

# The AGRI-FOOD VALUE VIEW

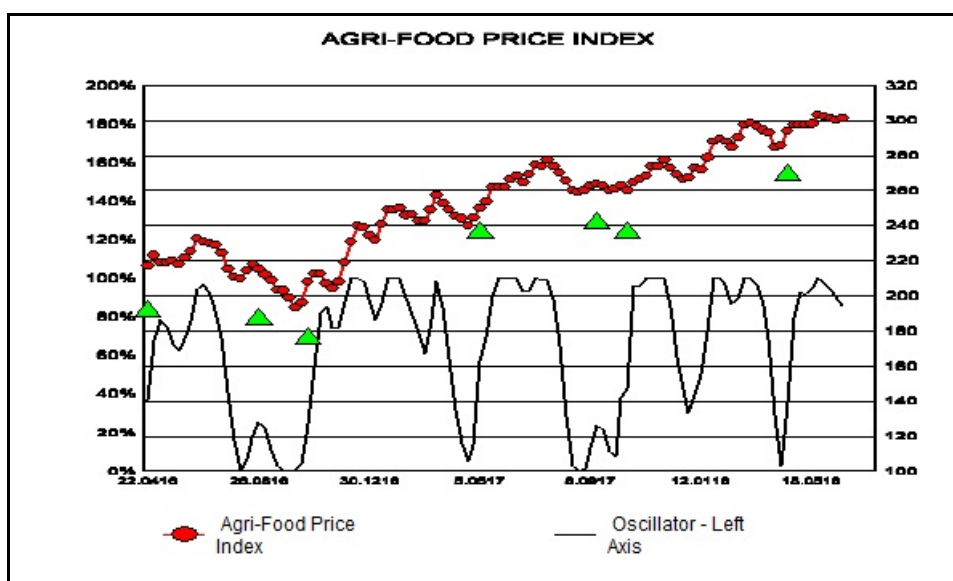
Wealth Creation Through Global Agri-Food Investments”

## INTERIM COMMENTS

24 July 2018

*Being optimistic by nature*, generally seek out the positive in whatever is happening. And yes something good did happen as it usually does. What? The week ended and a new week is about to begin. Fresh start holds the possibility of good news. And remember, all holes have bottoms.

When will negotiations between U.S. and China advance to the point that proposed tariffs on U.S. food imports into China are reversed? These tariffs will also cause damage to Chinese businesses and workers. Who will suffer the pain and who will benefit from these tariffs? In general, Chinese companies that import US pork are going to be put out of business while those firms that supply grain from Brazil should benefit, maybe.



### AGRI-FOOD PRICE INDEX

Last Value	4 Week Change	200-Day Moving Ave.	52-Week High	52-Week Low	52-Week % Change
301.36	- 0.4%	276.30	302.61 - 0%	259.33 +16%	+14%

### WORLD End of Crop Year Days of Consumption in Bins Estimates(USDA WASDE)

U.S. Crop (End Crop Year)	2019 End Crop Year Days	2019 Days % Change	2019 Begin Inventory % Change	2019 Crop Size % Change	2019 Consumption % Change
Soybeans (Aug)	92 - 7	- 6%	- 5%	+ 6%	+ 7%
Corn (Aug)	52 -14	-21%	-15%	+ 2%	+ 2%
ex China (40%)	41 - 9	-18%	-11%	+ 1%	+ 2%
Wheat (May)	129 - 5	- 34%	+ 6%	- 2%	+ 0%
ex China (%)	62 - 9	-13%	- 0%	- 2%	+ 1%

Bottom table on previous page summarizes global supply situation of three major grains as reported in latest WASDE. Last two columns generally show consumption to be somewhat positive pressure on prices globally. So does third column from left.

