



CHS PRO ADVANTAGE



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May 2020

Corn



Before any of the outside influences had become apparent to our market, the USDA was using 5.435 billion bushels of corn for ethanol use on the demand side of the 2019/2020 balance sheet. Our most optimistic projections now have 4.8 billion bushels in that slot; a 635 million bushel hit that corn has not recovered from.

Recall that in January the USDA had our 2020 carryout estimate at 1.892 bbu and we had just signed the phase 1 trade deal with the Chinese. That carryout estimate looked large under those circumstances and the new Chinese business was going to make the corn market very interesting this summer, especially

since the government was using rosy production numbers from last year's stressed crops. Last week we got the latest projections from the USDA and they now show a 2020 carryout of 2.098 so exports and feed usage has overcome some, but not all, of the ethanol shortfall. The reality is that we will not find a tight corn market this summer, even though the basis still suggests that the corn is tighter than presumed.

That is not to say that the corn market cannot rally this summer. The entire market is very bearish in sentiment, including the funds which are now approaching record-short territory. A weather scare fueled by a fund exit should provide at least enough fuel to reach a 38% retracement of the move down. That type of bounce is very normal and is not asking much, even under these circumstances. A 38% retracement, if we can call the bottom in (which is not evident yet) would project around \$3.63 December futures; that is still in the cards this summer.

We had positions on early but were not heavily sold when the decline began and while we have a pretty solid lead on the market as of today, the prices are not good. We are actively trading options to enhance the values and with those positions, time is our friend. Much of our protection is in the form of put options and that leaves the upside open for any rally that may materialize. There has not been a season where a rally of some degree has not happened, and we are prepared for that even if it is measured.

July 2020: \$3.6114 (48%), Dec 2020 1 year: \$3.5227 (37%), Dec 2020 2 year: \$3.7765 (41%), Dec 2021 2 year: \$3.6350 (12%). Prices noted are marked to market as of close of business May 14, 2020. Brackets are percent hedged snapshot including all option deltas, these move daily.

Soybeans



We present the same technical argument for a soybean rally as with the corn. If we can call the bottom in from here; a modest bounce and a common 38% retracement of the latest move down would have the November beans at \$8.90, which is a 40-cent rise from here. Markets don't normally go straight up or straight down, so just in a return to normal we think that is plausible.

Soybeans don't have a burdensome balance sheet like the corn does. We do see acres increasing from the latest USDA projections; they are using 83.5 million acres and with prices as they are, we could see producers dropping corn for beans on a few acres. As of right now, this new crop carryout is projected at 405 mbu. That is less than half of what we had at the end of 2019. That fact alone should be sufficient for higher prices, but there is another black swan in this market; a crashing Brazilian Real.

The Brazilian currency is now at \$0.17 USD per BRZ Real or 5.88 Reals/USD. That is a 28% drop in value from January 1st, 2020. If you want to visualize the damage that does to the soybean market, consider what a 28% drop in soybean price would look like. January soybeans high was \$9.80; 28% of \$9.80 is \$2.77. The Brazilian soybean price has dropped the equivalent of \$2.77/bushel since January 1st based on currency alone. Obviously, it is hard to compete on the export market with that, but since the Brazilian farmers have been getting record high soybean prices (in Real terms) they have been aggressive sellers and are soon to be exhausted of this year's supply and are heavily sold on next year as well. This currency influence should fade away, taking pressure off of the soybean market.



We expect a bounce in this market.

July 2020: \$9.9489 (53%), Nov 2020 1 year: \$8.7960 (67%), Nov 2020 2 year: \$9.1288 (73%), Nov 2021 2 year: \$8.3475 (0%)

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Wheat



The attached chart is a weekly view of each of the 3 wheat classes. Chicago is black, Minneapolis is purple, and KC is red. Both winter wheat contracts have had a tough month, price wise, considering both classes of US crop had freeze events. Minneapolis actually has gained enough on Chicago to post a higher price and that is a first in about 18-months.

There is no shortage of wheat in the world, so we did not expect the market to rally, but there is also an outside force at work here in the form of a currency anchor. The Russian Ruble is crashing, and they are the largest wheat exporter in the world. That makes every other country's wheat cheaper as we all compete for export business.



There are some weather concerns in the northern hemisphere, but it is just not enough to mount a rally. Canada is dry, so that has a floor under the spring wheat market.

Some of the wheat positions are in put spreads that expire this week. That makes the totals look less hedged than they will in a few days. We wanted to protect against a late term rally, so if the wheat turns around and rallies this week, the winter wheat prices will improve by the end of our trading window, which is Friday.

HRS 2020 1 year: \$5.4478 (72%), HRS 2020 2 year: \$5.75 (100%), HRS 2021 2 year: \$5.64 (0%)

HRW 2020 1 year: \$4.6642 (58%), HRW 2020 2 year: \$5.0330 (84%), HRW 2021 2 year: \$5.0016 (29%)

SRW 2020 1 year: \$5.2923 (58%), SRW 2020 2 year: \$6.6039 (62%), SRW 2021 2 year: \$5.4785 (41%)

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Weekly Market Valuations

As of 05/14/20

Contract	Pricing Period	Futures Month	Current Market Valuation
Pro Advantage-2020 Corn (2 yr)	12/2018 - 09/2020	Dec 2020	\$ 3.7765
Pro Advantage-2020 Corn (1 yr)	01/2020 - 09/2020	Dec 2020	\$ 3.5227
Pro Advantage- 2021 Corn (2 yr)	01/2020 - 09/2021	Dec 2021	\$ 3.6350
Pro Advantage- 2020 July Corn	01/2020 - 06/2020	Jul 2020	\$ 3.6114
Pro Advantage-2020 Soybeans (2 yr)	12/2018 - 09/2020	Nov 2020	\$ 9.1288
Pro Advantage- 2020 Soybeans (1 yr)	01/2020 - 09/2020	Nov 2020	\$ 8.7960
Pro Advantage- 2021 Soybeans (2 yr)	01/2020 - 09/2021	Nov 2021	\$ 8.3475
Pro Advantage- 2020 July Soybeans	01/2020 - 06/2020	Jul 2020	\$ 8.9489
Pro Advantage-2020 Spring Wheat (2 yr)	08/2018 - 08/2020	Sep 2020	\$ 5.7500
Pro Advantage- 2020 Spring Wheat (1 yr)	01/2020 - 08/2020	Sep 2020	\$ 5.4478
Pro Advantage- 2021 Spring Wheat (2 yr)	01/2020 - 08/2021	Sep 2021	\$ 5.6400
Pro Advantage-2020 HRW Wheat (2 yr)	08/2018 - 05/2020	Jul 2020	\$ 5.0330
Pro Advantage-2021 HRW Wheat (2 yr)	08/2019 - 05/2021	Jul 2021	\$ 5.0016
Pro Advantage-2020 HRW Wheat (1 yr)	08/2019 - 05/2020	Jul 2020	\$ 4.6642
Pro Advantage-2020 SRW Wheat (2 yr)	08/2018 - 05/2020	Jul 2020	\$ 6.6039
Pro Advantage-2020 SRW Wheat (1 yr)	08/2019 - 05/2020	Jul 2020	\$ 5.2923
Pro Advantage-2021 SRW Wheat (2 yr)	08/2019 - 05/2021	Jul 2021	\$ 5.4785



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