

# January News

The ARC Group, LLC

January 2016

*Recently, ADMIS held its annual broker meeting in Las Vegas with two excellent and smart-as-a-whip speakers; Dan Basse of Ag Resource and Dave Hightower of the Hightower Report. As a speakers, they were both charismatic, but the information Mr. Basse presented was more bearish of the two and made me want to sell everything on the spot. Mr. Hightower provided much more optimism regarding the grain markets. In this months newsletter I will go over my takeaways from the meetings and how it affects you and your marketing program.*

---

*Brought to you this month by Blake Koppitz*

---

## Agriculture Commodity Outlook

For producers in the ag markets we have had to shift our thought process from maximizing revenue to protecting revenue and keeping you in business. What makes that even more difficult today is the we are truly participating in a global market. The US just doesn't move the needle like it used to. The world is awash in grains and world production is growing faster than the demand which is causing grain stocks to rise all over the world. One of the causes of this is the investment in agriculture like precision farming and seed genetics is paying off. Just look at this past year in the US. Soybean and corn yields held together well even with the excess moisture. Basically, there is less variability in yields relative to weather related stress. Eventually this technology will get into the hands of developing countries and the rest of the world will be able to readily handle localized weather events. Also for

### In This Issue

- Pg 1-2: Agriculture Commodity Outlook
- Pg 3: El Niño ("The Niño")
- Pg 4: Marketing

## Agriculture Commodity Outlook (continued)

especially in South America, is incentivizing farmers to plant even more acres and will add even more grain to the balance sheet. Ag Resource also sees the ethanol market being mature which will also limit demand going forward. Below is a summation of the headwinds going forward.

- Favorable weather (diminishing threat of hot, dry weather)
- US losing export competitiveness
- Argentina currency devaluation and tax breaks incentivize planting
- World population growth slowing
- Improving technology and seed genetics
- Deflated price ranges
- Production costs lagging the fall in commodity prices
- Weakening global commodities.

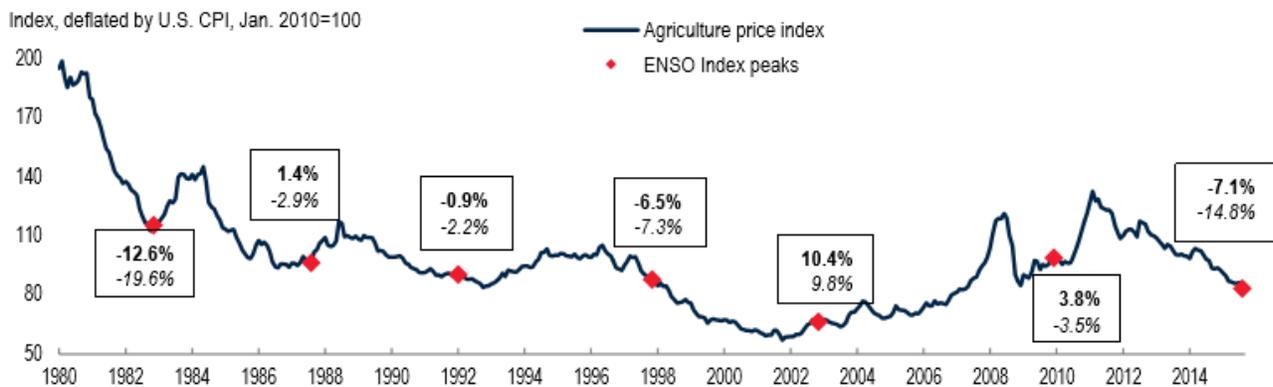
That is about it for the depressing news. Hopefully you made it this far without dumping all of your crop. Dave Hightower was more positive in the markets. I'll try to relay his thoughts the best I can. He thinks outside the box and likes to get leverage on his trades for low cost/high reward strategies. His thoughts are that uses for clean energy may increase going forward and commodities as an investment versus equities may give them support. Equities have outperformed commodities for about 7 1/2 years. Typically that only lasts about 6 years. We may be due for a rotation from equities into commodities. For energy, we are able to export ethanol and international car sales are at record highs and as countries, including China, grow more concerned about cleaner air and a move from coal we could see demand for cleaner energy and higher emission standards. This could bode well for the US oil and ethanol market. Hightower believes that El Niño could be at work in Indonesia. Why does that matter? First, as Dan Basse pointed out, we are definitely in a global market. Second, vegetable oil demand is rapidly increasing in the East. As El Niño affects Palm Oil, the need for Soybean Oil would increase. Remember, I wrote earlier that he is unconventional and likes leverage. One idea for upside in grain is to buy 10 Bean Oil calls. The thought is that Bean Oil could pull Soybean prices higher, but Bean Oil could rally without Soybeans giving a producer an opportunity to make better gains should a weather event happen. This is not a recommendation. It is just to get you thinking outside of the box.

