



THE **INSIDE
SCOOP**

from the Ardent Mills
Customer Risk Management Desk



***Bull and Bear
Points***

February 2017



Table of Contents

Page 3: World Wheat Situation

Page 38: US Wheat Situation

Page 62: US and World Corn Situation

Page 73: US and World Soybean Situation

Page 85: Market Structure

Page 93: Summary

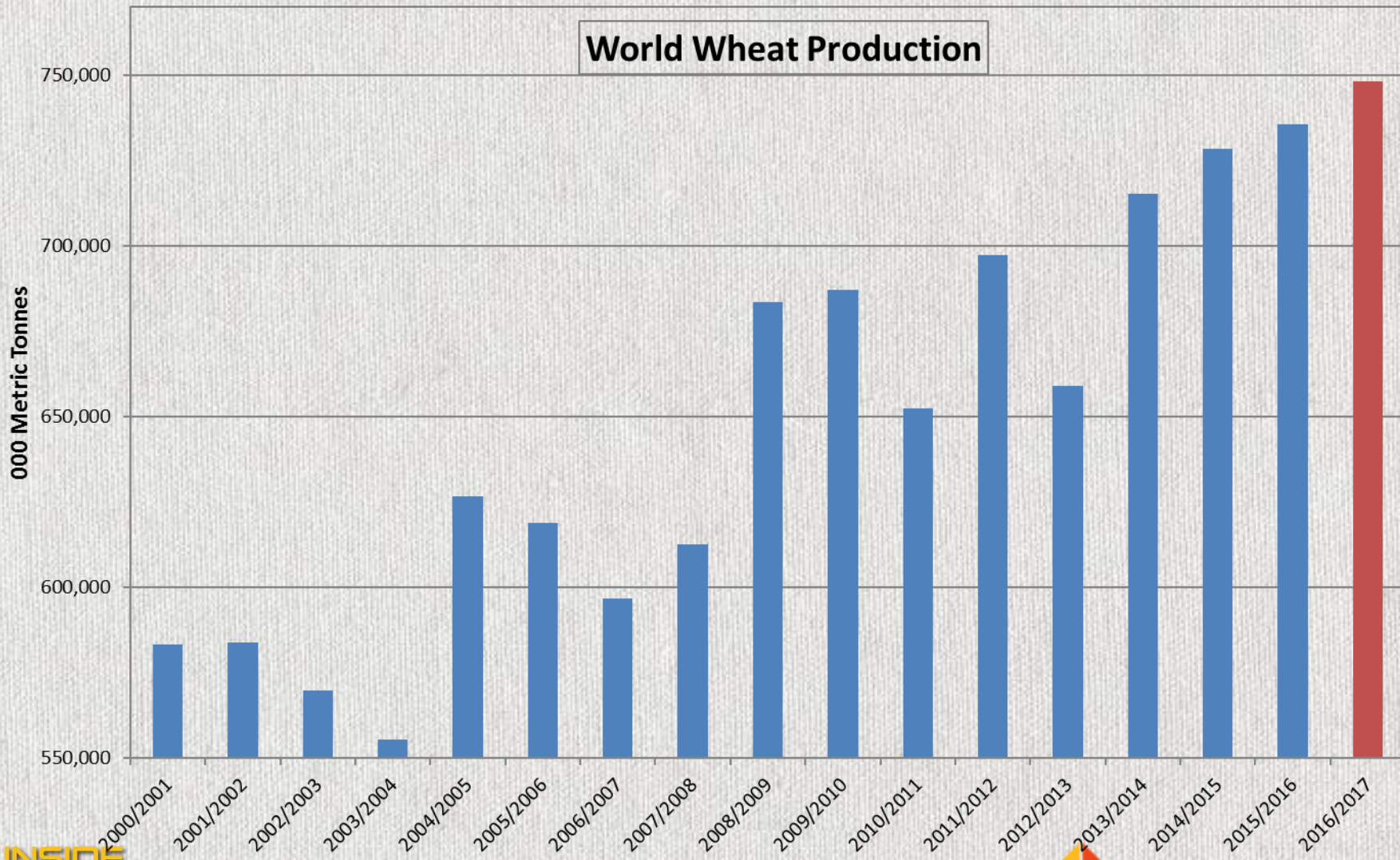
All projections referenced herein are attributed to the sources indicated. Ardent Mills makes no projections about, and offers no advice concerning, future events or trends, or on the advisability of buying or selling futures contracts, options on futures, swaps or any similar structures.



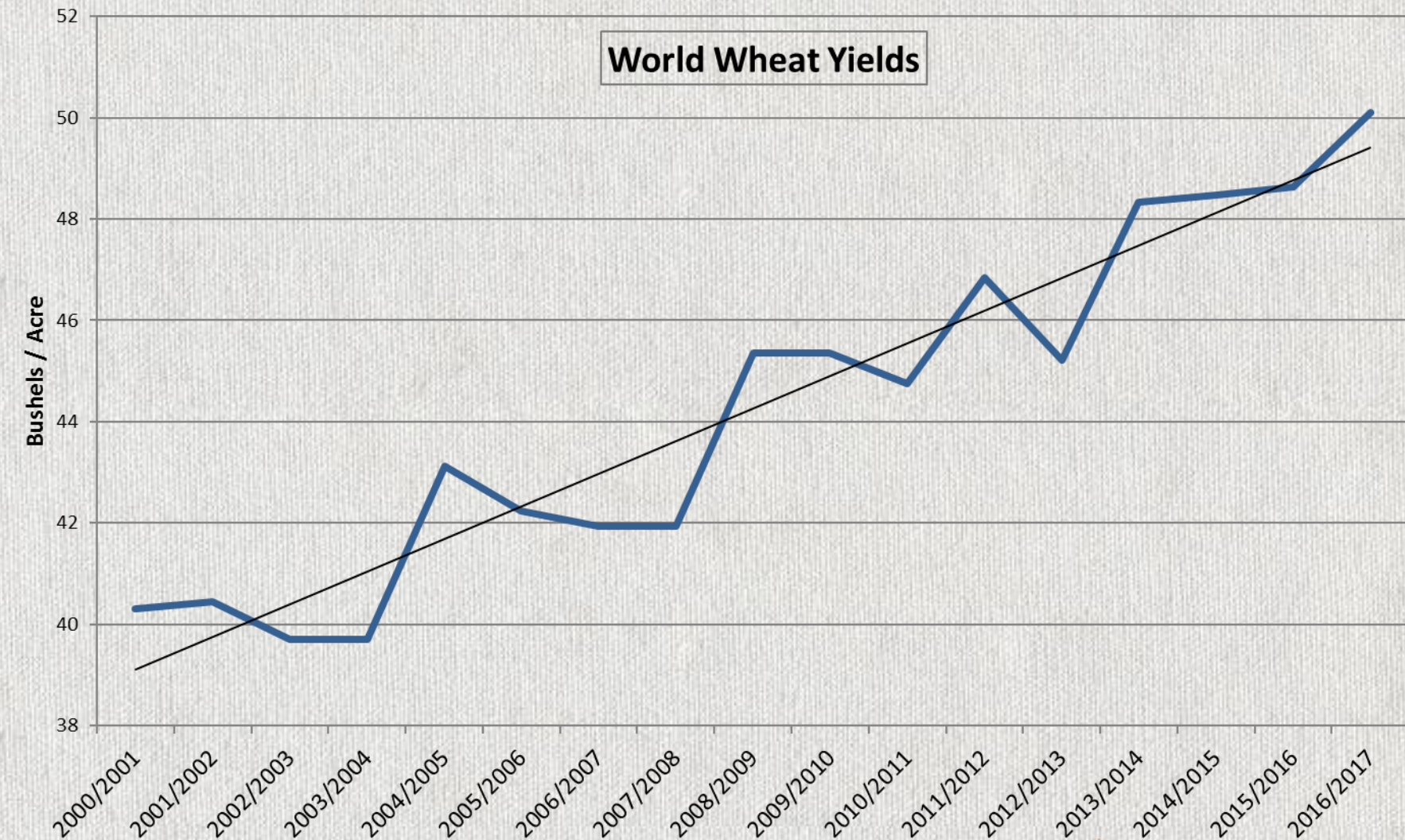
Ardent Mills.
World Wheat Outlook



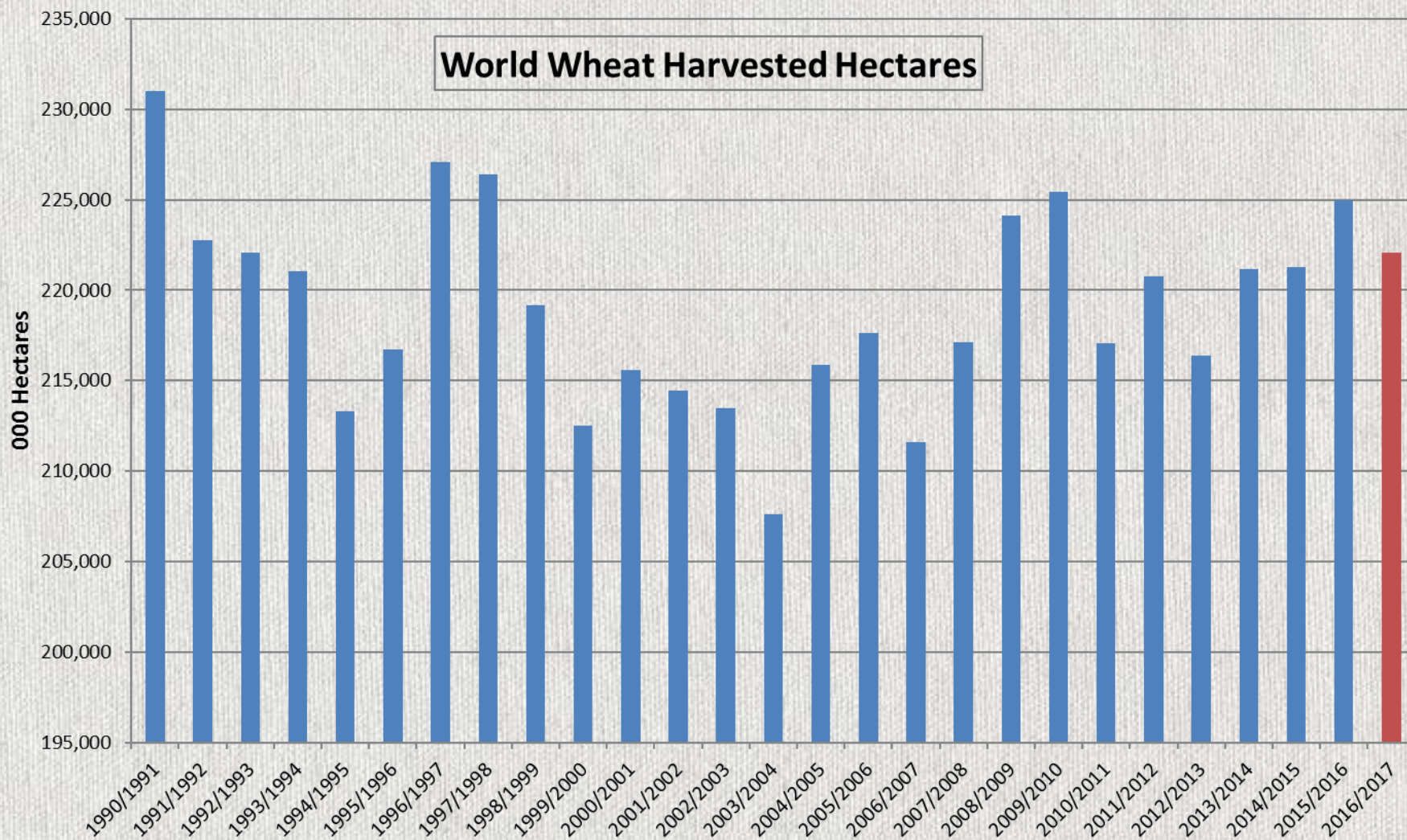
World Wheat Production – fourth straight year of record production (this year by almost 13 million MT)



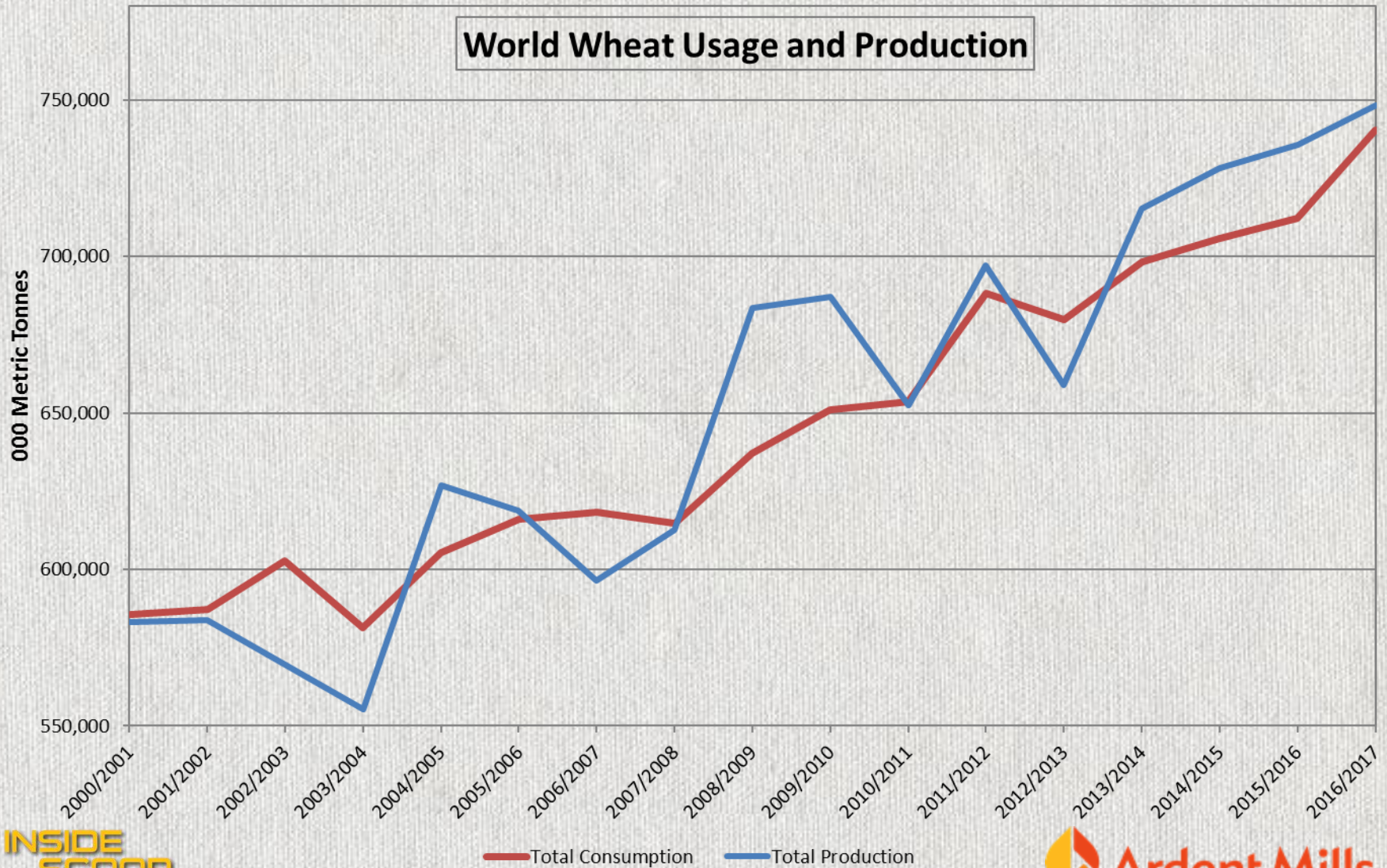
World Wheat Yields – record year once again!



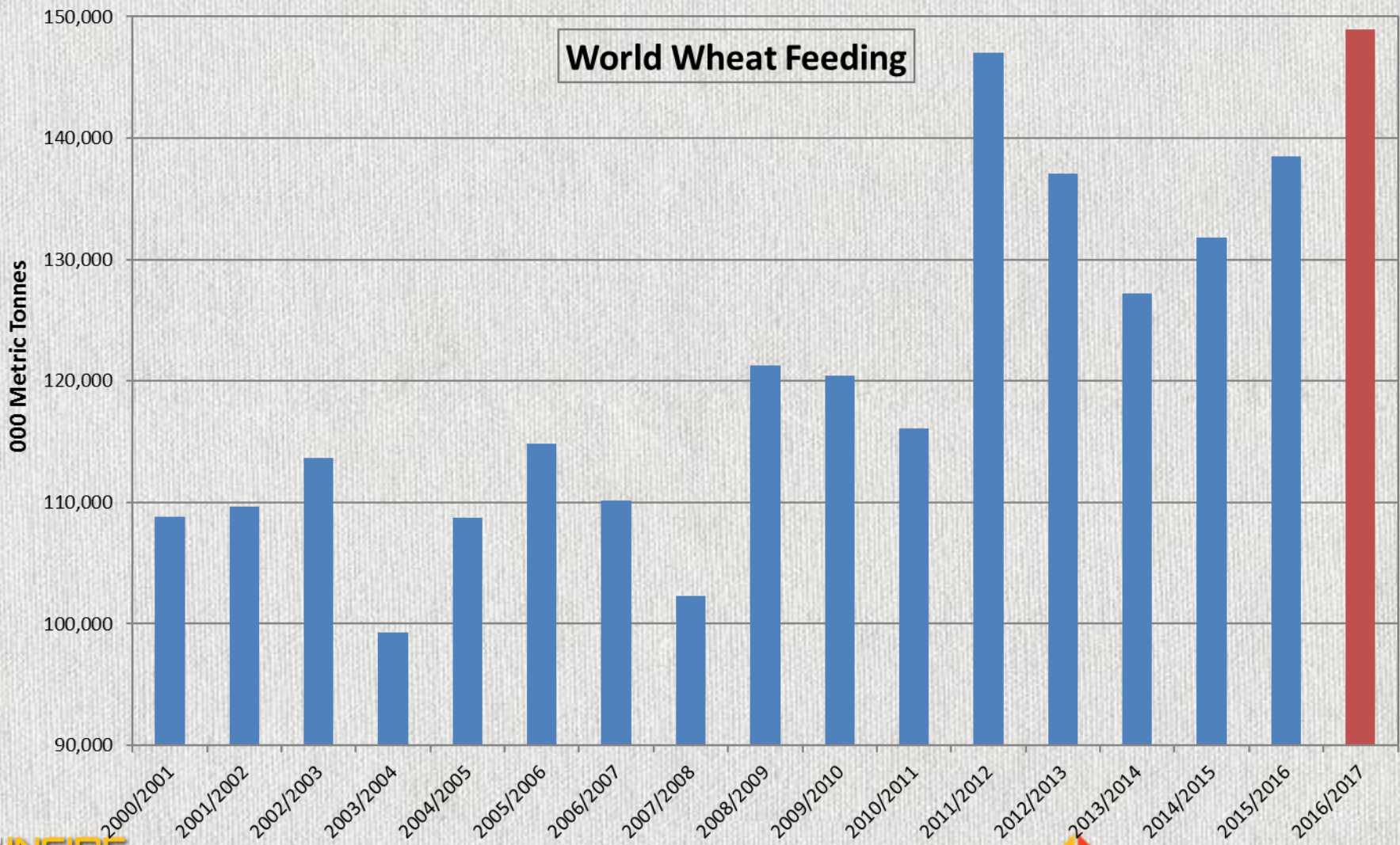
World wheat harvested area – how much lower will this be in 2017?



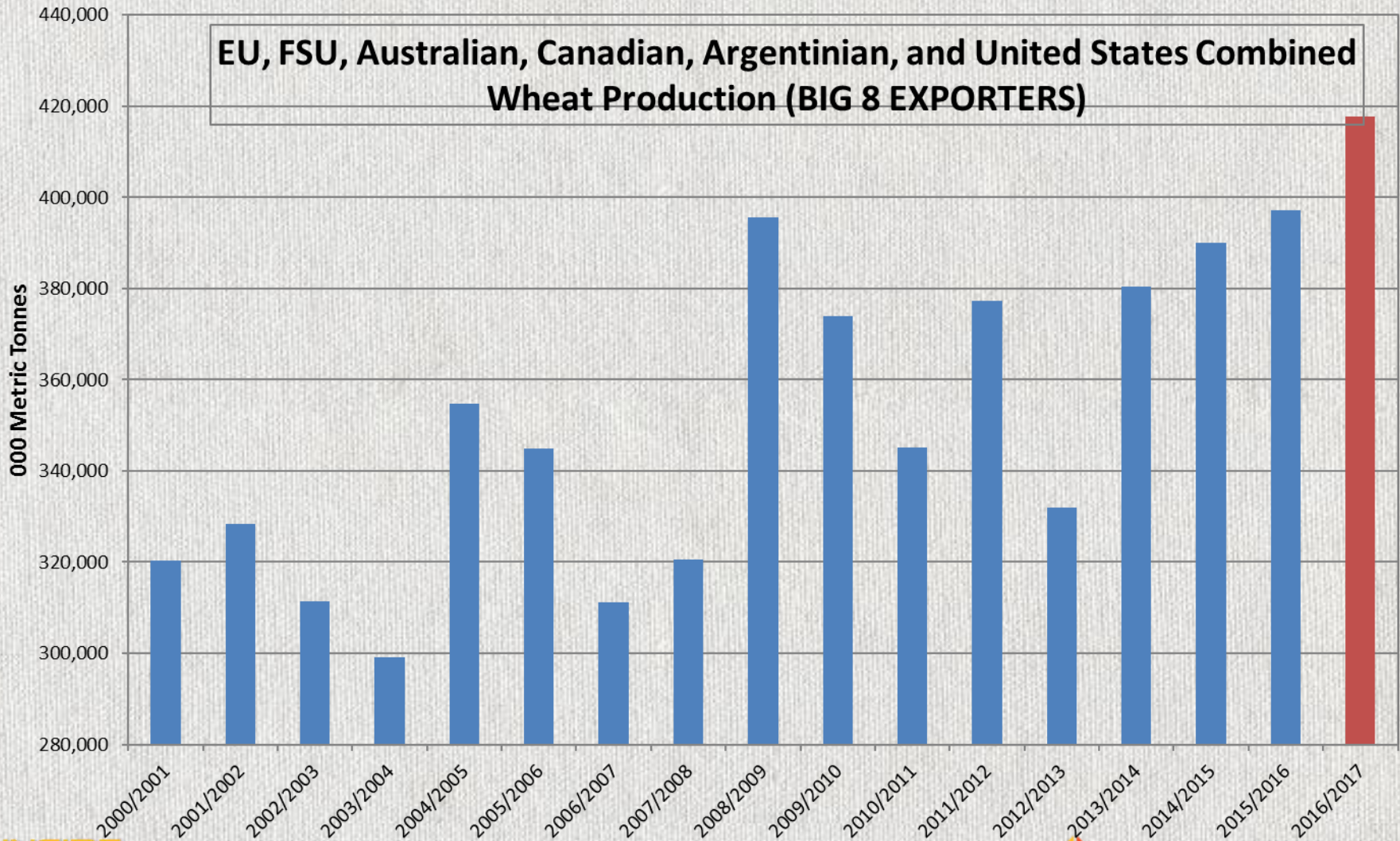
Production has been larger than demand for the past three years and forecasted to happen again this marketing year



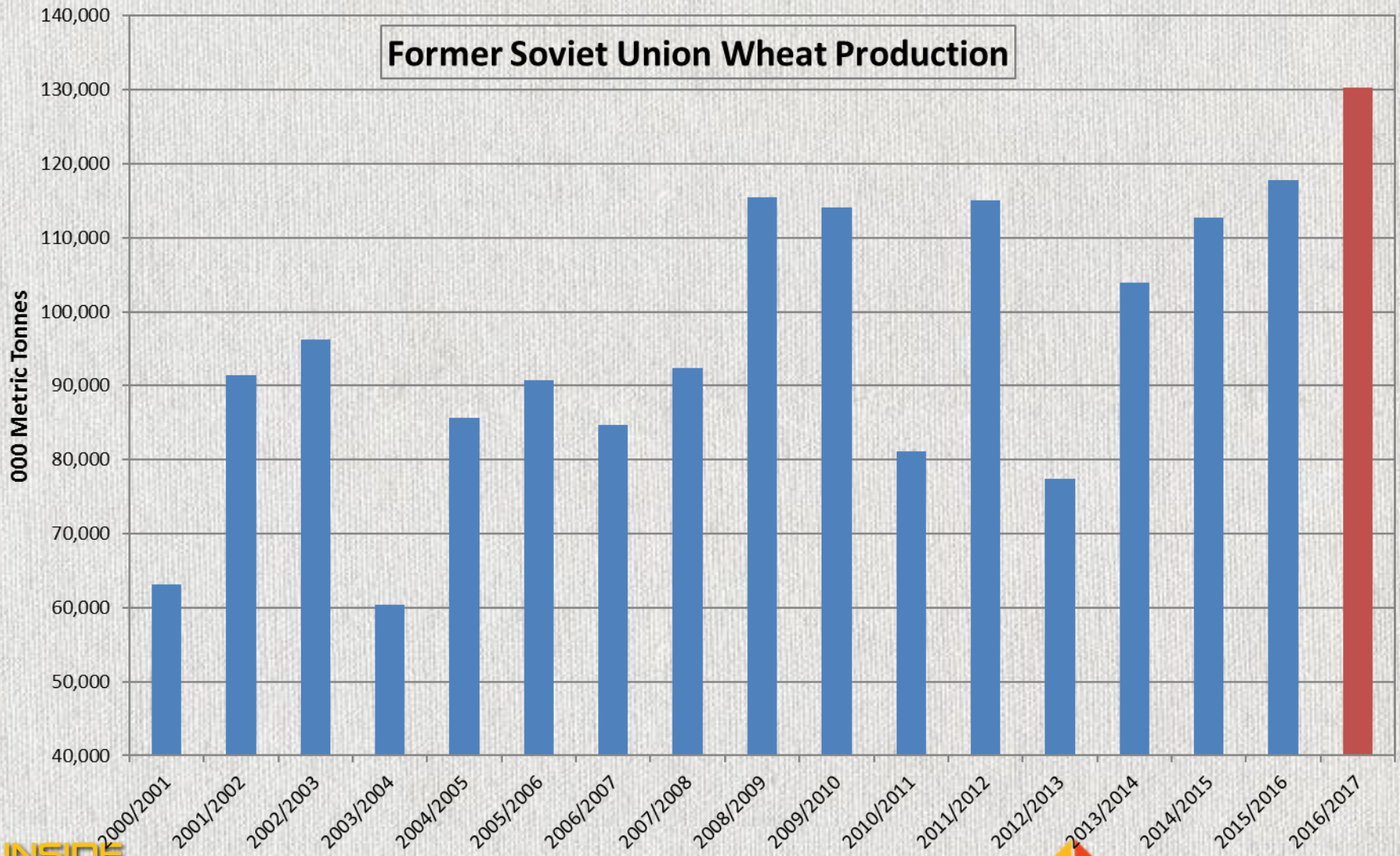
World wheat feeding is forecasted to be a record in part due to wheat quality issues in Europe and cheap wheat prices



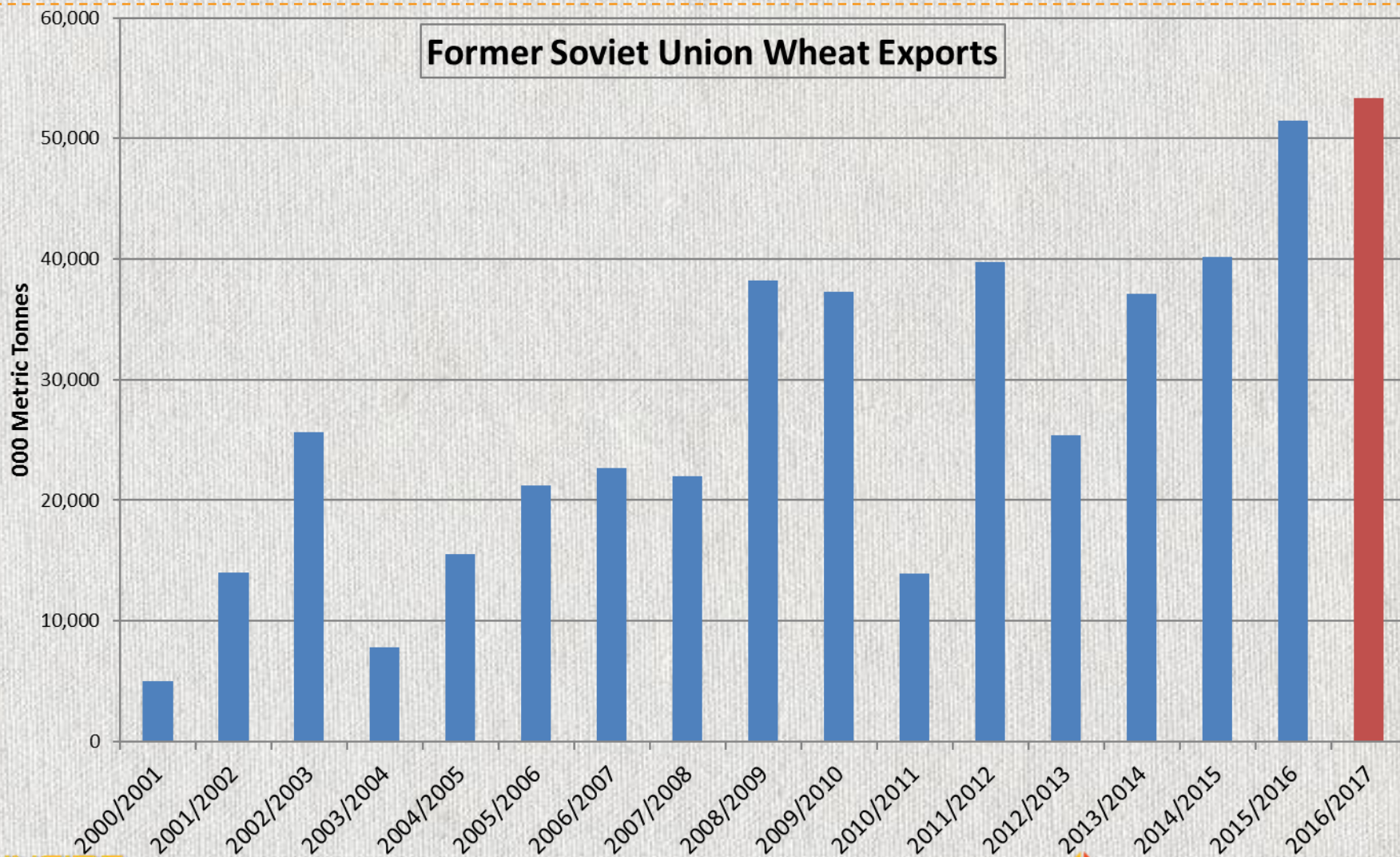
Major exporter wheat production is forecasted to be a record this marketing year by 20 million MT!



A record wheat crop by over 12 million MT coming out of Russia/Ukraine/Kazakhstan



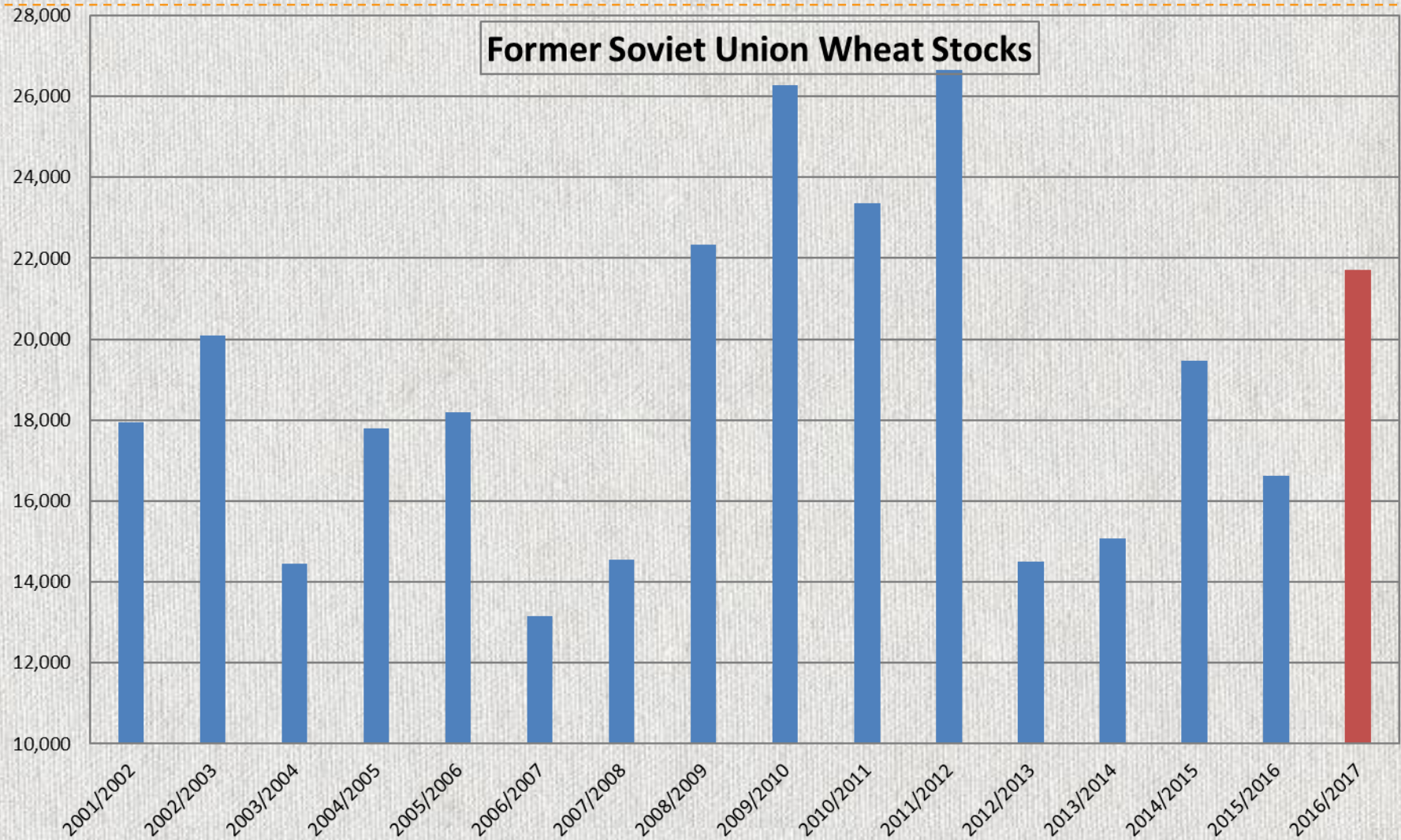
With those large wheat crops, exports from Russia/Ukraine/Kazakhstan are forecasted to be a record



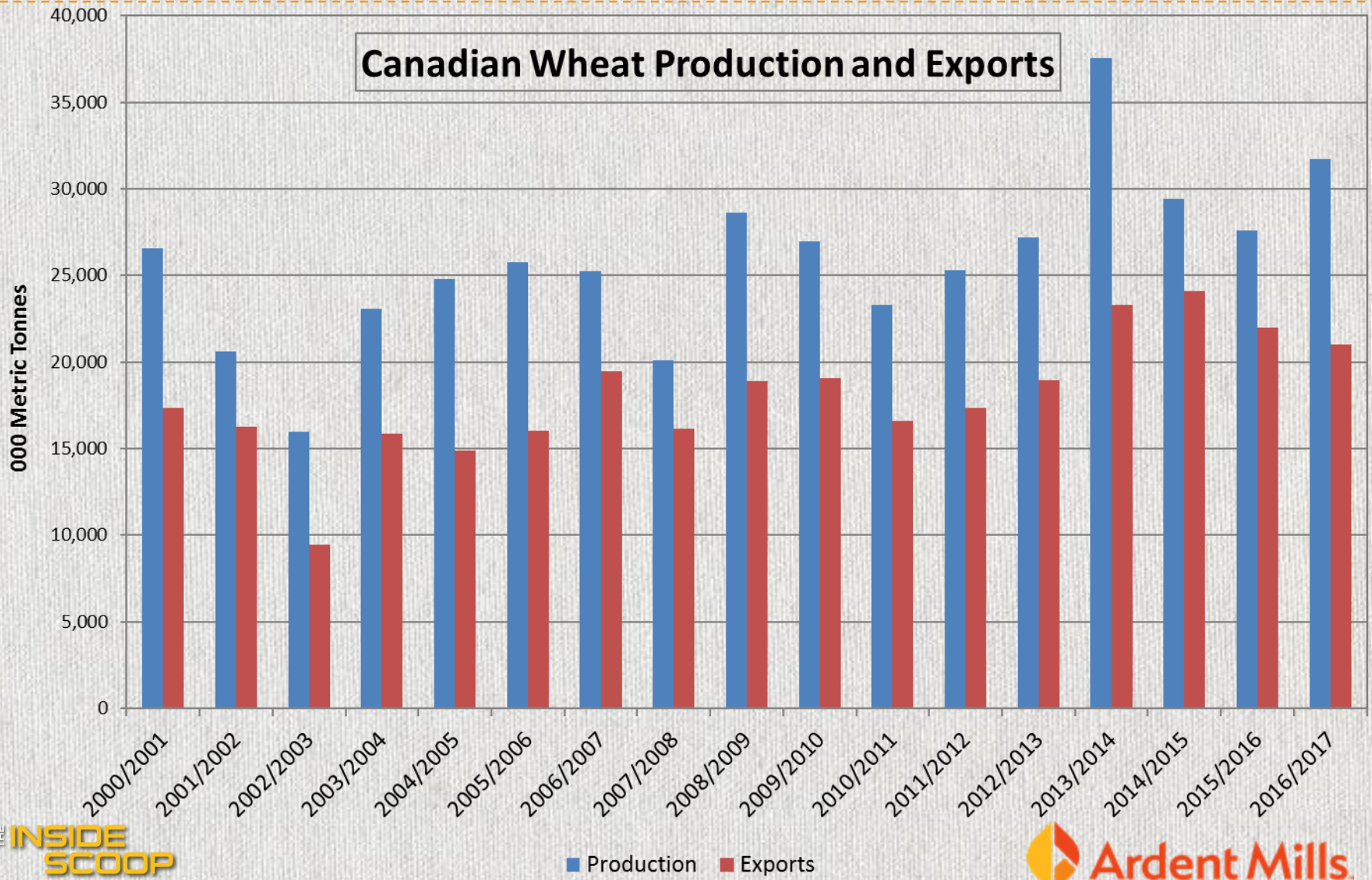
The Black Sea region is extremely important to world wheat prices – or another way to say it – the Black Sea sets world wheat price



