a month ago.

On page one, I included a land rental rate chart by state.

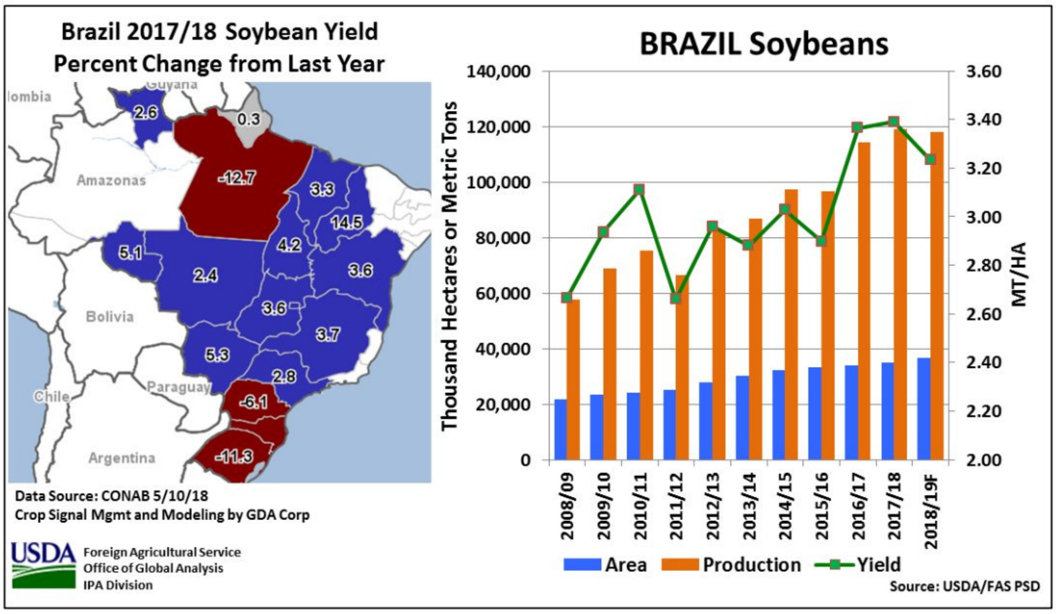
The units are labled in sacs of soybeans per hectare.

1 sac = 2.2 bushels

Mato Grosso we see a range from 6 to 18 sacs per hectare.

6 sacs is new land being converted from pasture. Similar to CRP ground.

I am not aware of anyone paying 18 sacs in MT.



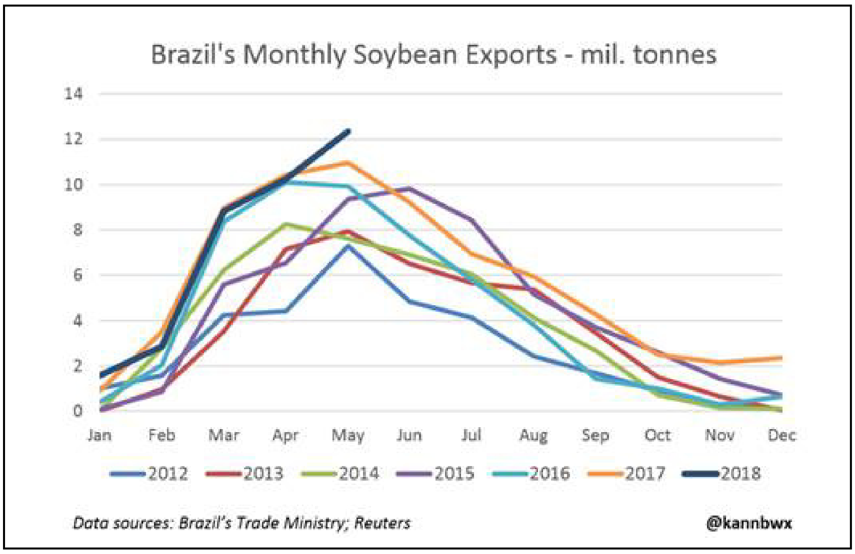
Maybe cotton ground in SE MT?
The highest I know of is 15 sacs rent for a soy/corn double crop farm, with a rotation of cotton once over 3 years.

Mato Grosso has had two back to back record soybean production years - 60 sacs was common
60 sacs X 60 Kg = 3.6 tons/ha

If this continues, higher and higher rental rates will be coming.

On page II, we see Brazil's soy area changes and production stats.

The blue states show the percent increase in productivity year over year.



To the right we see Brazil pumped out 12 mmt of soybeans in May. They emptied the stocks at port. June will lag as trucks are coming in hand to mouth at moment.

We can see there has been about a US$ 1 dollar per bushel increase in premiums paid at port in the last two weeks.

August is now about US$ 2.00 over CME prices.

The 1 dollar rally is partly due to China situation and also the new truck freight table. If they want the beans, cash market will need to pay for them and subsidize this new freight model. Here again is Custo Brazil seeping into everything.

