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Macro Commentary

In recent months price action in futures markets has largely been dominated by the interpretation of Fed interest rate policy, its resulting impact on the US dollar and the desire for funds to initiate a long macro play in dollar based commodities despite the underlying bearish fundamentals for a lot of those commodities. This begs the question -What is behind this macro long strategy?

I believe this macro strategy is primarily due to the potential impact the Brexit referendum will have on the global economy which will take place in June on whether or not Great Britain should leave as a member of the European Union. A Brexit vote to leave the EU is estimated to take between 4 to 9% off of Britain's GDP in the short to medium term with a resulting knock on negative impact into EU and global economic growth. In an environment like that it's understandable that the US Federal Reserve Bank may be prudent and not raise interest rates in the short term until the outcome of the British referendum and its impact on global economic growth is known regardless of how well the US economy is doing.

The success of this macro strategy going forward will depend on whether the Fed will place a pause on raising interest rates in the short to medium term and if this will lead to a collapse of the dollar index into the 2013 range value of 82 to 86. At the moment we are sitting on the 2015/2016 lows of the US dollar index at 94 and waiting for interest rate direction from the Fed. In my opinion we may not see this direction from the Fed before June of this year for the reasons outlined above.

When you consider that a large percentage of global commodity fund activity is originated in London it doesn't come as a huge surprise that this so called macro/Brexit play is bubbling under the surface of the global commodity markets. But is this macro play justified? It should largely depend on the value of the dollar and crude oil going forward . It is possible that rather than a weak dollar going forward, the US dollar itself becomes a "safe haven" as we approach June especially if the US economic numbers are positive over the next few months. The traditional alternatives of the Japanese Yen and US treasuries don't offer much value at the moment as a "safe haven" investment and if the dollar turns out to be the haven of choice it will put any long macro play at huge risk.

The other leg of the equation is the crude oil market. During the last major macro play year of 2008 December crude oil during the month of April was trading at $112 a barrel on its way to $148 a barrel by the first week of July. This time the crude oil market is in a very different situation as the market stuggles to curb supply and slow production at a valueof $42 per barrel. In 2008, the macro play was based on runaway inflation fears with high commodity prices, a weak dollar and quantitative easing programs that were expected to continue to debase the value of the US dollar. That is not what we have this time around.

In 2008, the US dollar index during the time frame from April to July was trading between 72 and 74. In July of that year the index started a rally from 72 to 89 and with it brought the end of the long macro play as commodity prices collapsed.

It has been intriguing as to why the funds have initiated this macro play in the grains of all markets and more specifically in the soybean market when the fundamentals have not supported a rally of this magnitude. I'm thinking it has been because of the items listed above and the combination of the weak Dollar along with the strong Brazilian Real due to the political situation in Brazil . Since then other factors such as weather have come into play as heavy rains in Argentina, dryness for Brazil's safrinha corn and a slow down of farmer selling have aligned with the rally.

Can this grain rally/macro play continue ? At the beginning of this month the Brexit polls were showing 50:50 on Britain leaving the EU. This morning the polls show 65:35 against them leaving due to heavy political lobbying of public opinion by the UK government in recent weeks. In addition I question whether the Argentine bean crop is being damaged by rains as much as the trade thinks. In years past we have seen countless numbers of occasions where heavy rains have not resulted in the damage to crops that the trade had anticipated. If we have a normal planting and growing season in the US this grain rally is overdone by $2.50 per bushel in the soybeans and $1-1.25 in the corn market against the expectations of what the fundamental supply and

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demand balance sheets will show for the grains on a global and domestic US basis. We are now pricing into grains far more bullish supply / demand balance sheets than we currently have and are likely to have going forward without a major weather problem.

While this macro play is emerging without the support of bullish crude prices or a materially weak dollar index I feel the correct strategy is to be patient and not get caught up in what is as of now I feel an unsustainable macro rally. Grain fundamentals will win out in the end and I believe the money is to be made on the short side of this market in the next 90-120 days. This macro play is potentially flawed on many levels. If the Dollar holds or turns bullish a lot of fund length will have to be sold into a possible vacuum in these grain markets without a weather issue. From here forward, Brexit may set the tone, but grain fundamentals will loom larger and larger and the long macro strategists may have to deal with Brexit as a non-event in the next 60 days or so .

I feel it is important and it will pay off to be patient here. The right opportunities for the right reasons will come.

Please let me know if you have any questions or comments.

With best regards,

Colm Cronin

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