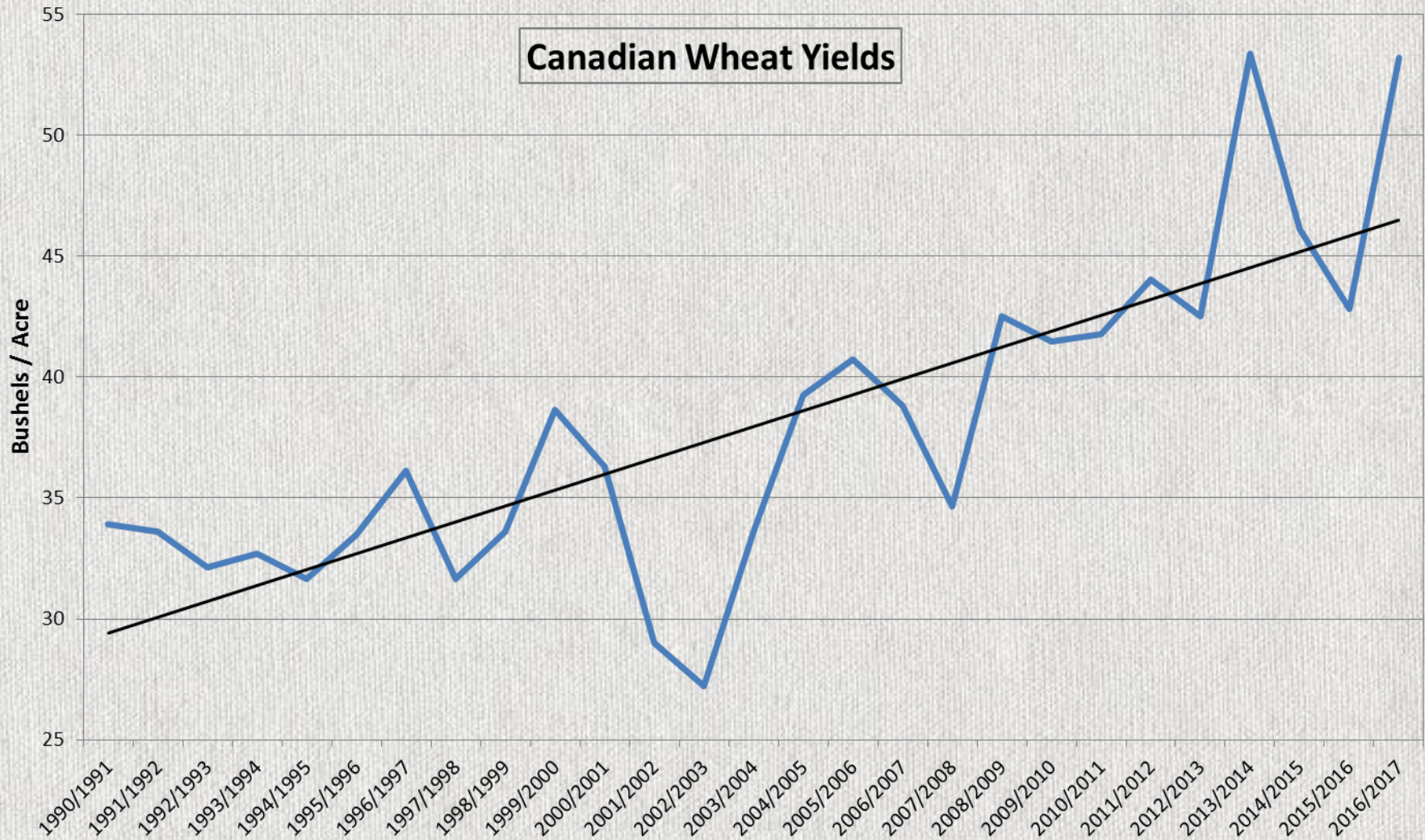
Russia/Ukraine/Kazakhstan do have very adequate stocks going into this next year



Canada is forecasted to have its second largest crop

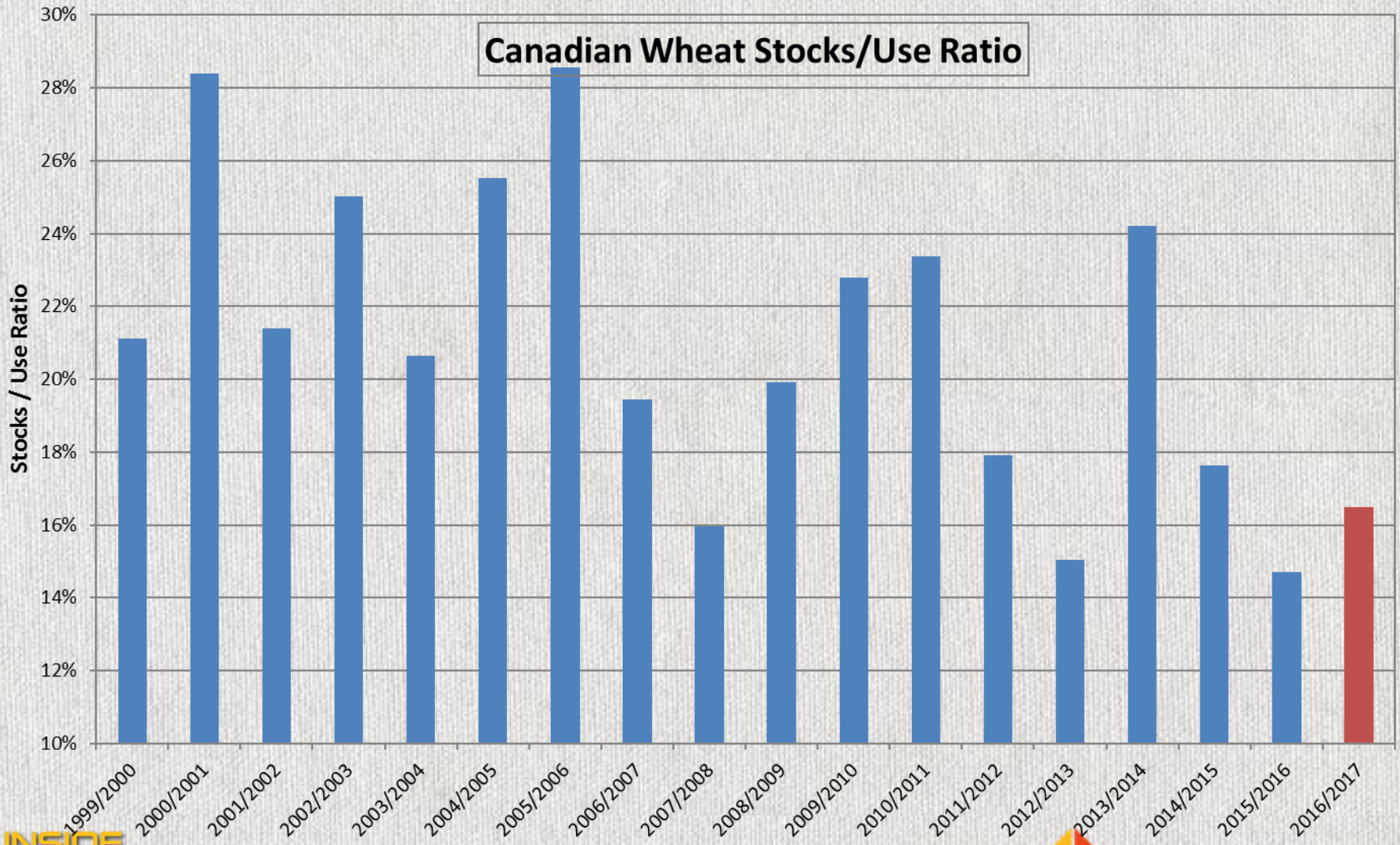


Canada is forecasted to have its second best yielding crop

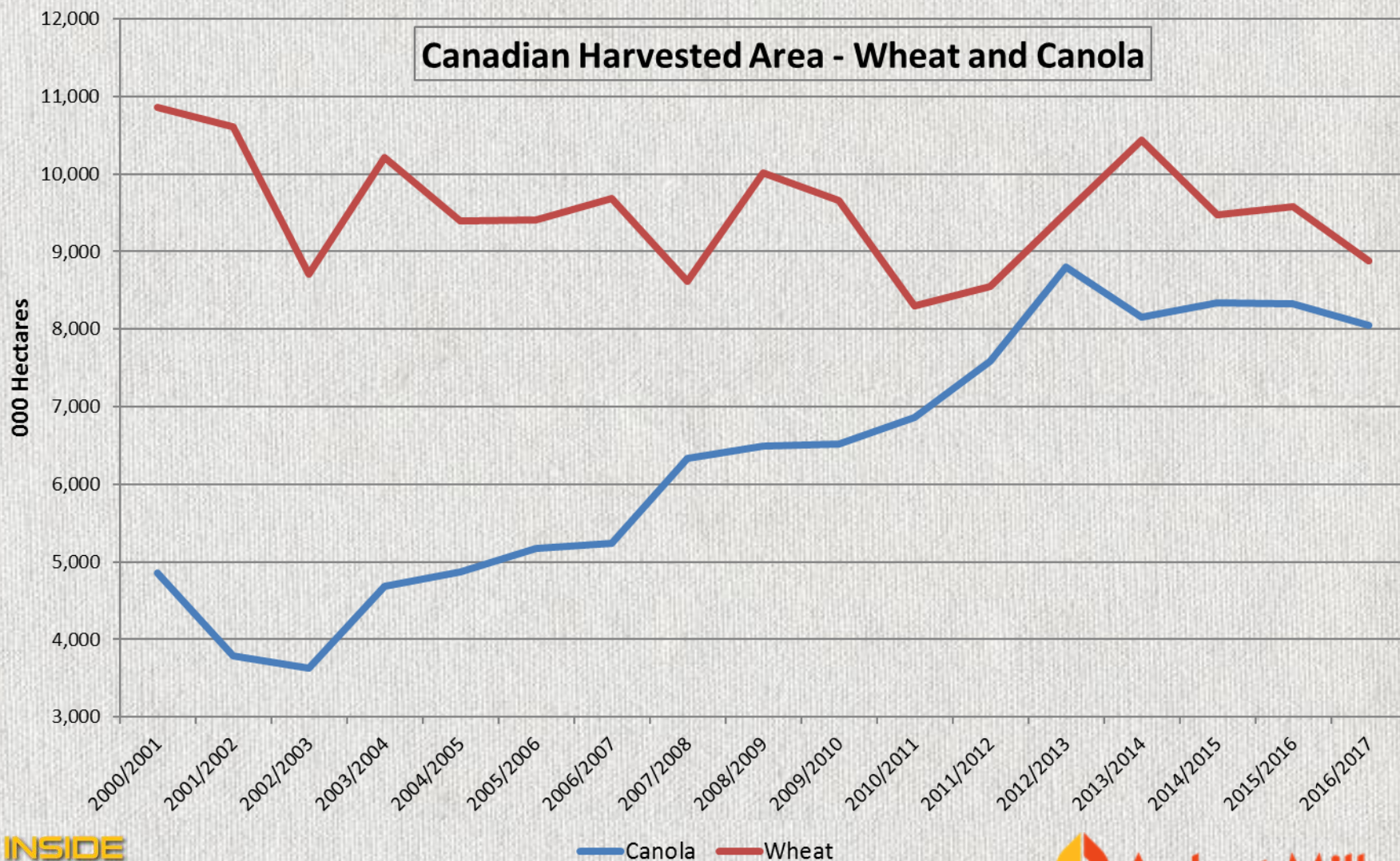


Canadian Wheat Yields

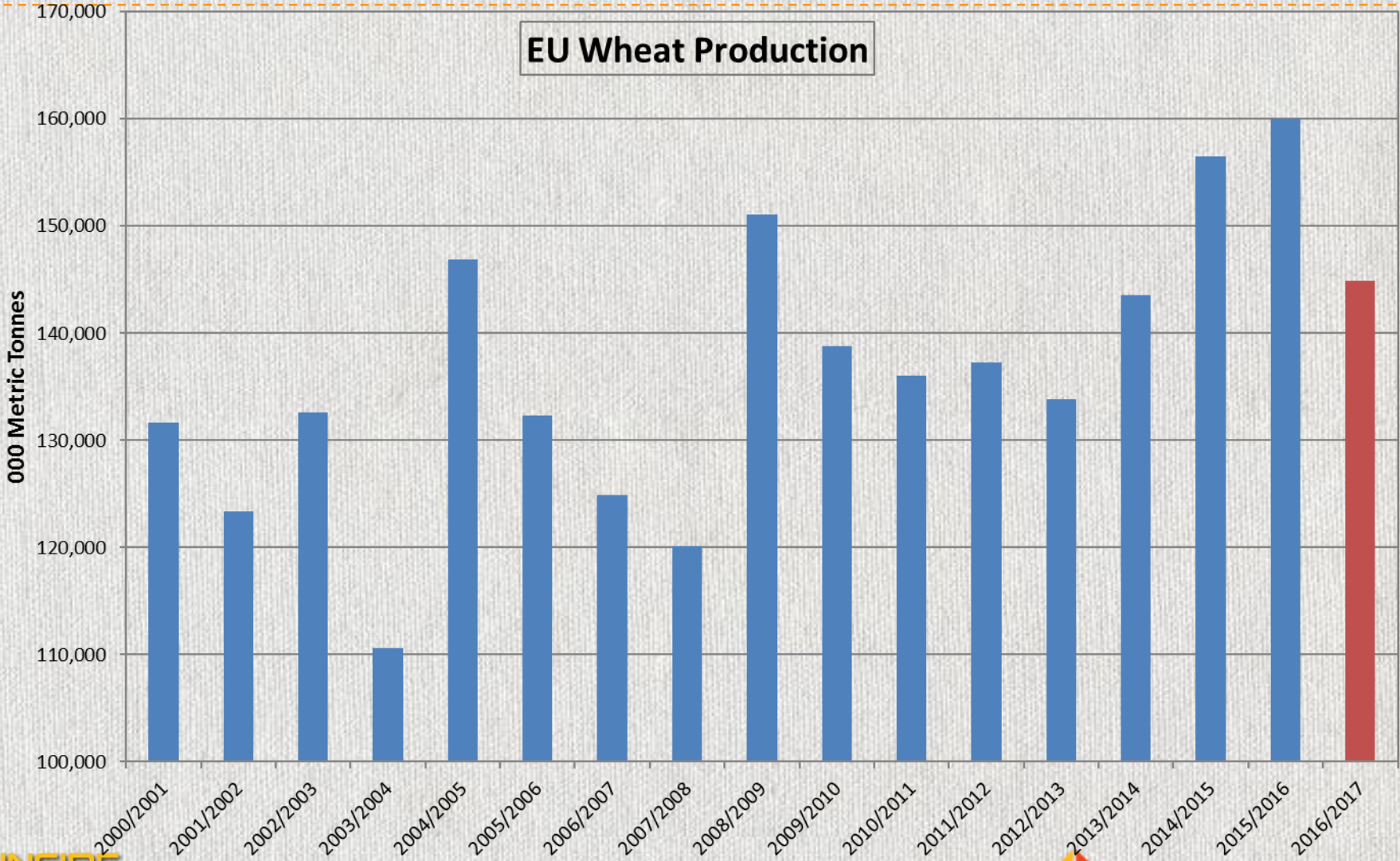
Canadian wheat stocks will be a little larger than last year. The real question today is around quality.



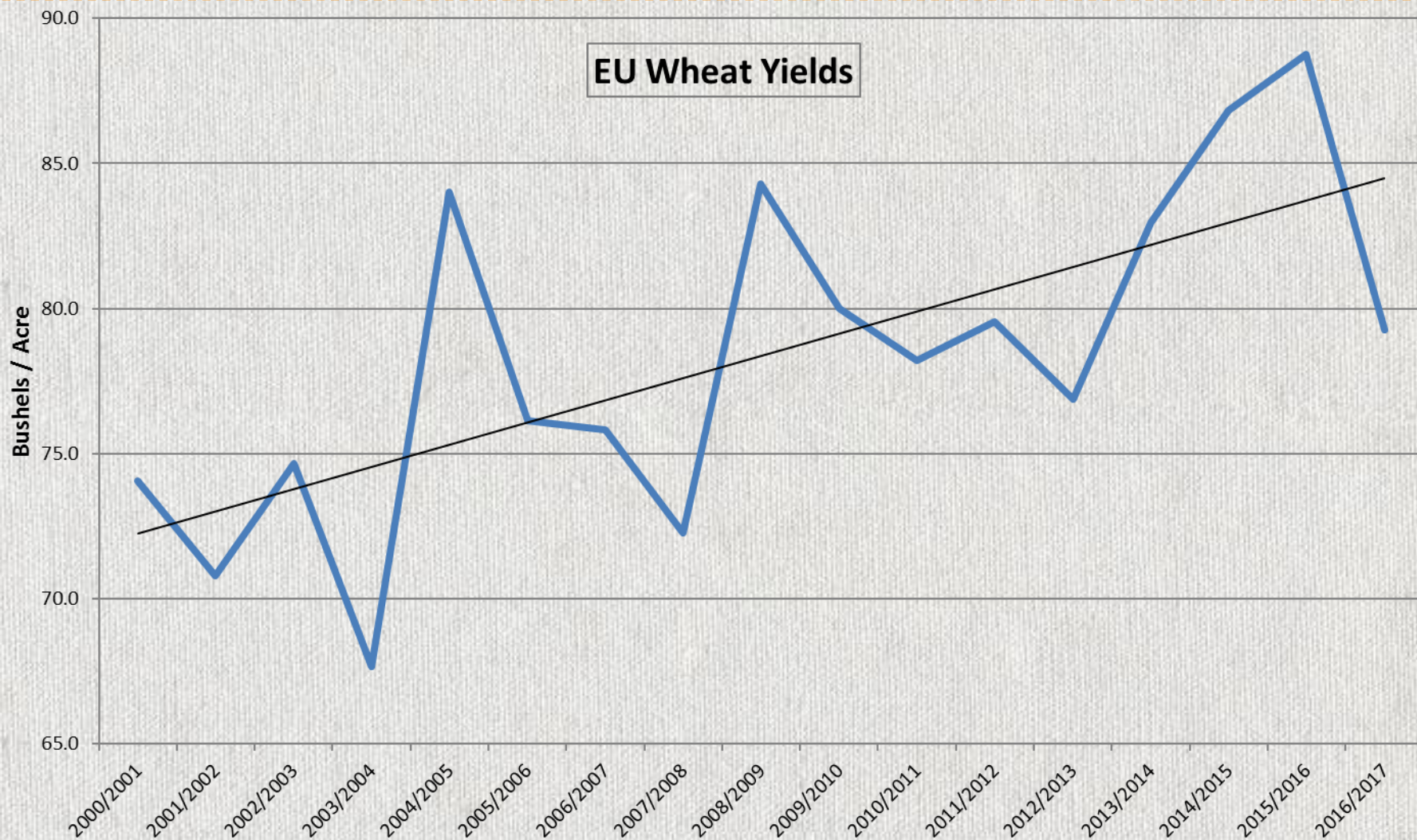
Is 2017 the first time Canadian farmers plant more Canola than wheat? It is very possible.



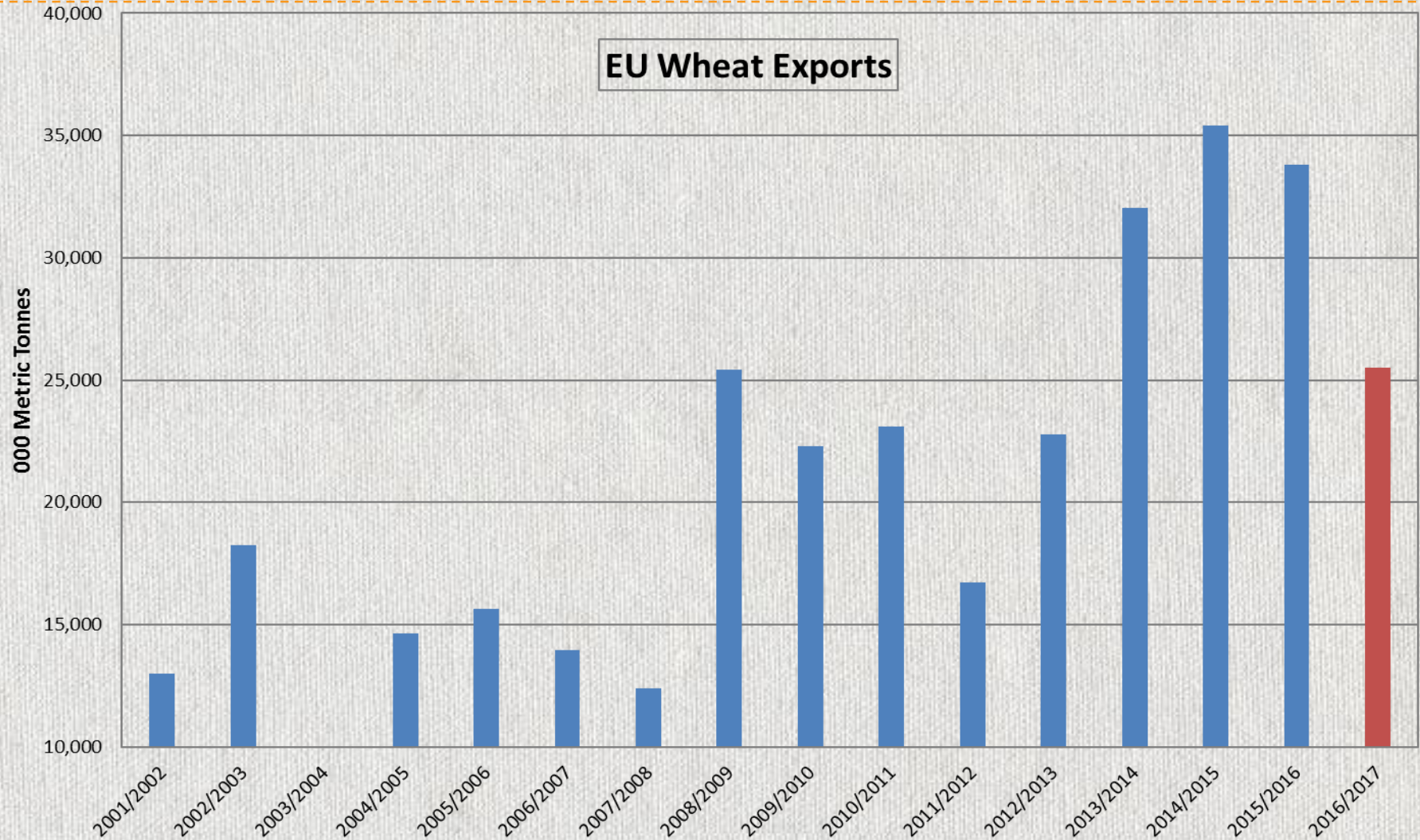
Europe is forecasted to have 15 million MT smaller crop than last year – and quality challenges as well



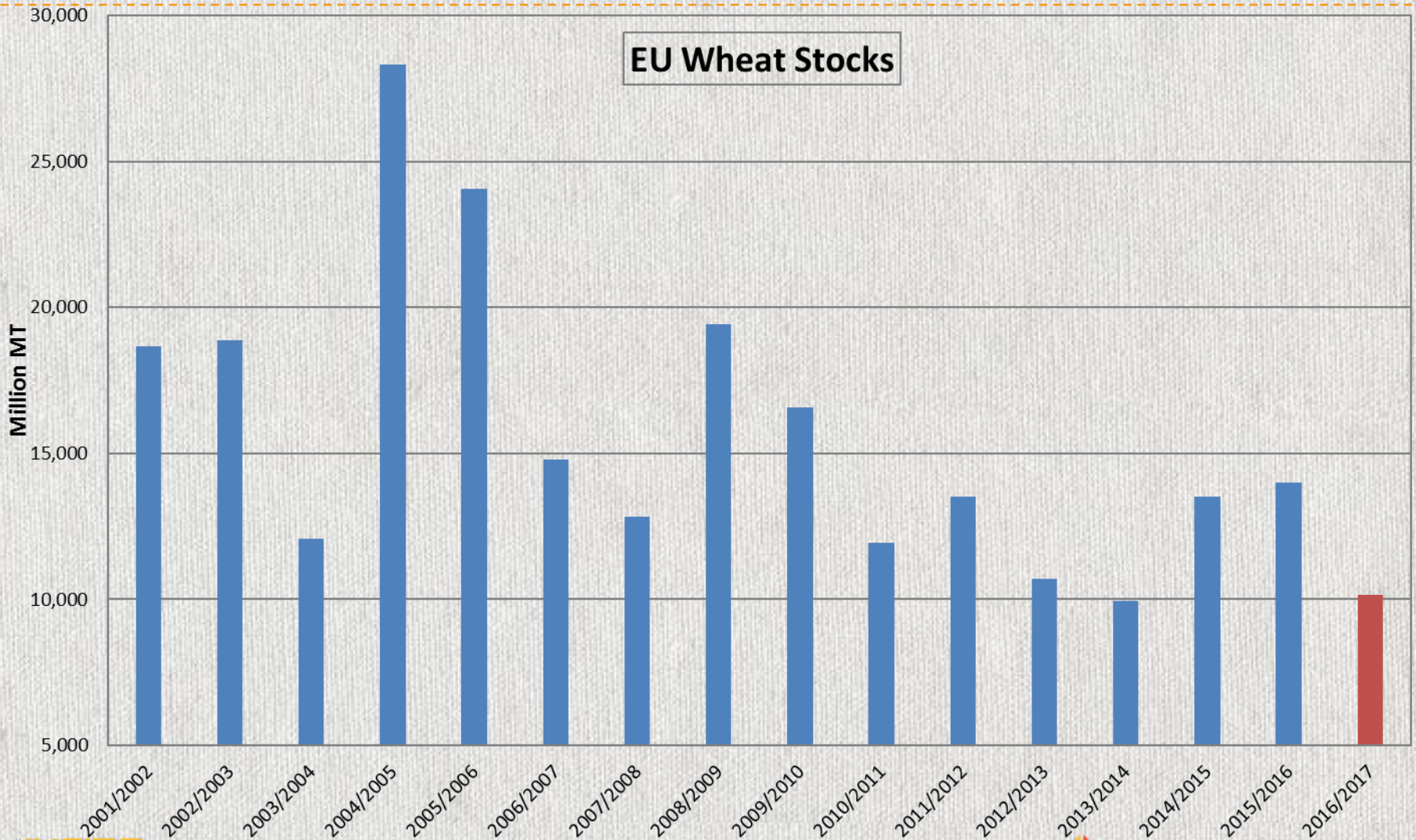
Yields in Europe are down almost 10 bushels acre (over 10% reduction) from last year's record yields



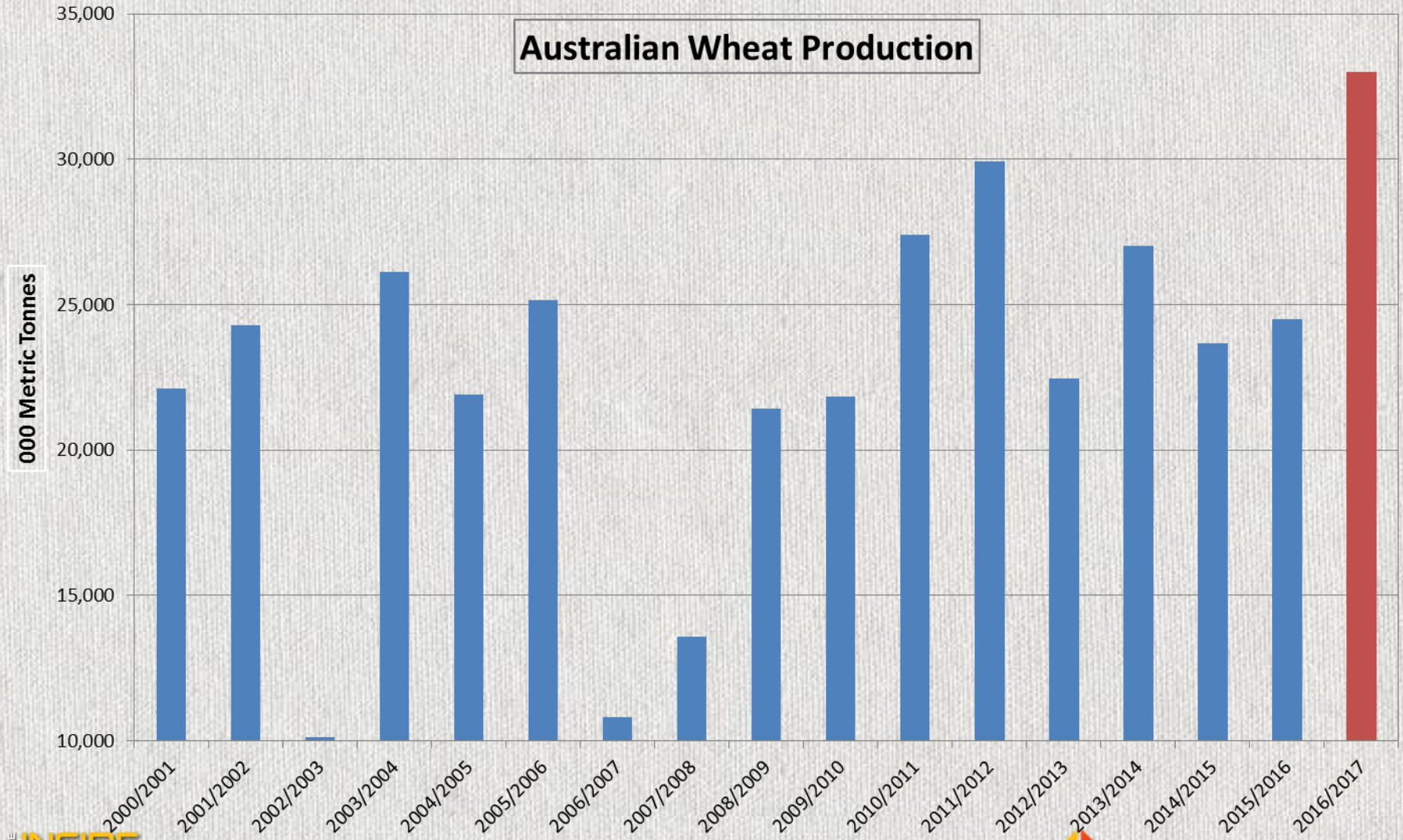
EU Wheat exports are expected to be off over 8 million MT from last year – this has helped US wheat sales



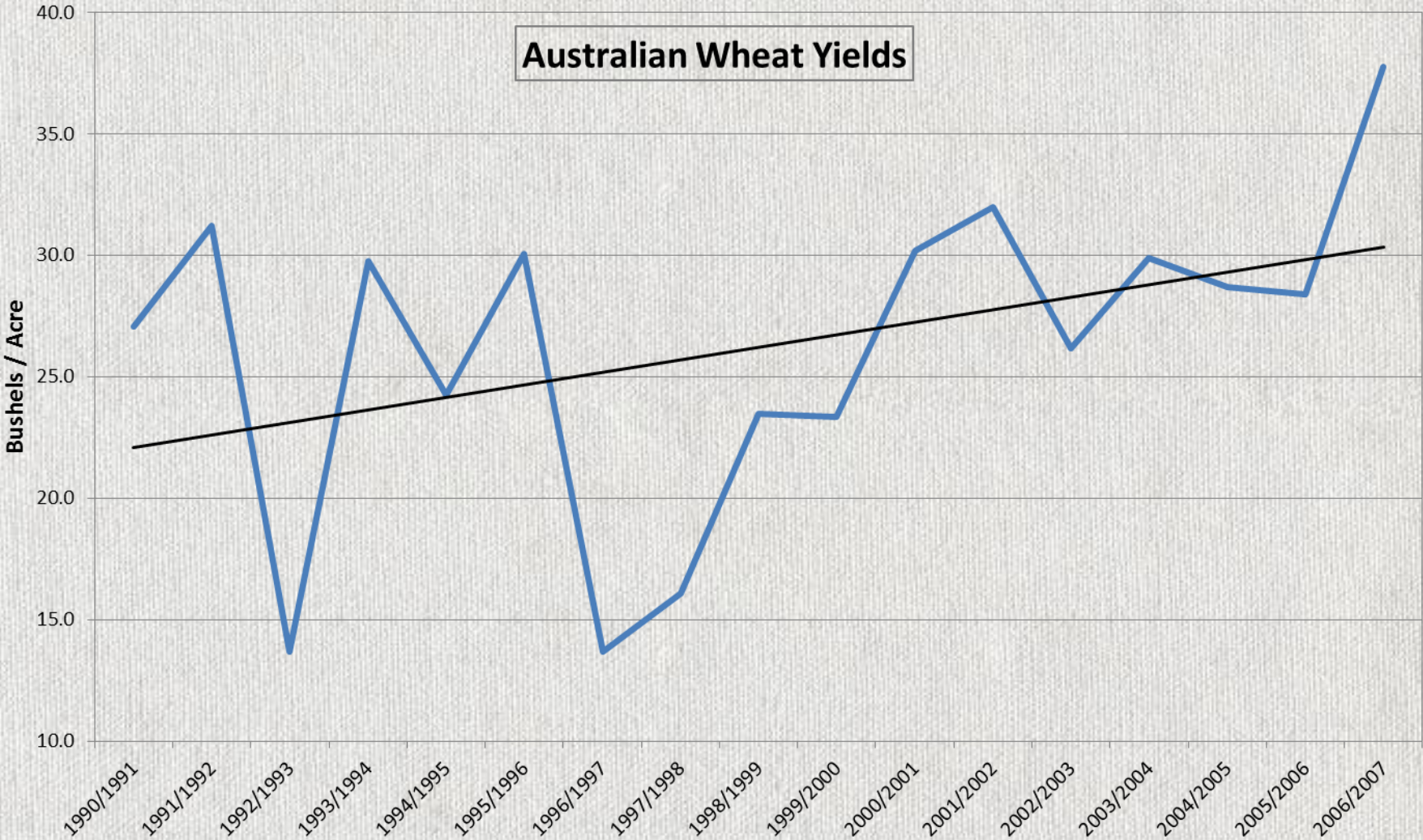
EU wheat stocks will be on the tight side going into next year



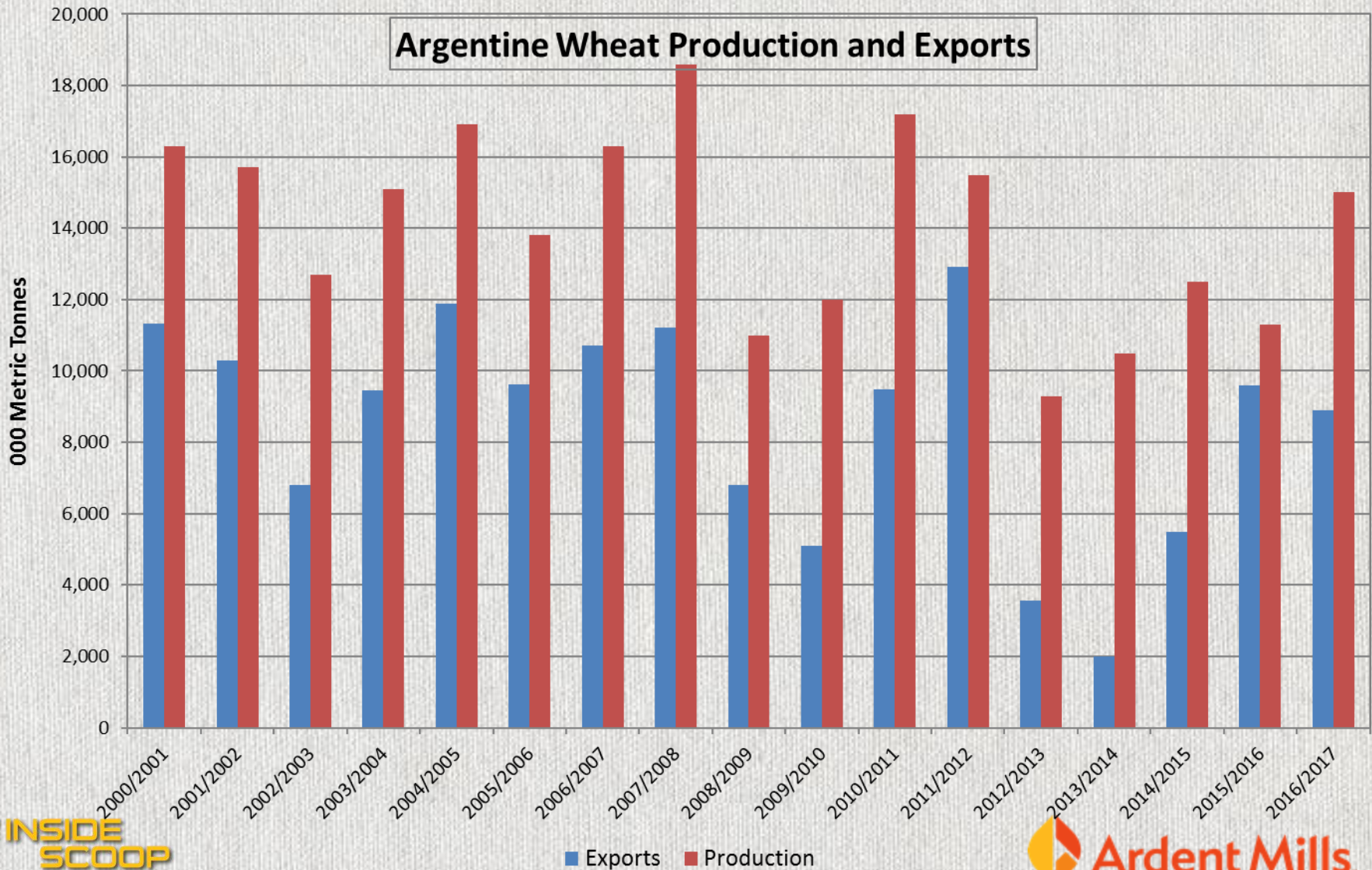
Australia is forecasted to have its largest crop on record



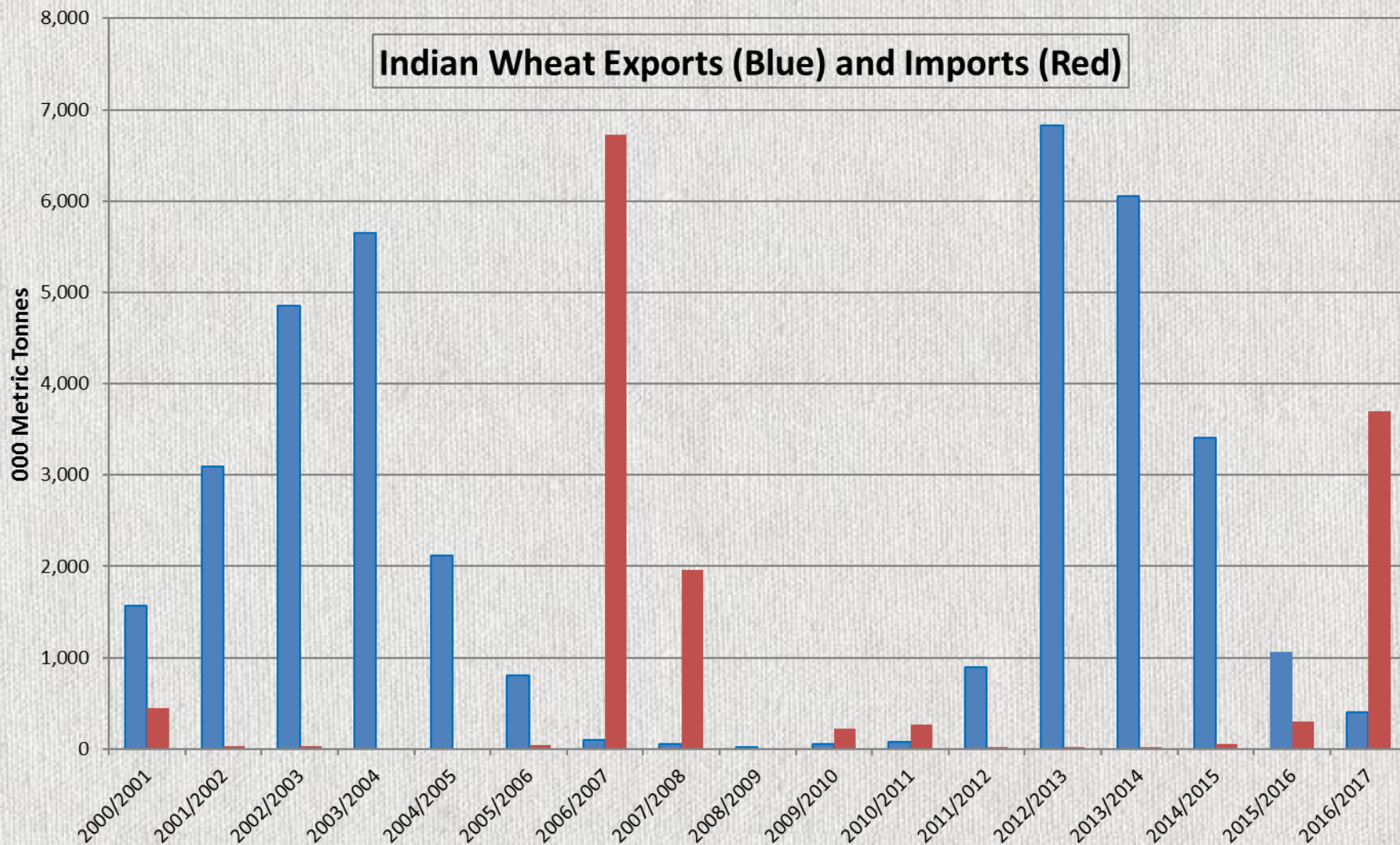
Australia is forecasted to have its largest yields ever