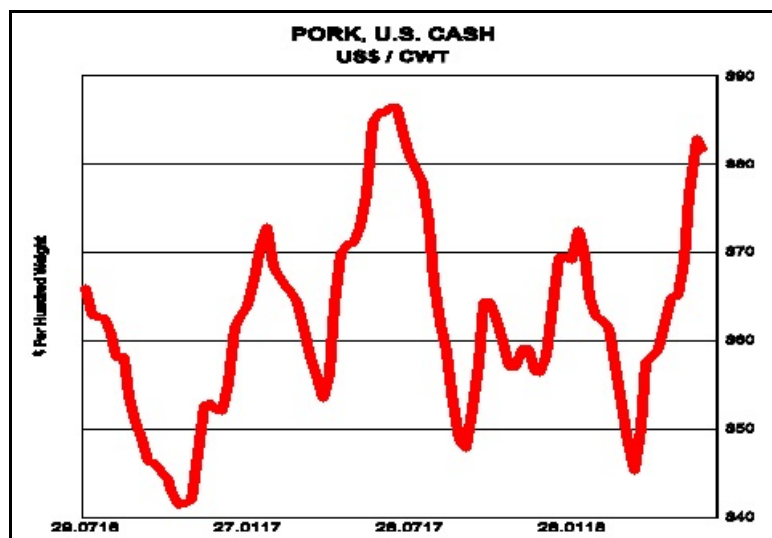
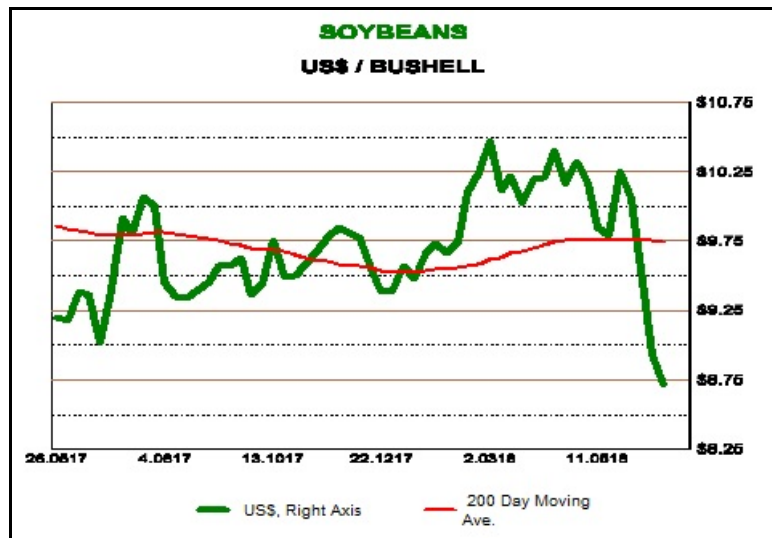
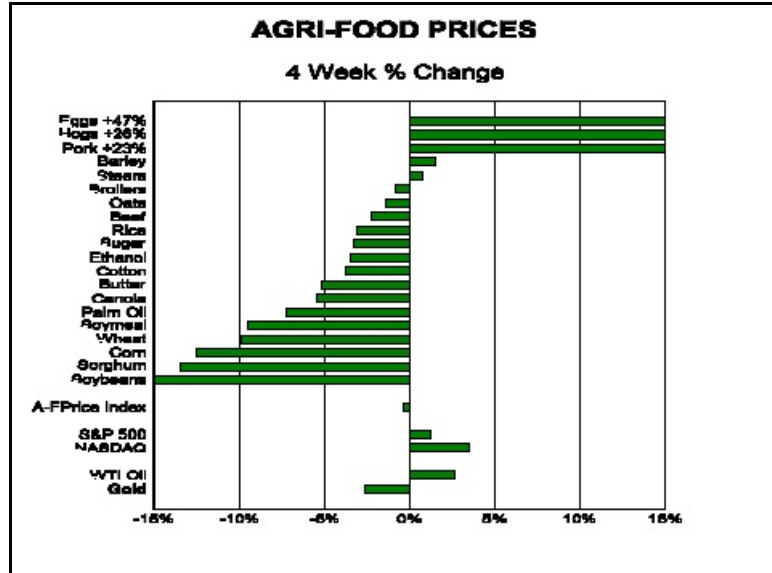
US prices did seem to firm slightly from middle of week on. We would not read a lot into that. We would not be looking for a V bottom without a sudden resolution of Chinese tariffs.

Our Agri-Food Price Index based on the median was down 1.2% last week. Median is measure that divides the price changes in half. Half were better and half were worse. We use a mean based index for Agri-Food Price Index.

Top chart is of percentage price change for each of the Agri-Commodities. Eggs and pork complex were up. But we have some concerns about pork complex.

