Introducing AgYield Farm Revenue Management

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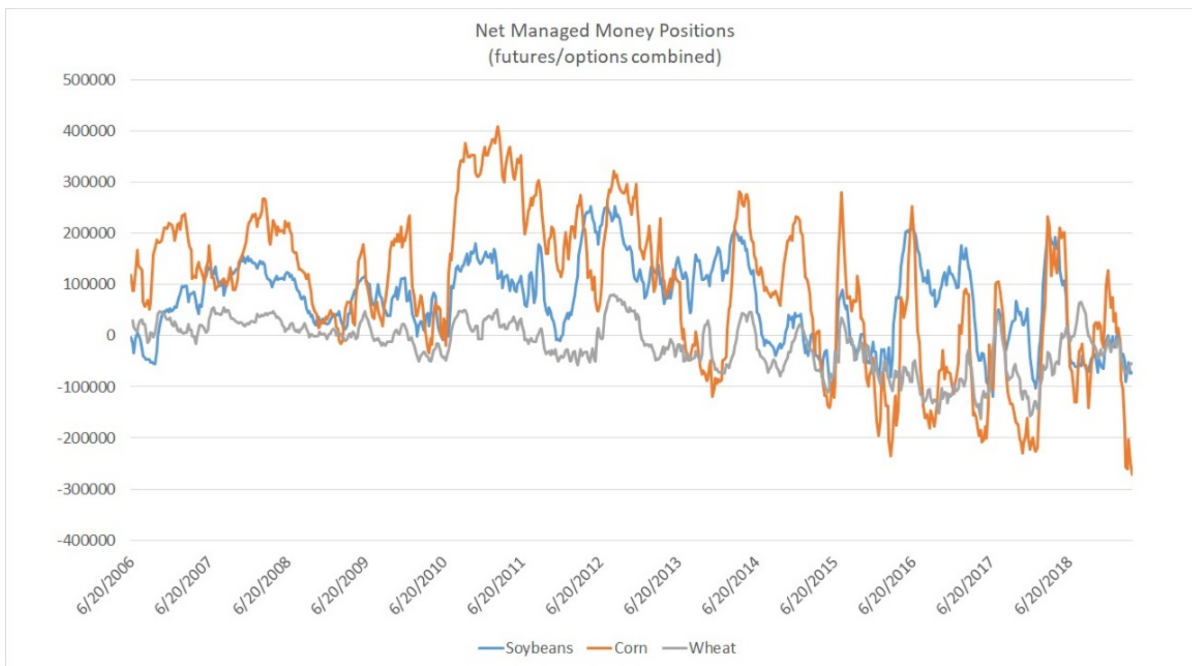
Peoples Company Land Management Division has recently partnered with AgYield Farm Revenue Management, a leading commodity marketing firm with over 45 years of risk management and marketing experience. This partnership ensures careful, responsible marketing of client's grain to support maximum returns. While Land Managers focus on producing and managing the crop, AgYield can implement their expertise of the commodity markets to reduce risk and lock in favorable prices. This is another example of how landowners can leverage their Land Manager to increase net return and get the most out of their farm.

The following content was written by Dustin Johnson of AgYield and offers an inside perspective on the current commodity conditions and market drivers. To learn more about AgYield, and how their partnership with Peoples Company Land Management may be a resource to you please visit www.AgYield.com or www.PeoplesCompany.com.

Grain markets continue to trade at the lower end of their relative price spectrums. Many reasons can be attributed to the current slump: trade wars, African Swine Fever, record crops, and maturing demand for both feed and fuel. None of these factors should be discounted as there is probably an overall goal of the free-market… to start reducing the growth of world production acres after the massive commodity bull market between 2006-2014 over incentivized world production. That production infrastructure was built from the market's call through much higher margins. The increasing RFS mandates and Chinese consumption growth were major tailwinds…today is obviously a much different landscape for producers to navigate for marketing.

The following comments, however, are intended to focus on one aspect of the market that is getting a lot of attention: Speculative Funds are a major source of the recent price weakness. The below chart shows net fund positions for corn, soybeans, and SRW wheat going back to 2006.