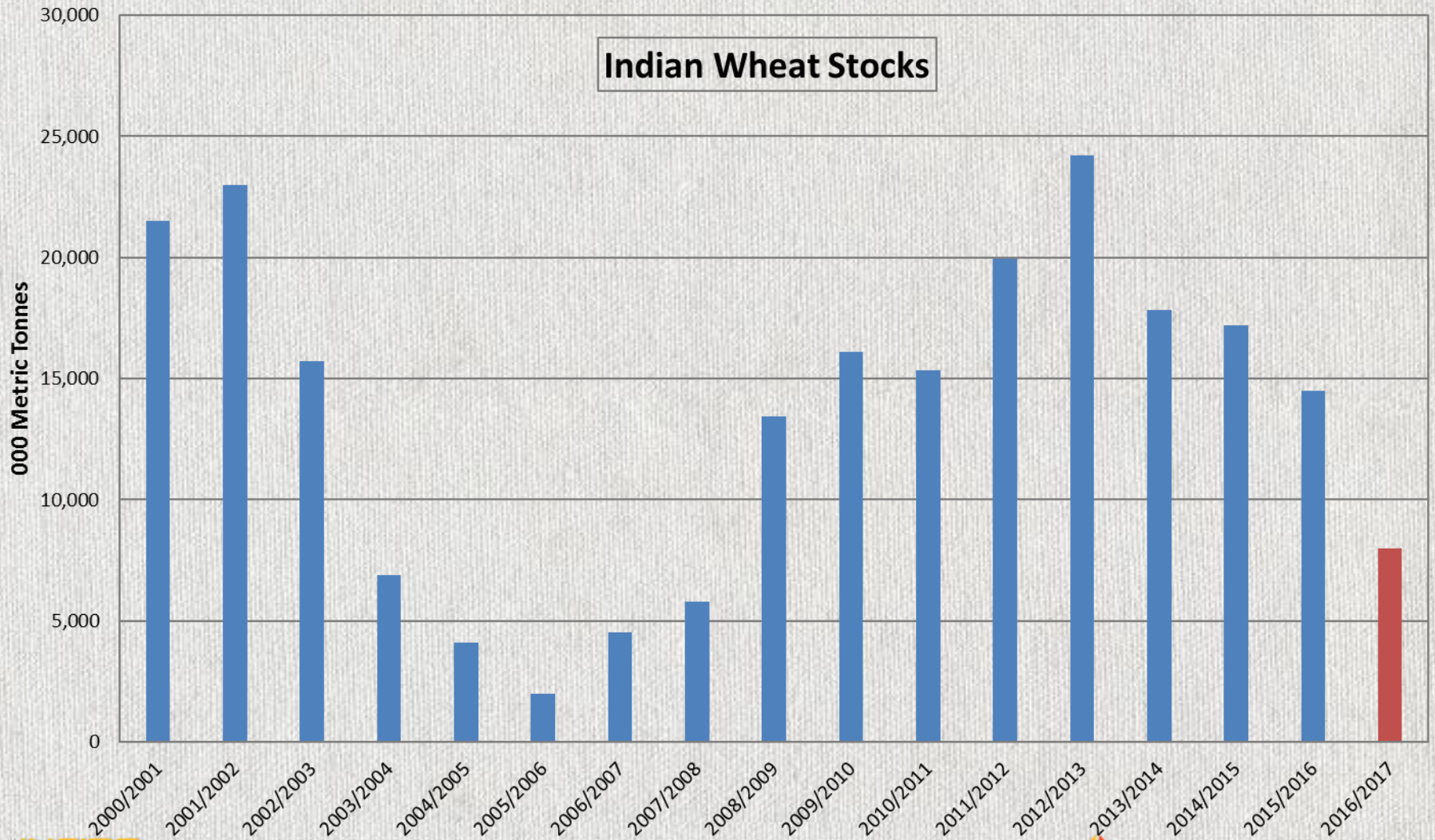
As Argentina is raising its largest wheat crop in five years, Argentina is back exporting wheat into the world market



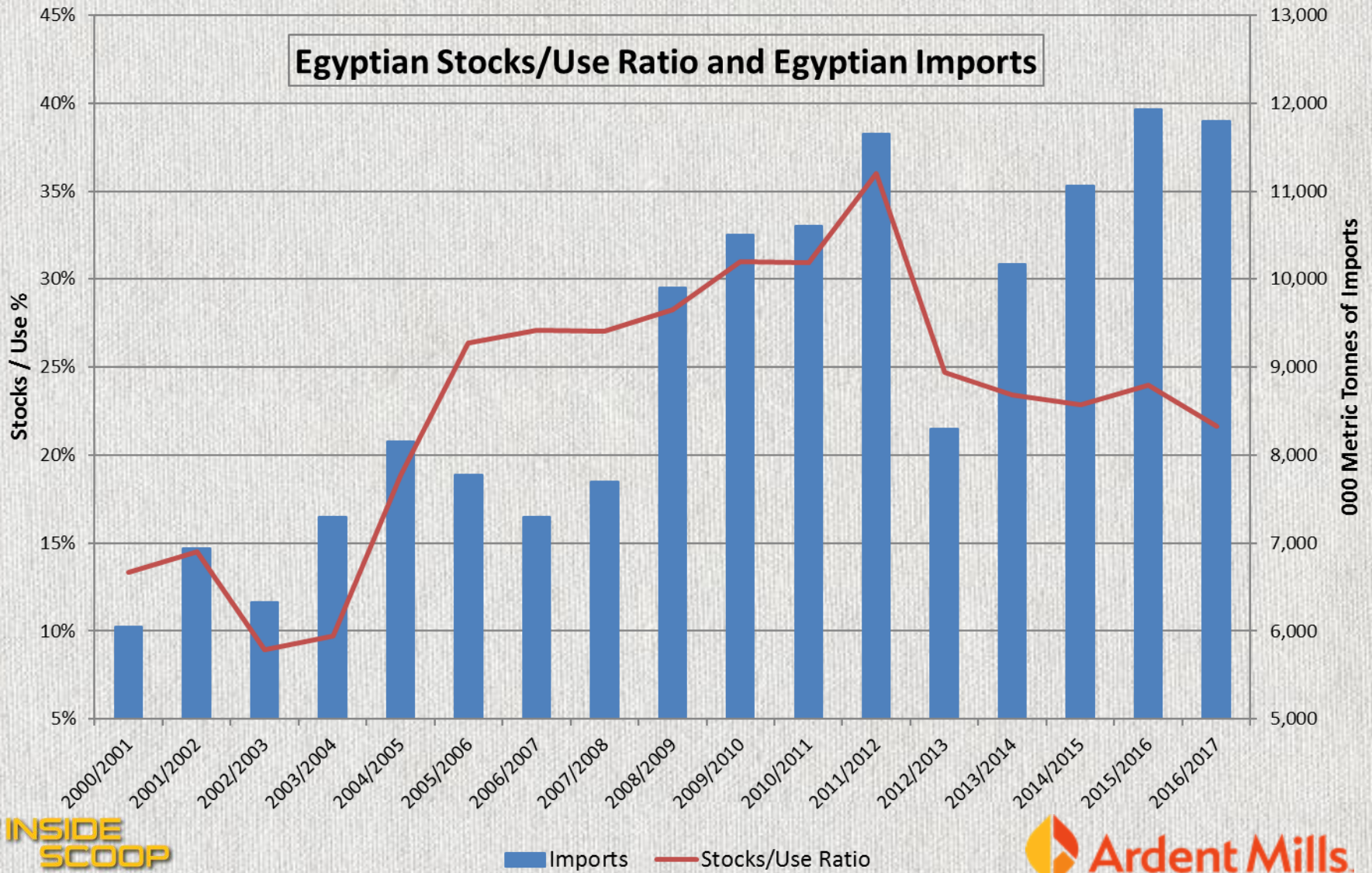
India went from a large net exporter to a net importer this marketing year – which hasn't happened since 2007/08



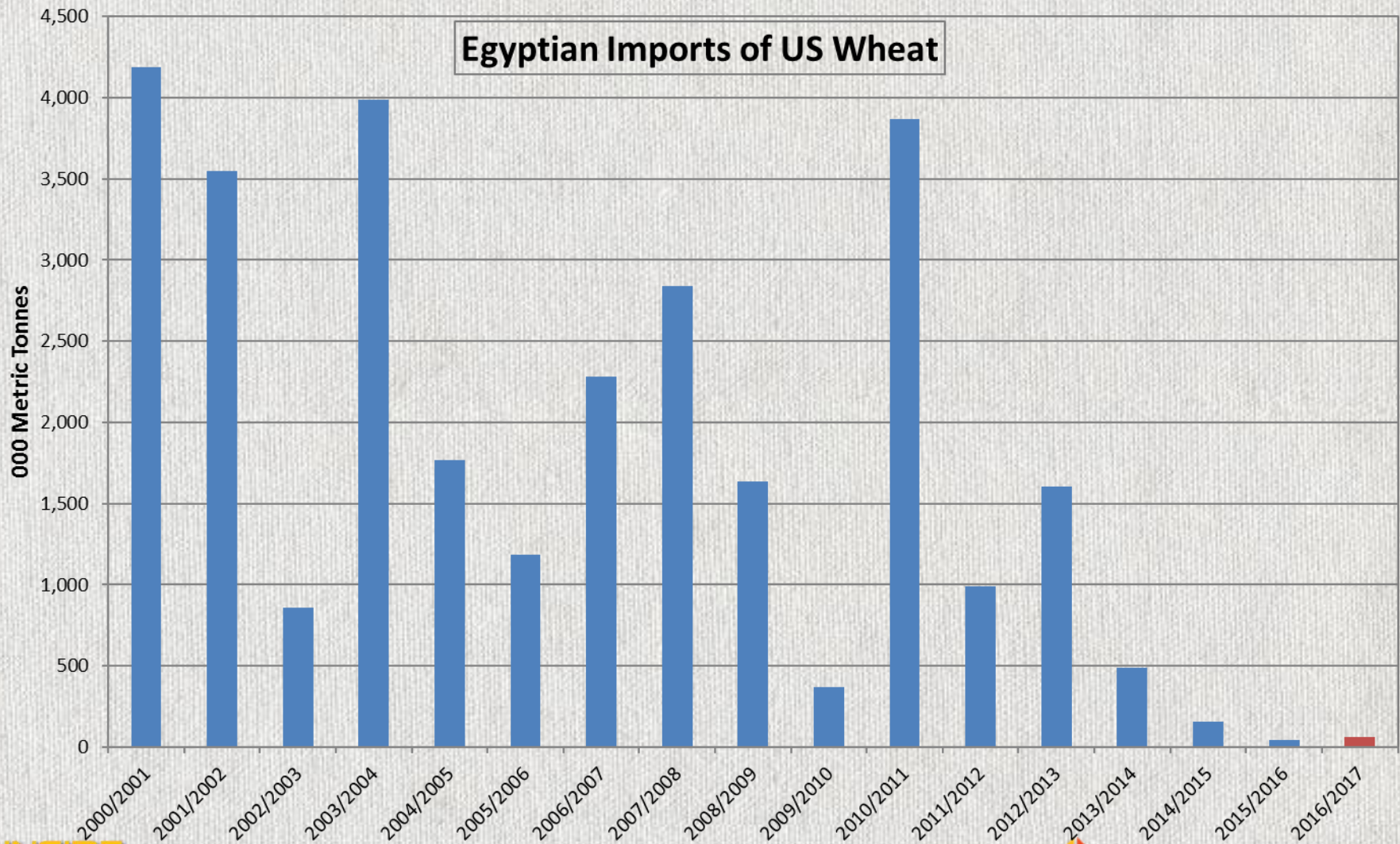
India's wheat stocks are forecasted to be its tightest in nine years



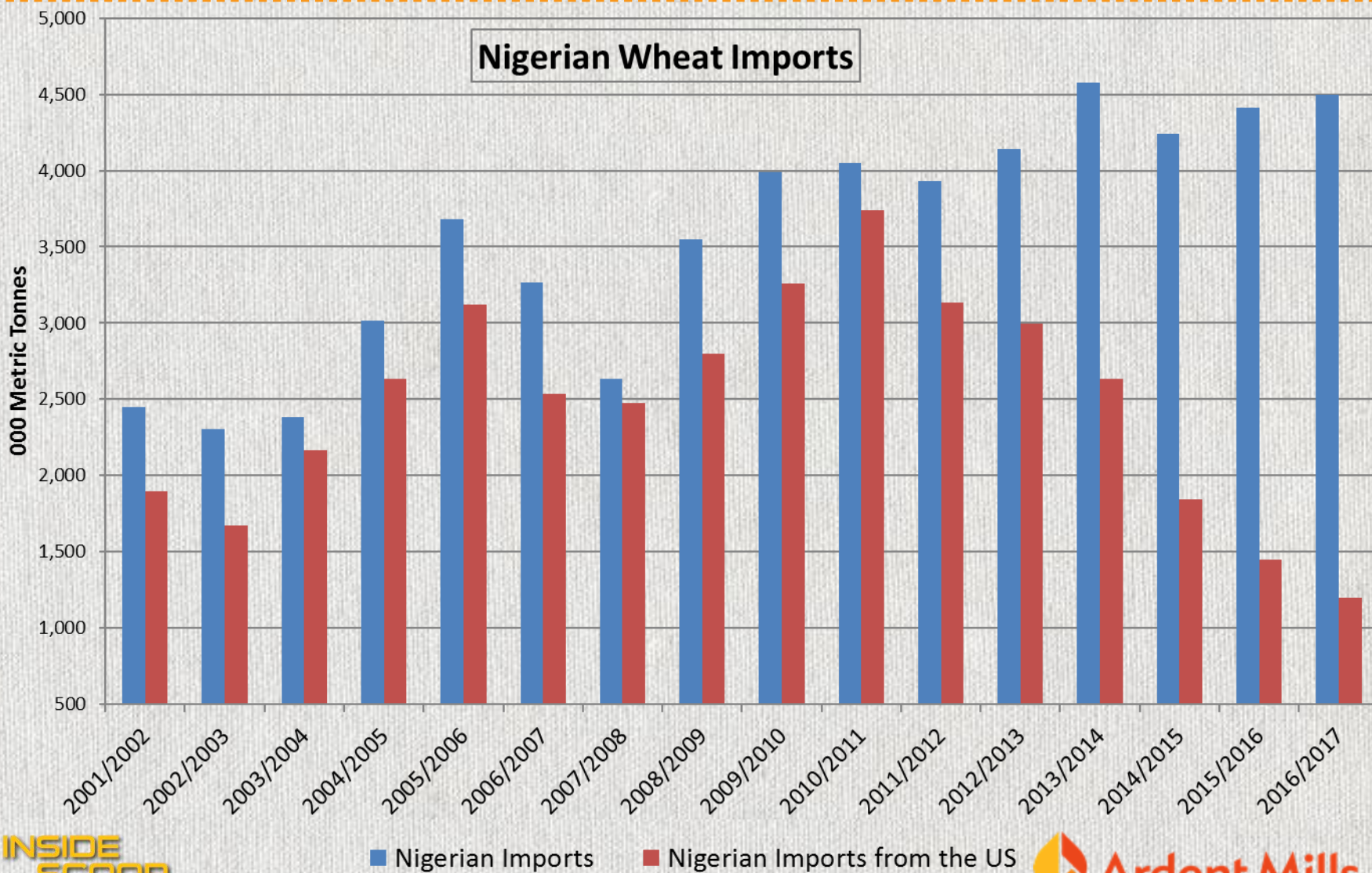
Egypt is the largest importer in the world, but at under 12 million MT this is only 7% of all global wheat trade



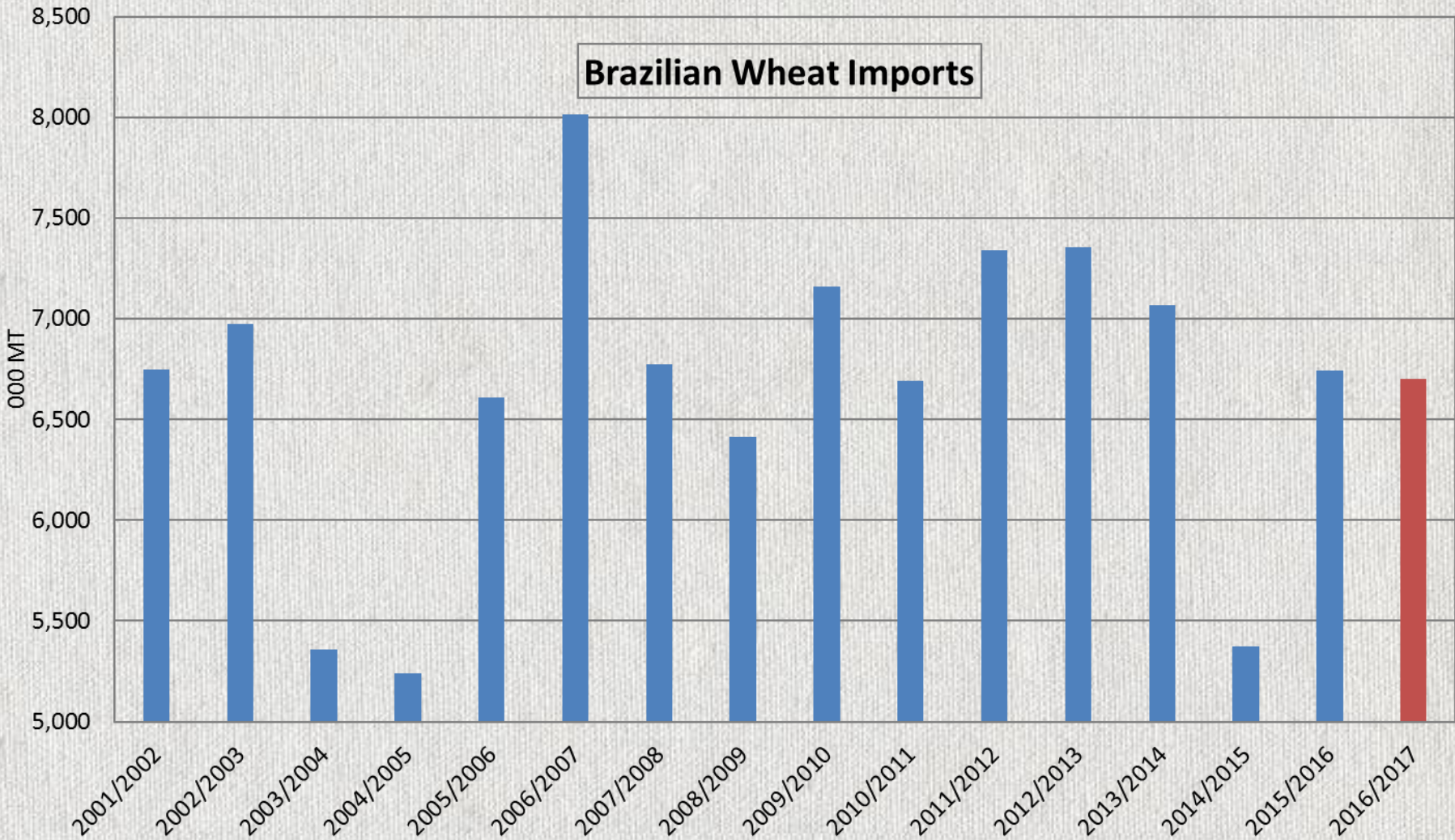
The US has not seen wheat exports of consequence to Egypt for several years. This helps build the US SRW carryout.



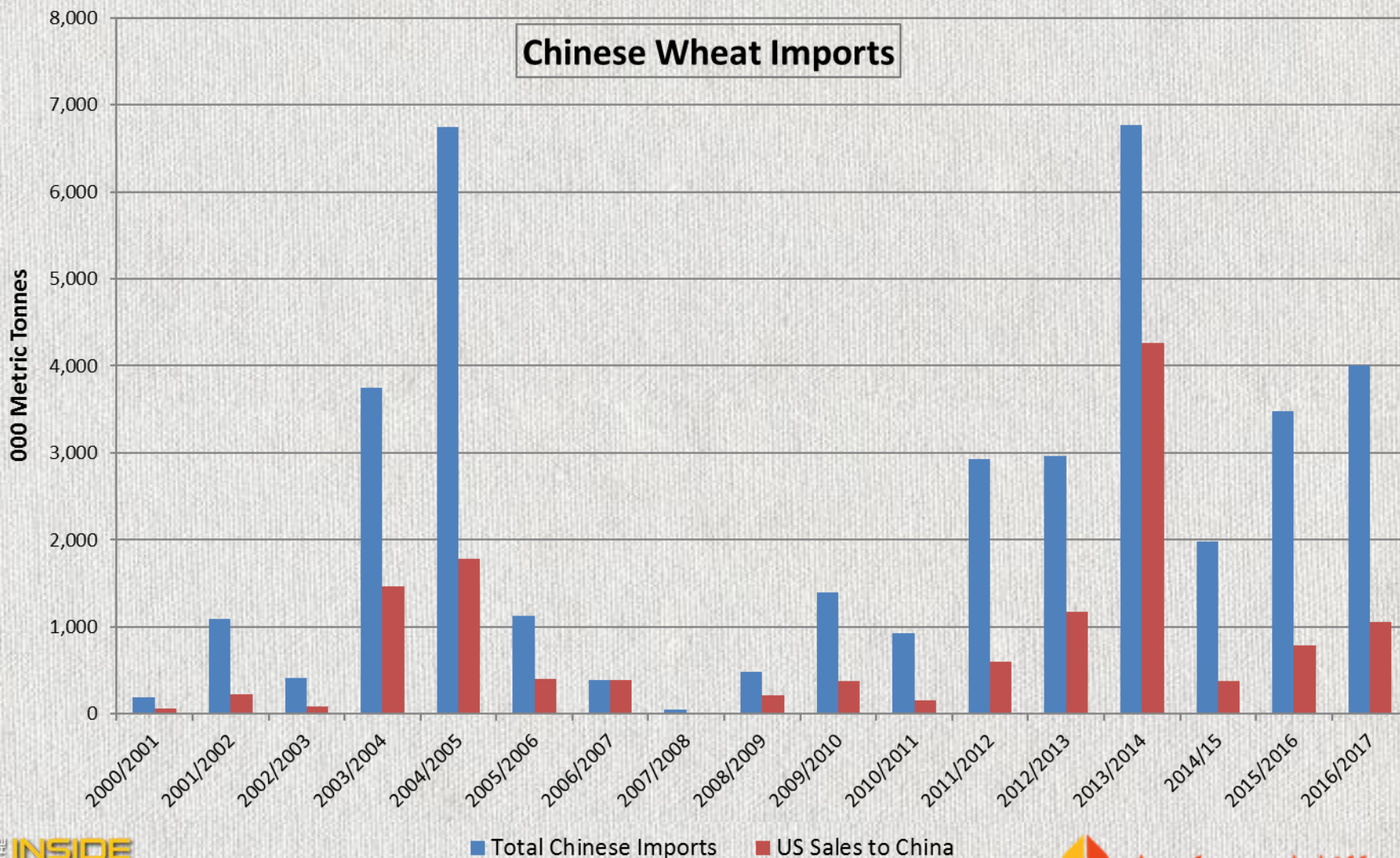
Nigeria is an important destination where the US has been losing market share



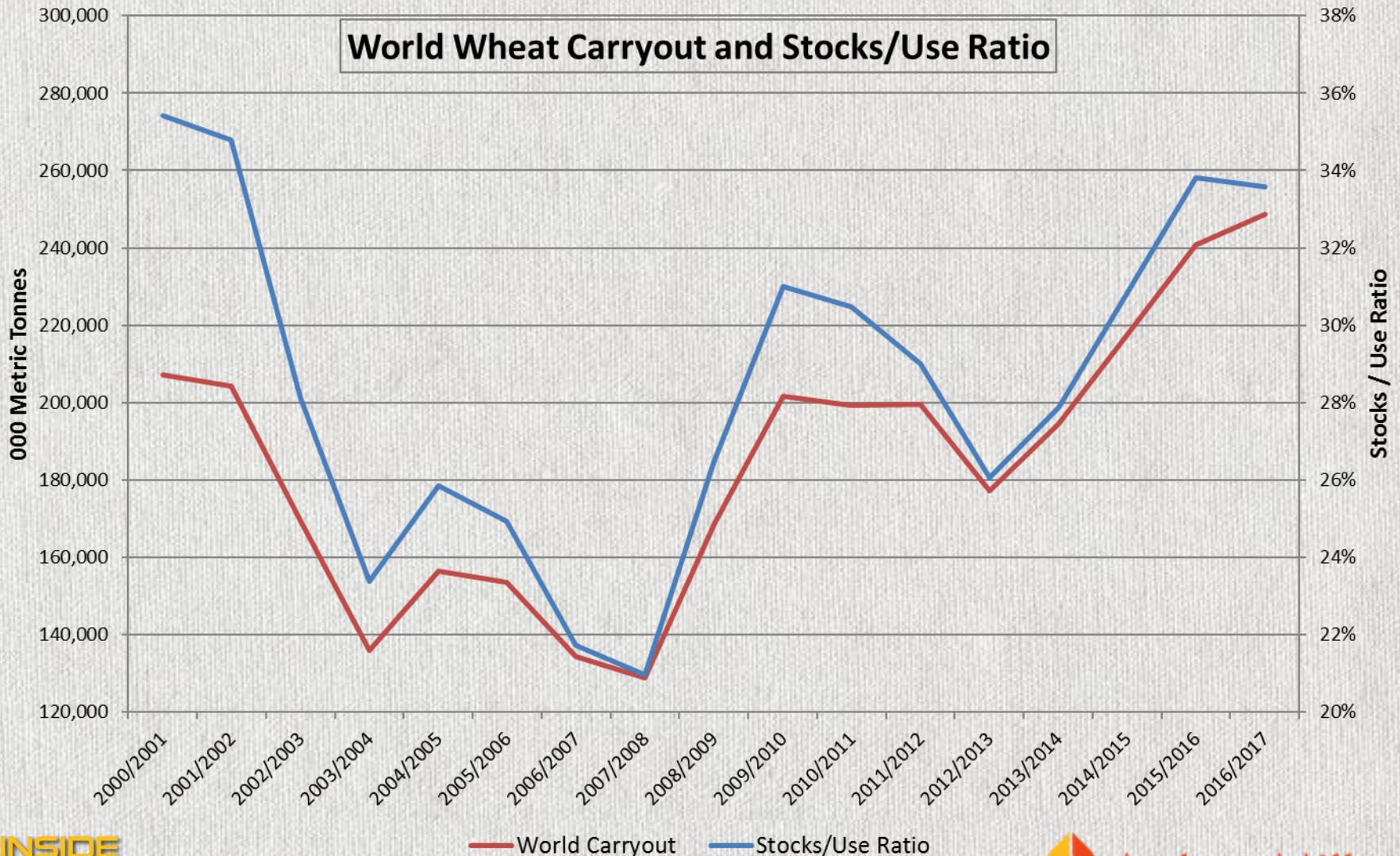
Brazilian imports are forecasted to be similar to the past few years



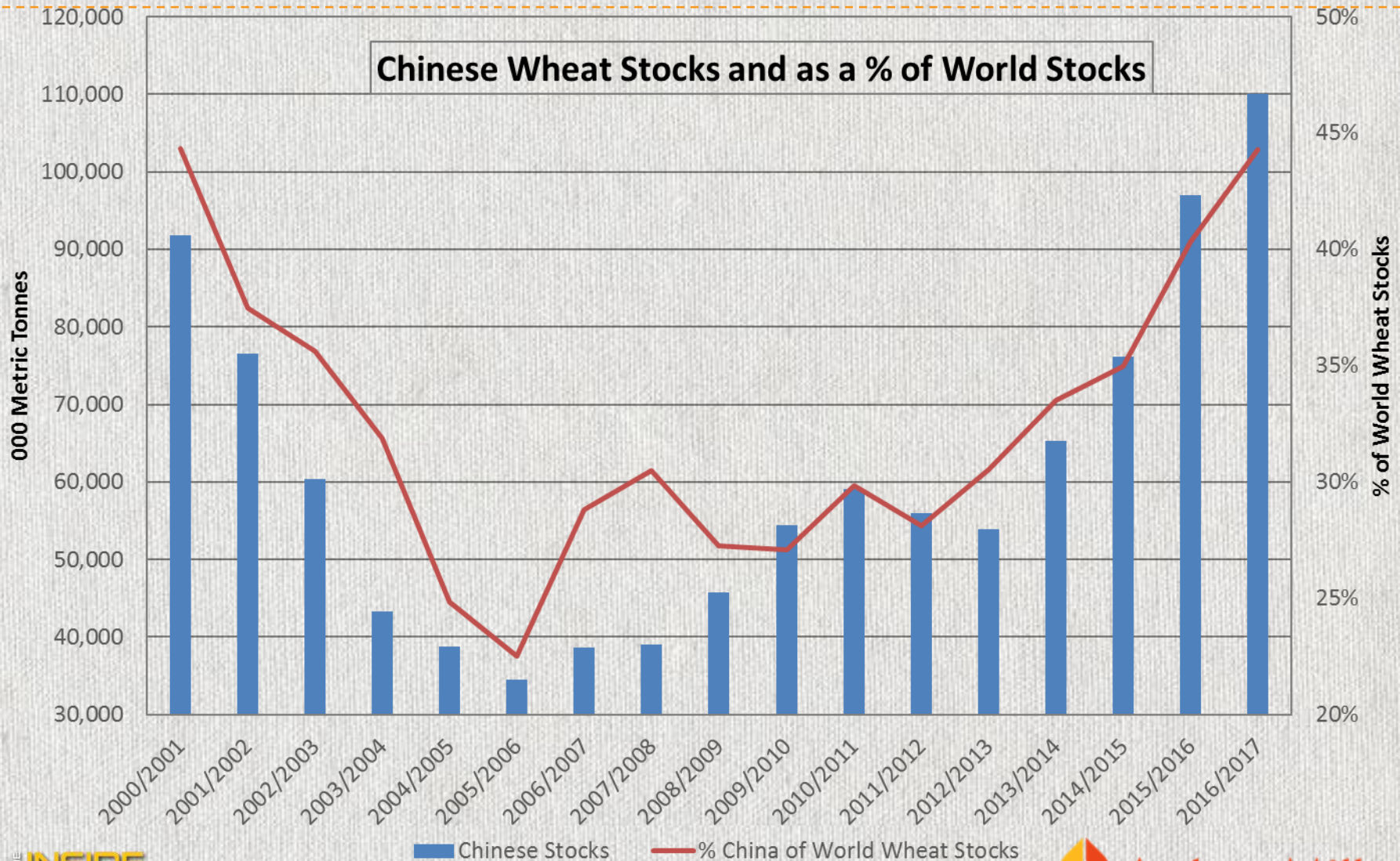
US sales to China are their largest in four years as over 600,000 Metric Tonnes of US Spring wheat have been sold to China this marketing year



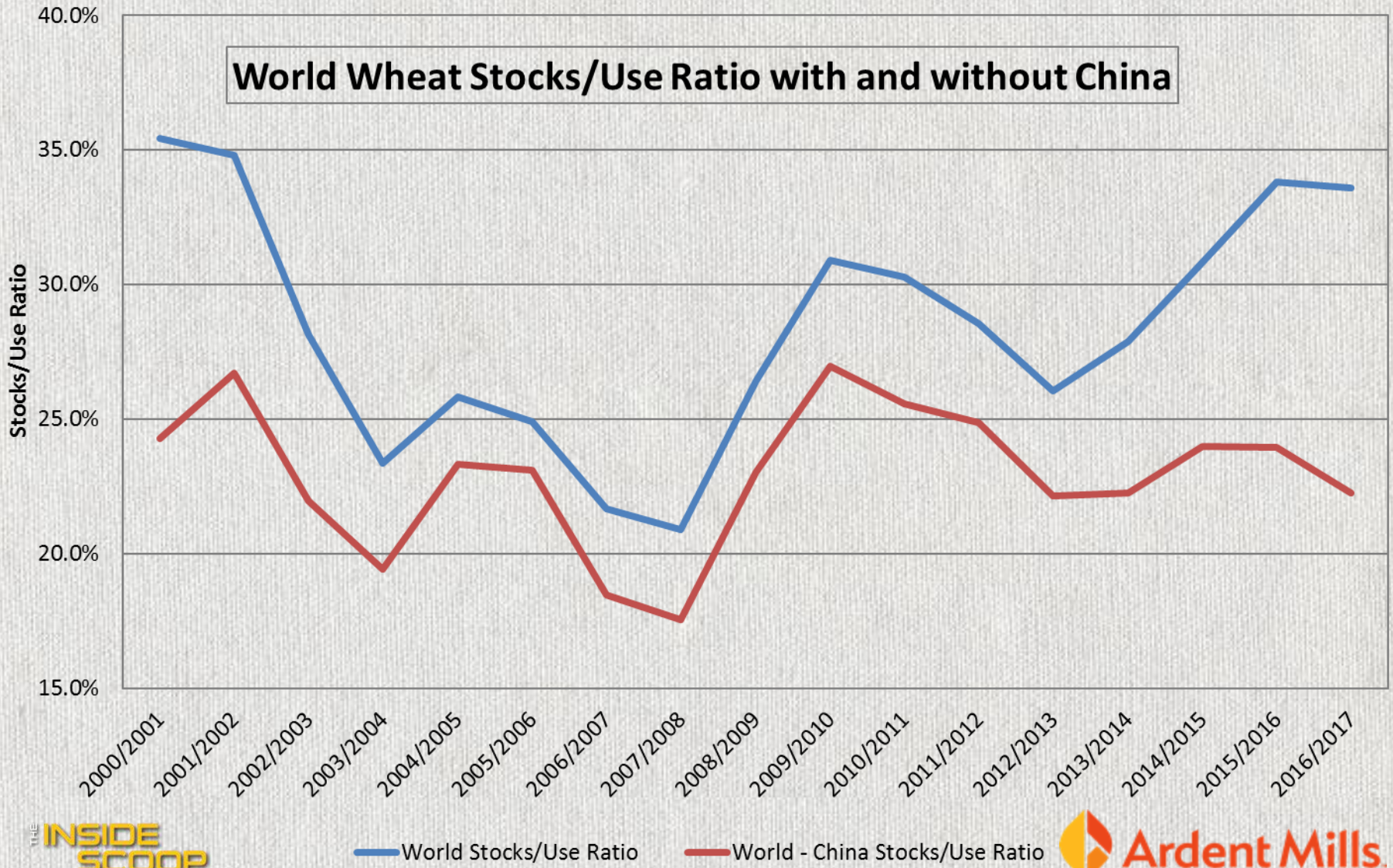
World Wheat Stocks/Use Ratio are at extremely large levels



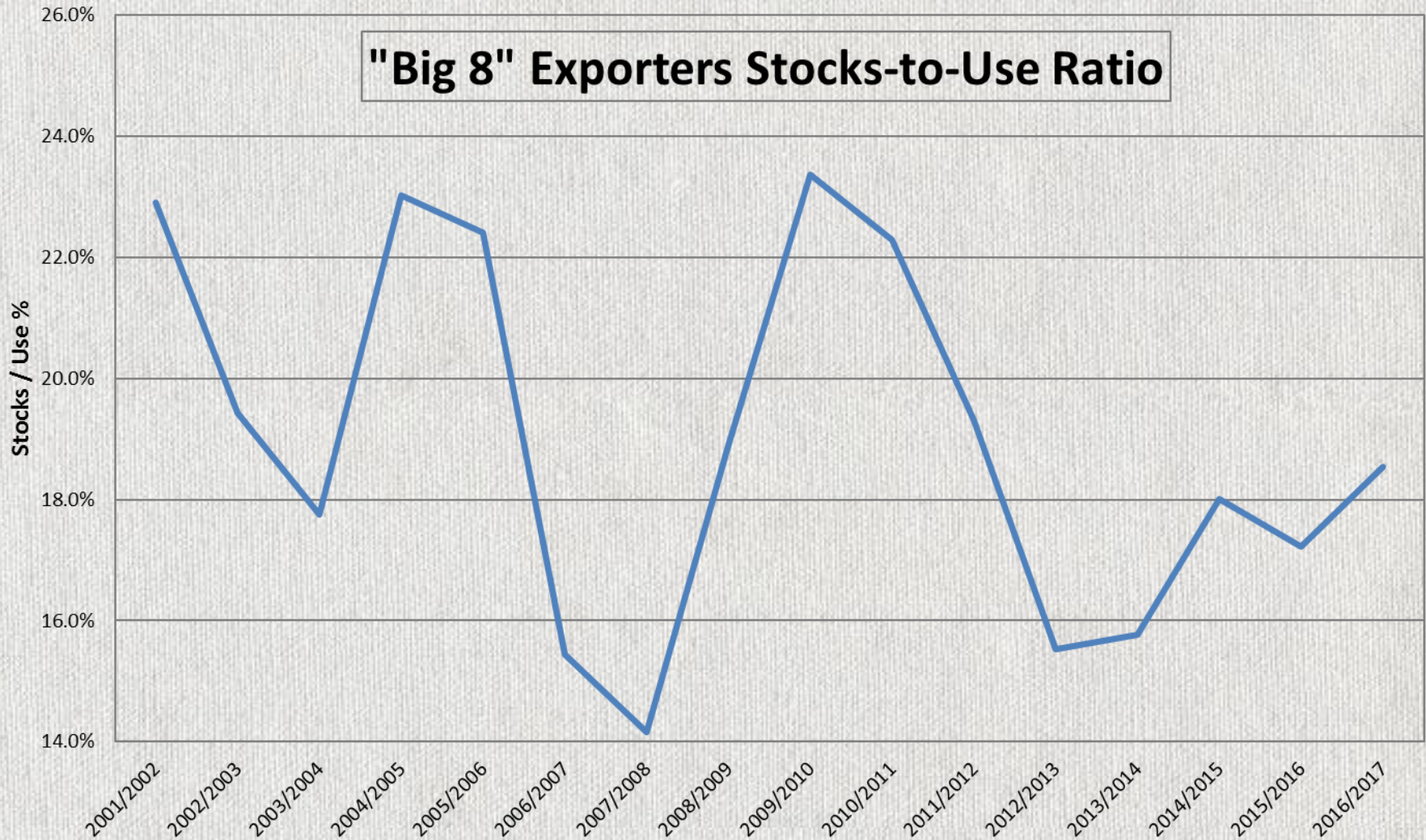
The last chart is not as relevant as one may think since almost half of the world's stocks are in China and not available to the world market



Looking at World Stocks/Use ratio without China's production/demand/stocks – the amount of available wheat is not as abundant as many think

