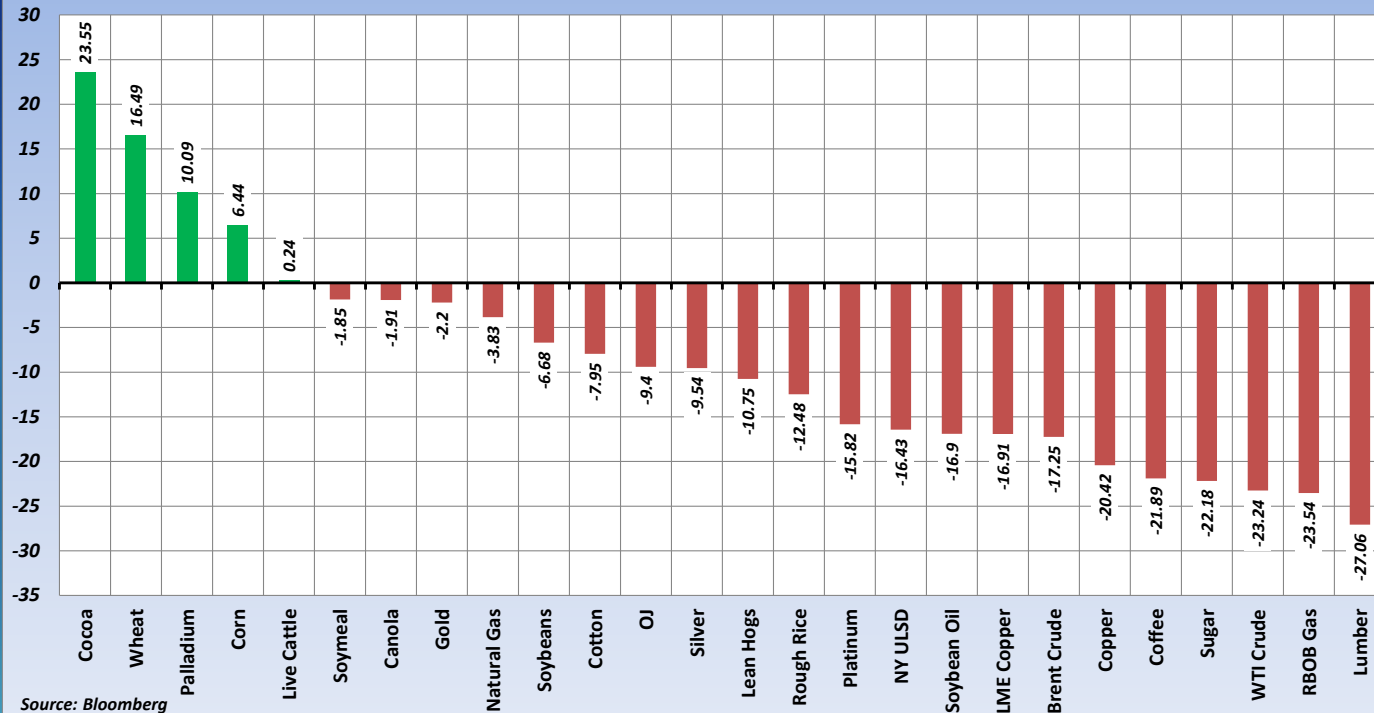


# Major Junctions Ahead Energy, Grains and Metals

*David Hightower  
President, The Hightower Report*



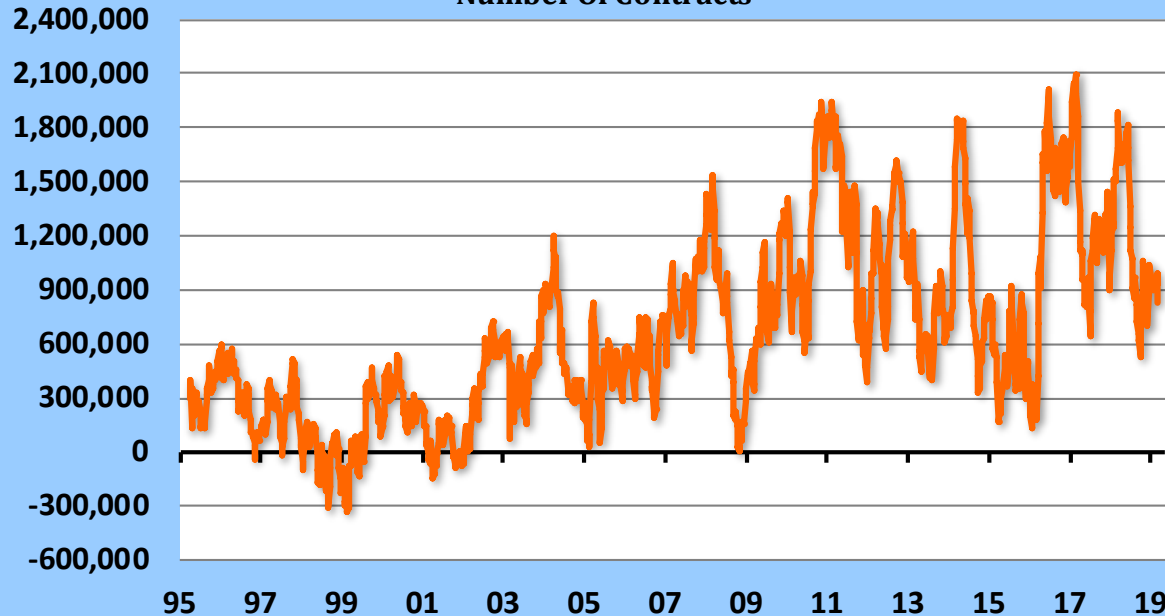
## 2018 Commodity Performance - Annual Percent Change



