

Transcript from 11-17-17 Bloomberg Interview with Sal

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Lisa: "Corn is king, corn markets are the biggest agricultural market, both in terms of tonnage as well as dollar amount, in the world and here to tell us what to expect from this market is Sal Gilbertie, President, Chief Investment Officer and Co-founder of Teucrium Trading, LLC, as well as Mike McGlone, Commodity Strategist for Bloomberg Intelligence. Sal, I want to start with you. You noted something pretty amazing to me that even as demand increases from ethanol and just globally, corn prices are around \$3.50 a bushel which means corn prices are again at or below perceived cost of production. Does that mean that farmers have to raise prices, Sal?"

Sal: "Well, it means the market has to raise prices. Farmers really don't control the price, unless they stop planting. And, in a way, so indirectly, they can control the price. What we've seen is in the past ten years, two times corn has been at this level, \$3.50 or below, spot corn and the price has doubled to over \$7. That happened in the 2007-2008 crop year and again in 2010 to 2011. Usage continues to rise, demand is always rising for corn, corn touches every part of your life. It's like oil and when oil, you know, goes below the cost of production, money tends to, to be attracted there. Corn is once again at that \$3.50 level, in spot, we, we can't say when for sure there will be a supply disruption. We know that it is very unlikely that there will be a demand disruption, so corn's, corn may be a big opportunity here."

Pimm: "Mike McGlone, want you to come in on this because, you know, there's only so much acreage out there and farmers have to decide what to plant and sometimes they say, hmm, not gonna plant corn, I'm gonna plant soybeans. Uh, why do they make those decisions and what are they deciding right now?"

Mike: "One reason, money, revenue and that's a key factor that's happening right now is there's, and, I'm looking at my screen the USDA's estimates for corn revenue for this year, the average acre's going to lose \$90 per acre, yet still breaking even in soybeans, so they're going to plant more soybeans, so that for probably the first time in history, we're going to see much more soybeans planted than corn. The key factor there is it's an indication that US grain production is peaked which is a very profound statement because we heard about a great year again this year, but from a typical acre of land you get maybe 4 metric tons of corn, but for soybeans it's about 1. So, the total production will continue to decline and very likely continue to decline as farmers chase profits and plant more beans and less corn and that's probably, that's an unsustainable trend until prices generally adjust to make a difference."

Lisa: "Sal, I'd like to get your sense of why farmers are planting more soybeans at this point when I don't, I mean, I love tofu, we were talking earlier that you like tofu, too, but that's not what's driving this, is it?"

Sal: "No, it's not. In fact, the demand for soybeans is so enormous from China and China, we saw them buy, I think Smithfield, they, they are consuming more pork, more animal based proteins. They are

importing all of the soybeans they can find from any source in the world in order to feed their animals. Remember, the number one use of grains is to feed the animals that we as humans eat. And so, we might like to eat a lot of tofu, but the real consumption is, is, is for animals.

Lisa: "Okay, so, let's build on that. I mean, what, at what price point would farmers be incentivized to plant more corn?"

Sal: "Well, they, they look at a ratio and so, so they look at their inputs and their costs and they look at what will make them more, either, you know, 175 bushels of corn or 50 or so bushels of soybeans. One or the other is going to come off of that same acre. Importantly, though, for sustainability issues, it's really important, corn draws nitrogen out of the soil and farmers think about this all the time. Soybeans put it back in and so there's something called crop rotation where it's really advisable for a farmer, who can supplement with, with artificial fertilizers, but the best thing that farmer can do for his soil is, once in a while, when he's got a choice, switch back to soybeans because it, it improves the general health of his farm."

Pimm: "Uh, Mike, uh, one of the things I want you to speak about though is what they're facing in terms of fuel costs right now with the, with farmers because I don't get this. The United States is producing more oil and more natural gas than anybody can remember and yet supplies for farmers are kind of getting squeezed. What's up, what's up with that?"

Mike: "One word, exports. A key factor in, in the US. I think the US commodity market right now, most notably energies, we can export, now we have a declining dollar, that we had restrictions a few years ago, those are gone, so if there's a better market overseas and there's more money to be made, there's plenty of export. So that a key factor is costs of, costs for farmers are increasing because petroleum costs, drying costs for corn are increasing, but exports, that's also a key factor in the grains and it just hasn't happened yet. So, we've seen a bottom in crude oil, it bottomed at what, it's rallied like 100% from the lows a few years ago. We haven't seen that in the grains yet and that's what it's probably going to happen and the key driver's exports. So, if we have a continued weak dollar, unless there's some kind of trade resis, trade restrictions, it's almost inevitable this substantial paradigm shift in big increase in US exports should boost the price of US traded corn, soybeans and potentially, wheat.

Lisa: "Sal, uh, you were talking earlier about that ratio, uh, of corn to soybeans. Where are we now? What's it saying?"

Sal: "It's telling farmers to plant soybeans, umm, it was telling them a couple weeks ago to plant a lot more soybeans, right now it's coming back into line because people are starting to suspect, like Mike is predicting, that they will plant more soybeans versus corn and again, you're going to get 50 bushels of soybeans off an acre or you're going to get 175 corn, that's a big difference if you switch to soybeans."

Lisa: "So, how much could you see corn prices rise, they're at about \$3.50 a bushel right now? Where are they going to go by this time next year?"

Sal: "There's no telling, I can tell you that this is the midst of the corn harvest seasonal, so more corn is, is in a big pile than, than there will be for the rest of the year and so that generally creates a seasonal low, um, so you can see a slow trickle upward of price for the next six months until the next planting season becomes clear, but again, twice in the last ten years corn prices have doubled from the price that they're at right now."

Pimm: "Well, I'm just looking at your ETF, right, CORN, uh the Teucrium Corn ETF trading at about 16 ½ bucks a share, it was as high as almost 20 in July."

Sal: "It was, and you've seen this relentless bear market with these, these supplies of corn, but now this, this harvest is over and again, our fund wasn't around for both of those doubling prices, but it was for the one in 2010 and, you know, the fund did perform quite well. I think it went from the mid-20s to the very low-50s."

Lisa: "Mike, what's the best way for investors to, uhh, to trade corn?"

Mike: "Well, I have to admit that when I look at a lot of the products, and Sal loves when I do this, I go to soybeans partly because, historically, you can invest in soybean and soybean product and you don't have that massive cost of carry. Now, you might not get the performance right away, but that's one of the issues in commodities is you have the cost of carry. Soybeans are so very easy to store and very inexpensive to store so that generally you don't have that rolling futures cost i.e. a contango. In corn you have, it's a little more expensive but, you know, that's just you have a different type of market, so I look at soybeans as a longer term hold, it depends on where you are, but overall, at certain key levels, like Sal mentioned here, the risk is that we trickle down or we double in price over the next few years is the kind of the way that I look at it and a little bit of a weather event will do that and I'm not predicting that, but just these demand versus supply trends imply prices and how they need to increase or exports will make them increase."

Pimm: "Gentlemen, I want to thank you very much for joining us and enlightening us about the world of commodities, Sal Gilbertie is the President and Chief Investment Officer and Co-founder of Teucrium Trading. I am just looking at his Soybean ETF, a gain of about 4.3% since August. Thanks very much. Mike McGlone, our Commodities Strategist for Bloomberg Intelligence. This is Bloomberg."