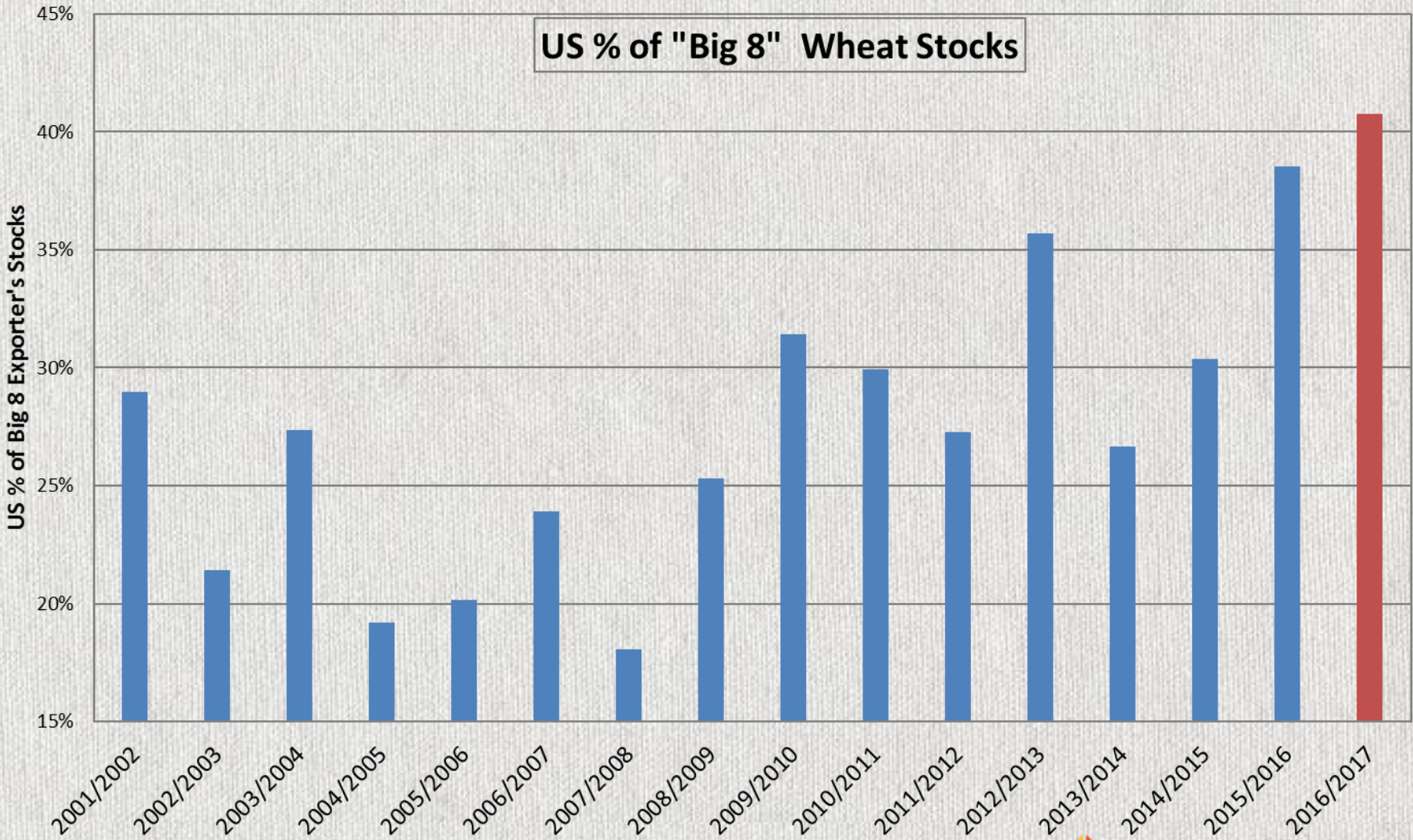


The amount of wheat in the exporter's hands is larger than the past few years, but not a super burdensome situation

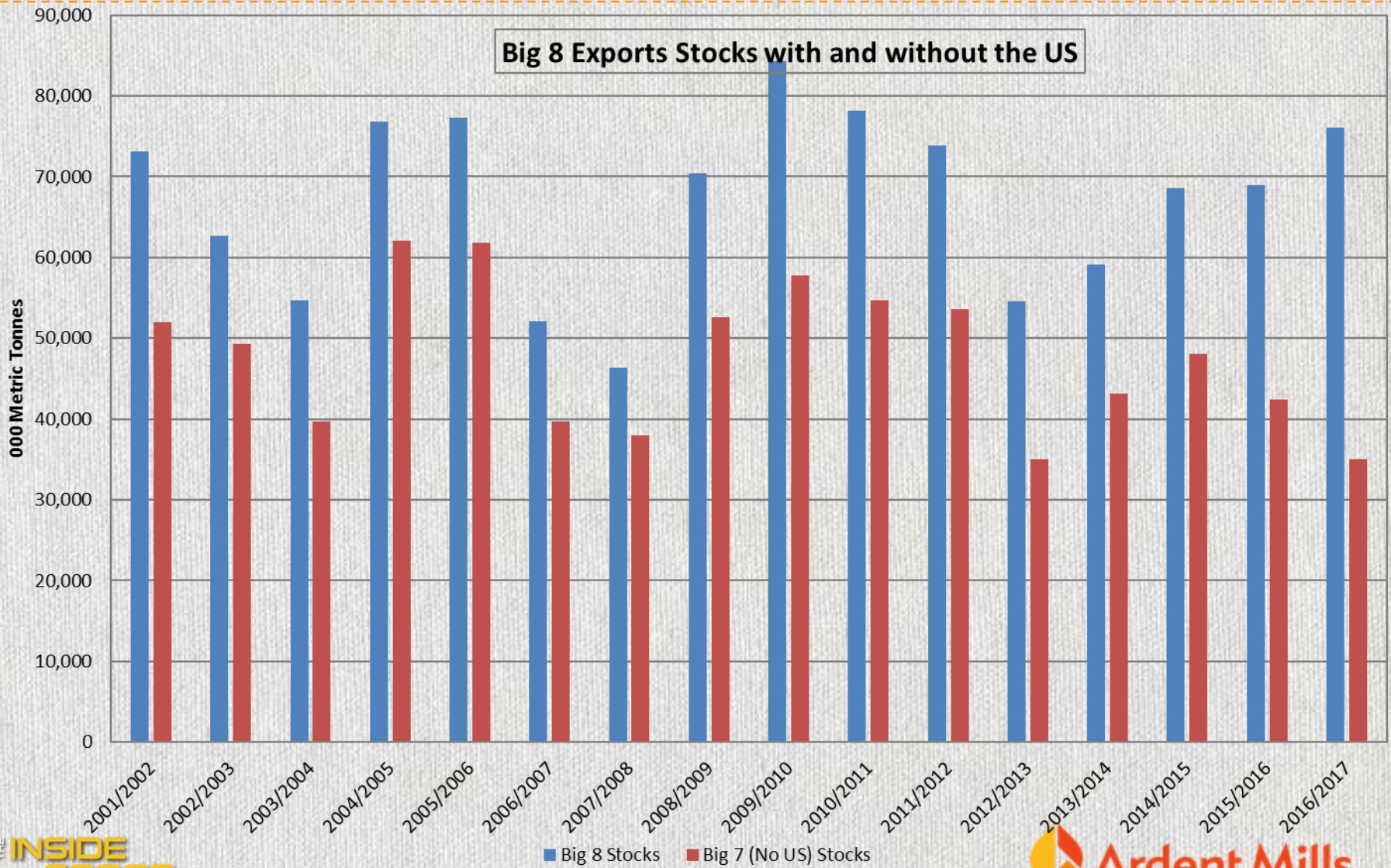


Source: USDA

The US is holding a very large percentage of the major exporter's stocks – the strong Dollar makes the US the "last resort" exporter



The red bars show major wheat exporters minus the US. The other wheat exporters stocks are tight before next harvest



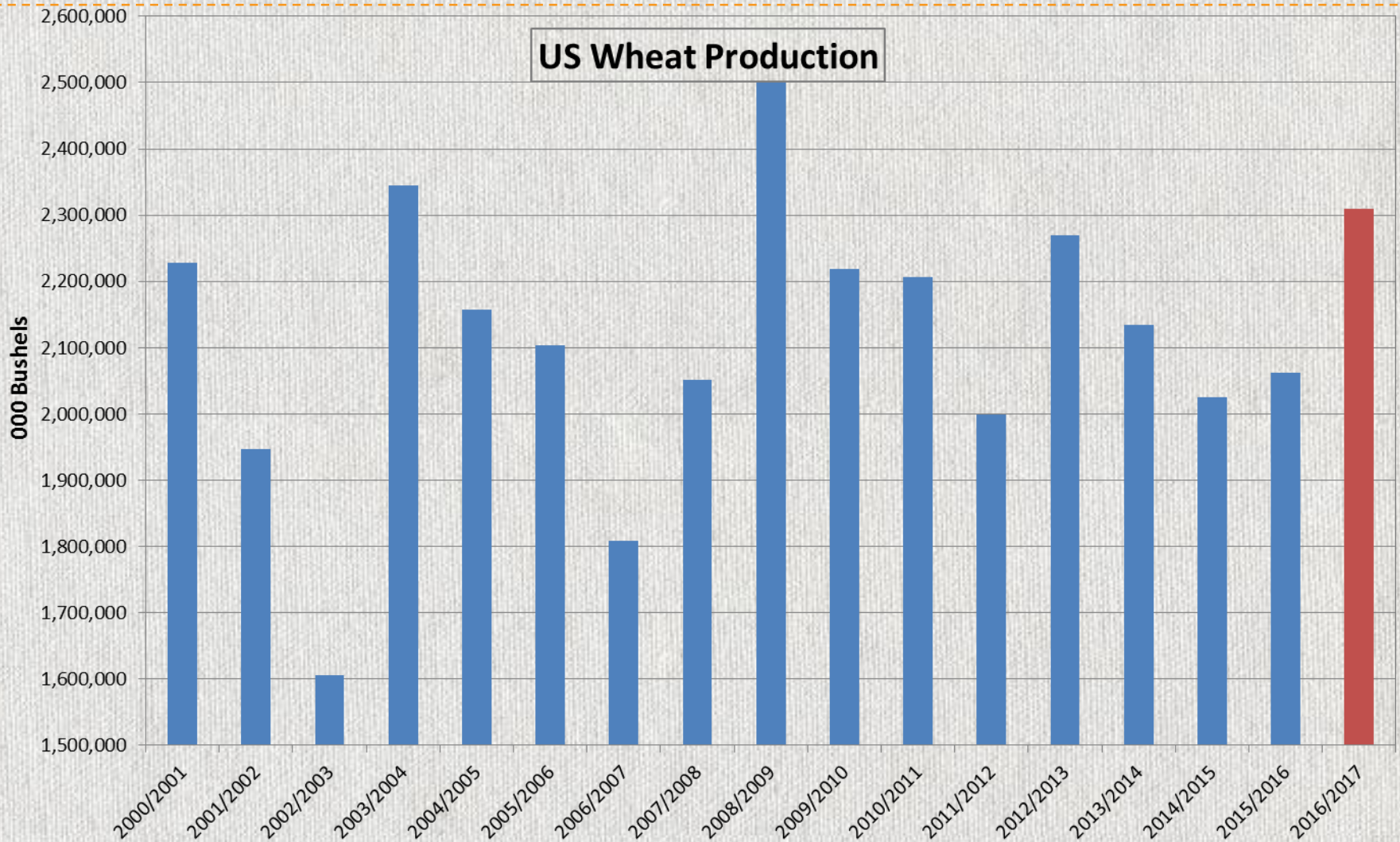


Ardent Mills.

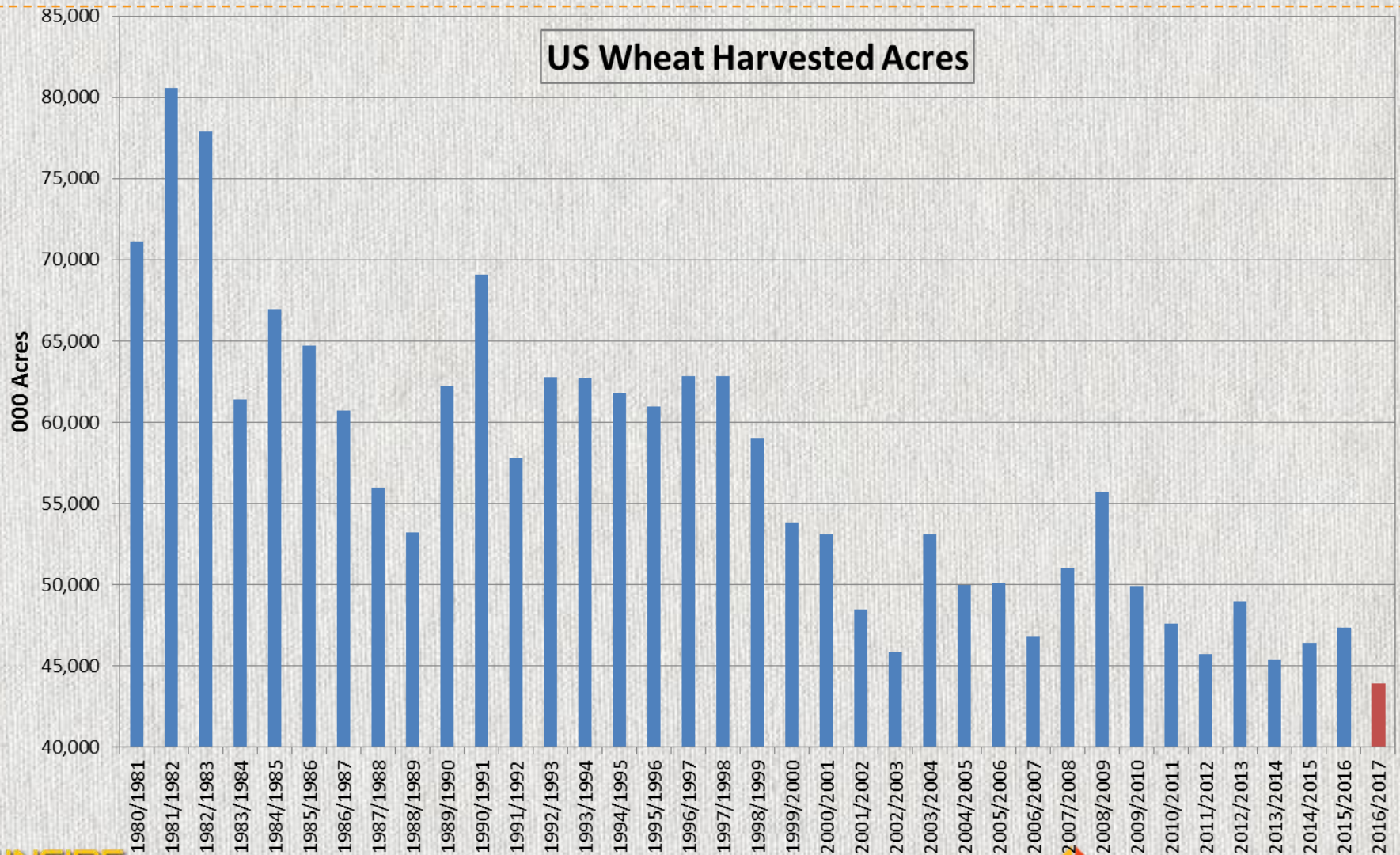
US Wheat Outlook



2016 US wheat production is the largest in eight years when record high prices incented the farmer to plant wheat

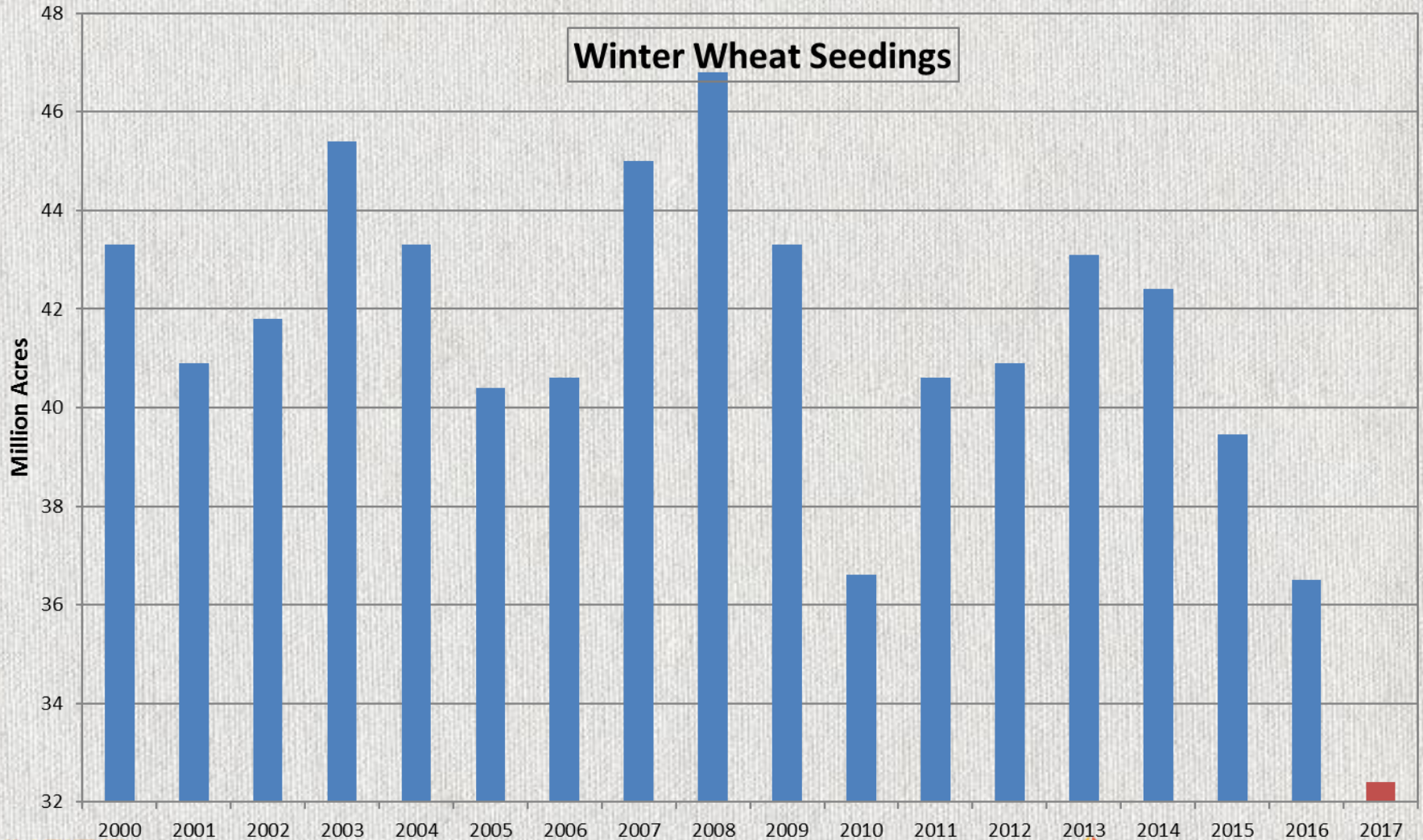


The US wheat farmer is backing off of planting (and harvesting) wheat – this is a trend

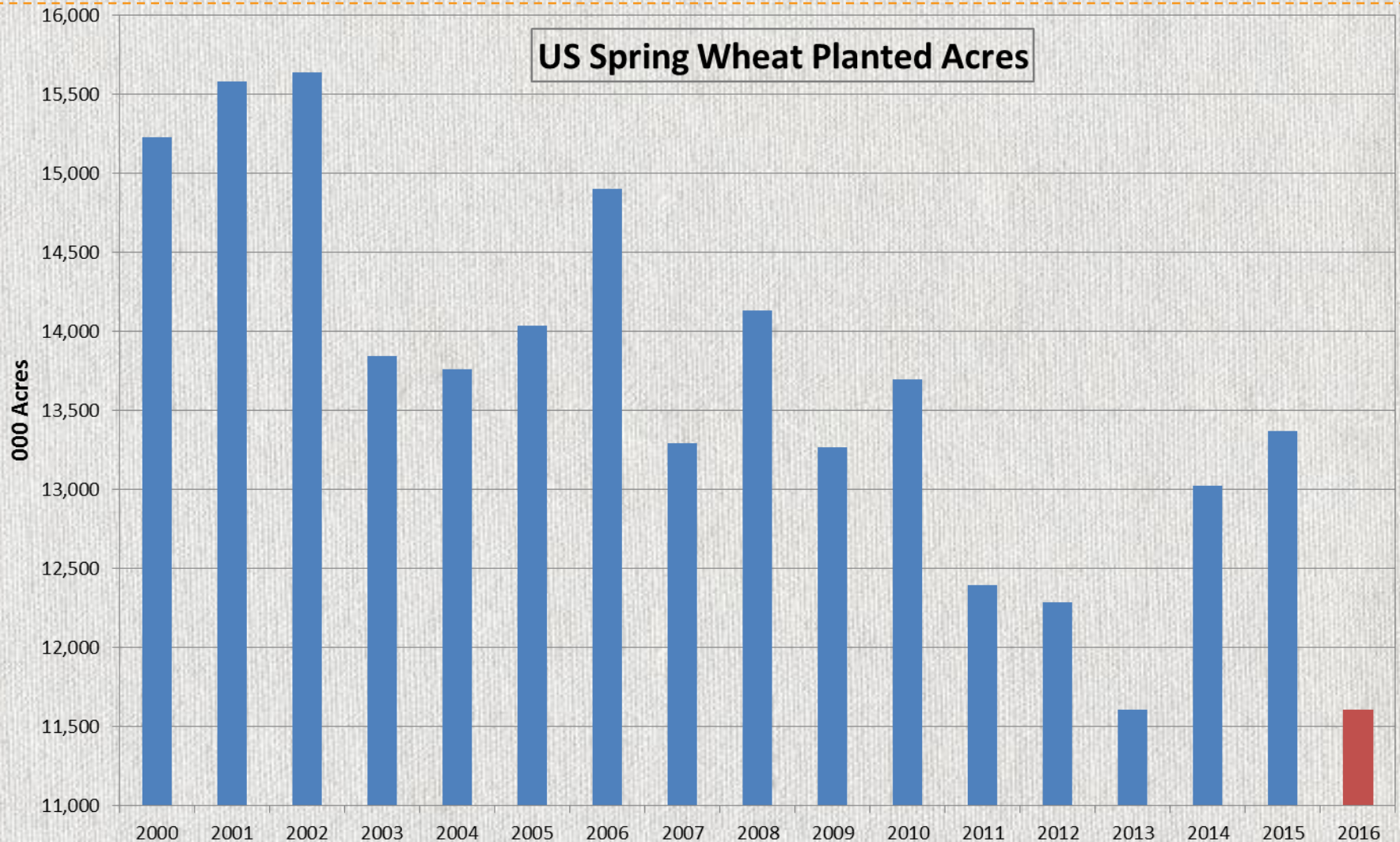


Source: USDA

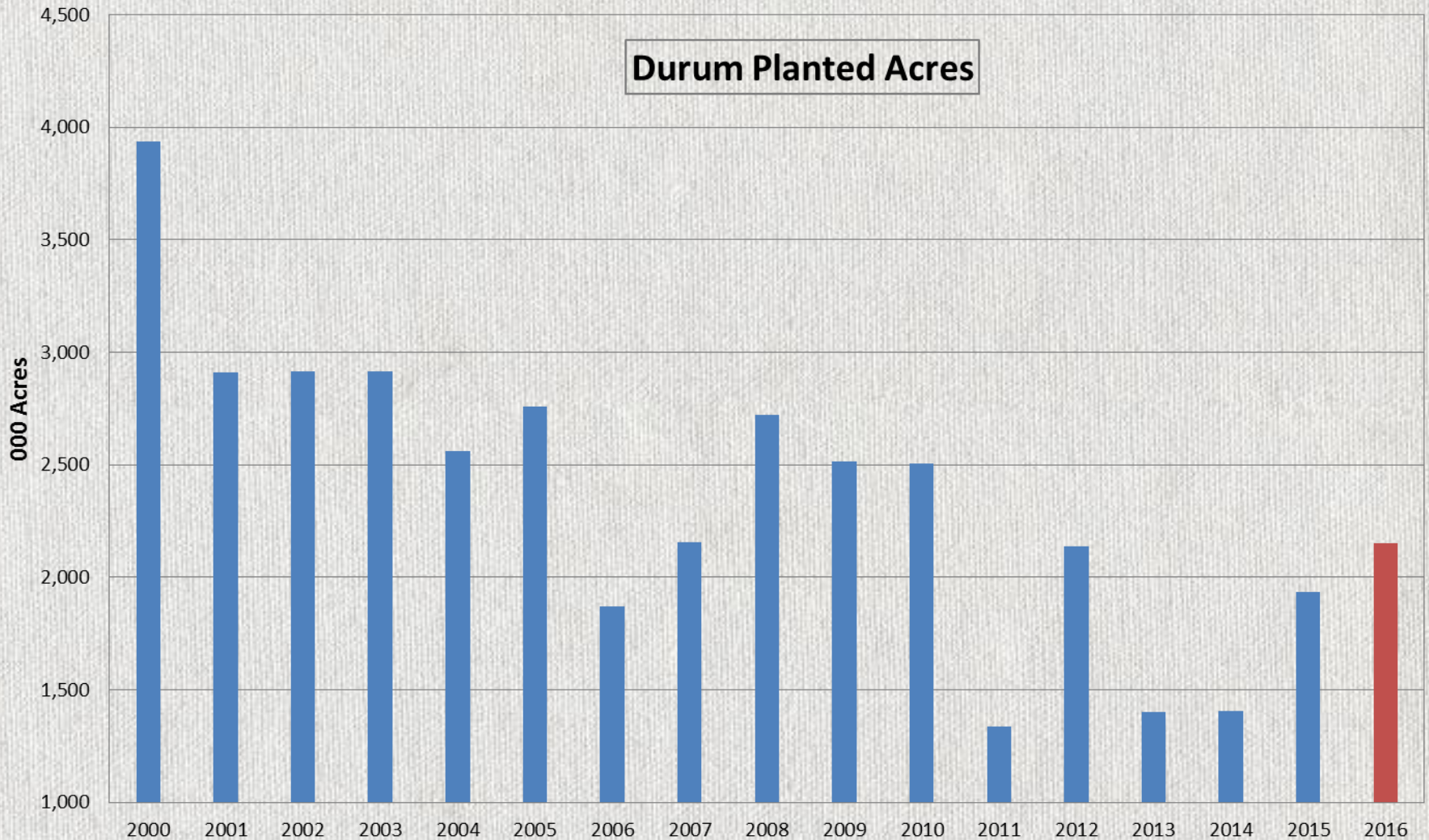
The highlight of the January crop report. Winter wheat acres down more than market estimates. Farmers are responding to low prices.



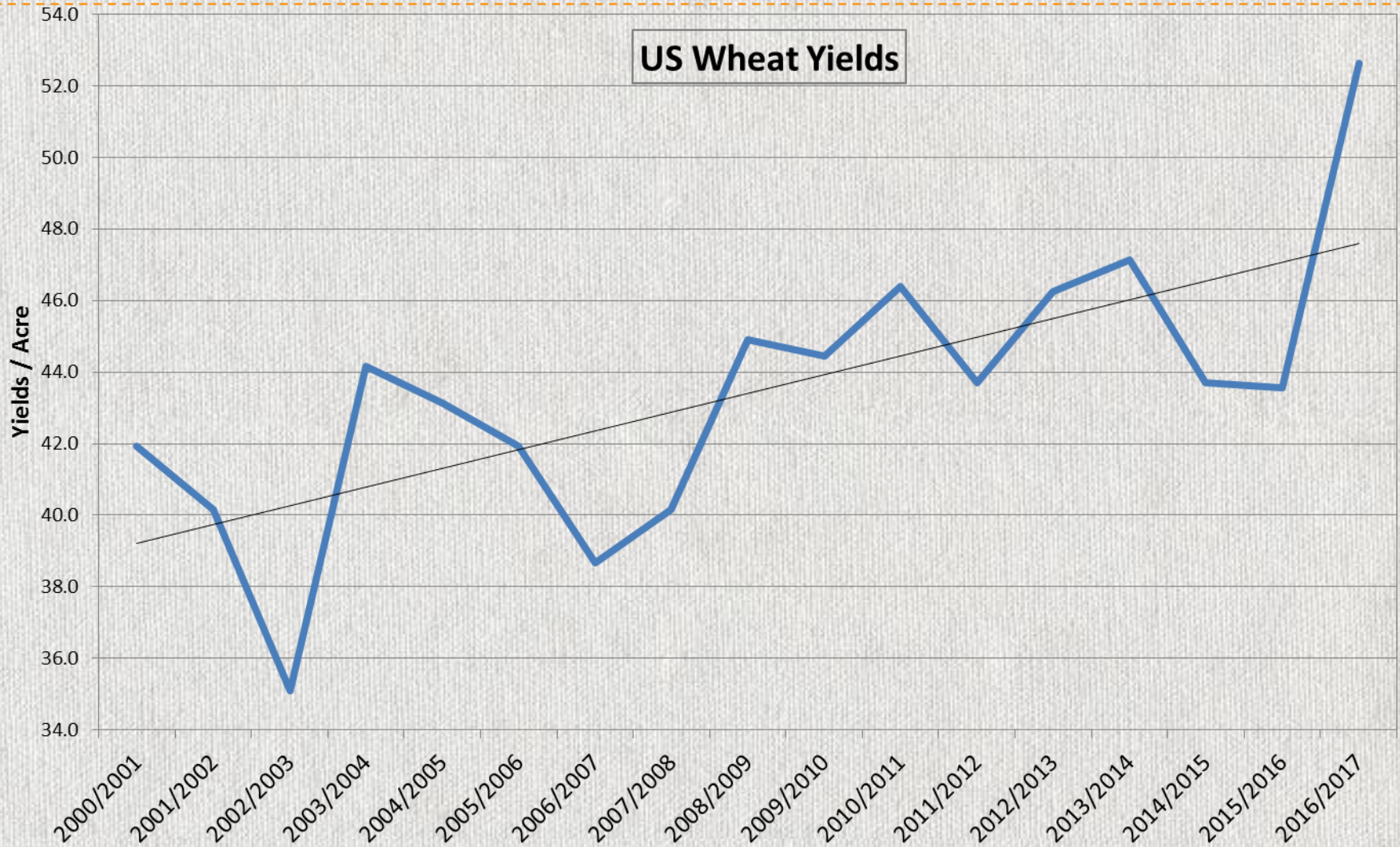
US Spring wheat acres are down significantly year-on-year and expected to be lower in 2017.



With Durum prices at a healthy premium to Spring Wheat – planted acres for Durum were up

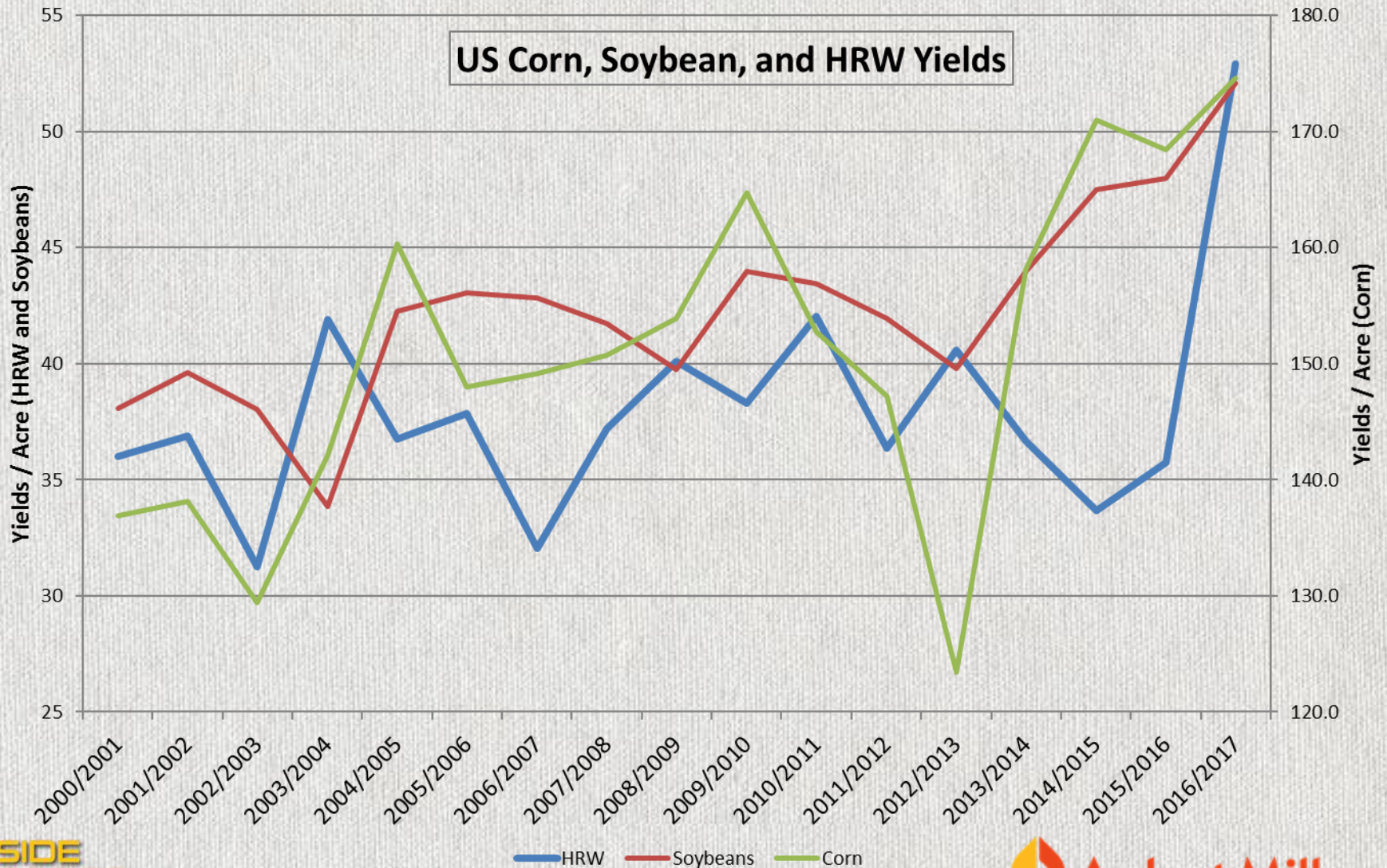


US wheat yields are forecasted to be a record this year by a long shot, and over 50 bushels/acre for the first time ever



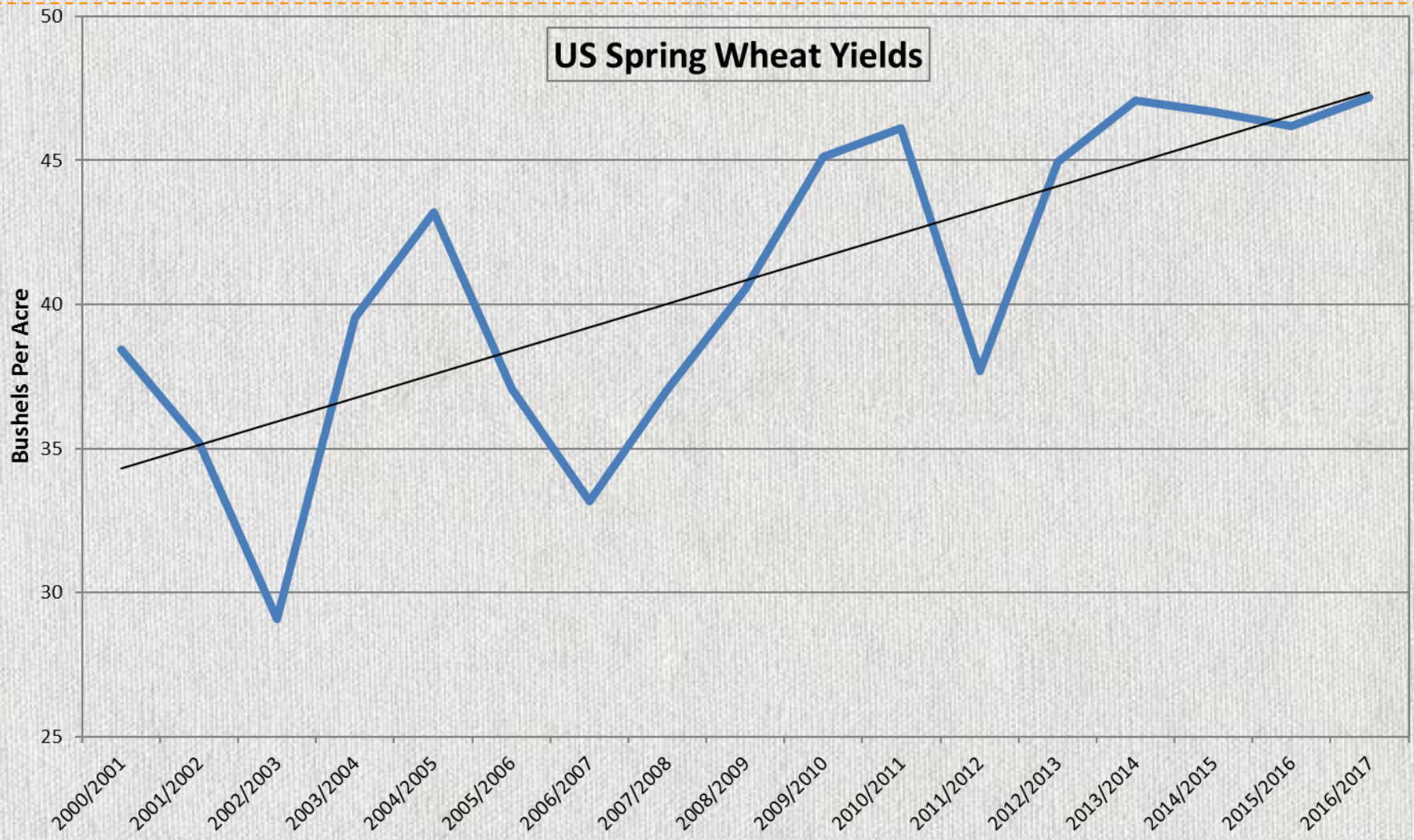
Source: USDA

A historic year looking at US HRW, corn, and soybean yields. US HRW had never been over 45 bushels/acre – and it was over 50 this year!



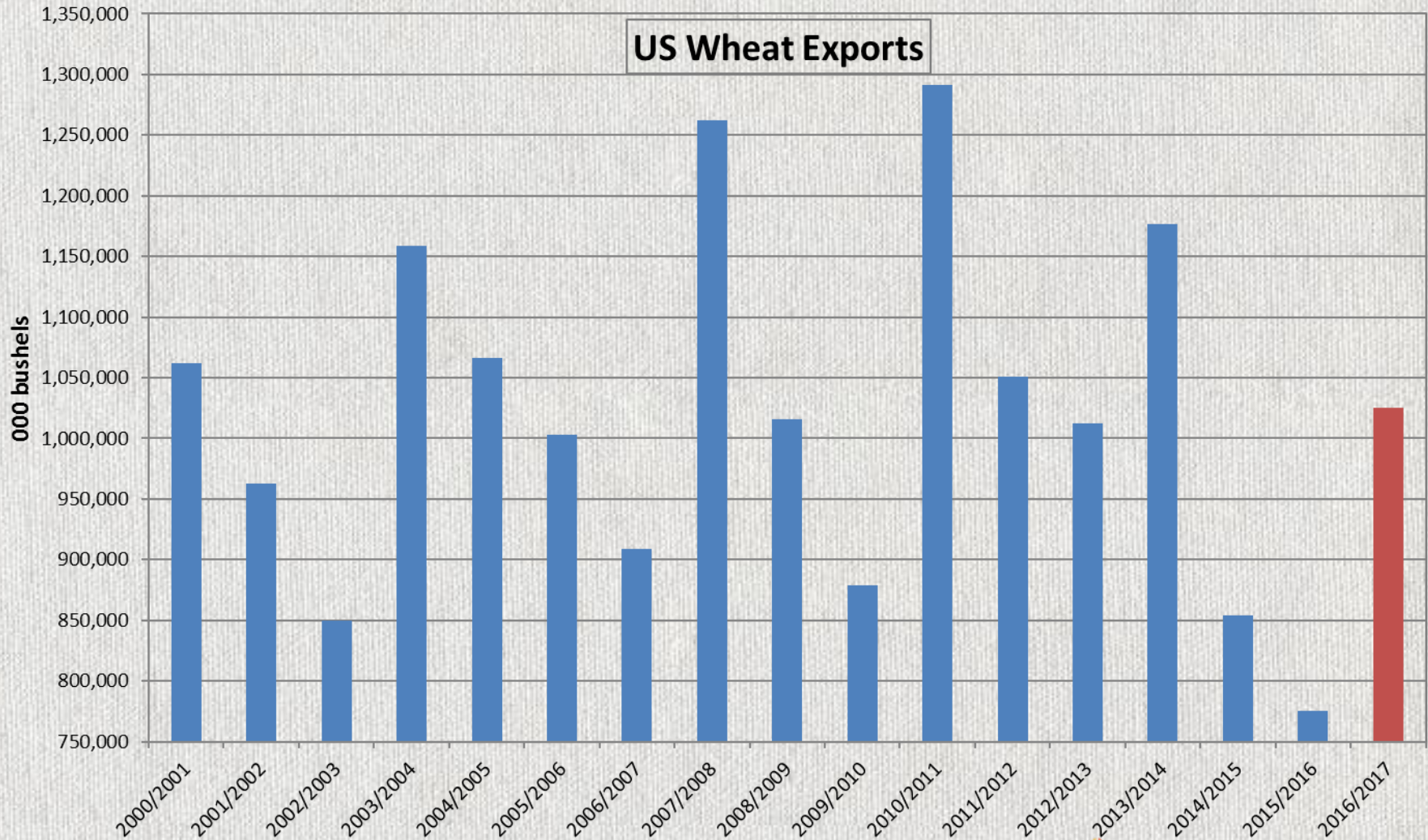
Source: USDA

Remember the previous slide showing yield growth – no such thing in Spring Wheat.



