

Oliver: Welcome back to Morning Trade Live. It is time to broaden our horizons. We are talking some agriculture and for that I want to bring in Kevin Hinks. He's joining us in the TD Ameritrade newsroom, as well as Sal Gilbertie, President and CIO at Teucrium Trading. Welcome back, Sal. Hey Kev, start us off with the news alright. What are we looking for today?

Kevin: We got two crop reports today, Oliver. We have and I'll follow along here, we have a number coming up, we have the USDA June Acreage Report coming up at 11 am and the Quarterly Grains Stocks Report coming up at 11 am. So it's a big day for the grains, Oliver.

Oliver: Sal, what does this mean to you? Is the market going to respond to this fundamental stuff or is it going to be like it's been the past two months, everything about trade and just beating up some of these soybean-related items and stuff?

Sal: It may be more of the latter, unfortunately. Grains have taken a seasonal dive, a pre-seasonal dive, the price lows that we see now, when you expect a good crop as we do, they generally come about six to eight weeks from now, so the tariff and political talk has definitely affected what's happening out there. And, I'm not sure that today's reports will have many big surprises.

Oliver: Sal, does that create a quote/unquote buying opportunity, like people will come and say about the stock market, they'll say, "I like Intel and I like Boeing because of what they're doing fundamentally, so if I see a trade headline that sinks Boeing by a percent and a half, I'm going to go in there and add a little bit more." Does that same mentality exist for this market?

Sal: I think even more so. In commodities you have a cost of production below which you can trade, but you don't stay there for very long. Given that grains are now at or below their cost of production, most especially corn and soybeans, this is perhaps a tremendous opportunity for investors because politics are affecting the price in a way that the fundamentals would not. Yes, we're going to have a good crop this year or at least it seems so now early in the season, but prices are below their cost of production. You've got inventories falling, you have demand rising. That is not a formula that can withstand the test of time. So, there's tremendous opportunity for investors right now to buy with very low downside risks simply because you're below cost of production and over time you could have some immense upside risk. If there's a surprise announcement that China and the US settle their trade differences, especially when it comes to agricultural products, the upside could literally be instantaneous and explosive.

Oliver: So, alright, Kevin, as far from an agricultural expert as you can get being myself, I hear what Sal's saying and it sounds convincing, right, because within the commodity market, you have a little bit more of a tangible supply and demand matrix basically that will give you some ranges, but if I were to think about that a month ago, I'd then still be red in soybeans. If I thought about it before I'd be red in soybeans because of all this dialogue that just doesn't go away. We'll say about two months here. How do you navigate the as a trader, Kevin?

Kevin: You're exactly right, Oliver. The one thing that Sal and I always agree on is that June, July and August, the fact that we're right at the end of June, the end of the quarter and the first day of July coming up here, and we're not talking about weather is pretty amazing. That tells you that something else is going on in this crop year that is changing the way people think.

Oliver: So because your point is the seasonal element right now is all about what happens in the summer when rains come and how it affects the crop.

Kevin: Right. Between May in October is when the crop is in the ground and its quality is based on weather and rain and the good news is, well, it's bad news for farmers, but it's the good news for the grains, is they're getting almost perfect located seasonal weather. Even though some of the forecasts are calling for hot and dry at some point during the summer, they're still getting these rains that come at the optimal times. And, another thing, Oliver, they're hitting the optimal areas. So that's putting a little bit of a lid or a downward trend on grain prices, as well as all the geopolitical and political things going on here.

Oliver: You know who else got a pretty targeted aim right now are the opponents of this trade spat, Sal, because if we bring up this chart for soybeans versus a few other agricultural products, corn and wheat in specific, the opponents to us in this spat have basically targeted soybeans quite vocally, Sal. But when they go after those sort of, what they deem to be the Trump voting areas of America and target things like soybeans, why don't we see the same type of pain in wheat and in corn? We see a little bit, but that's only been just the past couple weeks. What do you make of that disparity, Sal?