Look for Brazil soy premiums to stay above historic averages going forward. All of this sure bodes well for railroads in the future. The ROI should be there for investors. Trucks will short haul and trains should do

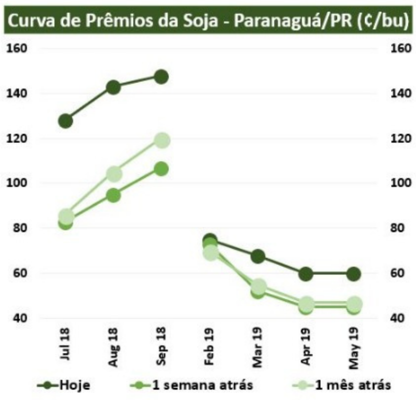
Brasil: Prêmios da soja em Paranaguá

Prêmios da soja na exportação continuam firmes com guerra comercial entre a China e os EUA.

Ofertas para embarque agosto sobem 7 cents/bushe a 150 cents acima dos futuros na CBOT. Na semana, temos uma alta de 48 cents.

SOYBEAN BASIS - PARANAGUA (cents/bushel)

MONTH	SELLER	DAY	Daily Change	BUYER	Daily Change	Weekly Change	Monthly Change
JUL 18	ns			nb		+45	+42
AUG 18	+150		+7	+135	-5	+48	+38
SEP 18	ns			+145	+5	+41	+28
FEB 19	ns		unch	nb		+2	+5
MAR 19	+72		+2	+63	-2	+16	+13
APR 19	+65		+5	+55	unch	+15	+13
MAY 19	+65		+5	+55	unch	+15	+13



This is an old graphic. The premium for August is closer to + US$ 2.00 over CME as of this writing.

more of the heavy lifting in time. With the railways tying grain merchandisers to multi-year take or pay contracts, there has been a nominal influence on freight so far. But upon contract renewals, I would think railways will be able to increase their freight rates to more in-line with truck rates.

I have never written a newsletter hoping that it would be wrong. This is the first. I hope in two weeks, I can say, please disregard 90% of what I wrote in here. I was wrong……

I do not want to get into a political battle. It solves nothing. I am looking for the opportunity on the other side of this. A month ago, the Brazil farmer was the clear winner. He was in the right place at the right time growing the right crop. Since then, the truck strike kicked him in the nuts. He now has to pay more for freight and also the local bids dropped. Brazil now has millions of tons of fertilizer at port and they are having difficulty getting the product off loaded and to their end users. Could this influence final planting area? Maybe. I think there is time to get product moved, but if this drags out another month, maybe Brazil does not use quite as much fertilizer as we were thinking a month ago?

FX at 3.80:1, fertilizer has gotten expensive for who did not buy when FX was 3.30:1. Another X factor???

Brazil is on pace to produce 120 mmt+ for 2019. But what if trade agreement stalls and we have US$ 7.50 beans in 2019 in Chicago? Does the FX in Brazil compensate the BR farmer at 4.50:1, for example to keep him stimulated? Do premiums at BR ports increase to US$ 3.00 over CME? This to help with freight costs etc?
At some point, does the arbitrage get wide enough that China buys BR beans and BR buys USA beans later?
This seems insane and costly for everyone.

I have read comments this week that USDA and CCC have options as to buying surplus commodities and donating them. For those old enough, we have been through all of this in the 80s. We need to be careful here, once we start giving commodities away for peace or other reasons, we soon will be producing commodities for government and not the market anymore. We have been there done that. I guess we could say that was the beginning of the USA ethanol industry. Corn is worth nothing, just as well do something with it……

I also read that maybe China can substitute their hot soybean ration for a cheaper corn option. Thereby cutting soybean import needs down to 85 mmt. What happened to the never ending increasing China soy appetite?
100 mmt then 120 mmt and a 150 mmt by 2035 or some such date?

If Brazil is allowed to increase soybean production to 130 mmt in let us say 2 more crop cycles beyond 2019, can Brazil solve Chinas problem with a 85 mmt import demand pull? I don't know, but this has been bantered about this past week. *(Two years ago I would not have thought possible for Brazil to be at 130 mmt by 2021)*

If China substitutes in rotten 3 year old corn for soybean meal, the rate on gain of the pink rats slows down. The amount of pork available for Chinese slows down and then we have a demand price spike at some point? 6 months? 9 months down the road? Are Chinese willing to tolerate this risk to teach USA a lesson?

What could Chinese do? import more pork? Maybe they buy Brasil Foods next, buy the pork, and let the soybean meal stay in Brazil? Could that happen in 5 years? Sure? Maybe less these days…..

What if a 20 mmt crop failure in Brazil? Chinese then come back to USA begging for beans at any price.
Forget about the tariffs…..

(With Brazil production potential now at 120 mmt+, it is difficult to imagine more than a 10 mmt cut from any crop failure in a given region of Brazil going forward.)

Trump is trying to get USA and China to change course. He is a Bull in a China shop and there is going to be some glass broken. We are seeing that now.

This has all been going on while China has been clearly expanding in Brazil. This past week we have seen the Chinese spin off some of their grain origination business in Brazil. The grain trading business is not easy. It is local finesse and international at same time. Throw in domestic FX and international trade wars, everyone will get burned at some point.

I am writing all of this because a month ago I was not thinking like this. I was not expecting a 2 dollar drop in soybeans in June. I thought it might be possible after a big USA crop and a big SA crop on deck in 2019. Now, this has already happened. The technical damage was enormous. In the last week we have read comments about China cutting back soy use and CCC buying grain and giving it North Korea. This is 3 dimensional chess. *We need Spock !!!!*
Where will we be in two more weeks?