Source: USDA

US wheat exports are forecasted to be up 250 million bushels from last year's historically low exports



Where US wheat is gaining exports vs last year's abysmal year of exports – answer is mostly everywhere

2.7 mil MT
+35% YOY

0.5 mil MT
-33% YOY

9.6 mil MT
+22% YOY

2.8 mil MT
+72% YOY

5.1 mil MT
+40% YOY

Parts Unknown:

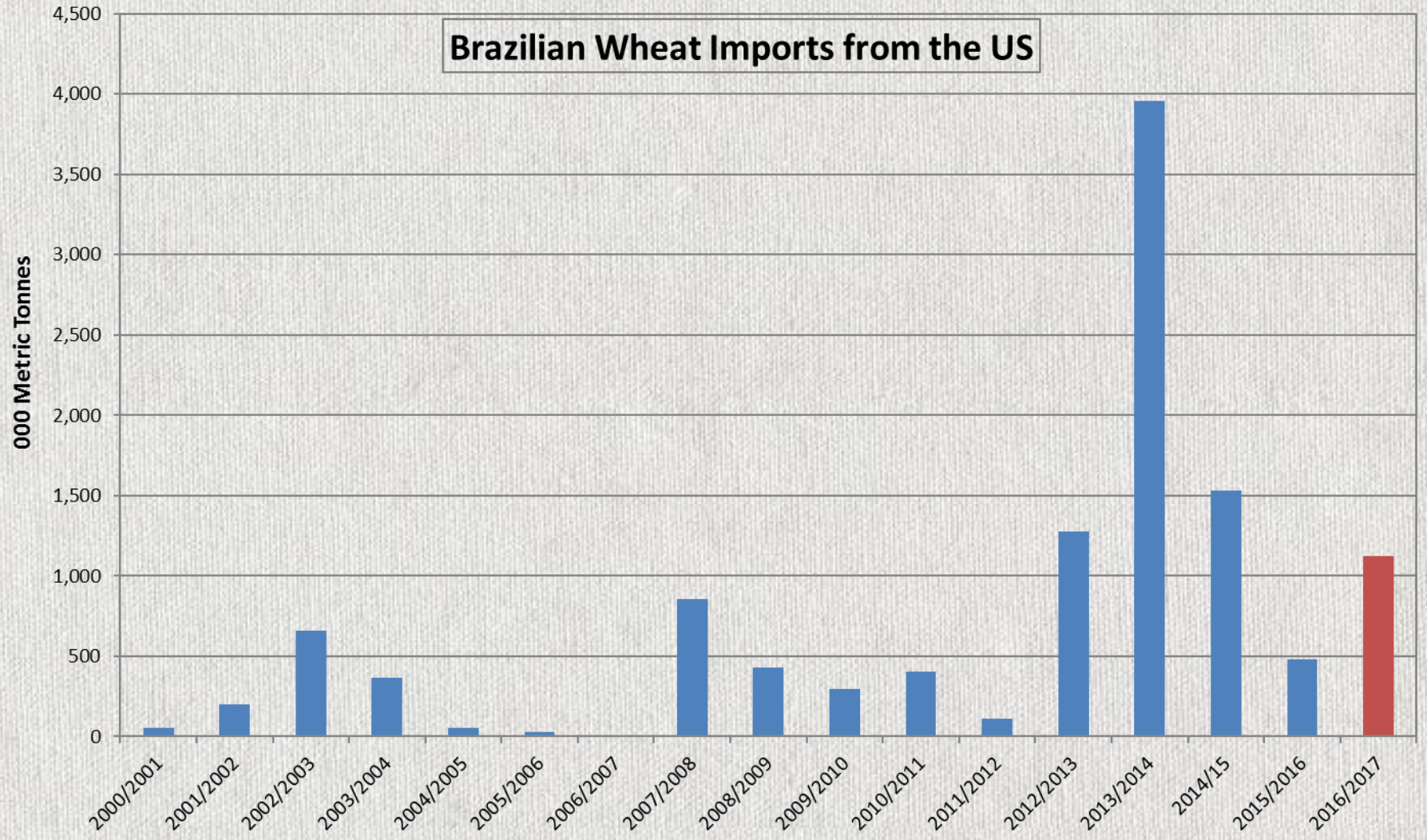
2.6 mil MT
+147% YOY

Entire US Exports Sales:

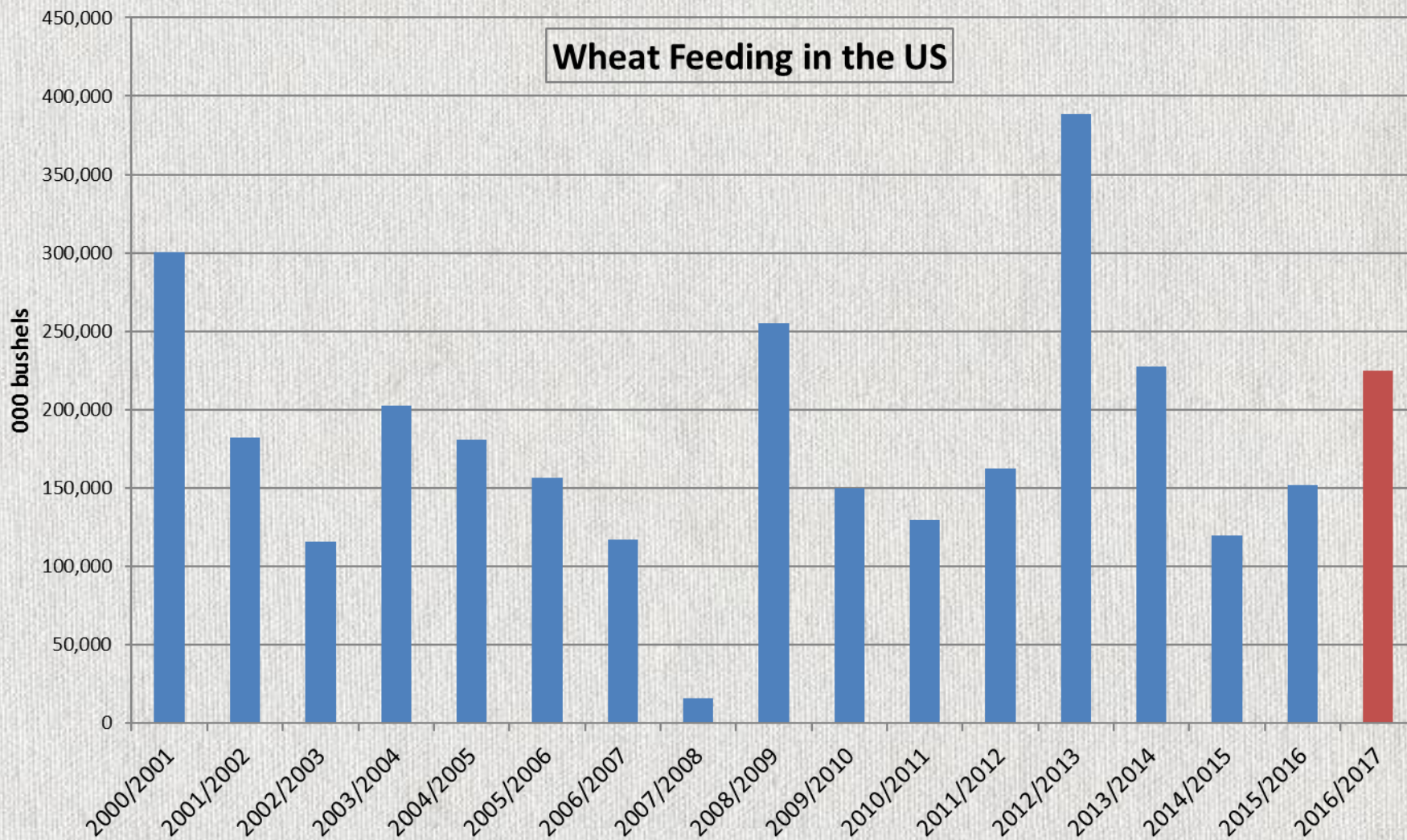
23.4 mil MT
46% YOY

The US has already sold more wheat to Brazil than it did all of last marketing year, but more substantial sales are highly unlikely

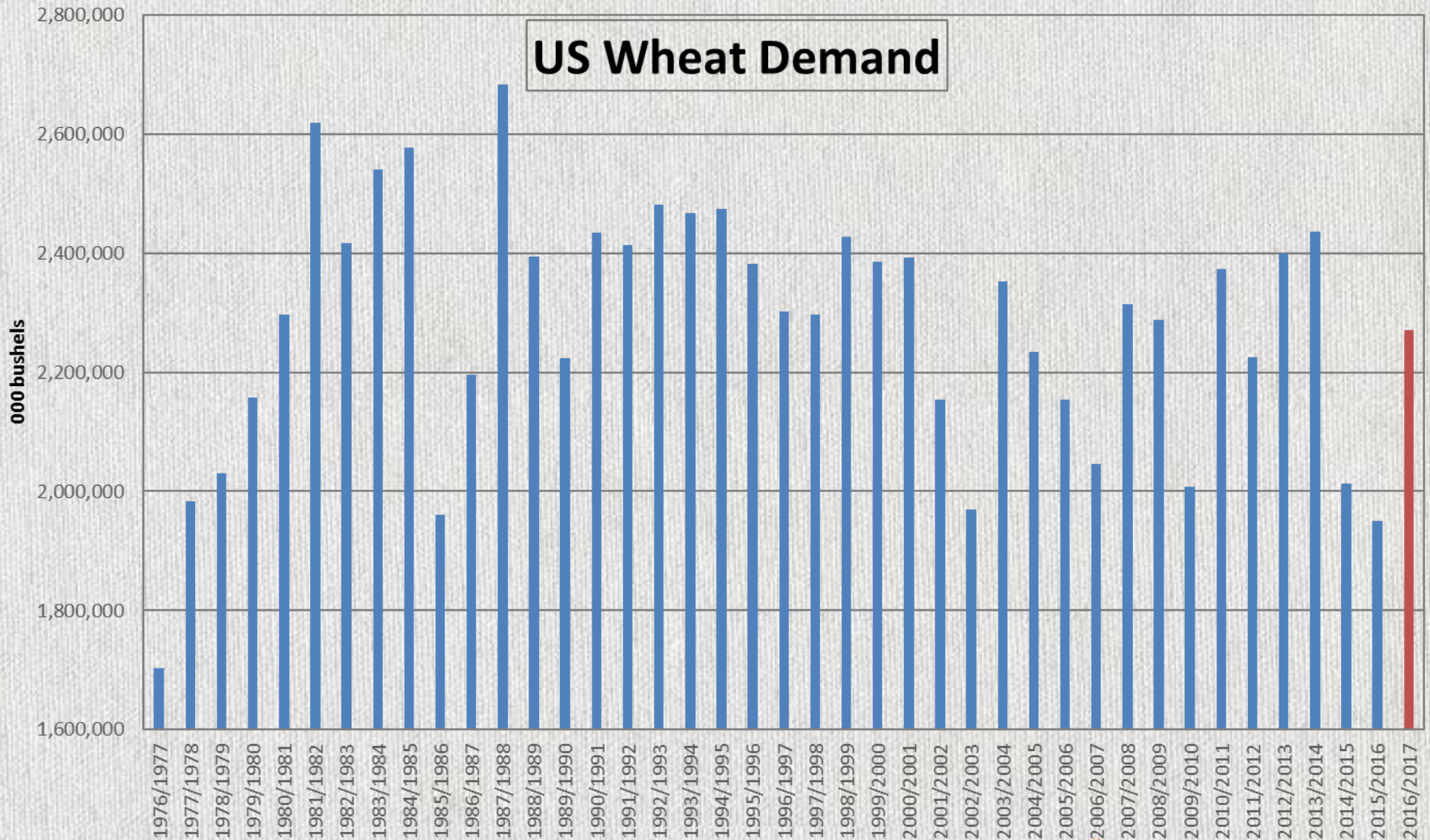
Brazilian Wheat Imports from the US



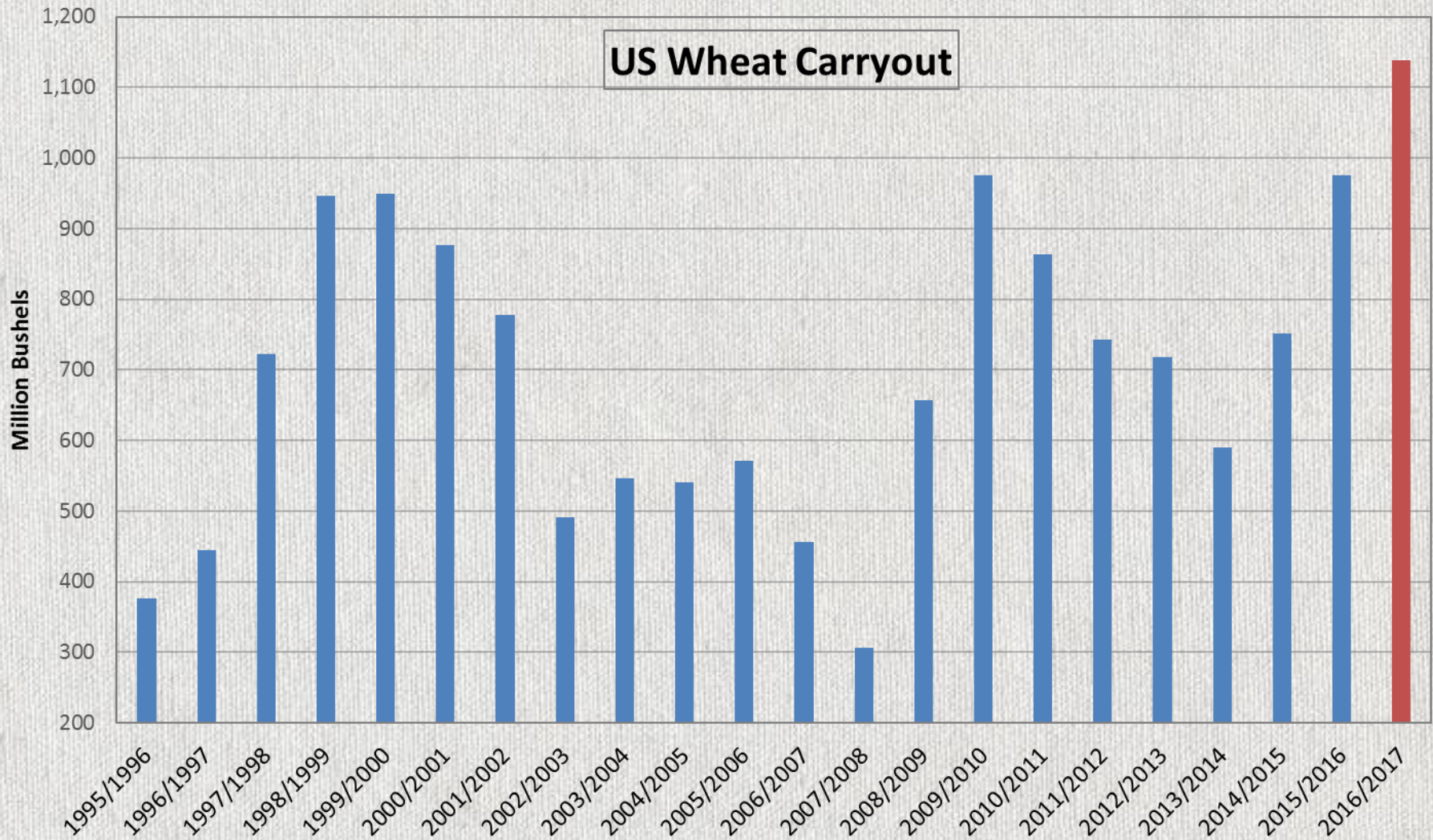
USDA did reduce their wheat feeding forecast this month and the current forecast looks like a more “normal” year



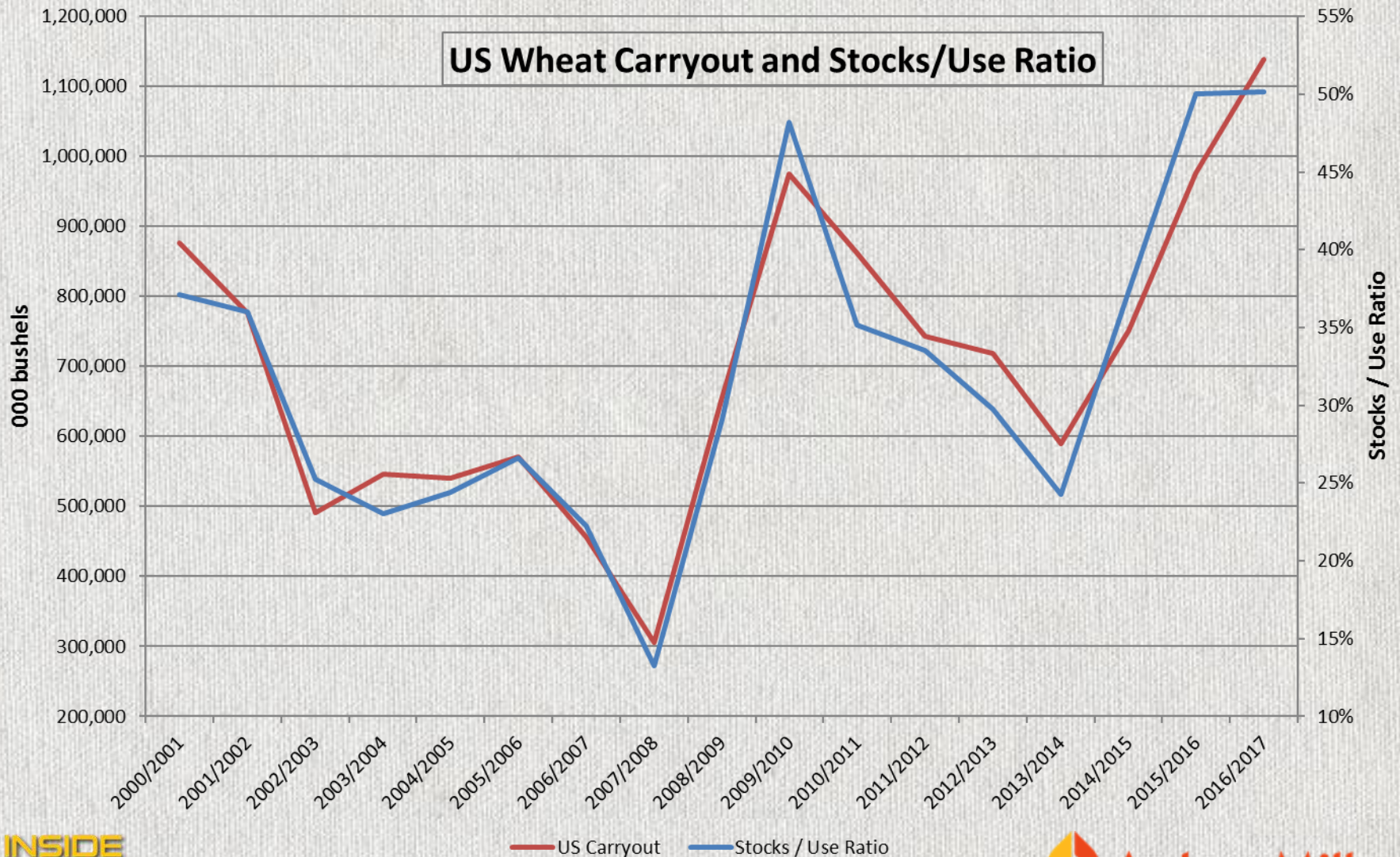
US wheat demand this past marketing year is forecasted to be up over 250 million bushels vs last year



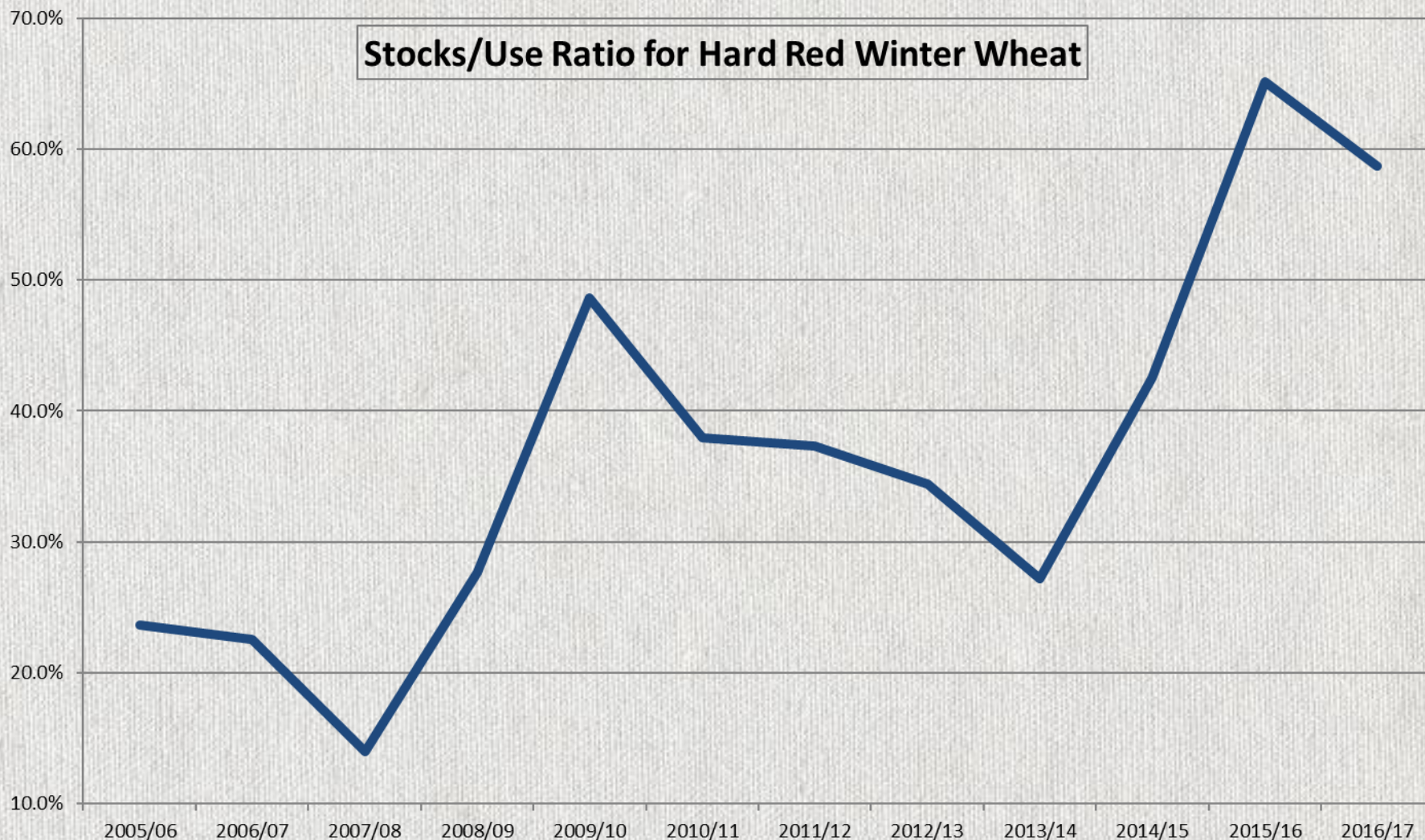
US Wheat carryout is forecasted to be 1+ billion bushels for the first time since the 1980's – and this is after increasing demand and lower acres



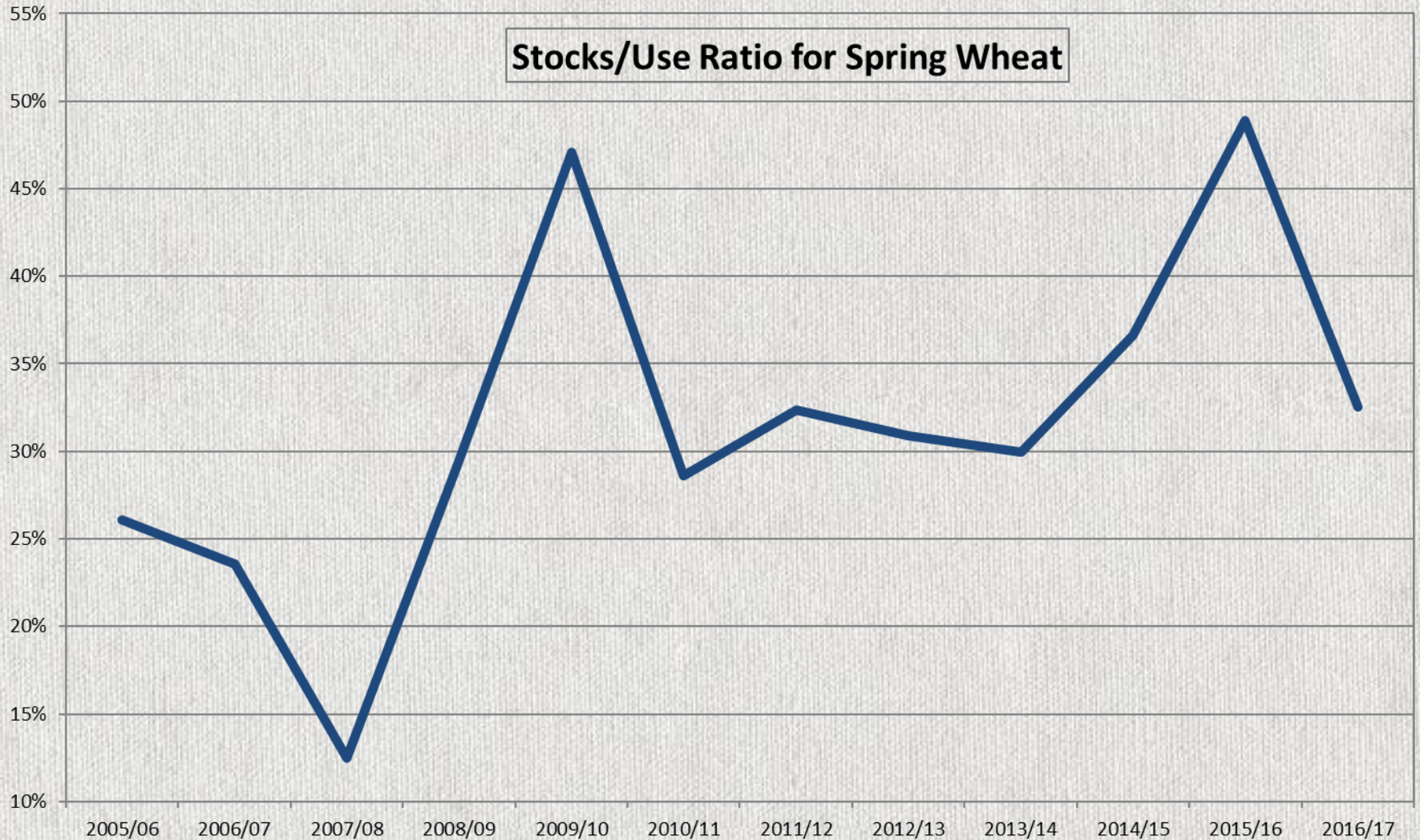
The US has large wheat stocks – whether you look at the carryout or Stocks/Use ratio



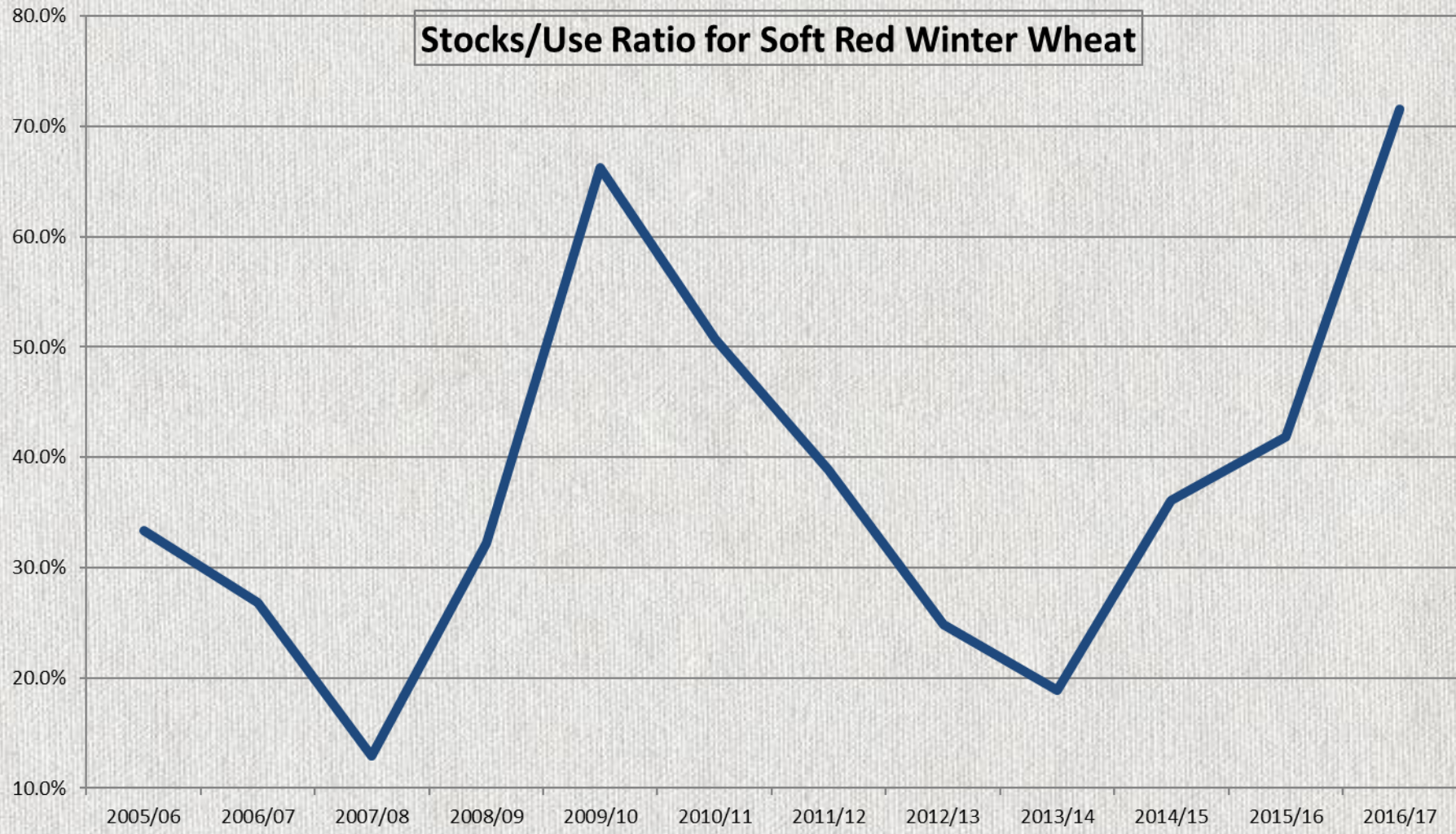
Huge amounts of HRW stocks after a few years of poor demand and this year's record yielding crop



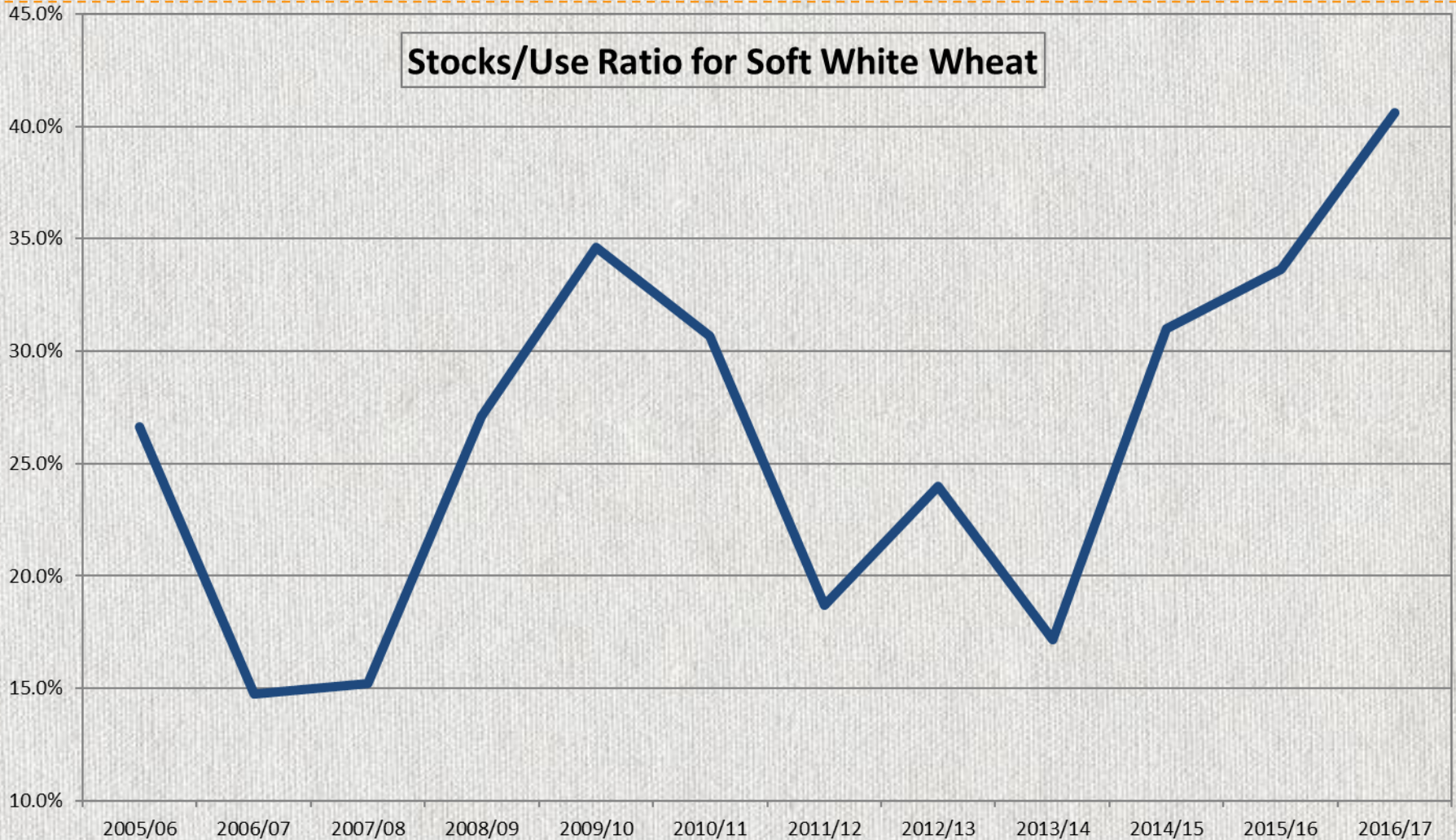
US Spring wheat stocks are not tight, but not burdensome like the other classes in the US



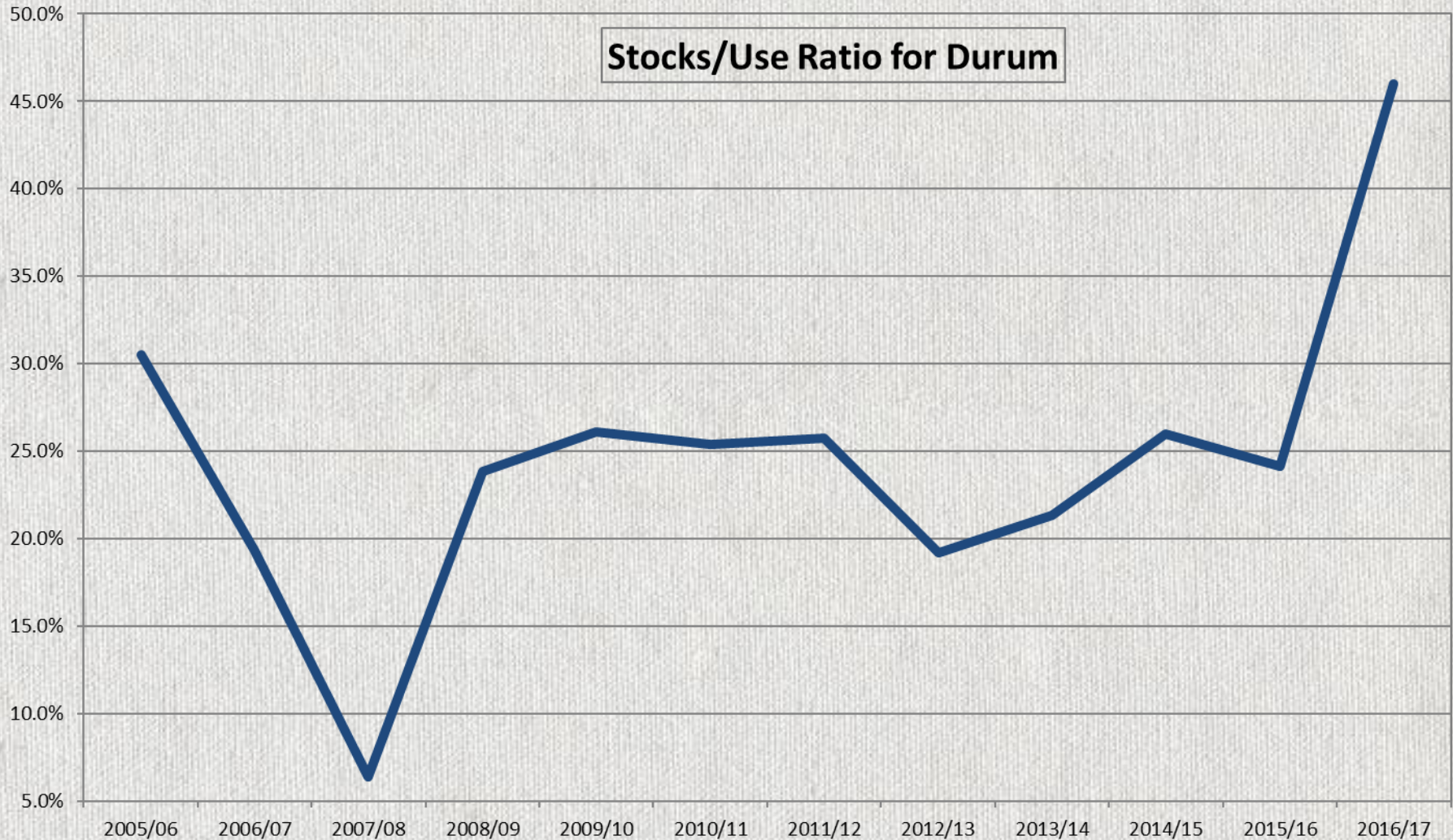
A lack of SRW export program the past few years and decent weather has created a significant stocks build