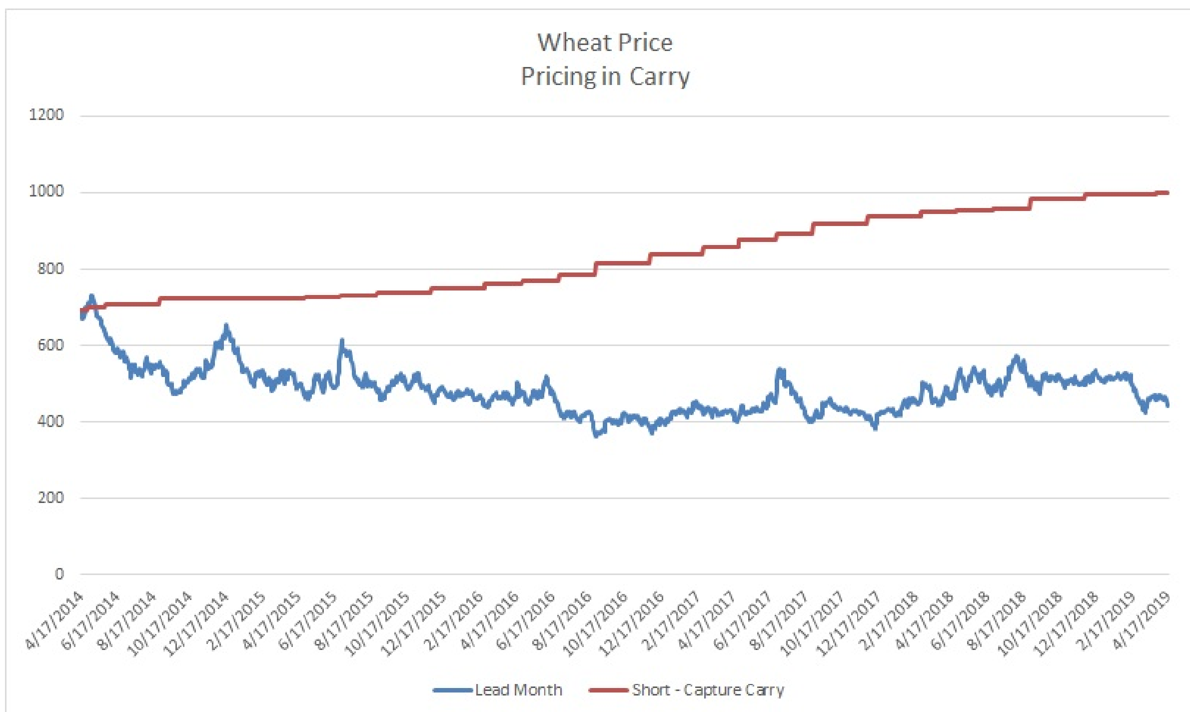
While we agree that the decision of the funds to get this short has been a major part of bringing the market down through price discovery earlier than it normally would have without them, we want to talk about what this could mean going forward. The narrative by many is that they will eventually have to buy out of their positions, causing a major rebound back to where the market should have been in the first place. While this is a possibility, it is not that simple. They have great holding power with a short position as that pays a dividend in carry markets.

When a hedge fund decides to go short there must be a party on the other side of that transaction that goes long, it is a zero-sum market. Therefore, with record short fund positions open right now there is an equal number of commercials, end-users, and other speculators that are holding that underwater long position, and what they do next will be important. There is also a larger number of bushels in bins or set to be grown that create a long liability to that short.

The reason funds get such attention is that they are just along for the ride, never intending to transfer the position to a long bushel to consume, or a short bushel to produce. Those that are along for the ride need sustainability, especially if they make up a large percentage of open contracts as they may cause disorderly price moves when exiting.

If funds have pre-sold the grain market for 2019 ahead of growers, they have no doubt upped the stakes in the event a weather market truly arrives. If production is a concern, farmers will likely be unwilling sellers given the unknown bushels while spec shorts scramble to buy out. Recent history of this can be found in July of 2015 and June of 2016. Conversely, if supply never becomes an issue, they can continue to ride the market short and collect the carry by rolling cheaper nearby contracts and pushing the shorts into the more expensive deferred future months as they come due. The best way to show this is looking at wheat. Wheat futures have had a unique situation for many years with variable storage rates, their spreads have been wider than corn and soybeans had been allowed to go. That is changing with the CME contract changes starting in late 2019, carry charges will expand and what happened to wheat may ultimately impact how the funds change the way they trade corn and soybeans on longer time-tables during periods of supply excess. For wheat, the long term-spec short position has turned out to be extremely lucrative. Since April 2014, the effective carry price of rolling shorts has been an increase of $3.09, paid by the longs, collected by the

shorts. If on April 17th, 2014, one contract of wheat was sold/rolled forward through the years, the effective price would be $10.0075 per bushel for May 2019 futures, as of this writing the price is $4.44.



As a 5 year average that is 61.8 cents collected each year to pad the shorts and bleed the longs. The average price of lead month wheat futures during that period: $4.84, meaning the dividend as a percentage of the contract size was roughly 12.75%... so long as the market remains a carry it is more sustainable to stay short.

As producers, we hope there is a reason for the funds to panic buy out of their position as they cannot produce a crop and may ultimately have to pay an inverse carry if real demand rationing occurs among end users. It is still only April and concerns of a sub-trendline yield result are always possible. But we must keep this carry concept in mind as it relates to the fund position… if weather remains conducive through the growing season, falling back to a PLAN B marketing floor may be necessary. This could be as simple as leaning on crop insurance, selling a certain % of bushels, or buying put options. No strategy looks like a no-brainer when starting the year off in the red at APH yields, but sustainability is still important – make sure that enough is done to survive further price declines, without giving up the chance for profitable selling through the typical window prior to pollination.