Sal: Well, China is the world's largest importer of soybeans, so, of all the soybeans exported by all the countries who export soybeans, China bought, last year, about 64 percent of those soybeans. So, China is clearly the world's largest buyer of soybeans; therefore any rhetoric that they make or any trade tariff threat that they make is going to affect soybean prices. The interesting thing is that soybeans are sold from the United States and from South America. I mean, 95 percent of the soybeans that are exported in the world are sold from the United States, Brazil, Argentina and Paraguay. And South American soybeans are 95 percent correlated to the price on American exchanges; so even though they may be priced locally at the port, all of these supplies, all the hedging, everything that all the farmers, suppliers and distributors in South America do is based upon the price of soybeans in Chicago. And so you really have an artificial price decline due to politics right now.

Oliver: Now Kevin, the report that we're going to get this afternoon, expectations versus what we have, does it clarify some of the fundamental things you were talking about earlier? Are we going to start to see results of just how much is being grown right now?

Kevin: Sal's exactly right. I don't know if this number right here is going to change anything in the geopolitical specter. Here's the number that we're looking for Oliver, in corn acres, 88 ½ million acres of corn, 89.6 or .7 million acres in soybeans, Oliver. Those are the numbers if you're trading, that's what we're looking for. Any major deviation from that, up or down, could move prices but Oliver, there's still a shadow lingering over these grain prices which is political and geopolitical issues.

Oliver: Sal, I know that in the note you sent us you talk about interest in some of the funds within this group and interest in essentially what you do, so tell me what your strategy is right now. I mean, do you try and guess when these trade concerns are going to ebb or do you just say, look, this is below what I think is the fair value so let me keep stacking up my inventory until this thing breaks?

Sal: I think that investors are doing the latter. I think we're seeing a lot more interest in our soybean fund, in our corn fund and wheat fund, mostly soybeans and corn right now because they are clearly below their costs of production. So, we've got advisors who are saying, you know this is a non correlated asset to the stock market, I'm not sure what's going to happen in the stock market, I can see very clearly that I have limited downside because we're below cost of production. So, they're starting to layer in, the optimum time to layer in is generally at peak harvest around October 1st, but again, you've got this

artificial price decline, so we are seeing people put money in early and this is the layering into portfolios who are under allocated or not allocated at all to ags. People are realizing how important it is to do that and now that are these exchange traded products, versus futures, every investor can trade them. They don't need a futures account. So, we are seeing a very heightened interest in our funds, yes.

Oliver: Kevin, the idea of using the agricultural products as sort of an uncorrelated asset is pretty interesting given just how much correlations and across stocks, bonds and other assets we've been talking about have been getting more confusing sort of by the day in 2018. What do you make of this or does it just put in another item as we're talking about corn, soybeans, wheat, they looked very different up until about three weeks ago. So, within that space right now, they're correlated with each other but how about a sort of a piece of the puzzle for your portfolio?

Kevin: Well, I think for me personally, Oliver, if I'm an investor, I look at this pure as a value play. I think these grains are not just sold, they're oversold. And what Sal was talking about here, they're way below their normal cost of production, so I think it's just an opportunity to get in a commodity that there's clear demand for, that's clearly undervalued based on geopolitical tensions or geopolitical stories that may eventually, I expect to burn off.

Oliver: Sal, real quick, I just curious from sort of the macro perspective, to what degree does that cost of production change? Is that something that I imagine does change but over long periods of time? Is there any other side of the equation that could shift and break the thesis?

Sal: You're correct. It takes long periods of time, generally the price of energy because that affects fertilizer and things like that. So, it takes a very long period of time to change the cost of production and the moves will be slight. The bottom line is Kevin's exactly right. No one's skip their breakfast bagel, they're not going to skip filling up their tank, they're not going to skip buying a chicken sandwich which is fed with soybean meal. That's not going to happen on July 6th whether the tariffs go into place or not. So, prices will adjust back to their pre-tariff levels. It may take three months, six months but there's a very unique and very specific opportunity in the grains right now for investors.

Oliver: Sal, there's a lot of people in this office skipping lunches ahead of Chicago summer. But we've got to leave it there. Sal Gilbertie, great to have you back, appreciate the insight, as always.