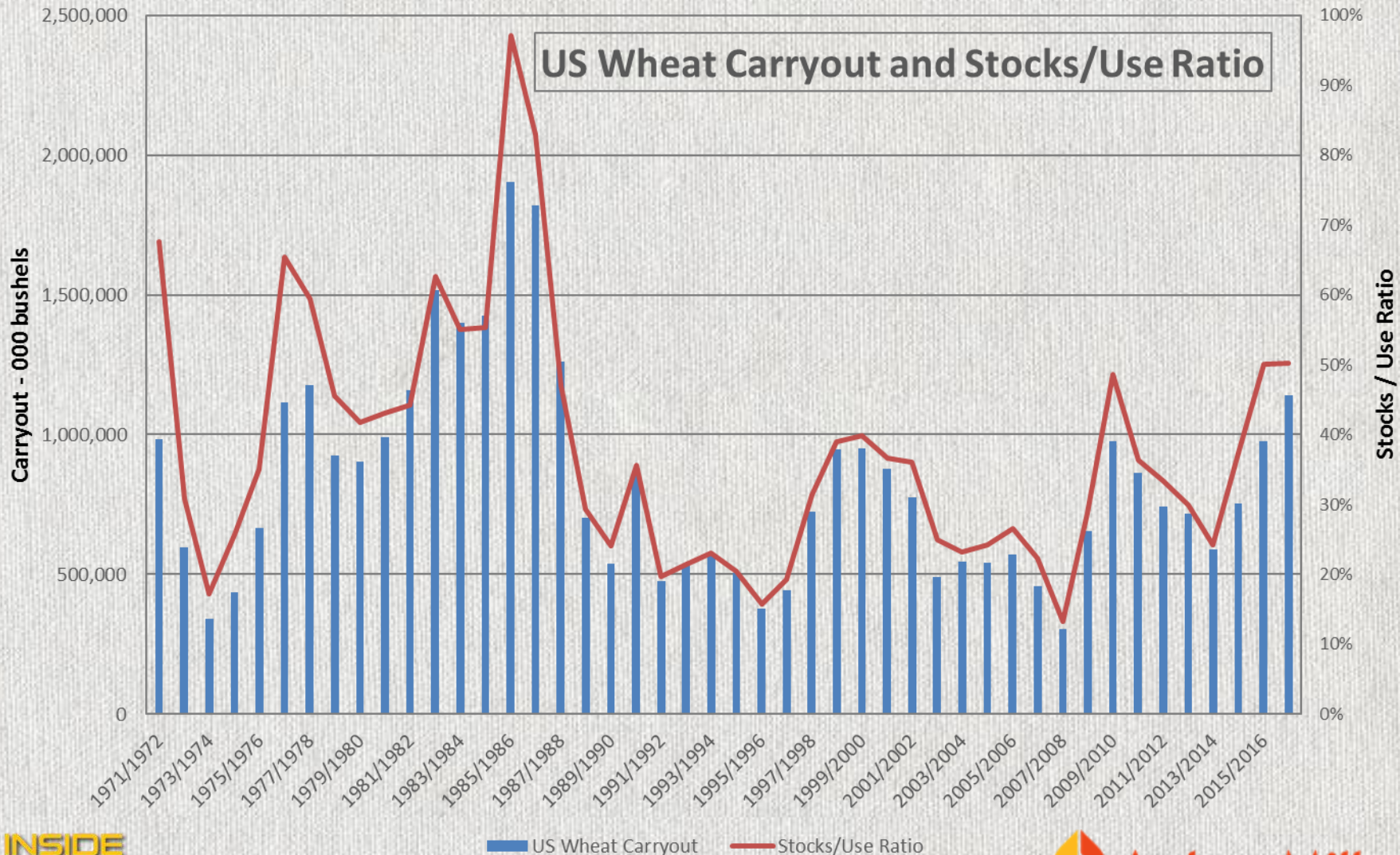
White Wheat stocks are significant



Durum stocks are very significant



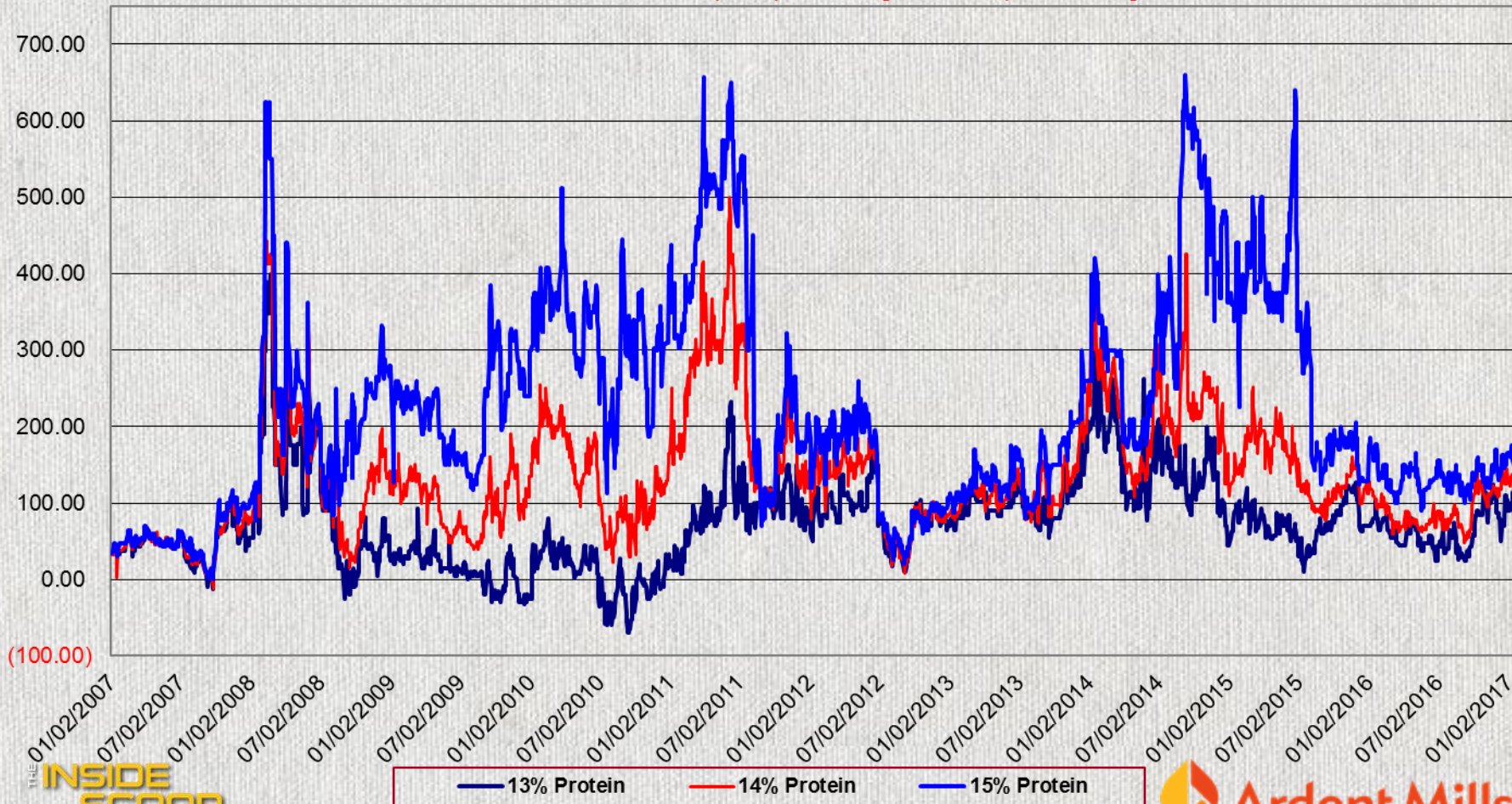
US wheat is not in a 1980's situation when the carryout was almost double what it is today



Spring Wheat premiums are at relatively low levels

Daily Basis for Mpls 13.0% - 15.0% Protein January 2007 - January 2017

NOTE: Effective 1/7/2010, basis price point changed from Mpls to Chicago



THE
**INSIDE
SCOOP**

From the Ardent Mills
Contract Risk Management Desk



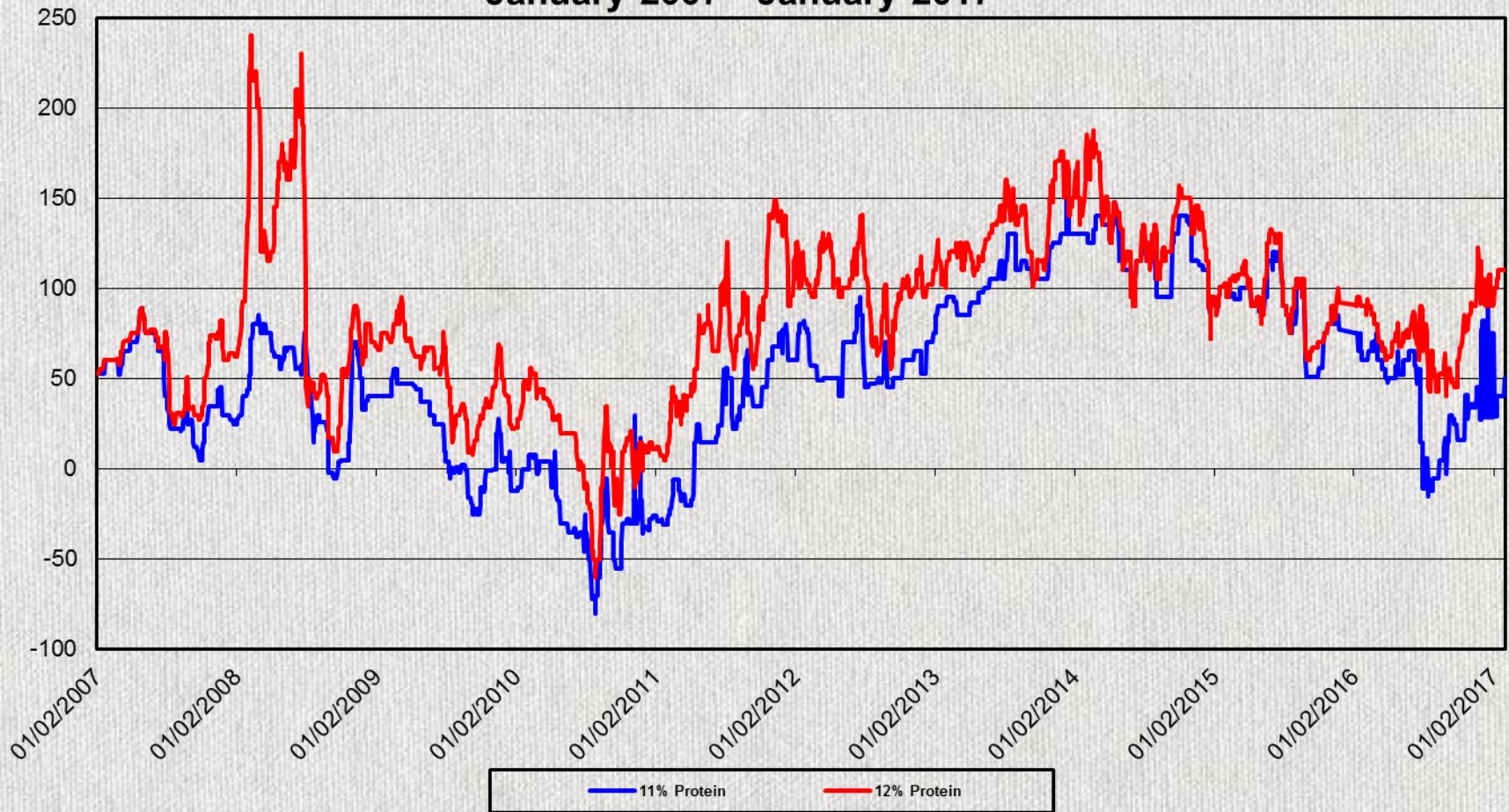
— 13% Protein — 14% Protein — 15% Protein



Source: USDA Minneapolis Daily Basis Report

Winter wheat premiums have firmed

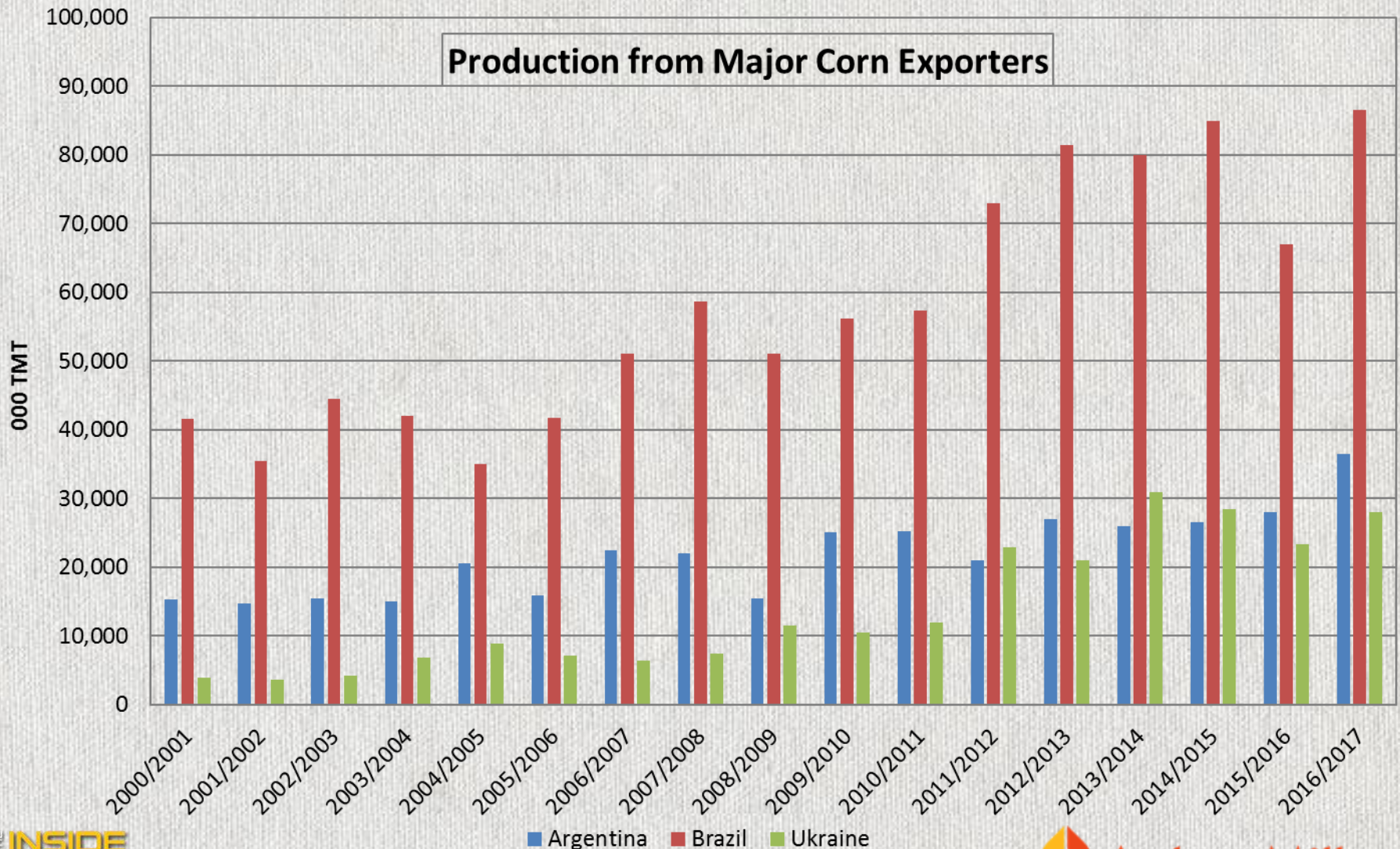
Daily Basis for KC 11% & 12% Protein January 2007 - January 2017



Corn Outlook



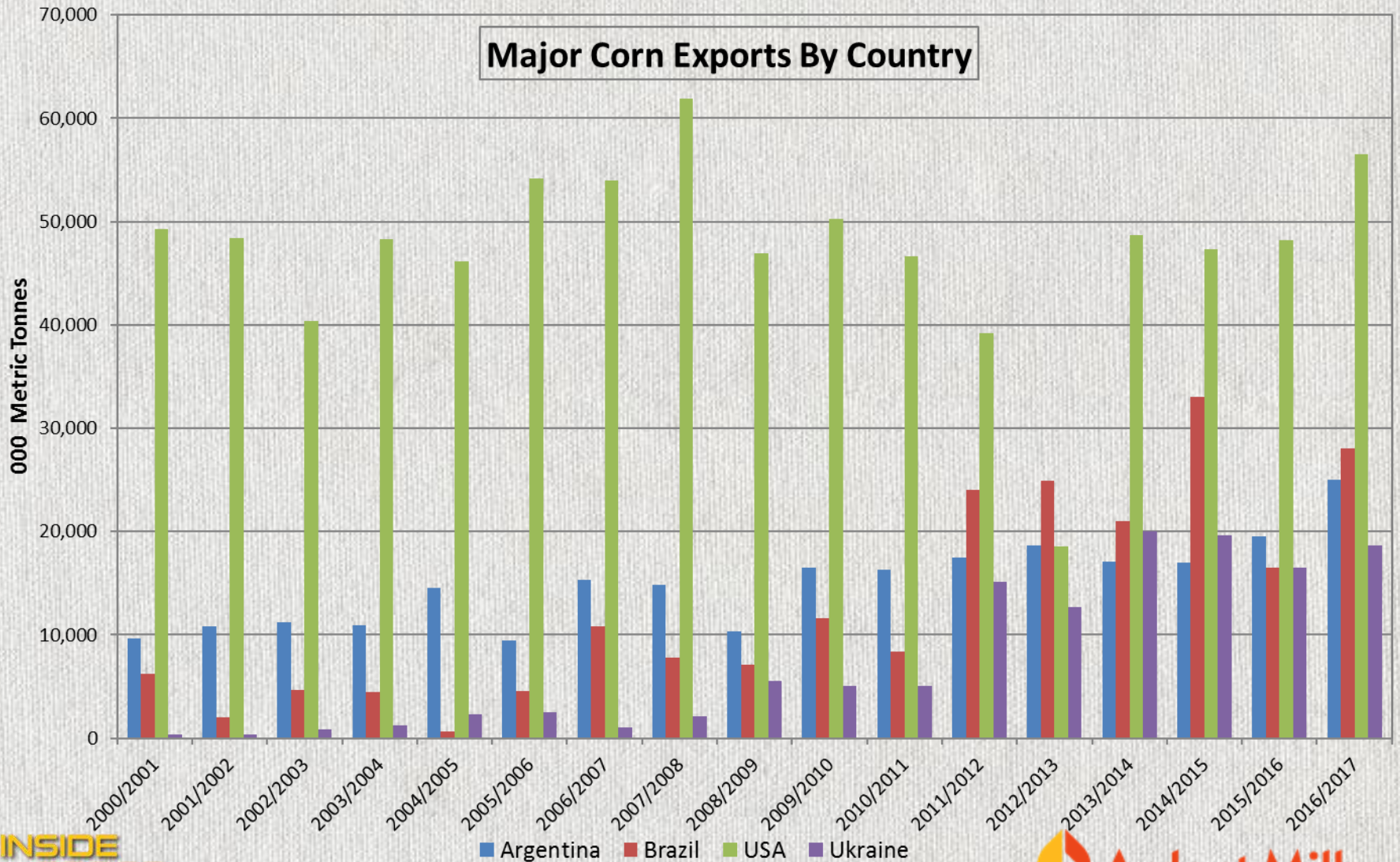
The 2017 Brazil corn crop is expected to be up almost 20 million MT from last year's low production output



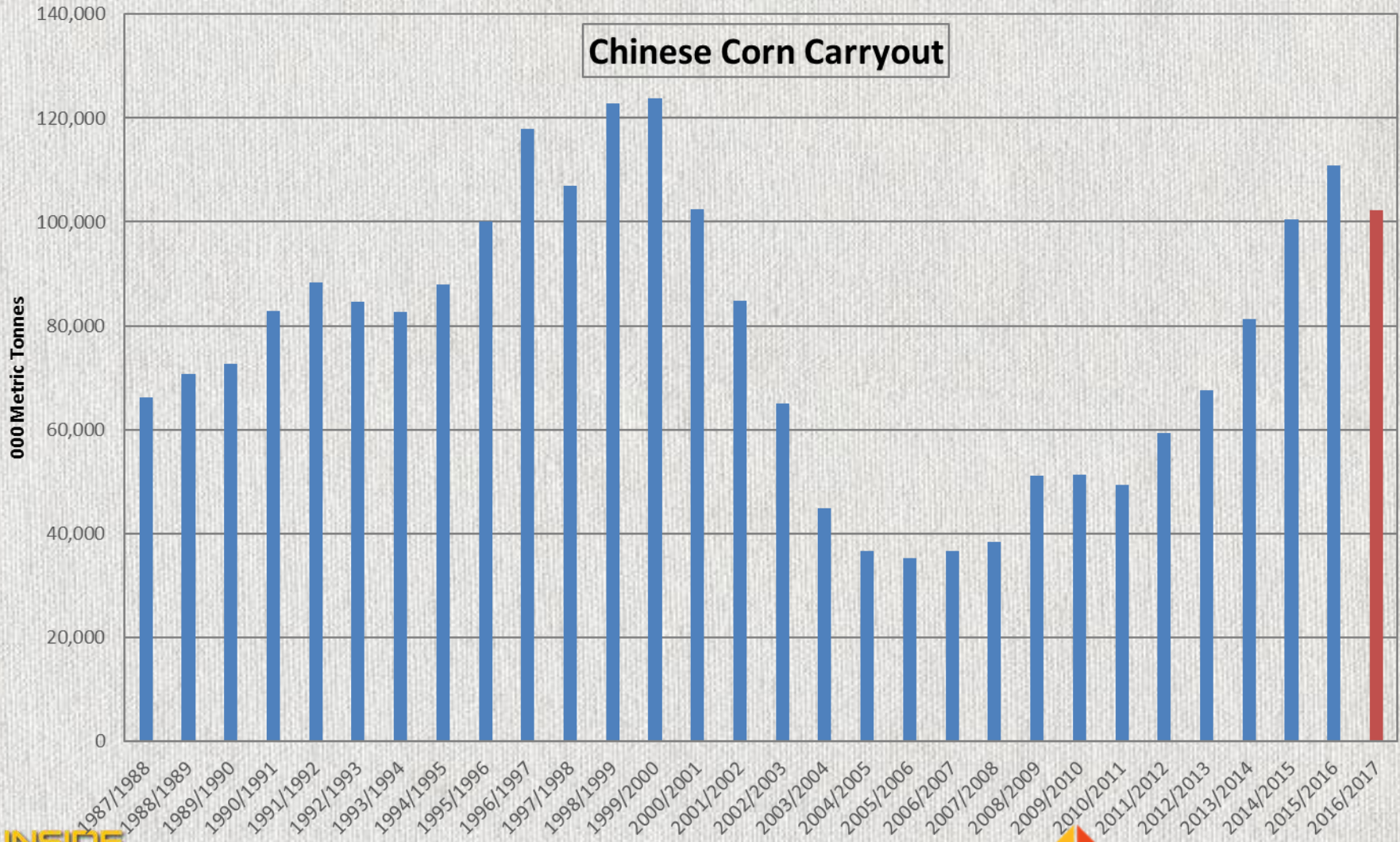
Source: USDA

Brazilian corn exports forecasted to be up almost 12 million MT

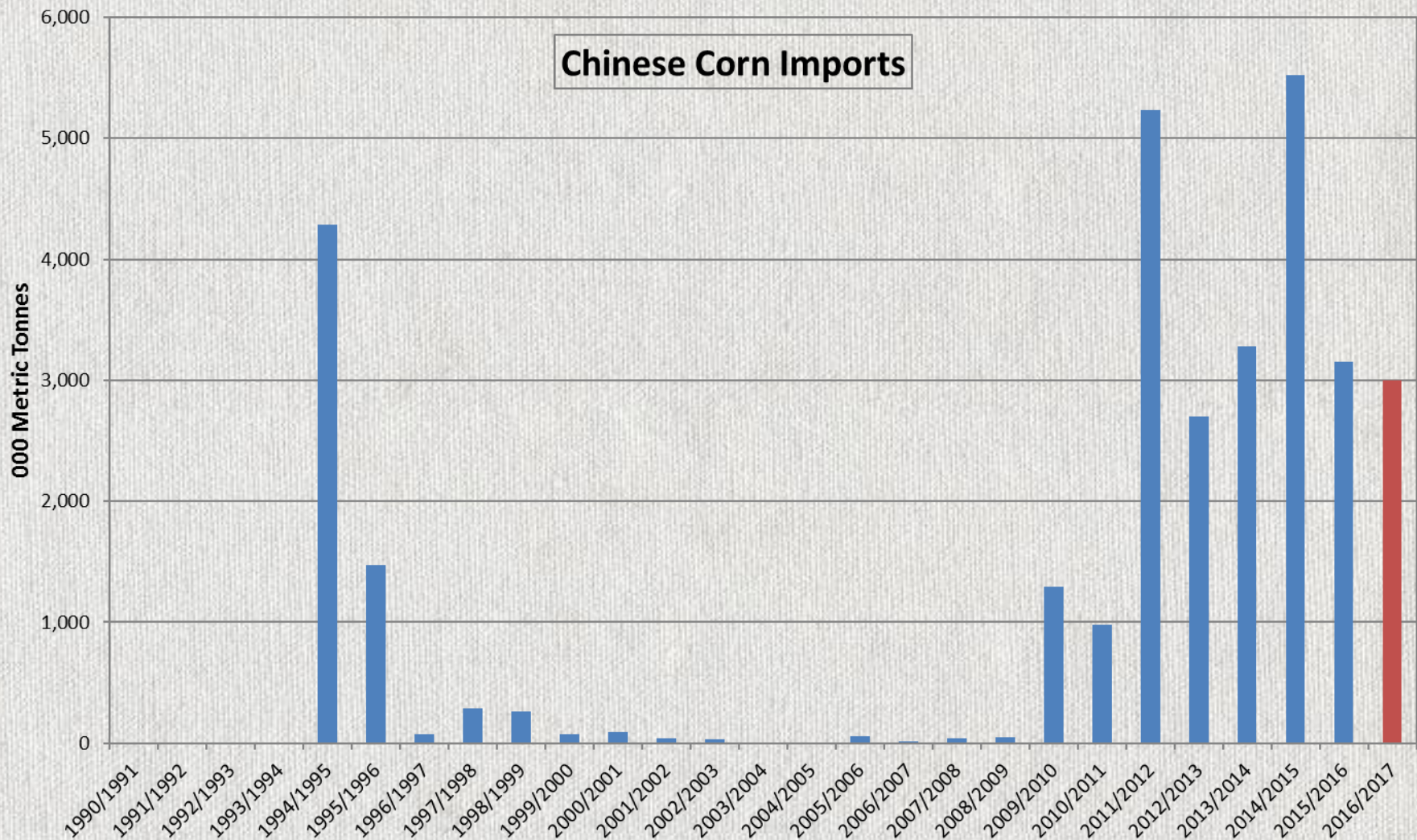
MT



Chinese corn stocks have changed dramatically since the mid 2000's

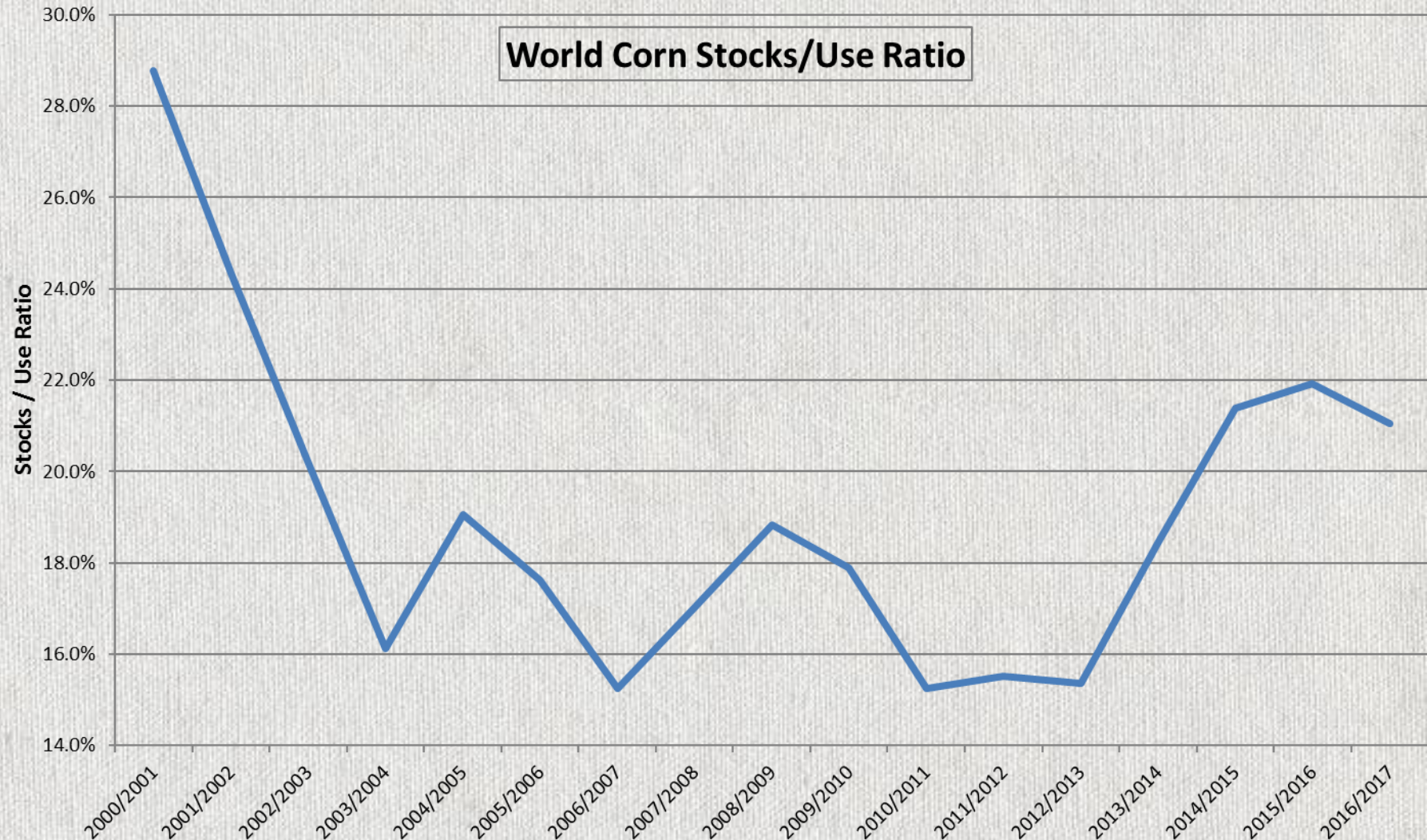


With large corn stocks in China, a large corn import program does not look likely in the foreseeable future.

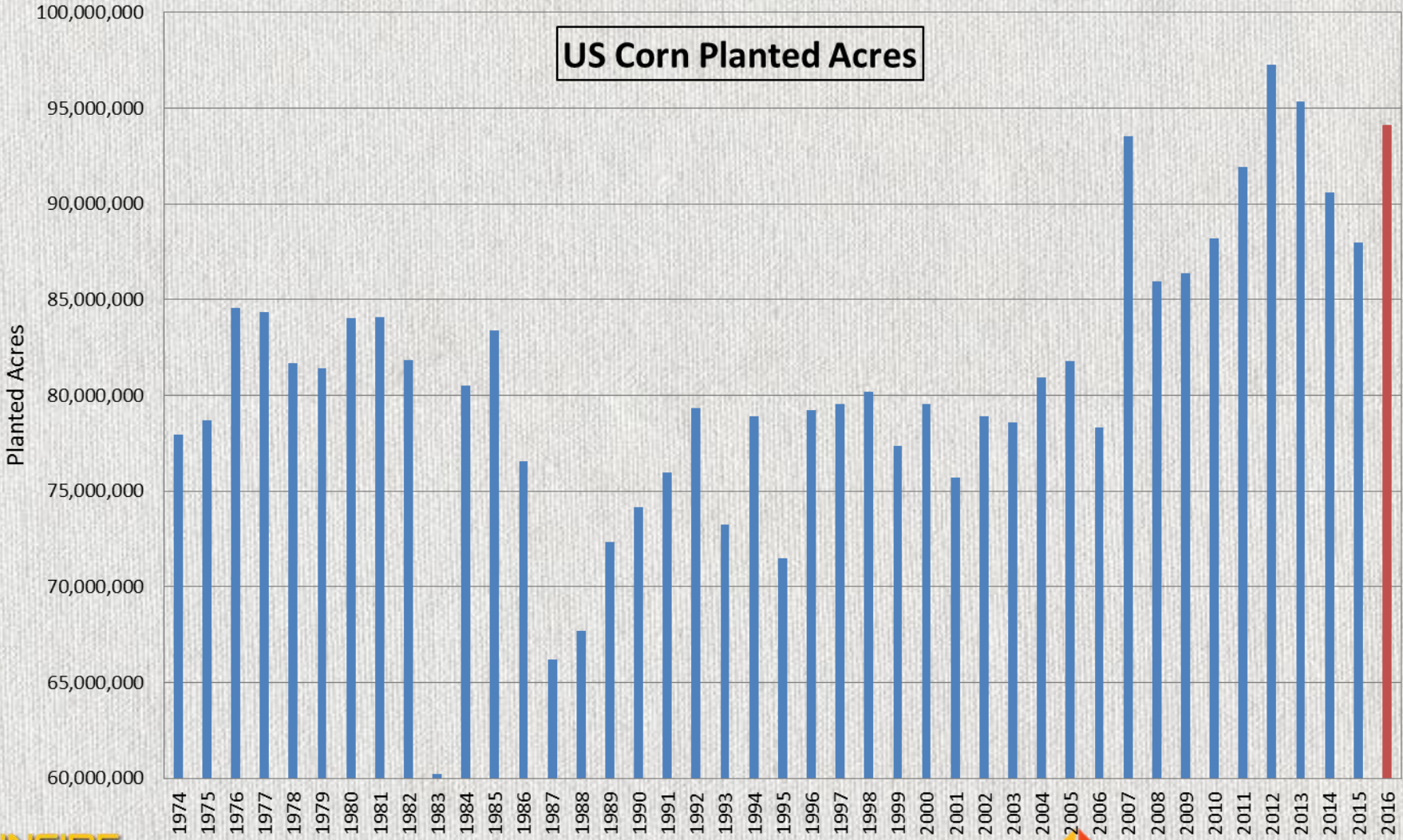


Source: USDA

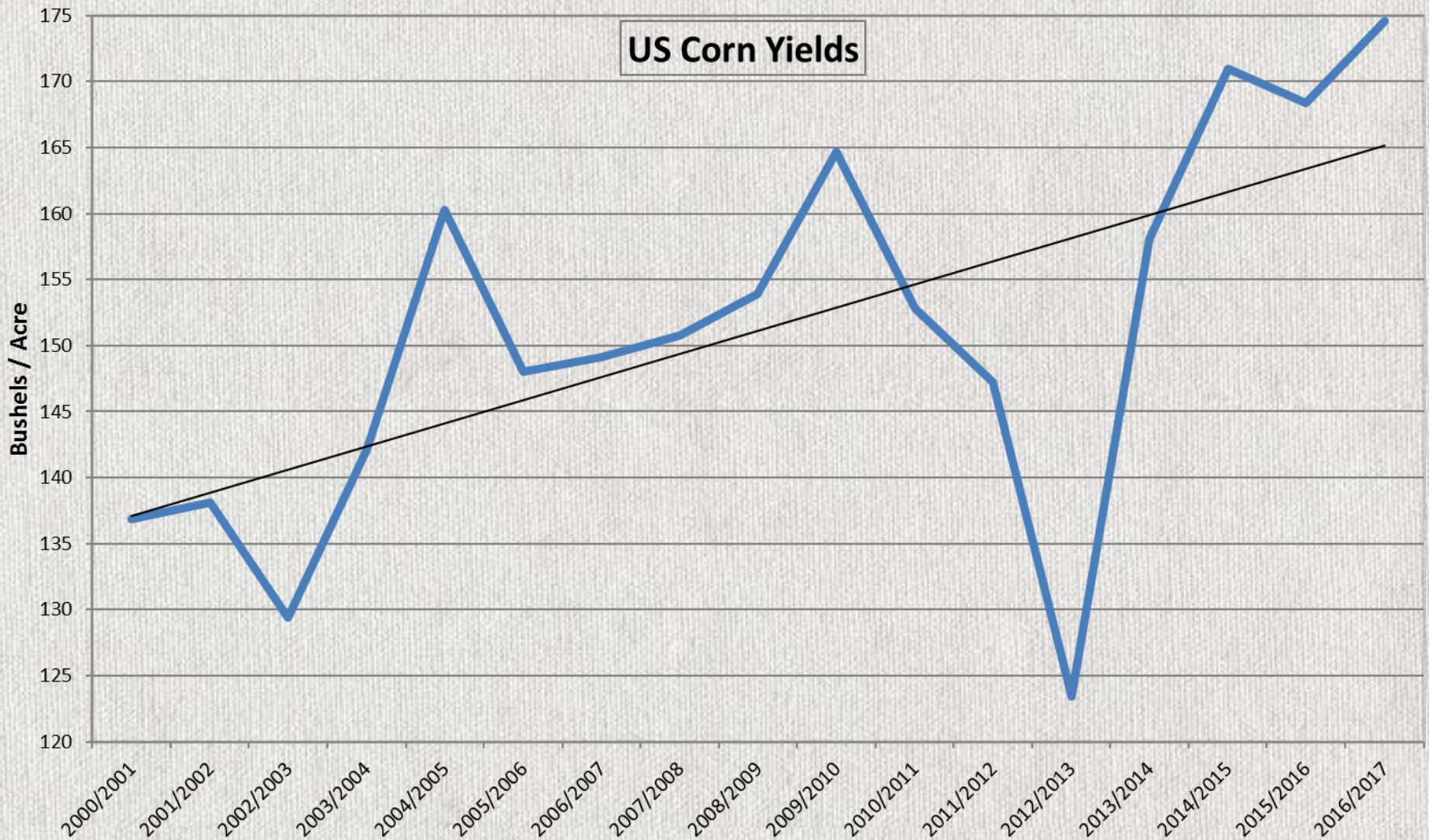
This is skewed with such large stocks in China (just under 1/2 of all world stocks). Will argue the world is not as burdensome as this this illustrates.



US corn acres were up significantly from last year. Does corn give up acres to soybeans in 2017?