Source: Bloomberg



### Non-Financial - COT - Futures and Options Non-Commercial and Nonreportable Combined Net Position Number Of Contracts



The Hightower Report | Source: CFTC

Max: 2,102,118 (2/14/2017) - Min: -321,202 (2/16/1999) - Most Recent: 833,655 (02/12/2019)



# Major Market Issues to Consider

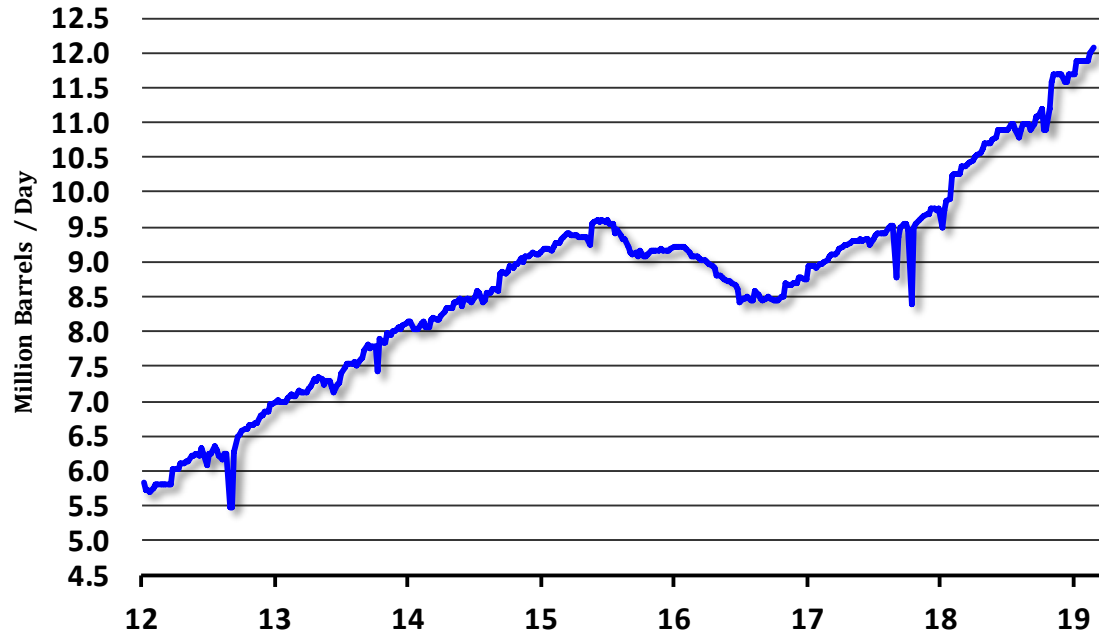
- *Global Sentiment Ruptured by trade/Saved by trade?*
- *Higher/Lower tariffs are inflationary if growth survives*
- *Chinese Crude oil Cost US versus Brent*
- *African Swine fever THE Commodity story of 2019*
- *Dollar Maximum bull condition is past*
- *Grains bearishness reaches well into next crop cycle*
- *Clean air effort/Exports Natural Gas/Ethanol/Biodiesel*
- *Year of Commodity Substitutions*



- *US/Global Economic Outlook*
- *Impact of foreign policy and tariffs on trade*
- *Economic volatility in South America*
- *China protein demand down-ASF, US demand stable*
- *Renewed focus on Bio-fuels*
- *Gold - A Bullish Shift in classic fundamentals*
- *Where is all the Oil going?*



