The beginning of the podcast describes the financial market conditions for December 22, 2016.

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Bloomberg Markets with Pimm **Fox and Lisa** Abramowicz. Date: December 22, 2016

Lisa: Well we've all been talking about the food deflation trend that we've seen growing across the world, really, but particularly in the US with corn, wheat, and other commodity prices falling. But will 2017 be a bit of a different year? I want to bring in Mike McGlone, commodities strategist for Bloomberg Intelligence and Sal Gilbertie, president and founder of Teucrium Trading an Agricultural commodity trading firm.

Lisa: Mike, I want to start with you, are you expecting to see some kind of resurgence of prices for some of these hallmark commodities.

Mike: I think that that's a high risk, most notably in the grains and if you look at it from a 40,000 feet overview, this year is quite significant because the entire agriculture market was actually up. Grains were actually up despite the largest harvest in history of the world and US, basically US harvest. You know if the market won't go down in a market like that, it's probably at risk of doing the opposite and the main reason for that is demand. Demand has just picked up exponentially, we've had 30 year highs and the velocity in the increase in demand in a lot of the grains so that makes the market more susceptible to potential risk of lower production next year. Now I'm not predicting the weather, but generally if we have, agriculture is always about the weather, but if we have a weather event then it is more likely to probably more likely to increase than in history because we have this substantial shift in increase in demand.

Sal, do you agree with Mike and maybe you could then get into some details, I want to start with soybeans, and Chinese imports.

Sal: Sure, I do agree with Mike in that I mean the velocity in demand, that's an interesting statistic, demand is rising and you know, every year in recent memory, we have had an increase in demand, primarily because global population is increasing so all the grains, you are using more grains because there are more people, more animals to feed, people eat the animals. Soybeans in particular, they're like the lost middle child, so the big three grains are corn, soybeans and wheat; soybeans and corn share acreage, so you either plant soybeans or corn in the same dirt; and soybeans, the import pace of China has been beyond people's wildest expectations; it's primarily feeding their swine, poultry, and aquaculture industries because they are increasing the meat intake, the protein intake, via meats, in their diets. It's beyond anything anyone could have predicted.

Pimm: I was going to say soybeans futures are up 17 percent in Chicago this year.

Sal: Uh, that's correct and of our funds, we have the ETF's out there, corn, soybeans, and wheat they're each a different ETF and soybeans is smallest, it's like the lost child, you know, that middle child, that's ignored but it's the smartest one, its, soybeans have really been the best performer this year in the ag sector and wheat has been the worst and wheat is very interesting as well because you had some winter kill, we believe two nights ago, and you know the prime winter wheat growing areas of the United States have had less than 2 inches of snow and 30 below temperatures a couple of days ago, that's of some concern and only farmers are talking about it. So that's very interesting that you have increasing demand and you really do have uncertainty of supply in that every 5-7 years, if you look back statistically, there tends to be a major drought in one of these big three crops and price history shows us that the prices rise very significantly. I mean when you have increasing demand that does not abate even if it doesn't rain somewhere, you know you could figure out what's going to happen to the price.

Lisa: So, if there is a weather event, Mike like you were talking about, just how much could the prices of wheat and corn increase?

Mike: Well let's use most recent history, 2012 was the last significant weather event in US, it was basically the flash drought, it was only one month that we basically got no rain in the grain belt in July and August area and the price of corn, soybeans and wheat, notably corn and beans doubled, at least doubled, they went to about 8 bucks in corn, currently in corn we are below $4. So that's the risk, and so here we are, about the same price as when we started out in 2012 so I guess that's the key risk and then that was a bit of an extreme event and I think it's not so much a drought we have to worry about, it's just, as Sal mentioned, that increase in production usually lasts in 5 year increments and were into the fifth year and it's just, we can't expect this type of production to continue to increase as records. We expect some normalization, normalization means potentially markets should recover. Now we're already starting to price a little bit in soybeans are up on the year and we'll see, now we're waiting for the next month or two to see how production comes in South America. That's the first indication.

Pimm: Sal, got a thought for a trade going into 2017 where you'd like to be positioned right now?

Sal: Um, you know, we're not investment advisors but I think people should speak very seriously with their advisors and look at, you know, it's not necessarily a trade, when things turn, grains are definitely in a down and sideways market right now because of the supply, but again, demand is steady, supply is uncertain every year, there are no seeds in the ground in the Northern hemisphere right now. I think that what people should look at is maybe looking at an allocation and talk to their advisor about into directly these grain products. Because as Mike said, the upside is actually explosive, and I know this time of year, people look to put x percent of their portfolio in gold and do a little rebalancing, I think people should discuss very seriously with their advisors, corn, wheat, soybeans, these things at or near their cost in production, they're very low, they're in a four year down trend which is very rare and their upside is quite significant. I think on a risk, reward just from a farmer, if you're a farmer you're looking at a 3.50 corn right now, could it go to $3? Of course it can if we have another bumper crop year. Can it go to $8 where it was a few years ago? Anything is possible with the demand the way it is.

Pimm: Anything is possible, ok thanks very much Sal Gilbertie, he is the president and Chief Investment Officer and the cofounder of Teucrium Trading, he is a sponsor of Corn, Soybean, Wheat, Cane, these are all single commodity agriculture ETF's and they all trade on the NY Stock Exchange and our thanks of course to Mike McGlone, Commodities Strategist for Bloomberg Intelligence.