Oliver: Welcome back to morning trade live. It's time for Inside Out. We're taking a break from the stock market for a moment because it's time to talk grains and WASDE. If you've seen Trading Places, it's a big report and it's real close to home for the guys we're going to talk to right now here in Chicago. I want to welcome in our guests, Kevin Hincks is here with us at the studio, as well as Sal Gilbertie, President and CIO of Teucrium Trading. So Sal, tell me what's going to be in store for us this afternoon or this morning rather, what are you looking at?

Sal: Well, today is the first report of the year where we'll get a glimpse of the new crop year's predictions officially from the government and that's really, really important because we'll find out how many corn acres are planted. They're expected to actually go down this year and we'll find out how the government is feeling about South American production which is experiencing drought and we will find out what the predictions are for ending stocks which becomes a very big deal. And in fact, analysts' consensus right now thinks that corn ending stocks in this new report for the new crop year may come in about 25% lower than for last years' crop year which is a significant drop.

Oliver: Sal, is there a weather element because we've been talking constantly throughout this winter about the many "snowmageddons" that hit places like New York, but does that matter for any of the crops we're going to be looking at?

Sal: It actually does not. What really matters, I mean there will be some nervousness in the Spring about whether or not the crops get in on time because if you plant your crops late, you're susceptible during some really important pollination and pod and seed fill times, kernel fill times to heat. So, where you're going to be late in the North, like in Minnesota, but right now the farmers are planting really quickly, they should get their things in. What will matter, is the weather in July, it always does.

Oliver: Alright, let's bring in another trader here. Farmer Hincks, what's on your mind here this morning?

Hincks: Oliver, talking about grain reports from my days in the soybean meal pit, this is like my Christmas, Oliver! I finally get to talk about grains and you know what grain traders really care about is not only the production, but what we talked about, the ending stocks, traders call it their carry-out, right? What's the carry-out from this year? They're looking for 546 million bushels is the carry-out from soybeans this year. I think that soybeans will be the most volatile of this number. Now, they'll also project to next year's carry-out which they're looking at around 533 million bushels. What does carry-out mean? That means after all their commitments are done, how much grain is left over? And that affects basis, that affects spread values and it affects a lot of things with grains. But they're looking for, we're exactly right, everything we're saying here, the weather in Argentina could produce a lower crop there, world demand is going up. So, you're getting, you should be getting a little rise in demand, Oliver, you should get a little decrease in the Argentina crop and then, of course, it's the plantings in the US, Oliver.

Oliver: Sal, you're interested in soybeans, because what I am interested in from the trading perspective and the action building perspective is where the volatility will be? Do you agree with Kevin?

Sal: I think he's right, I think soybeans are kind of the step-child. For some reason, corn is king, Corn really is king and corn and soybeans share acres. People tend to forget that soybeans and corn share the exact same acres. So a farmer either plants soybeans or corn and soybeans could be the big action here. I think the really big number is the combined global grains of coarse grains which is corn, soybeans and wheat. When you look at that number, last month the report predicted a 1.4% decline in production *[Note: Mr. Gilbertie misspoke in his original statement and referenced global stocks]* and a tenth of a percent increase…*[Mr. Gilbertie did not complete this sentence and it should have referenced global consumption.]* Those seem like small numbers but that's a really big deal and that is why grain prices seem to finally be finding some support and some legs here after 4 1/2 years of trading really near their cost of production and that's key. For investors, when you're looking at grains when they're flatlined, a farmer can stop planting them so in reality, you have some limited downside in your pricing. Yet if it doesn't rain or it's really hot in July in the Northern hemisphere, prices in the last 11 years in corn have doubled twice from the same level where they are trading right now. So, what an investor should be looking at here is maybe allocating into these grains. You can't forget about grains. You're using more grains than you can imagine every day. You're using oil, you're also using grains. Grains are in everything. So, if you layer those in your portfolio when they are near the cost of production, your downside should be limited, your upside could potentially be explosive if it doesn't rain.

Oliver: I see, so, basically the point is, I used to cover a little soft commodities as well when I was in Chicago, the farmers are going to look at what they are going to get for what they are going to make and there's a lot of projections and suppositions that go in leading the surveys to find out who is planting what and your point is, if they're going to look at the costs and look at the price they're getting and say, "hey, this makes sense for us, it's basically going to be close to cost free, then why not?" Sal, what I'm curious about is there any insight into global demand and health or is this all just about what farmers are going to get based on prices, if you follow what I mean?

Sal: Well, it's both. Global demand really never stops. No one is going to stop eating if it doesn't rain in Iowa or someplace they've never heard of. They're going to continue eating, continue using fuel, continue using paper, all the things that grains and corn and soybeans and wheat products are in. So, what really matters is some switching of acres. For instance, an acre of corn will produce about 175 bushels, an acre of soybeans will produce about 50 bushels. If you switch from corn to soybeans, because you're going to make more money in soybeans, you are producing 125 less bushels for the world and that adds up especially when you're talking a million or 2 acres switching.

Oliver: Hey Kevin, I'm looking at the soybeans here and I see a lot of soybeans in the news lately. That's what I want to get your take on because there are all these questions about how these tariff conversations are going to play out, whether or not China is going to go elsewhere, where that is going to affect the market, does that have anything to do with the numbers we're going to see today?

Kevin: Well, futures trade based on news, Oliver, make no mistake. But it's not like there's an infinite amount of grain in the world. If China chooses to go somewhere else and buy their grains, someone else is going to buy ours. It's not really a "our grains will all sit there." Am I saying that in percentages, something could be affected? Absolutely. Remember uncertainty makes grain markets go up. It makes stocks go down, but in the grain markets, they actually rally on uncertainty. I'm not sure that's a huge risk, but in terms of headlines and short term, it puts a little uncertainty into the grain market.

Oliver: Okay, Sal, one point on here which is, do you think that there is going to be anything that we will read through in terms of price, to simply even just from today's report, but all this conversation about tariffs, will the prices here affect, was there any back and forth on policy that you have to think about when trading these items?

Sal: Well, you do and it could be opportunity because if there becomes a true trade war and true trade penalties between the US and China, China sources more soybeans from the United States than anyone else. They will look to us last. Kevin makes a great point. They have to get soybeans from somewhere, there aren't enough soybeans in the world to not buy from the United States. We'll just be their last choice. So, should there be a trade war or some tariffs come in, what you'll see, perhaps, is a temporary decline in the US price of soybeans. That should be viewed as an opportunity because someone will buy those soybeans and they will be consumed. So, any temporary price dip on a tariff could be a big opportunity for investors.

Oliver: Okay Kevin, one last point on WASDE. Give it to me.

Kevin: I was trading the drought of 2012, I was standing in the…

Oliver: How did I know this was going to be an anecdote?

Kevin: Let me tell you, weather affects the price of grains. Once it gets into summer, once we plant here, it's all about the weather and it's all about the weather in July.

Oliver: Alright, there we go. Kevin Hincks as well as Sal Gilbertie, fun conversation, guys. WASDE coming out 11 a.m. central time.[1] Sal is the President and CIO of Teucrium Trading and Kevin Hincks, of course, our own seasoned soybean trader as well.

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[1] The USDA released the May 10, 2018 WASDE. The complete report can be accessed directly on the USDA's site below: https://www.usda.gov/oce/commodity/wasde/latest.pdf.

A summary of the report is also available on our website:

http://www. teucrium.com/usda-grain-reports