



ARDMORE SYSTEMS TRADING
LLC

May 2016 Market Commentary

Since our last update on the macro play that was evolving in commodity markets there has been several ongoing developments that have continued to shape the current trading environment.

The Brexit issue is still very much front and center with the latest opinion polls showing a more decisive shift to the “Remain in the EU” campaign. Polls now show “Remain” with a slight edge over the “Leave” group with a 55% to 45% advantage with 30% of voters still undecided and 4 weeks to go to the referendum. Over the last month the importance of the issue has also been more on the agenda of US politicians as President Obama weighed in on his recent visit to the UK and outlined how damaging to the global economy a “Leave” vote would be. In addition, an open letter signed by 5 former US Treasury secretaries was read out in the UK parliament. It highlighted the risks involved in a decision to leave while 3 current Federal Reserve Bank governors have pointed to the Brexit issue as the reason why the Fed has not so far raised interest rates. A question mark hangs over whether a change in policy is coming in the June or July FOMC meetings.

Against this back drop, the US dollar Index in recent weeks initially headed lower to a 91 figure has since recovered to just above a 95 value. The recent gain in the value of the dollar has likely been due to a combination of stable US economic numbers, a safe haven flow of funds into the US dollar ahead of the Brexit vote on June 23rd, and a response ahead of the possibility that the Federal Reserve Bank may raise interest rates sooner rather than later if US economic numbers continue to impress.

In addition to the macro elements above, the other recent developments of note were in the grain sector. The USDA in their May report aggressively raised the demand base in the soybean balance sheet leading to a large and unexpected drop in US and global carryover stocks in 2016/17. Their figure did not yet adjust for any planted acreage changes which we will not see confirmation of until June 30th. However, recent price moves do suggest the possibility of a larger overall acreage pool with an increase expected in US soybean acreage and a slight reduction in corn acreage. The implications of this are that the US soybean carryover stocks for the 2016/17 campaign may be closer to the 350 million bushel number than the current USDA figure of 305 and the US corn carryover may be in the region of 2.3 billion bushels. These estimates, as usual, are totally dependent on US yield prospects through the summer growing season. As of today, more and more weather analysts are beginning to adjust their thinking to a benign summer of US weather as El Nino shifts to a La Nina phase, the effects of which may not have a market impact until the Fall of 2016 or early winter 2017. If there is to be a wild card in the weather it could well be in August during the soybean flowering stage.

The main feature in recent weeks has been the almost manic short covering in the July futures options for soybeans and meal that has confounded many in the trade as the aggressive price moves seen in futures and spreads has not been supported or justified by the cash traded values. The short covering rally has been attributed to out of position short hedgers in the soy complex brought on by uncertainty due to quality, size, and harvest timing of the Argentine and to a lesser extent Brazilian crops due to bad weather. The extent of the damage to those crops is not yet fully known but there has been a slow and growing realization that the potential is there for a major ramp up in soybean, soymeal, and corn exports from the US through to the end of 2016 and beyond if the South American crop damage reaches the higher end of expectations.

In our studies over the last 20 years, the May to June transition is seen as critical to future price and spread moves in the grain sector. We have no reason to believe that this year will be any different. Price volatility and price distribution tends to go



ARDMORE SYSTEMS TRADING
LLC

May 2016 Market Commentary

though some significant changes during this time period. We will be taking our trading positions accordingly depending on how this transition develops as we push into the early part of June next week. The stronger dollar and some liquidation from China longs has weakened the markets in the last few days. It remains to be seen whether this feature will continue into June or will cash prices finally start to confirm the switch of export demand to the US. The unfolding of these elements, the Brexit vote, and the value of the US dollar one way or the other will determine trading strategy over the next 90-120 days.

We will update the perspective again following the June USDA report on June the 10th.

Any questions, comments or observations are welcome.

With best regards,

Colm Cronin

Ardmore Systems Trading

The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. Ardmore Systems Trading, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of Ardmore Systems Trading, LLC. No one has been authorized to distribute this for sale.

9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138
newaccounts@ardmoresystems.com • phone: 901.766.4446 • ardmoretrading.com