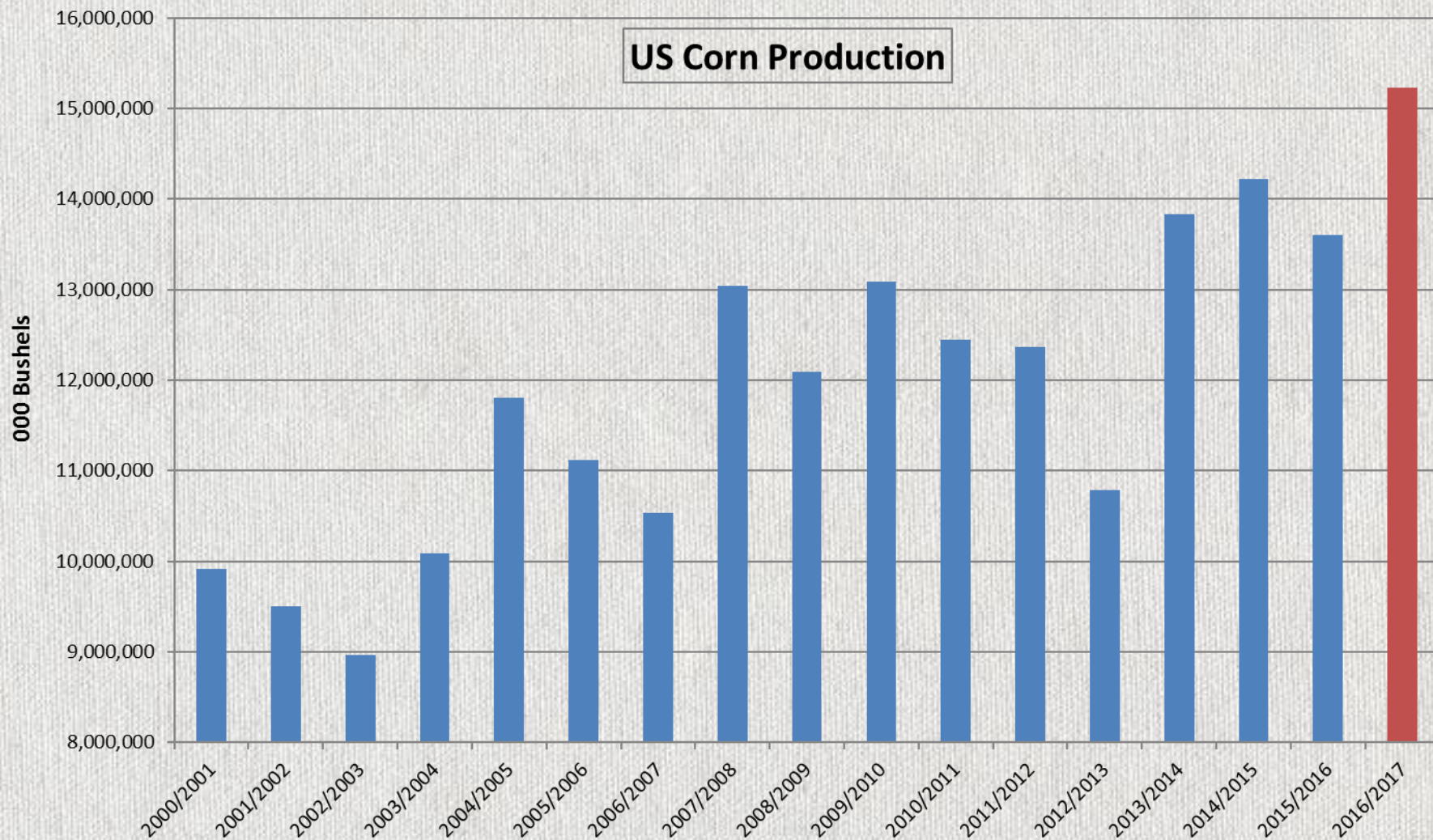


US corn yields end the year at a record 174.6 bushels/acre

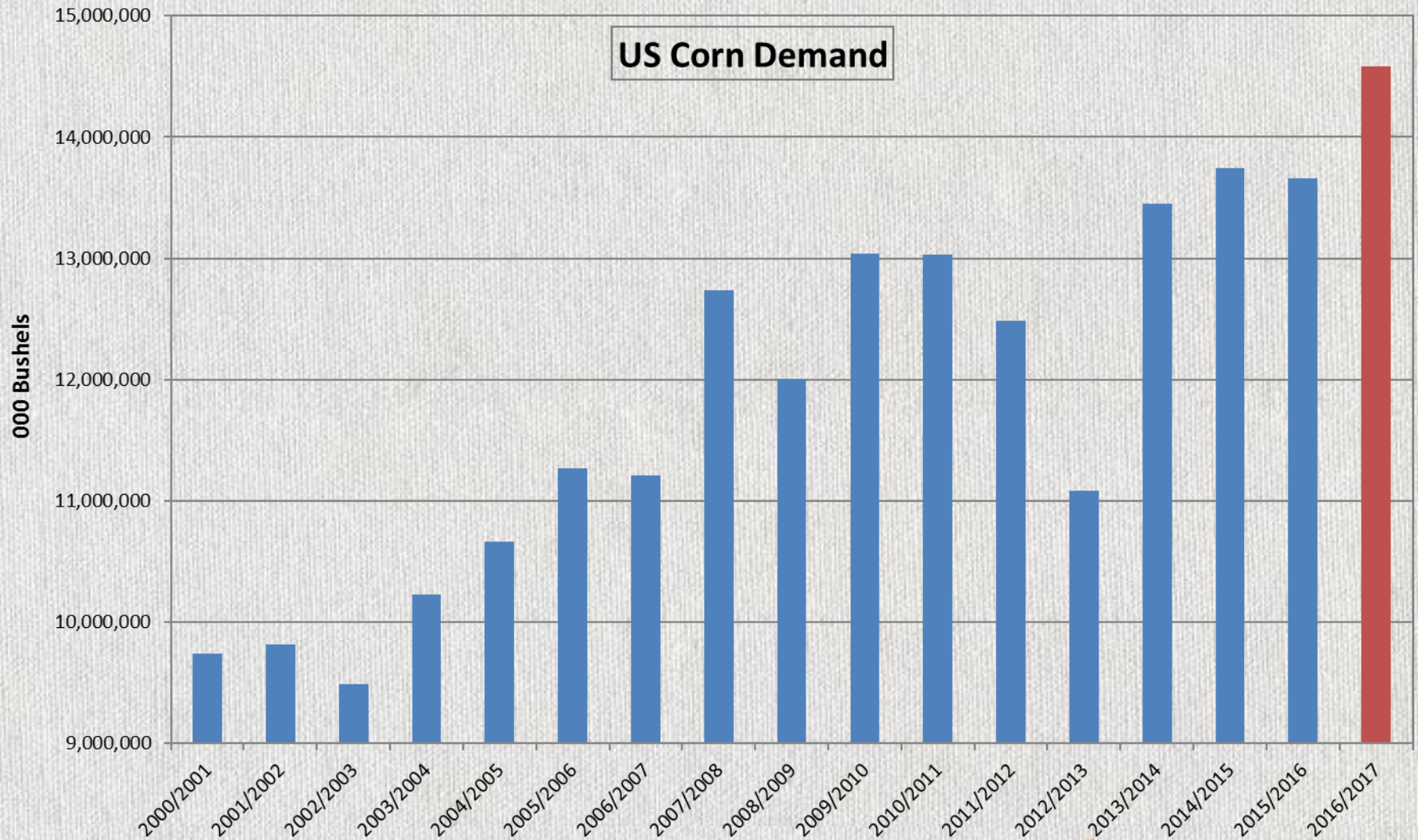


Source: USDA

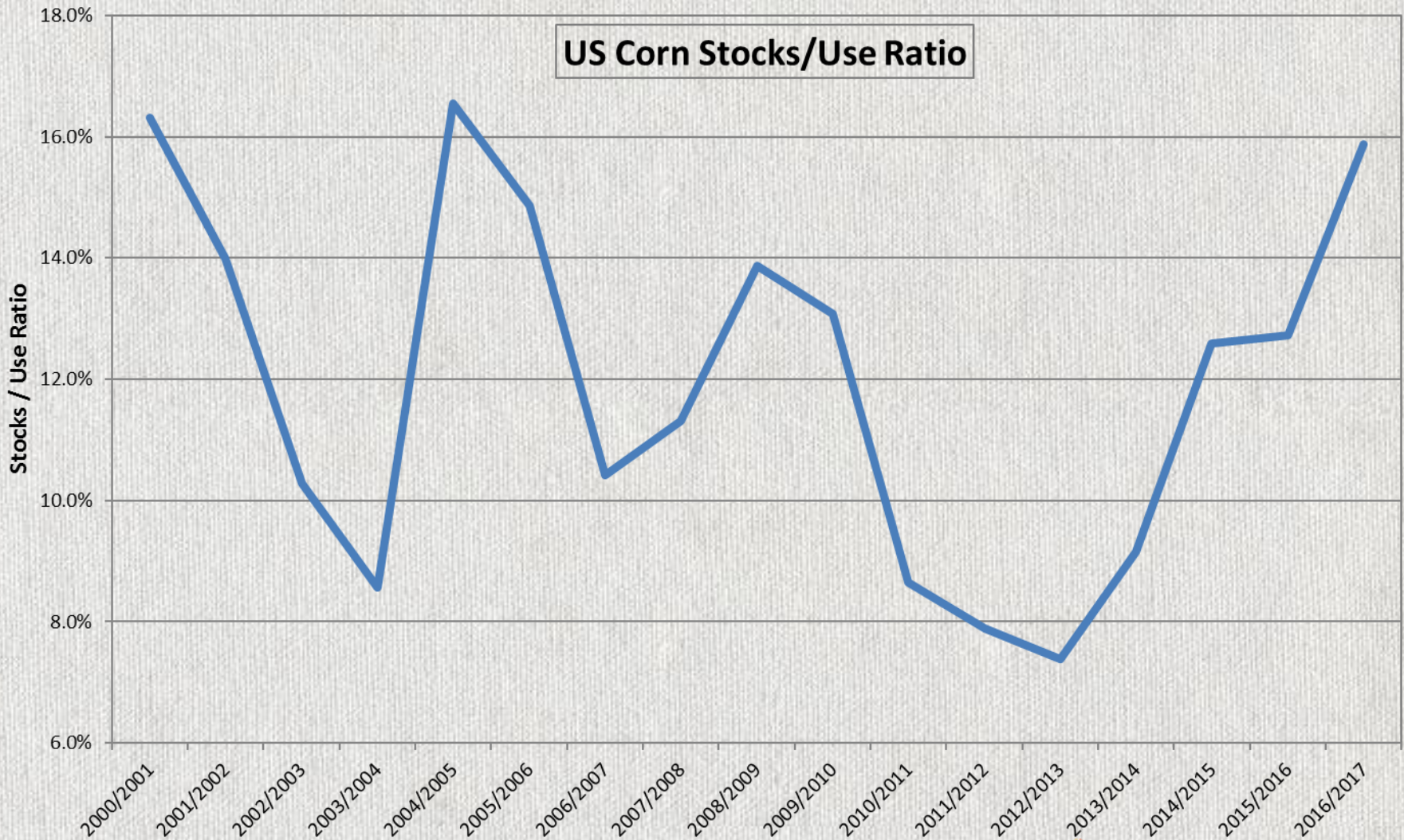
The US has only once before raised 14 billion bushels of corn. The US this past year grew 15 billion bushels.



After three years of flat demand, there is expected to be a large jump in demand this upcoming marketing year



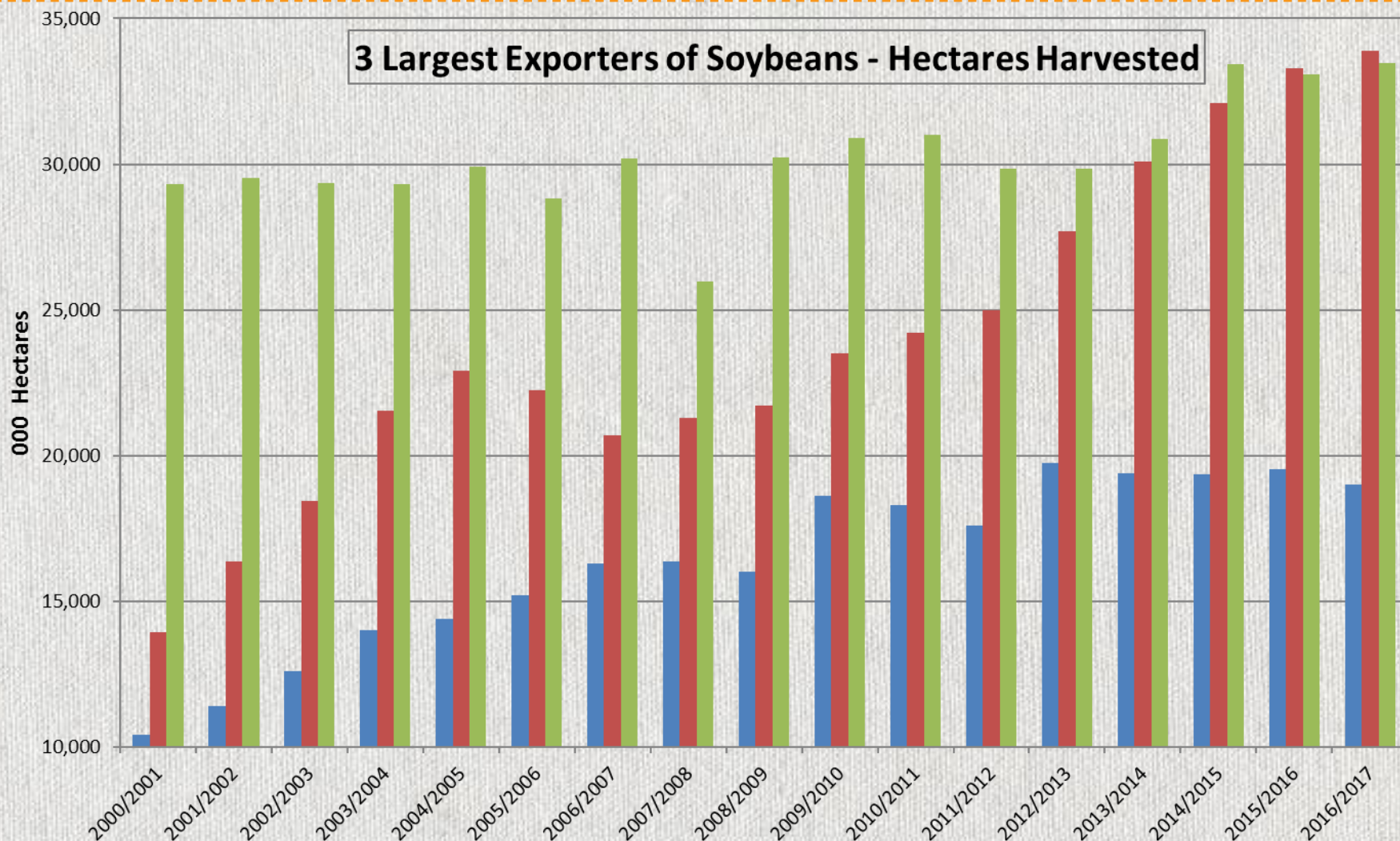
With the US seeing record yields, even with increasing demand, US corn stocks will be very significant



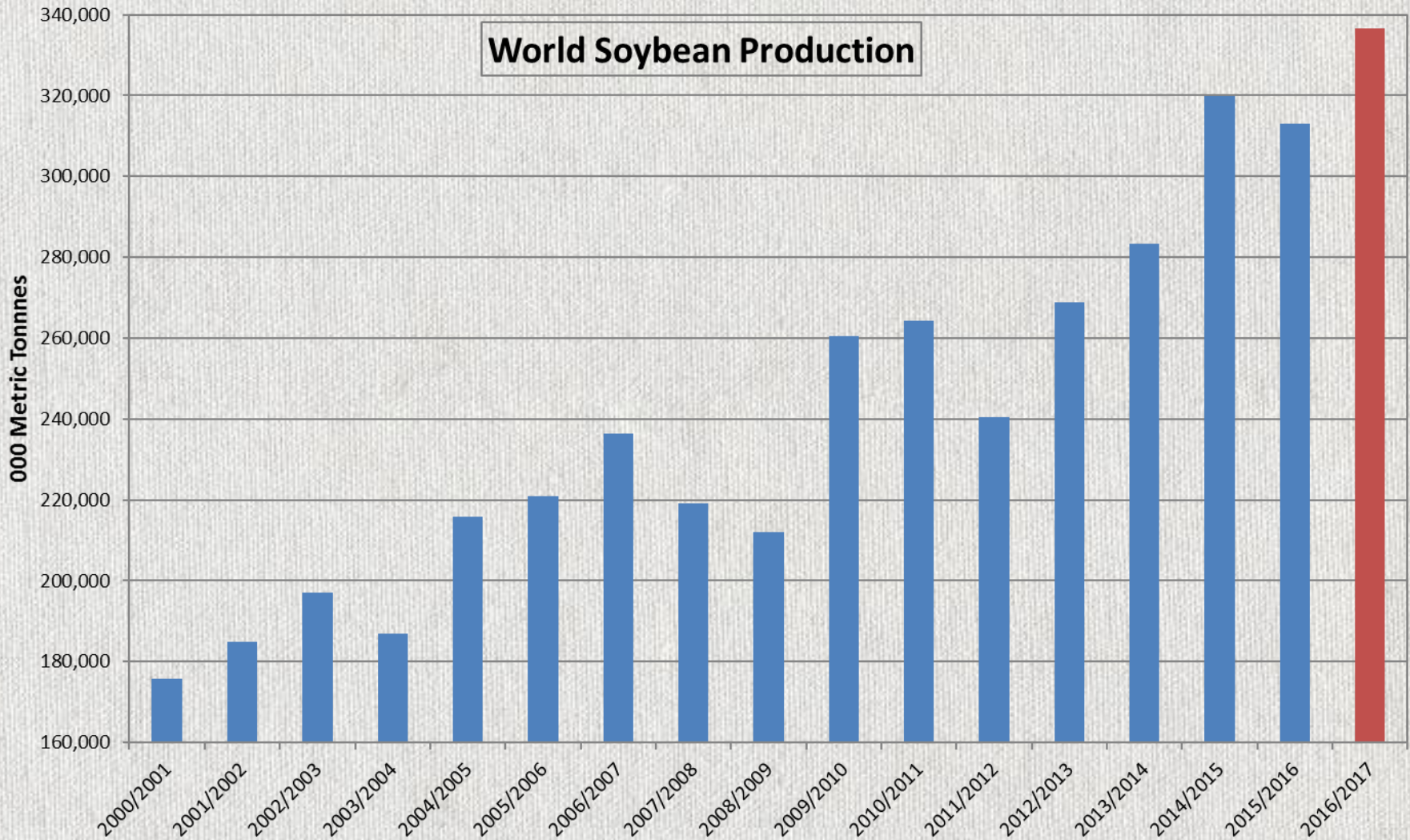
Soybean Outlook



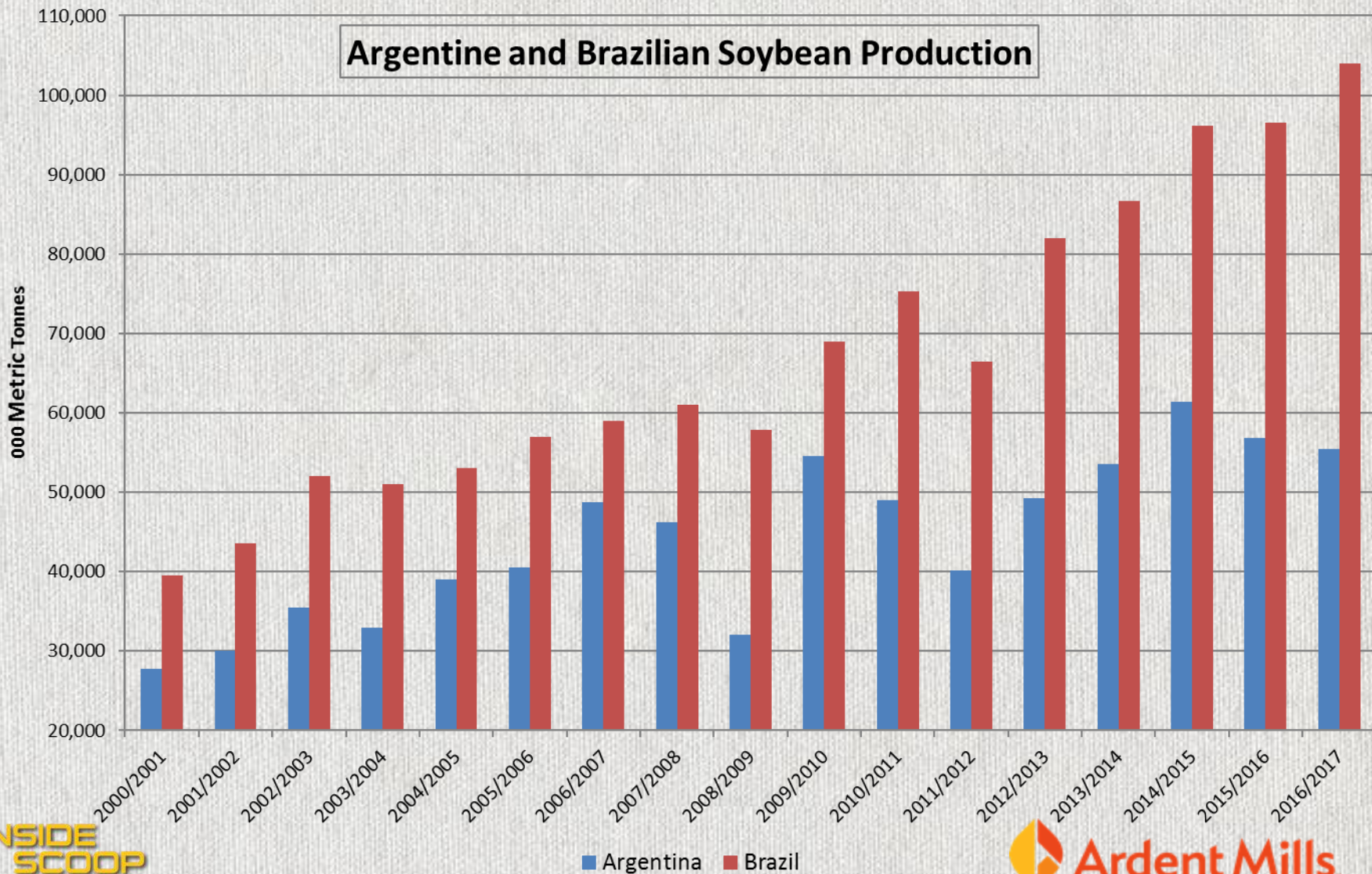
Expansion in Brazilian acreage is slowing as next year's intentions are only 2% larger than last year



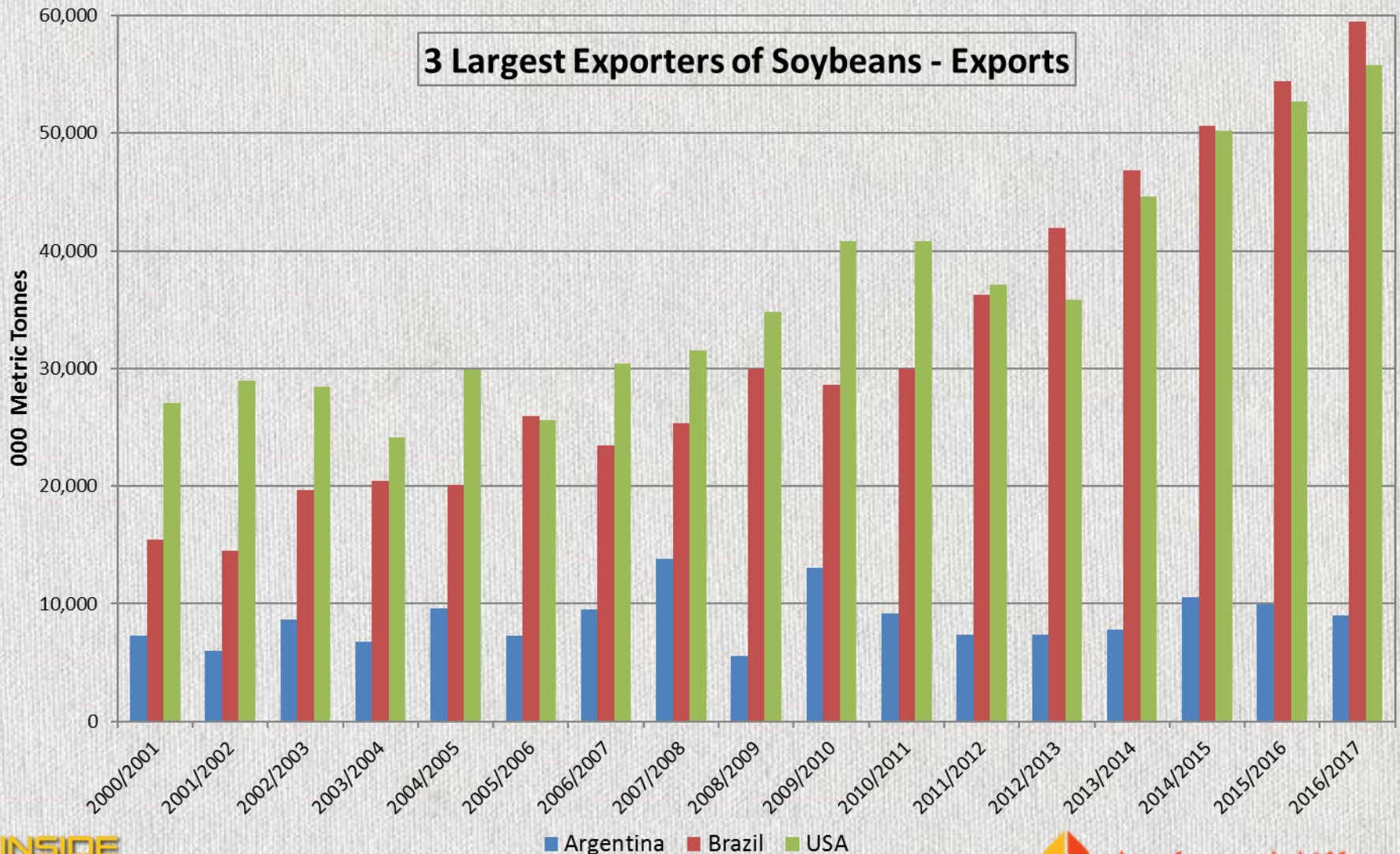
World soybean production is forecasted to increase significantly versus last year



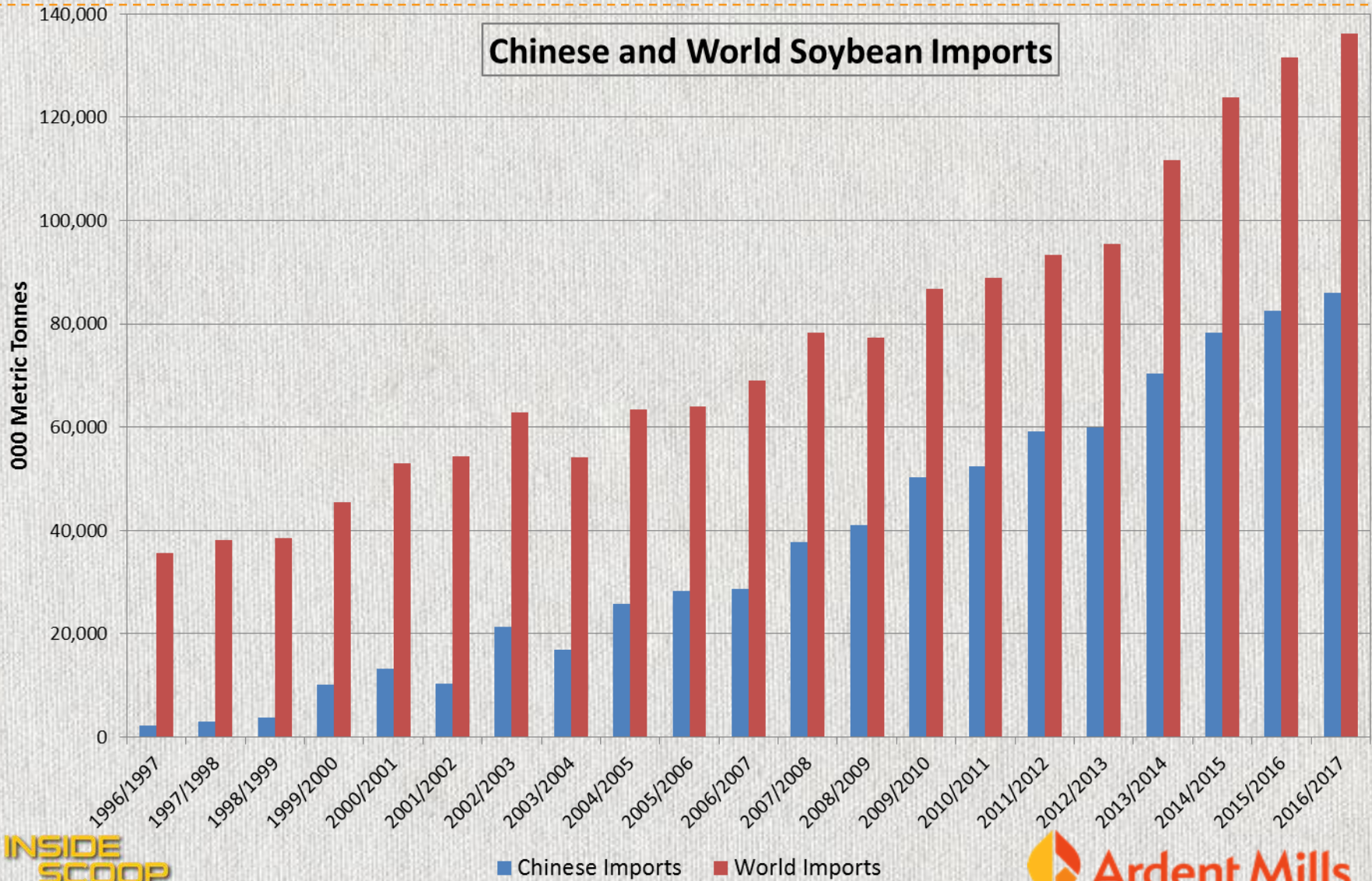
Brazilian bean production continues to while Argentine soybean production has been shrinking



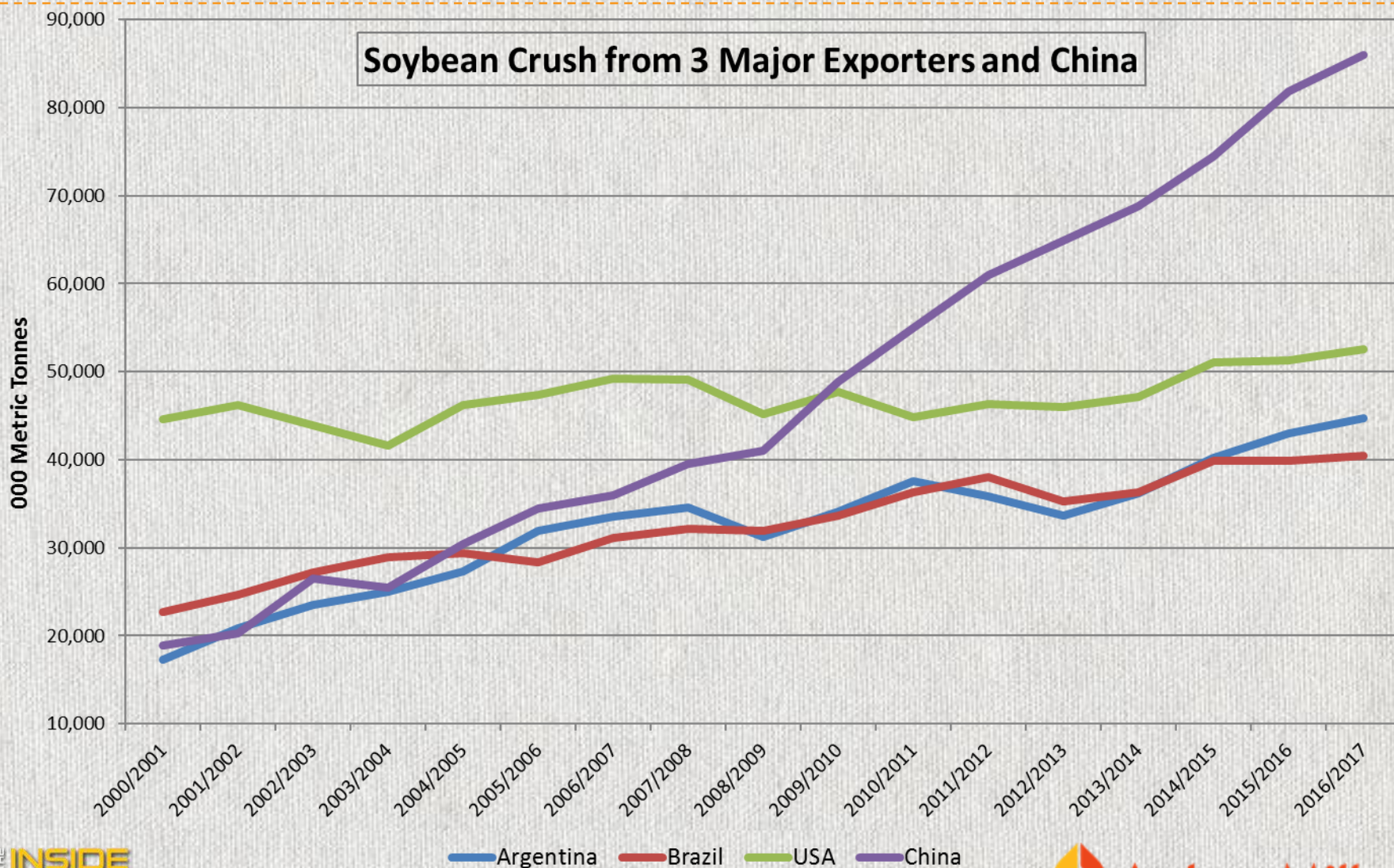
Look at the increases in US and Brazilian exports the past few years!



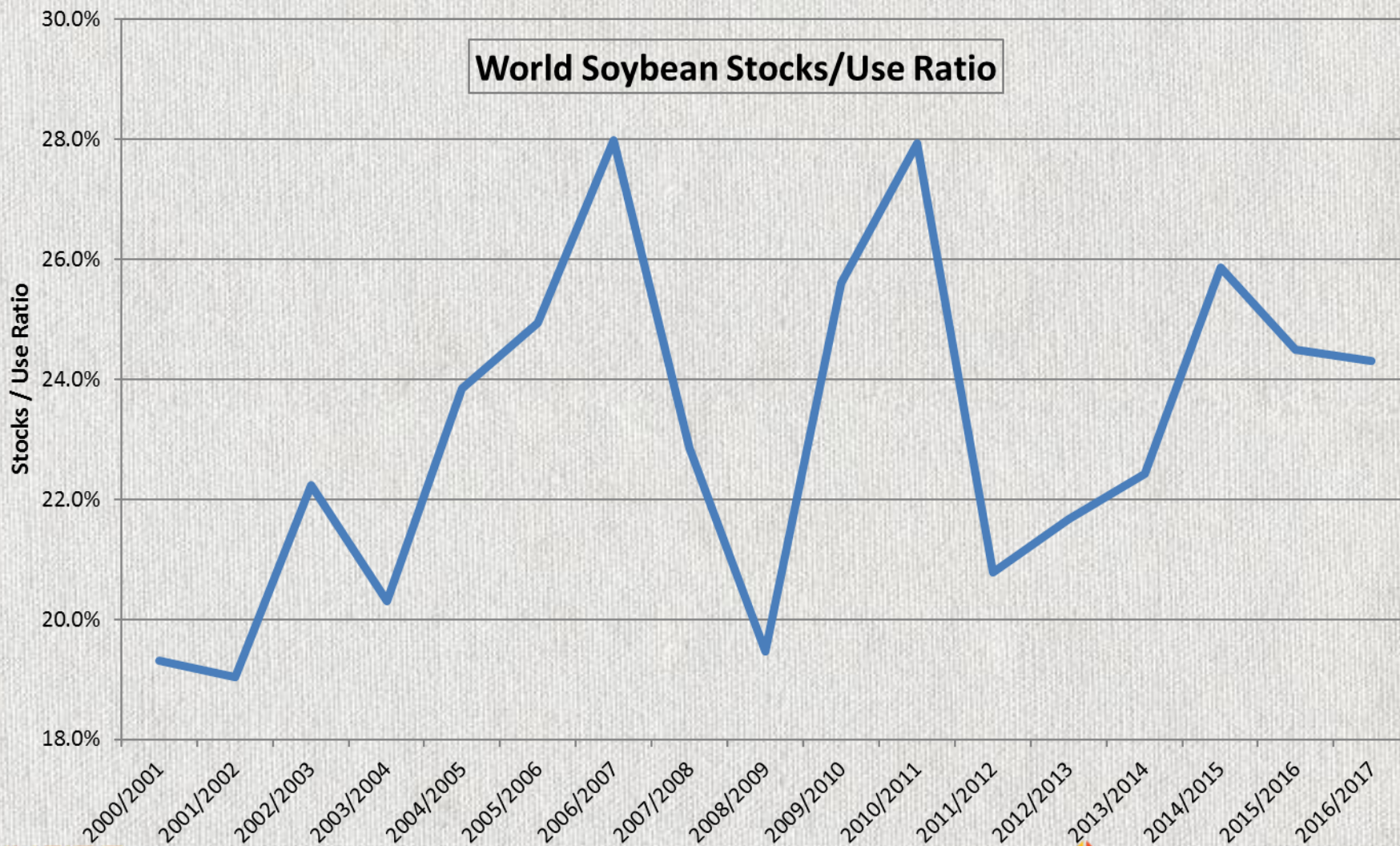
South American plantings may be slowing down, but global demand for soybeans is not!



