ARDMORE SYSTEMS TRADING
LLC

August 2016 Commentary

In recent months the Bloomberg commodity index (BCOM) has been moving in a consolidating 8 point range between values of 82 and 90. The BCOM Index trading pattern has been the inverse of the Dollar Index pattern over the same time period which has been trading in a 93 to 98 consolidating range. This I believe highlights the recent price movement of commodity prices since they have shown a very strong inverse correlation to the value of the US dollar against foreign currencies. As we approach the Jackson Hole economic policy symposium this week, traders will be watching closely to see if the Fed Reserve Bank gives any indication as to future interest rate policy which may affect the value of the US dollar and in turn commodity prices. The performance of the US economy would seem to warrant a rise in interest rates but with the uncertainty of the US presidential election and the weaker economic performance of the EU and Asian markets the Fed may opt for a continued cautious approach and not elect to raise interest rates. If this is the policy chosen then commodity markets will trade more against their own current estimates of supply / demand fundamentals through the balance of the year without the influence of a more volatile US dollar.

Amongst the commodity markets, one of the more interesting at the moment are the grain markets as we approach the end of the growing season and will soon begin the harvest. The growing season so far has been excellent and early estimates of yields have been spectacular. However demand has also been equally spectacular and grain prices have reflected that as we trade supply one day and demand the next. Most of the weather premium has been taken out of grain prices in the last few months but there is the possibility of taking out some more and making another bearish leg lower if yields move above 175 on the corn and above 50 on the soybeans . Yields of that magnitude could allow for burdensone carryouts in corn and beans provided there are no further large scale upward adjustments to the old crop demand base. This would then not necessiatate the need for a price rally until we face adverse issues with the South American growing season. However with a few weeks to go in the old crop year and export inspections indicating a higher pace than the current USDA estimates for exports, the old crop carryover in soybeans could drop to near 200 mil bushels which would lessen the bearish impact of any additional yield increases in the new crop. In corn the export inspections are not as interesting in the old crop and the new crop carryover looks like it will approach the 2.400 billion bushel level. This sets up the opportunity for a bean/corn spread trade as we go forward and possibly even a bullish soybean price and soybean spread scenario. In addition, dealing with issues such as a need for farmer selling to service domestic and export demand, strong cash premiums, and the potential need for South America to produce 7-9 mil tons more soybeans than this past year in order to service world demand creates an environment where current prices may be cheap enough and will probably rally on any major needs to generate or protect supply.

Price volatility has been compressed lower in recent weeks as evidenced by the consolidating trade patterns and this may continue for a time. However, as the old crop grain and protein export and carryover stock picture becomes clearer while the crop size firms up in the next few weeks our bias is to look for the opportunities to buy soybeans against corn as well as taking ownership of the soybean spreads. If the Federal Reserve Bank provides us with a weak dollar scenario it will be an added bonus to bull strategies.

9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

newaccounts@ardmoresystems.com • *phone:* 901.766.4446 • ardmoretrading.com

August 2016 Commentary

In other commodity markets the demand scenarios for coffee, cocoa, and sugar also have the potential to contribute to bullish prices from current levels. But as mentioned above, this bullish picture will lean on the value of the US dollar. Any indications from the Federal Reserve of a weakening global economy could undermine the bullish price outlook for those commodities. We will be looking for volatility expansion in those markets in the coming days and weeks to seek out trade opportunities. The general trading environment is quiet right now with low levels of volatility. In our experience those are usually the periods immediately before major price moves. In the meantime all eyes are on the Federal Reserve comments coming later this week.

Please let me know if you have any questions or comments

Best Regards,

Colm Cronin

8/23/2016

9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

newaccounts@ardmoresystems.com • *phone:* 901.766.4446 • ardmoretrading.com