US cash pork price in bottom chart. China is piling on tariffs on US pork. Per agriculture.com, next month after all tariffs and VAT, US pork will face an 88% total tariff burden. That will essentially put most Chinese companies that import US pork out of business and end US pork shipments to China. Last year U.S. sold \$489 million of pork to China. This action will help Chinese pork producers which are over producing and facing weak prices.

Corn, sorghum, and soy beans captured bottom spots on chart. But, we did find a little good news in CFTC COT report. Commercials had built up large short position in soybeans, 788 thousand bushels. Now that short has fallen to 113



thousand. At that time we could not explain that large short position nor one that developed in corn futures. Apparently they knew more about China’s plans than anyone, or thought they did, or were simply scared.

In corn futures commercials had built up a short of 2.1 million bushels four weeks ago. Obviously, a big bet. In latest report they had slashed that position to short 1.1 million.

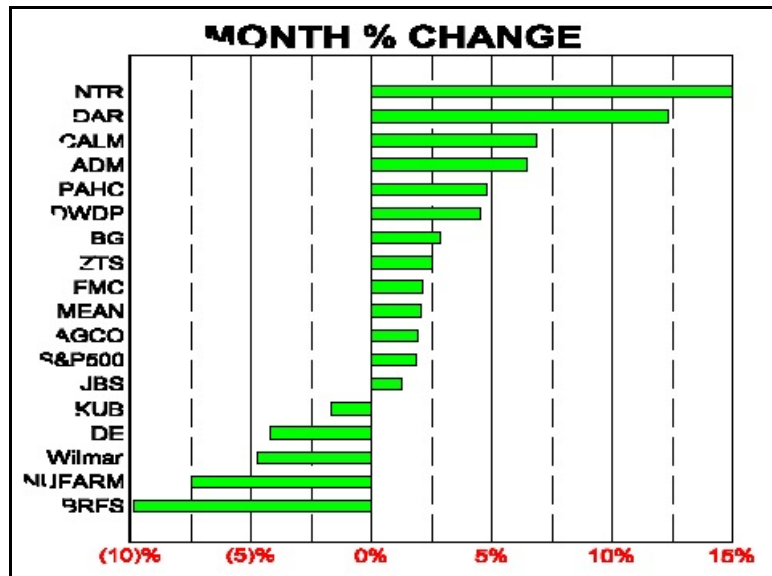
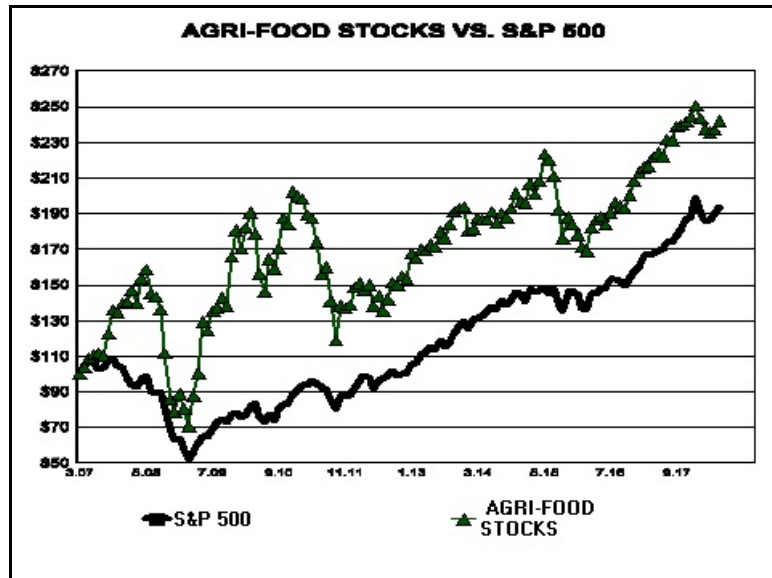
Given the needs of both countries, beneficial to both would be resolving the agricultural tariff situation. Failure to do so would set up a “death spiral” in U.S. agriculture that we would rather not talk about.

Now has been near four months since U.S. stock markets’s peak on 26 January. In September US FOMC is expected to again raise rates, 8<sup>th</sup> time. 9<sup>th</sup> rate increase is expected by end of year. Cannot visualize how those events will help U.S. stock market.

63% of Agri-Equities have performed better than the market thus far this month.