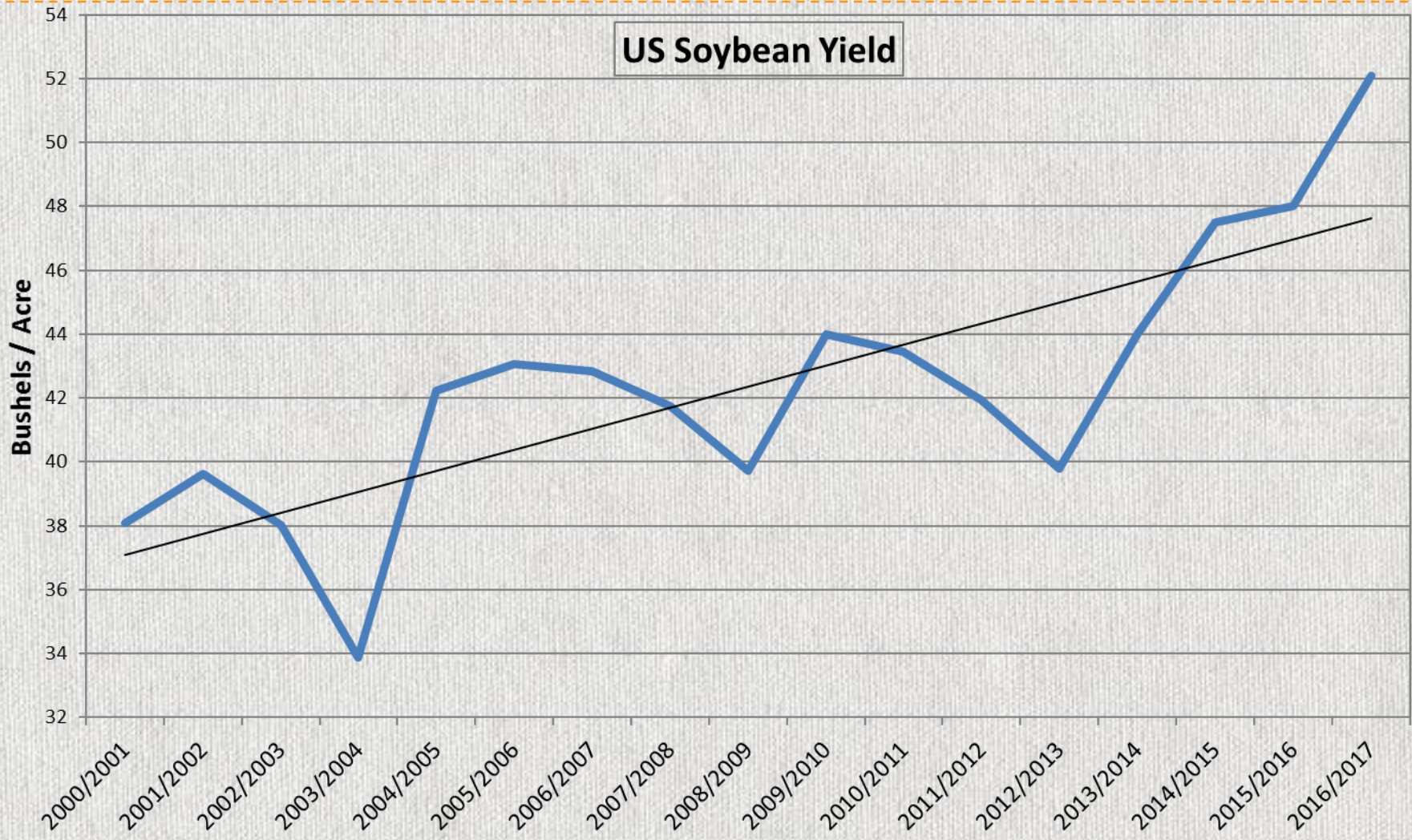
China is forecasted to crush more soybeans than Brazil and Argentina combined



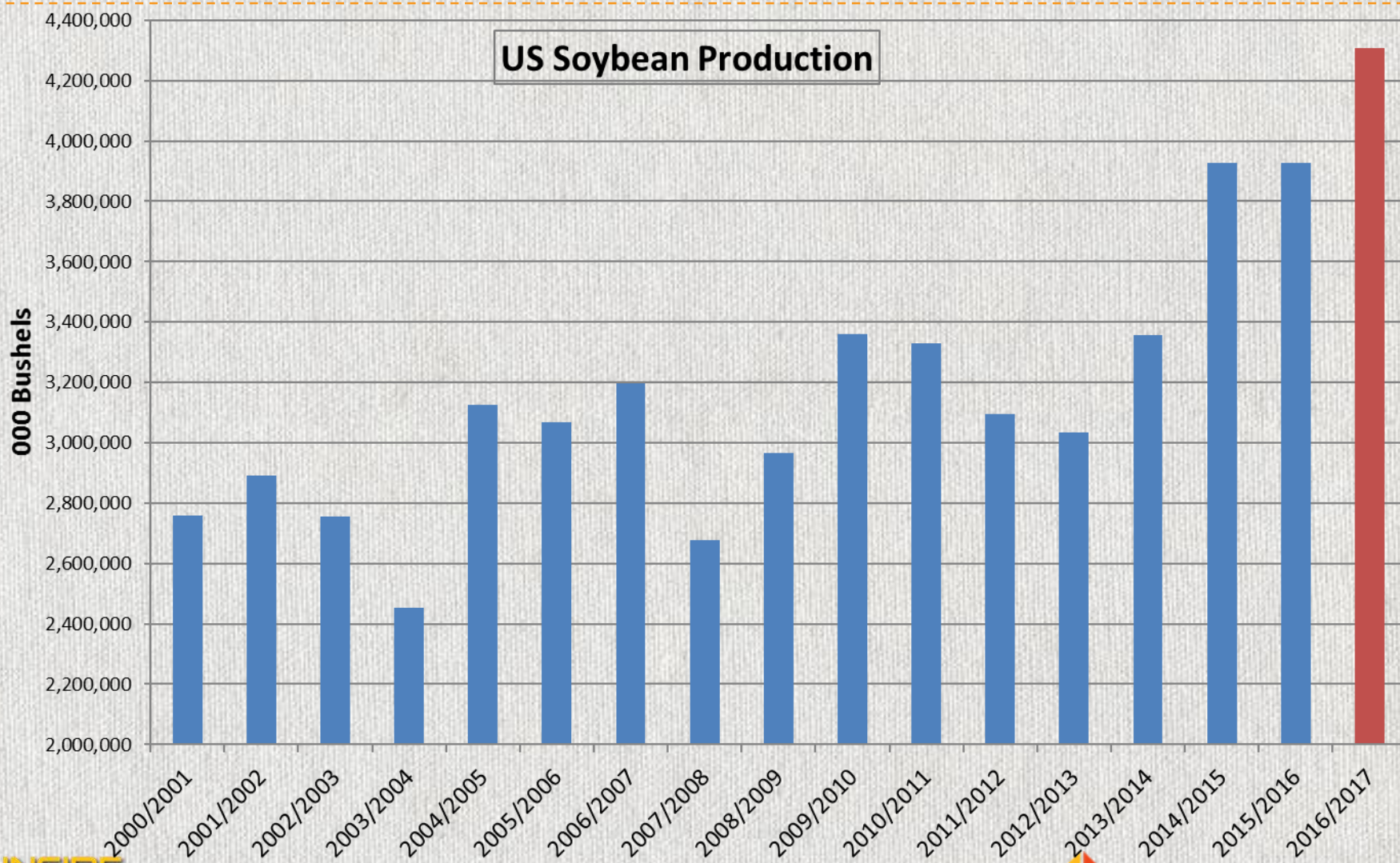
With increasing demand, good weather is necessary to keep soybean stocks away from the “tight” situations



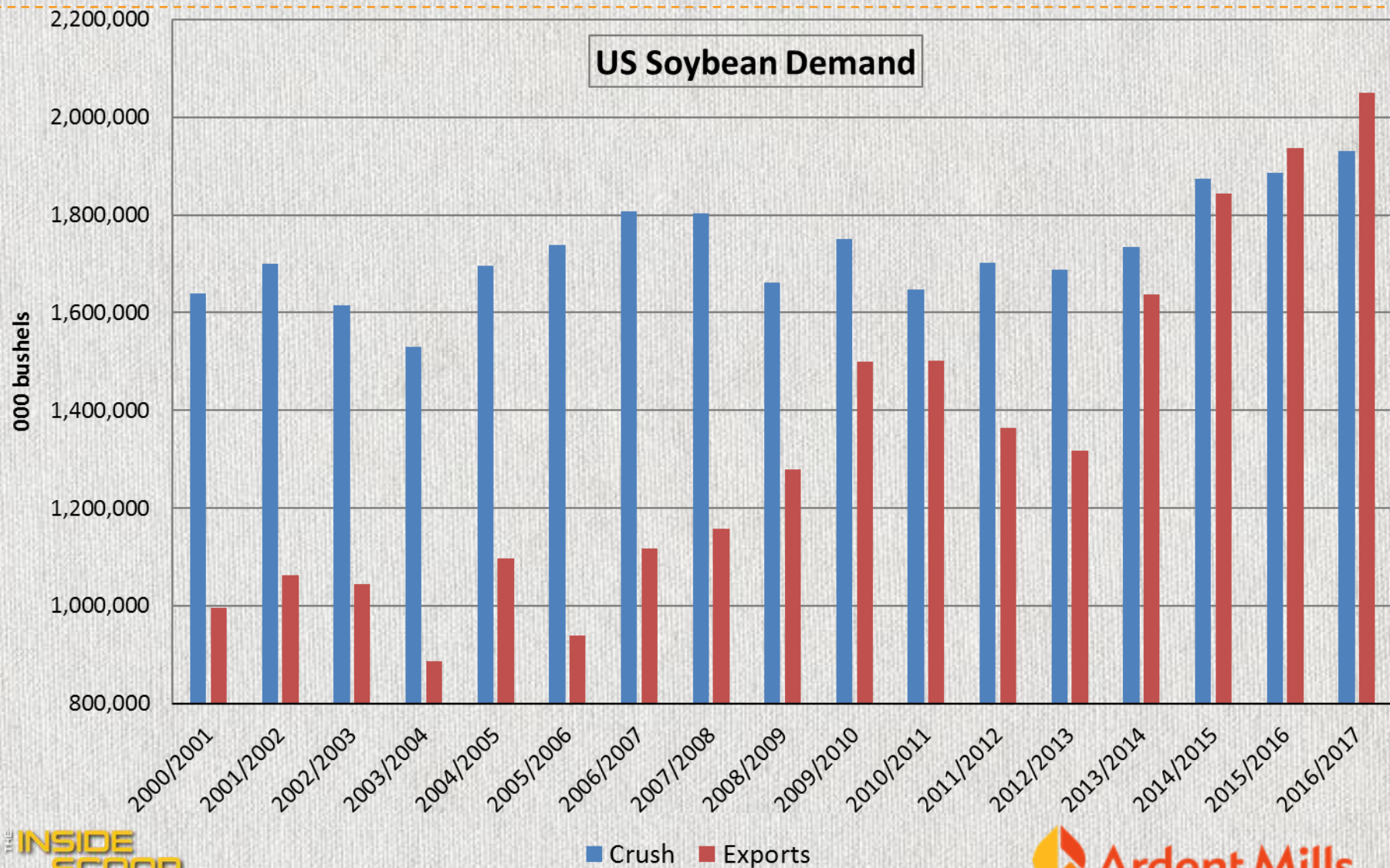
USDA is forecasting yields over 50 bushels/acre for the first time ever, and it is over 52 bushels/acre



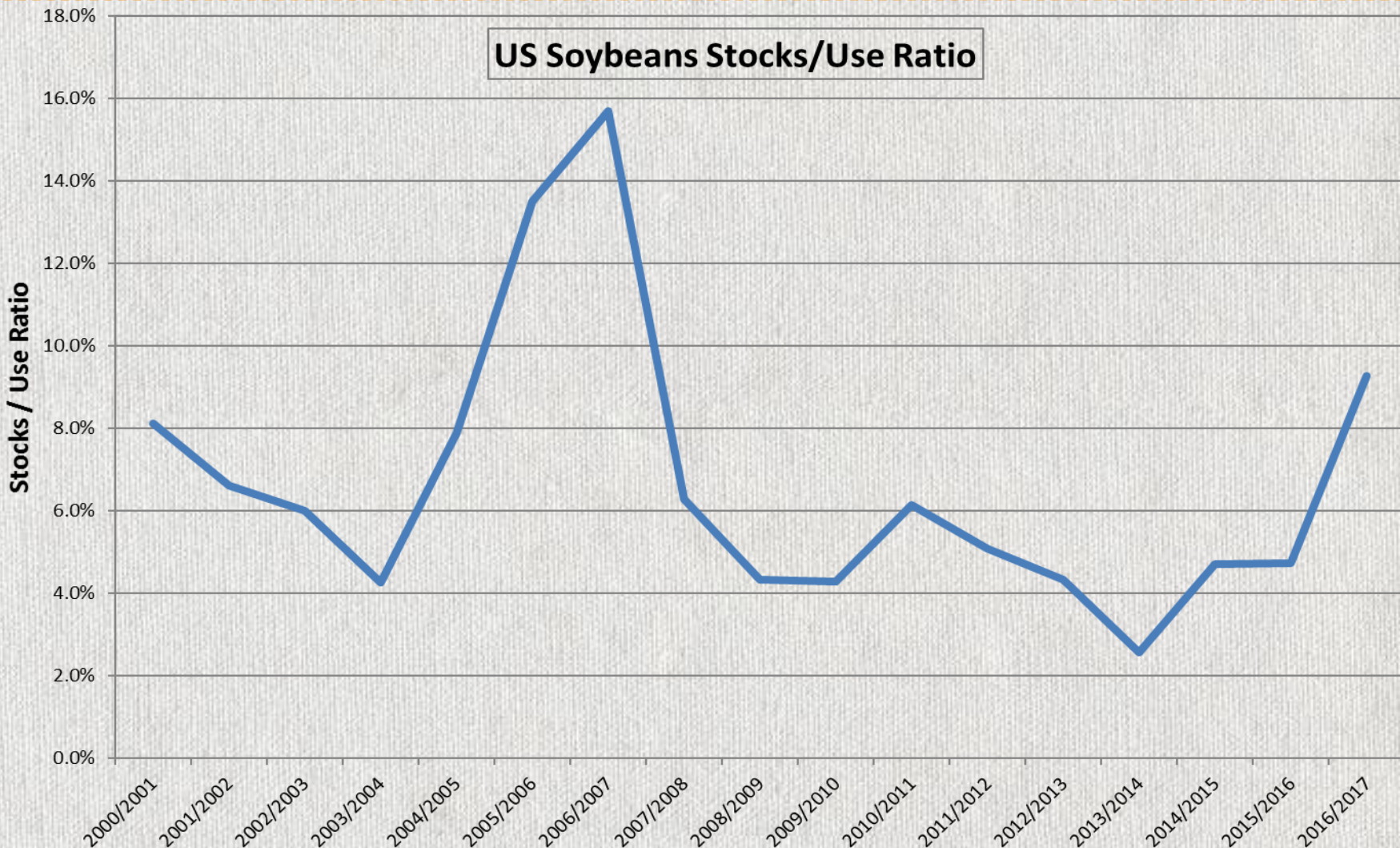
US soy production this year will be 4 billion bushels for the first time ever, and even got over 4.3 billion bushels



Record demand is forecasted for both domestic crush demand as well as export demand for soybeans

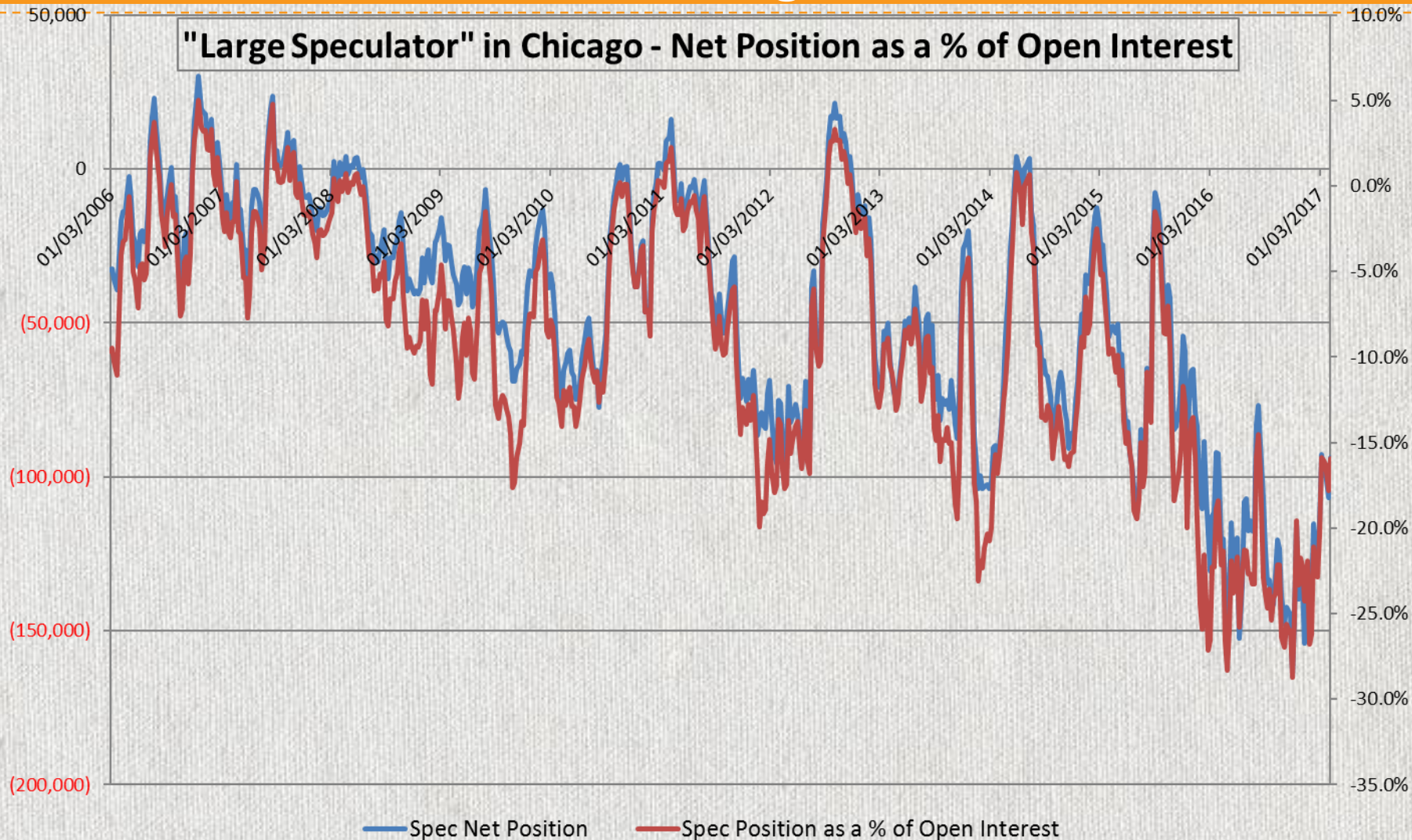


Big crops and big demand. US soybean stocks/use ratio are forecasted to be its largest in 10 years due to the 4.3+ billion bushel crop

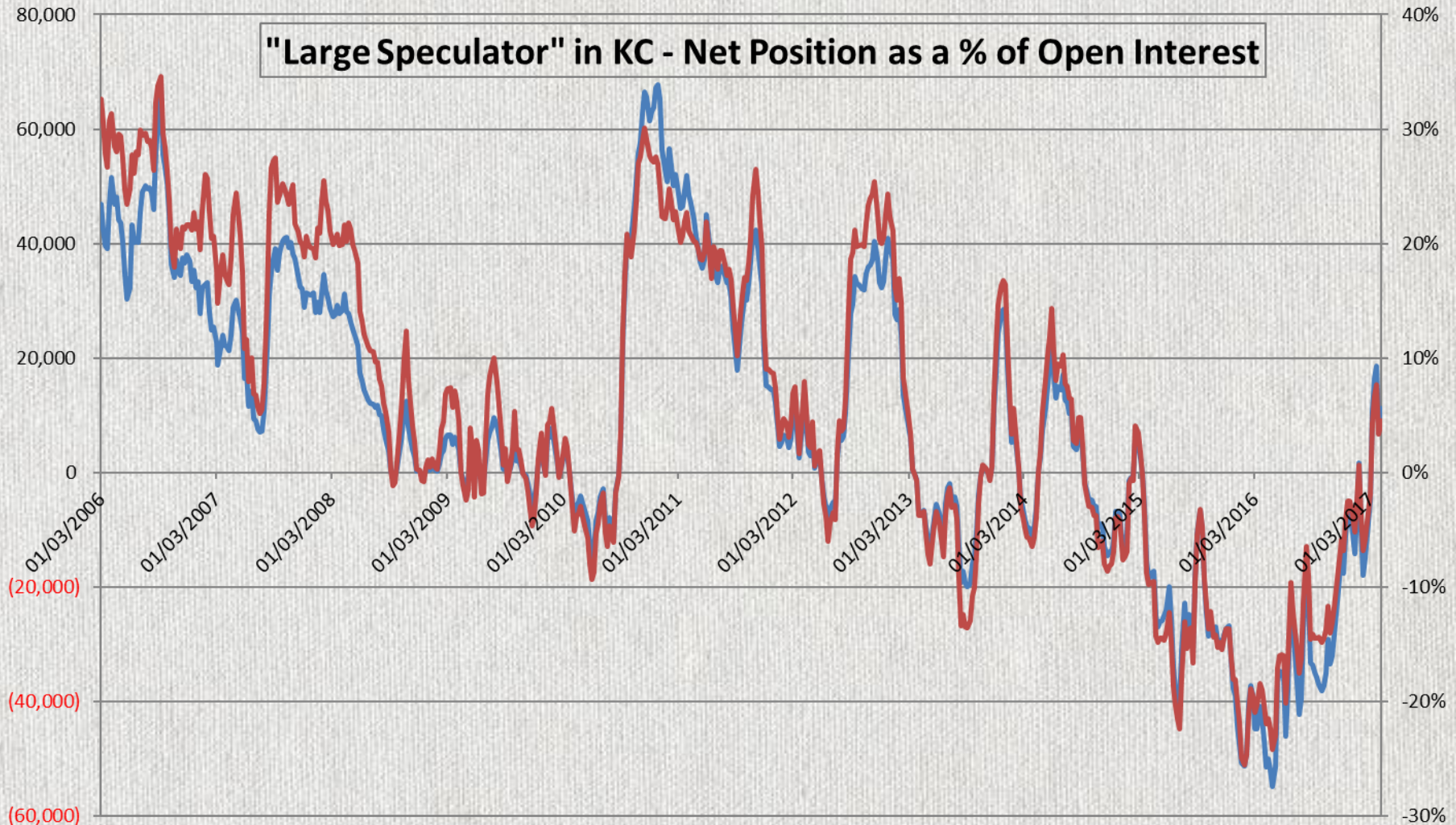


Market Structure

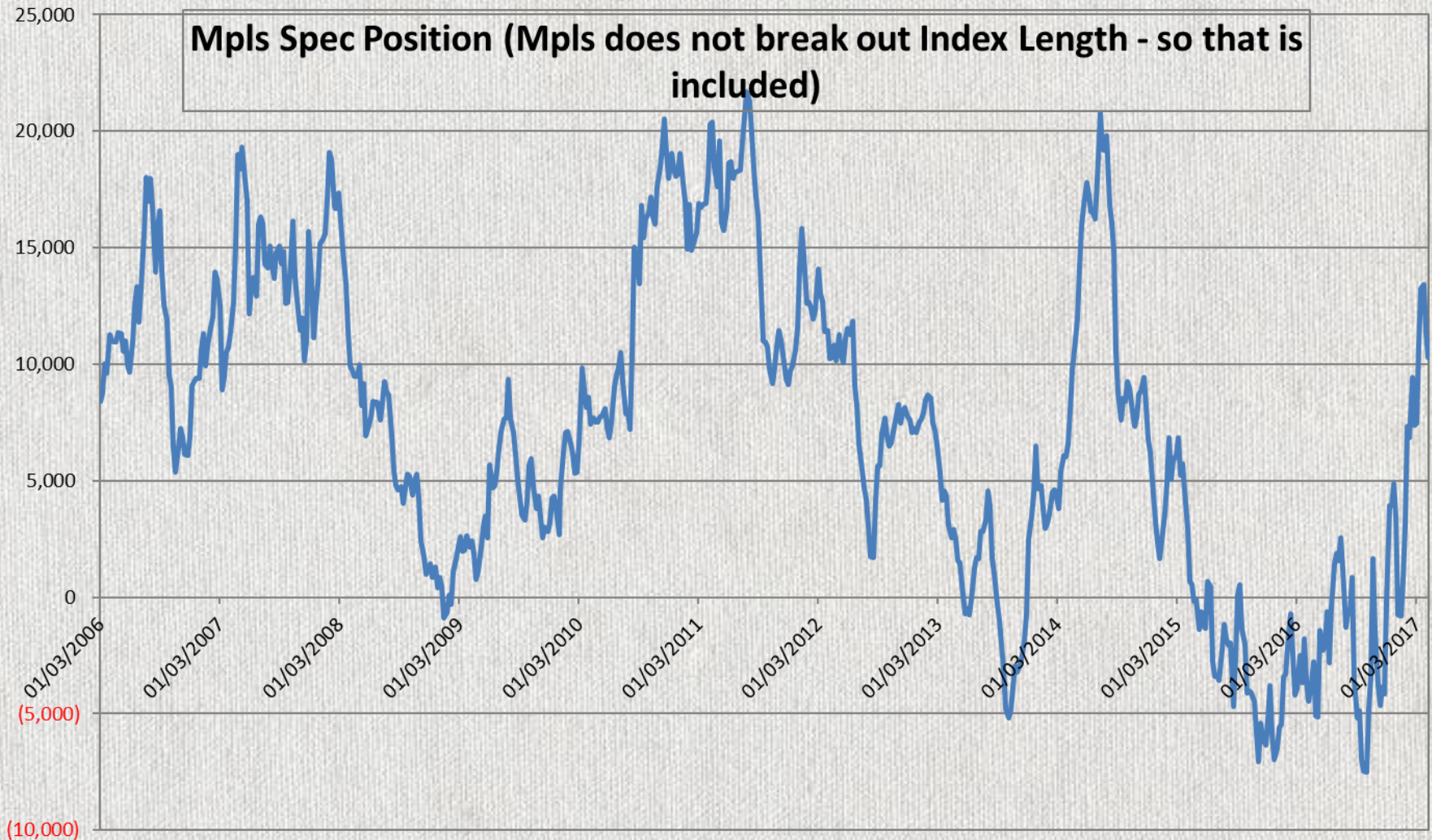
The "Large Speculator" is short just under 100,000 contracts in Chicago



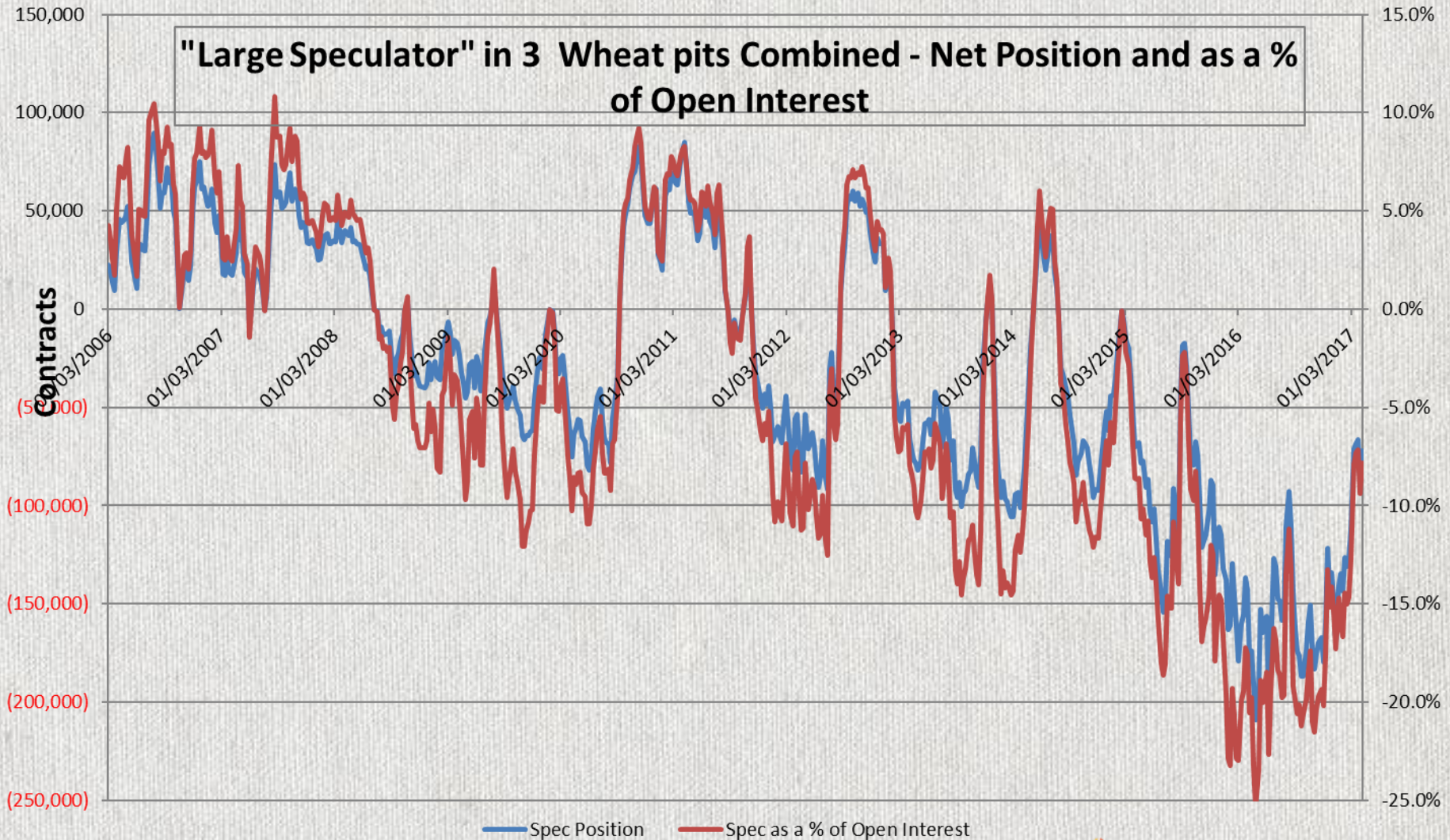
The "Large Speculator" is long just over 10,000 contracts in Kansas City



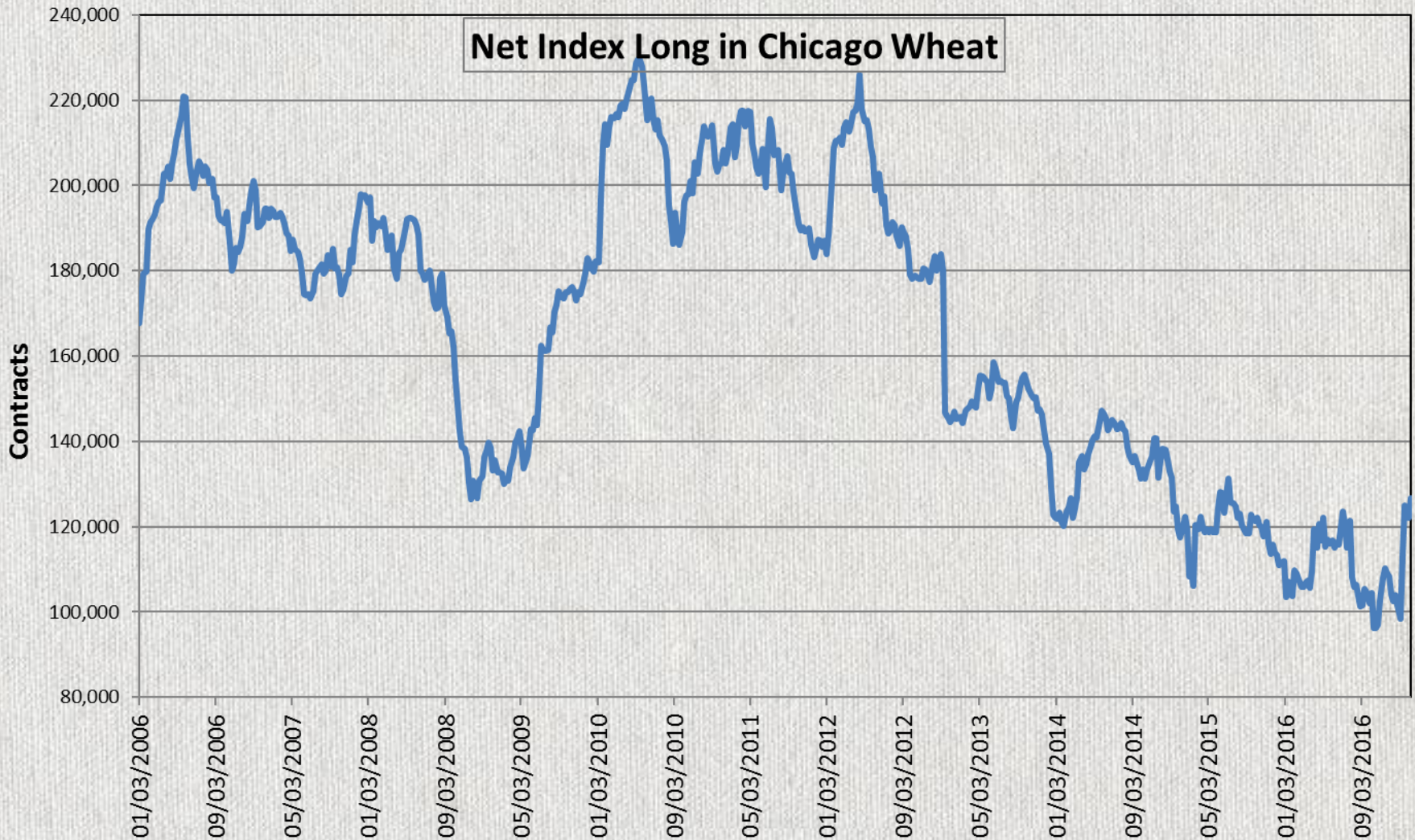
The “Large Speculator” is long just over 10,000 contracts in Minneapolis



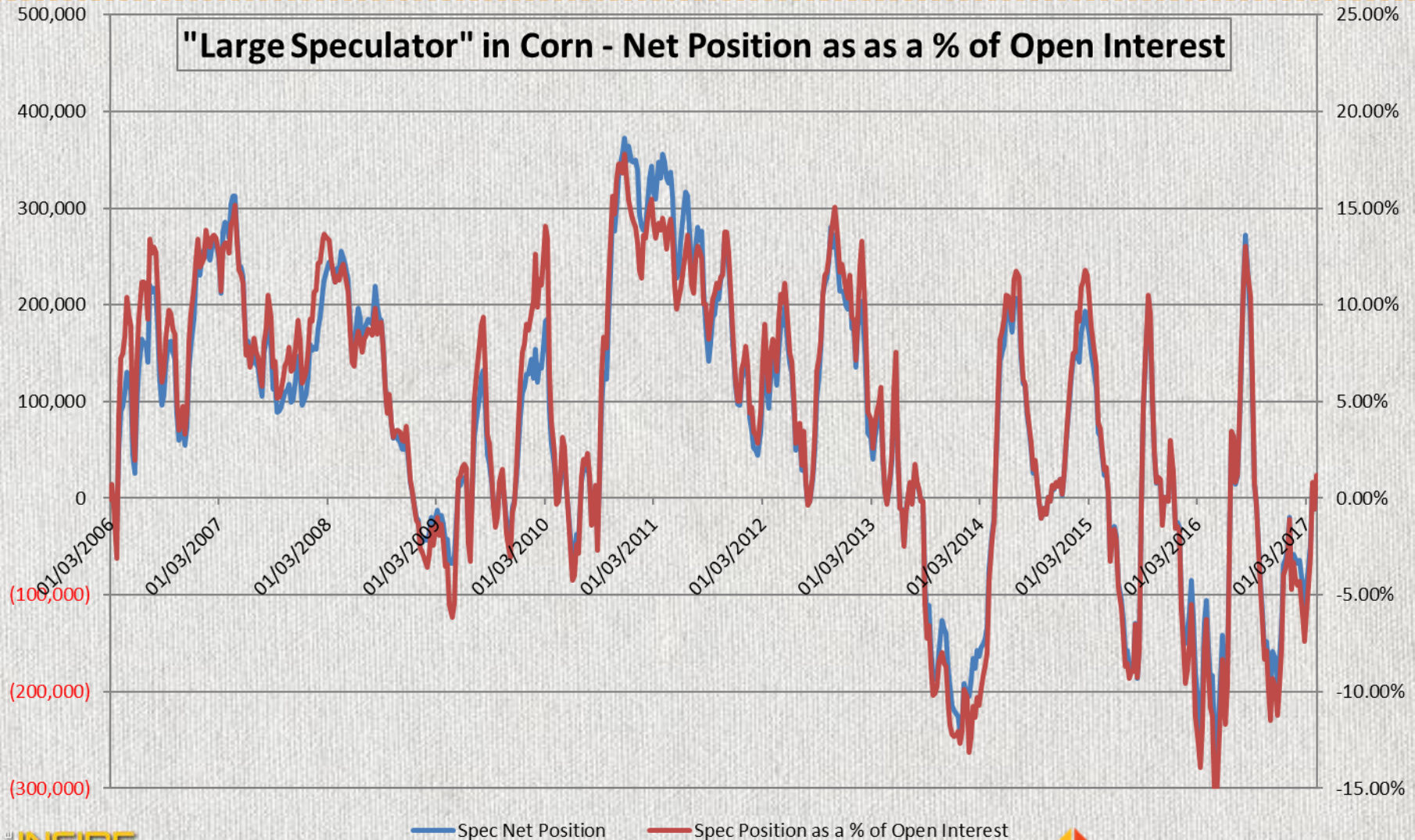
The "Large Speculator" is short long just over 70,000 contracts in Chicago/KC/Minneapolis combined



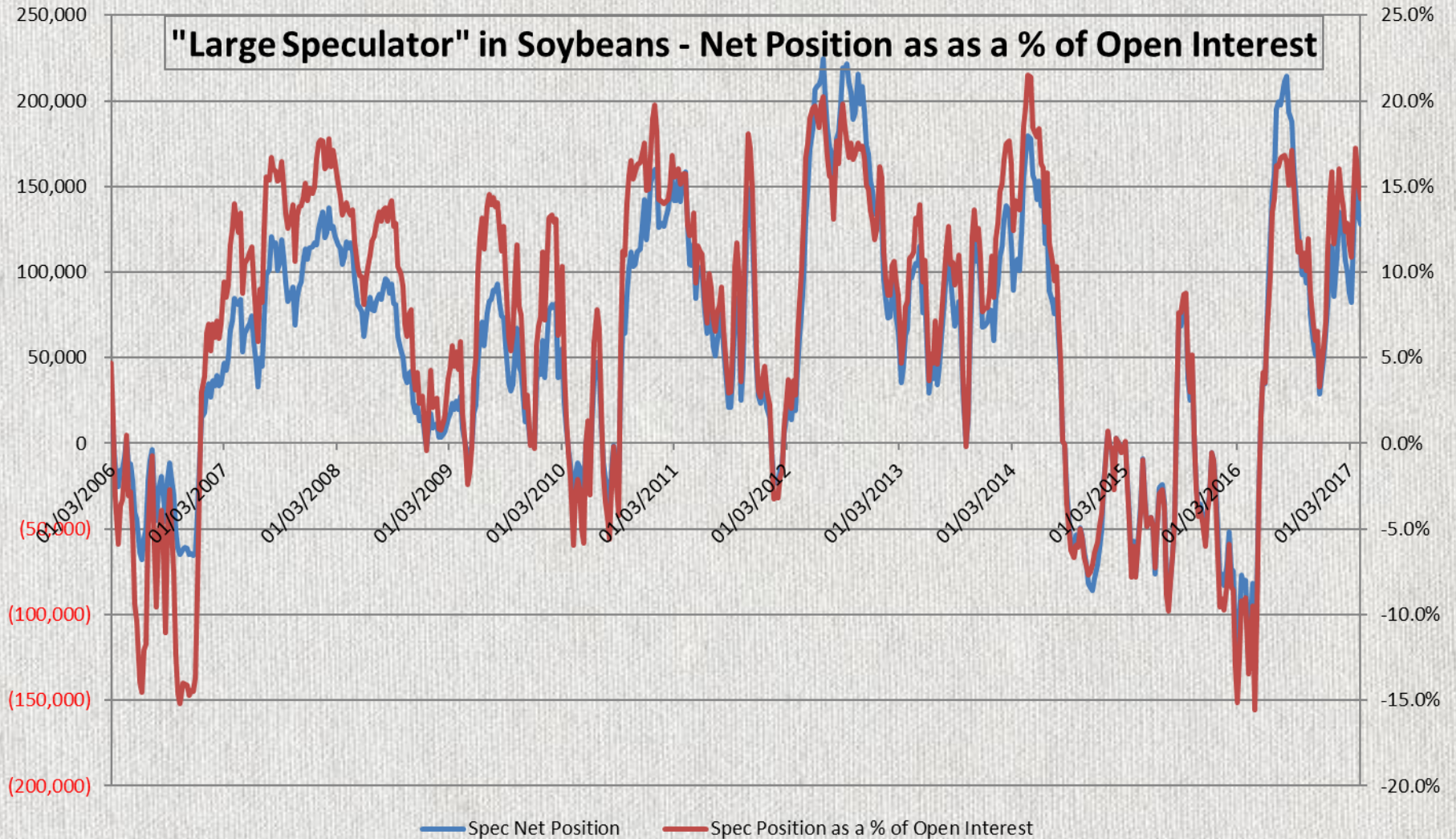
The Index position in Chicago is now long over 125,000 contracts



The "Large Speculator" is short long just over 20,000 contracts in Corn



The "Large Speculator" is long just under 130,000 contracts in Soybeans



Summary



Bull/Bear Inputs and Risks Ahead

Bullish factors

US farmer is planting less wheat

Speculators are still short wheat futures

Flooding in Argentina is shrinking their soybean crops

Bearish factors

US wheat stocks are the largest since the 1980's

Strong Dollar hurts US wheat competitiveness in the world market, even with low prices

Anti-trade policies from President Trump are not bullish for flour prices

Risks ahead

Weather

Row crop prices

Currencies

Geopolitics

Is South America able to have a good 2017 crop?

Ardent's Thots on the Markets

Flour prices have moved higher in 2017. Higher prices were needed to incent farmer movement in Spring Wheat in January. Winter wheat acres are going to be low with HRW the lowest since 1908 (Theodore Roosevelt was President). Exports have been their strongest in a few years even in the face of a strong Dollar. Flour prices need to have some risk premium to incent farmers to plant wheat and to be guarded against a crop problem. Long term weather today looks rather benign – no strong El Nino or La Nina is expected in 2017.

A lot has been made of the decrease in wheat acres, and rightfully so. In many ways, what is almost as important of the quantity of the 2017 North American wheat crop is the quality of it. Last year we had a historically low protein HRW crop and a severely quality challenged Canadian crop. A repeat of that can make flour prices firm. If we see a more “normal” quality North American wheat crop, this can help keep flour prices depressed. As a wise man once said, growing crops is still an outside sport!

If you have questions about the flour market, please feel free to contact your Ardent Mills representative or contract the Risk Management team (contact info on the next page).



Ardent Mills™

Thank you for your business!

If you have any questions/comments, please feel free to
contact Kevin @ 402-240-7979
(kevin.pray@ardentmills.com) or Kyle @ 720-726-8884
(kyle.sieren@ardentmills.com)