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<https://www.bloomberg.com/news/audio/2017-07-11/teucrium-s-gilbertie-bloomberg-s-mcglone-time-to-buy-corn>

# Teucrium's Gilbertie, Bloomberg's McGlone: Time To Buy Corn

Transcription:

Pimm Fox (P): Well, if you have not been living in the Midwest, particularly in places that depend heavily on harvesting wheat and grain, you might not know but there has been a drought that has been decimating the US wheat crop and here to tell us more about it is Sal Gilbertie. He is the President and founder of Teucrium Trading. Also with us our guide to everything commodities is Mike McGlone, he is our commodities strategist for Bloomberg Intelligence. Mike do you want to maybe just set up what's been going on? I mean I've been following it in detail just because I'm interested in the topic, but this is really a unsung saga right now. Tell us about what's happening.

Mike McGlone (M): Well I think you nailed the main part of it Pimm, but I look at that as more the shorter term granular situation. Yes we're having a bit of a, I would say normal weather event. It's drought in kind of the plains of the US; in the Dakotas, in Minnesota, it's really affected the wheat crop. But the bigger picture is this potentially trickling down to the rest of the crops. The way I look at it in terms of the real, the real big picture is we've had signif- about four, five years of down years in the grain markets, corn, beans and wheat. In fact, last year wheat was at a ten year low, and then plantings were at a hundred year low. So, what's happening to me is the market's just normalizing, weather's not so perfect and prices are coming back and this might just be the beginning with wheat leading.

Lisa Abramowicz (L): So Sal, I want to bring you in here. Do you think that the backdrop has been set for a surge in these commodities, in the prices; or do you think that simply efficiencies and farming and other sort of sorts of technological developments have increased production capabilities to such an extent that prices are going to remain subdued for the foreseeable future?

Sal Gilbertie (S): That's a great point but what I think has actually happened is demand has increased so steadily that we are fortunate that these technological advantages have kept pace with the demand and in general supplies do keep pace with demand in terms of grain production and grain demand. But, grain demand is continually rising; which means if it doesn't rain somewhere people aren't going to stop using them. You're not going to let yourself be hungry just because it doesn't rain in some far away place. And that is the perfect setup right now. We've had wheat prices at lows. We've had corn prices sitting at or

near the cost of production now for the good part of three or four years. And what happens is, again, no matter what the news is, today's a great day as an example for that, no matter what the stock market is doing, no matter what technology is doing, people are going to use grains. They don't stop using them. And so when there's a supply disruption, mostly due to weather, and weather does affect even the new technology, in the new grains that are out there drought resistance, things like that, you do have an almost immediate reaction in prices which is understandable and it's happening now in wheat and it could, as Mike says, be a precursor to what's to come in corn.

(P) And not to harp on the weather, but as Mike knows that's just the, I love learning about the weather but-

(L) I want to learn about the weather

(P) Ok, so what's interesting, what's happening right now to the spring wheat crop I think the USDA says something like only 37% of the wheat crop is in good or excellent condition. And that particular wheat crop, to your point, is high in protein. And, so it is in higher demand- it is constant higher demand.

(S) That is exactly correct. And in fact, poor protein wheat, if it is so poor, they'll throw it in an ethanol plant.

(P) Exactly.

(S) So what happens is, grains are going to get used one way or another. And people need to understand that farmers will drive the price of grains down to their cost of production because they're going to plant as many seeds as they can to make as much money as they can. But when it stops raining, people don't stop using, and in fact people are using more. Over time the global consumption of corn, soybeans, and wheat, is rising making records high almost every single year. That doesn't stop, even when it stops raining.

(L) So, not to, not to go real macro here but when we talk about the weather we're also getting a heat wave. Yes, weather hasn't been perfect but we're having quite a substantial heat wave in the South and parts of the Midwest and I'm just wondering, you know, on a broader level if there is a persistent heat wave, call it whatever you will I don't want to get into any political debates but call it whatever you will. Will this crimp the supply of some of these commodities? Or is that something that is peripheral and neither here nor there?

(M): No it's a key point. In the bigger picture, we all know what's happening with global warming. The good news is the last few years, it's heated up in the grain belt but we've had more rain. Weather's been, but we've had more rain. It's that precipitation, if that starts to decline a little which, it historically it always has, you know, you get these cycles of a lot of precipitation and then less, which seems to be kicking in now. Um, that'll be a big difference. But overall, heat, you know hot and dry, in the Midwest, that generally means less production, even though we have these great, you know, advances in technology. You just can't grow without water and you can only irrigate so much.

(S) And I will say that this is a critical time period. Basically, post July 4<sup>th</sup>, that week after July 4<sup>th</sup> you can see the extended forecast. You have about four weeks where it really needs to rain and/or at least be cool. Where the corn gets about- this is a very critical time for pollination. If you look back, the last ten years, corn prices have doubled twice from their cost of production. Both times it started in July. Both times it's because it did not rain, post fourth of July. It was very hot, in the critical pollination time, which is where we're at now. So you've been sitting at the cost of production for nearly four years. There could be some very serious opportunity.

(P) I'm only going to give you one word. Would this be a trade you'd put on now?

(S) It would be an investment I would consider strongly.

(P) Ok

(L) Alright.

(P) Well said.

(L) Yeah. Fascinating. Really, really fascinating. Thank you so much for joining us. Sal Gilbertie. President, Chief investment officer and co-founder of Teucrium Trading, LLC which is based in Brattleboro, Vermont. Also our sincere thanks to Mike McGlone, our commodities strategist here at Bloomberg Intelligence and an expert on all things, weather, actually grain and other commodities.