For the month to date:

- Tier One: + 3.7%
- NASDAQ: + 3.4%
- Agri-Equities: + 2.1%
- S&P 500: + 1.8%
- Tier Two: - 0.8%



Bottom chart is of percentage price changes thus far in the month for each of the Agri-Equities.

NTR tops the chart. We previously reported it sold holdings in lithium company. Adding to that it may be being included in some baskets of stocks use to manage portfolios.

DAR may have benefitted from talks on renewable fuel credits connected to ethanol in U.S. DAR has an interest in a refinery. Talks have included possibility of changing the system, and then not doing so.

BG should benefit from Chinese tariffs as it has operations in Brazil.

ADM still seems the best opportunity, in part being first choice in agriculture sector.

AGCO got cheaper, but not time yet. DE is in serious trouble if tariffs remain.

Now, rather than being pessimistic we need to note that some internal pressures are building on the Chinese government. It is far more sensitive to the public response to issues than some in the West believe. First, we noted the strong negative impact on U.S. pork importers, and their workers. That difficult situation extends to those companies that import other Agri-Commodities, including soybeans. Companies failing and workers losing jobs is not good for any government.

Chinese stock market has become an important investment to the Chinese, and in particular those that have the “ear” of the government. Last week, per scmp.com, the Chinese stock market lost US\$514 billion. Thus far Chinese stock market has lost 19%, close enough to 20% to be called a bear market. These events may ultimately put sufficient pressure on Chinese government to do some serious negotiations.

Eat well and prosper,

**NED**

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**AGRI-EQUITIES VALUATIONS (Prices = 22 June 1600 EDT)**

<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>
<b>New 52-Wk High</b>	<b>Company</b>	<b>Price</b>	<b>Value / Potential %</b>	<b>New 52-Wk High</b>	<b>Company</b>	<b>Price</b>	<b>Value / Potential %</b>
	<sup>1</sup> WILMAR	<sup>2</sup> \$2.31	\$ 3.5 / + 53%		JBSAY	\$4.86	\$9.8 / +103%
	BG	\$71.5	\$79.6 / +11%		BRFS	\$5.21	\$14.4 / +176%
	AGCO	\$60.7	\$63.5 / + 5%				
HI	ADM	\$46.5	\$46.2 / - 1%		FMC	\$88.9	<sup>3</sup> \$88.0 / - 1%
	KUBTY	\$82.7	\$80.7 / - 2%				
	NTR	\$53.7	\$48.6 / - 9%				
	DAR	\$19.9	\$15.8 / -21%	HI	PAHC	\$47.4	\$29.4 / -38%
HI	CALM	\$51.4	\$37.9 / -26%				
	DE	\$143.2	\$99.7 / -30%				
	ZTS	\$85.8	\$49.8 / -42%				
<b>TIER</b>	<b>ONE</b>	<b>Mean</b>	<b>- 1%</b>				
<b>TIER</b>	<b>ONE</b>	<b>Median</b>	<b>- 0%</b>				

<sup>1</sup>Wilmar Intl. primary market is Singapore. WLMY is U.S. ADR symbol, representing 1:10

<sup>2</sup> US\$ equivalent of Singapore price.

<sup>3</sup> Based only on Agricultural business.

***PRIORITY CODING NOTES***

***Core*** refers to those stocks that should be the core holdings for Agri-Food exposure. This group will tend to be larger and more multinational companies. That said, some may not be if their businesses have special long-term advantages. ***These stocks are labeled C.*** Second group we call ***Extend, and are labeled E*** in the tables. They are intended to *extend* the reach of the portfolio beyond the core. This group includes those stocks with the best exposure to the Agri-Food trends being created by China and India. They will be smaller stocks, and have higher business risk. We do expect the long-term results on these to be better than average. We also expect their business risk and stock price volatility to be significantly higher than average stock. ***Final*** group of stocks are those that round out the portfolio. Their businesses help to complete the circle. While likely to benefit from global Agri-Food trends, their activities may be more tangential. ***These stocks are labeled F.***

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We email our humble effort, *The Agri-Food Value View*, to subscribers on about 4<sup>th</sup> of the month.

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This written effort is simply an attempt to report on matters relating to agricultural-based wealth.

Wise people should not believe everything we write.

We do not recommend the investment in securities or concepts discussed in this publication.

Investing should only be done after research and study.

Questions or comments? Email us at: [ned@agrifoodvalueview.com](mailto:ned@agrifoodvalueview.com)

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