# El Niño

With fundamentals leaning heavily bearish, the majority out there believes that there needs to be a weather event to elicit any significant rally and change in trend. But how likely is that? From what I've heard, the people who will profit from higher prices believe the chance is much more likely of a weather event than some of the more independent analysts and forecasters. Our own Ian Hamilton was actually on a Weather Desk previously and gave us his view of El Niño and its affect on grain prices. I will do my best to articulate what he wrote.

Below is a chart from the world bank that shows the price impact of El Niño years on agricultural commodities. The not bold number is the impact of prices in an El Niño year. As you will see, Only once in the last seven cycles has it resulted in a negative harvest world wide and we just went over how agriculture is

**FIGURE F.8 Agricultural commodity prices and El Niño episodes**



Source: World Bank and NOAA.

Note: The ENSO peaks reflect values greater than 1 (see Figure F1.1). The numbers denote percent changes of the six-month average price index leading to the episode compared to the previous six-month period (bold) and the corresponding six-month period of the previous year (italic). The last observation for both agricultural price index and El Niño is September 2015.

The next chart is the impact on the corn crop where El Niño is present from Agri-Bank. Four out of five years there was a positive impact on production.

Year	Yield Deviation from Trend	Excess Abandon (%)	Final Plant vs Intended	Previous Year Ave ONI		Current Year Ave ONI					
				Q3	Q4	Q1	Q2	Q3	Q4	Annual Average	Change in Ann Ave
1969	+9.6	+0.48		0.400	0.600	0.933	0.600	0.567	0.767	0.717	0.683
1972	+15.0	+0.00		-0.767	-0.833	-0.367	0.567	1.300	1.900	0.850	1.758
1982	+12.2	-1.00	-2.8	-0.267	-0.067	0.100	0.600	1.100	2.033	0.958	1.192
1987	+9.3	-0.52	-1.4	0.433	1.000	1.133	1.000	1.533	1.233	1.25	0.983
1997	-2.9	-0.10	-1.9	-0.267	-0.433	-0.367	0.567	1.700	2.267	1.042	1.467
<b>Average</b>	<b>+8.6</b>	<b>-0.23</b>	<b>-2.0</b>	<b>-0.093</b>	<b>0.053</b>	<b>0.287</b>	<b>0.667</b>	<b>1.240</b>	<b>1.640</b>	<b>0.958</b>	<b>1.217</b>

## What This Means For Your Marketing Plan

The consensus really seems to be that we are in a suppressed market for the next couple of years. In a depressed market with tight trading ranges, I believe The ARC Group's philosophy will out perform others. In my experience, in a tight choppy market, it is incredibly difficult to determine when to sell rallies. This where our Daily Swap Averages and Enhanced Averages can really benefit takes the guess work out of it. The trade itself is making sells every day. As we've seen, averages can be very difficult to beat. Also when you have a market with tighter ranges, you can't get baled out by the futures market as easily as it has been in the past with wild swings. We are not counting out a weather market we are just going to plan for there not to be and adjust if there is. Sticking to a plan around not having a weather event and getting one is much better than waiting on one and not getting it. Where does the rest of that value come from? BASIS and CARRY! Our expertise will be more valuable than ever. Good basis and carry decisions may be your variance in profitability the next couple years.

## Enhanced Averages

The cost of Enhanced Averages are about 28-31 cents. At these prices we believe selling options will prove a good strategy to make the trade cheaper. To start, we like selling Dec16 3.40 Puts for 8 cents. Additionally, selling calls should prove to be advantageous as well. There are multiple strategies we can use. Short-dated options to take advantage of time decay and Dec17 Calls to receive more premium. If the talking heads are correct about a depressed market, managing these short option positions could add some profit to your positions. I was vague on the strategies because there's a number them that should work for you. Talk to your ARC representative on the strategies that have the risk/reward profile that fits your needs.

**Blake Koppitz**

### Contact Us

The ARC Group, LLC  
8555 Executive Woods Dr.  
Suite 400  
Lincoln, Ne 68512

866-574-2724  
402-484-7474  
[www.agriskconsulting.net](http://www.agriskconsulting.net)