## EIA Weekly Crude Oil Production

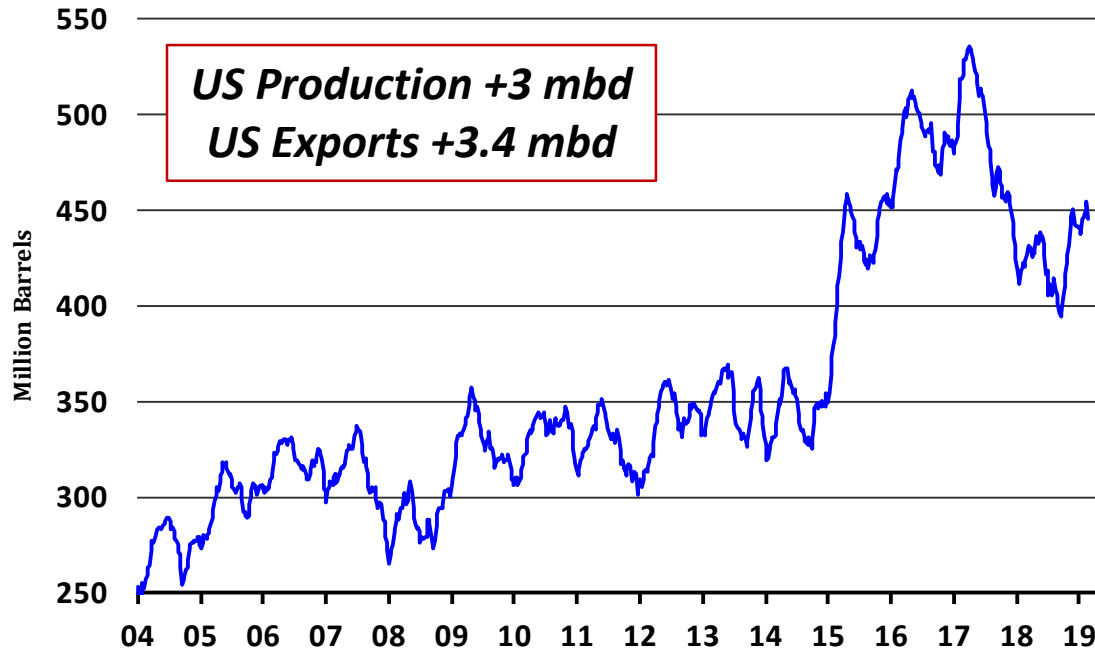


Most Recent: 12.1 on 02/22

Source: EIA



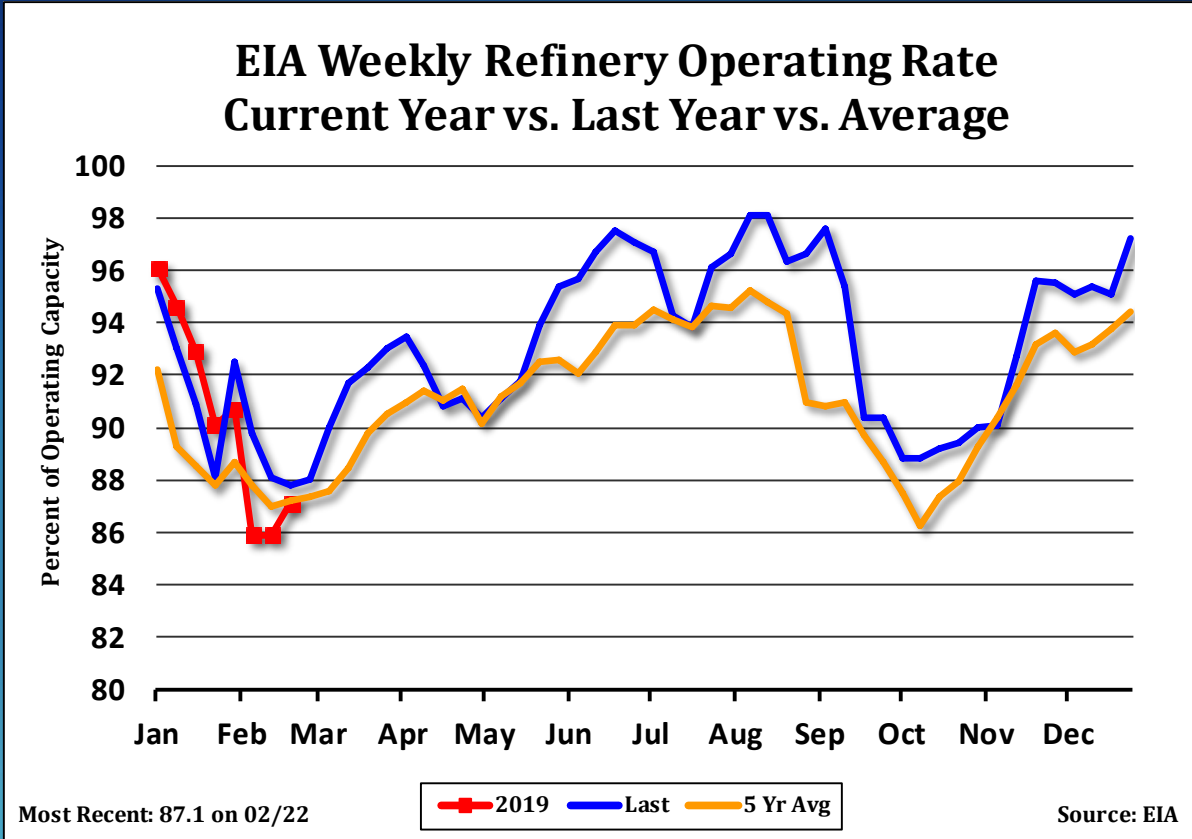
## EIA Weekly Crude Oil Stocks



Most Recent: 445.865 on 02/22

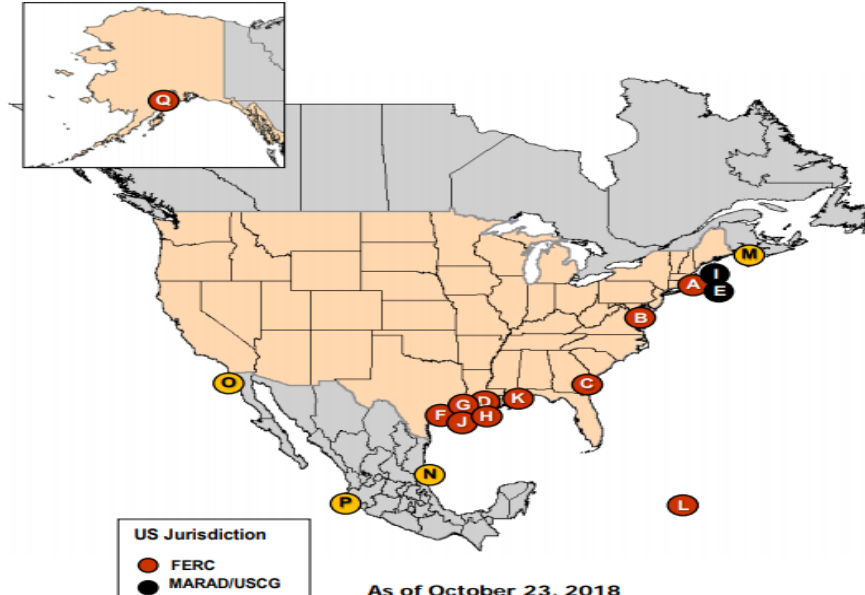
Source: EIA







## North American LNG Import/Export Terminals Existing



**US Jurisdiction**  
 ● FERC  
 ● MARAD/USCG

As of October 23, 2018

★ Authorized to re-export delivered LNG

### Import Terminals

- U.S.**  
 A. Everett, MA: 1.035 Bcfd (GDF SUEZ - DOMAC)  
 B. Cove Point, MD: 1.8 Bcfd (Dominion - Cove Point LNG)  
 C. Elba Island, GA: 1.6 Bcfd (El Paso - Southern LNG)  
 D. Lake Charles, LA: 2.1 Bcfd (Southern Union - Trunkline LNG)  
 E. Offshore Boston: 0.8 Bcfd (Excelerate Energy – Northeast Gateway) ★  
 F. Freeport, TX: 1.5 Bcfd (Cheniere/Freeport LNG Dev.) ★  
 G. Sabine, LA: 4.0 Bcfd (Cheniere/Sabine Pass LNG) ★  
 H. Hackberry, LA: 1.8 Bcfd (Sempra - Cameron LNG)  
 I. Offshore Boston, MA: 0.4 Bcfd (GDF SUEZ – Neptune LNG)  
 J. Sabine Pass, TX: 2.0 Bcfd (ExxonMobil – Golden Pass) (Phase I & II)  
 K. Pascagoula, MS: 1.5 Bcfd (El Paso/Crest/Sonangol - Gulf LNG Energy LLC)  
 L. Peñuelas, PR: 0.3 Bcfd (EcoElectrica)

### CANADA

- M. Saint John, NB: 1.0 Bcfd (Repsol/Fort Reliance - Canaport LNG)

### MEXICO

- N. Altamira, Tamulipas: 0.7 Bcfd (Shell/Total/Mitsui – Altamira LNG)  
 O. Baja California, MX: 1.0 Bcfd (Sempra – Energia Costa Azul)  
 P. Manzanillo, MX: 0.5 Bcfd (KMS GNL de Manzanillo)

### Export Terminals

- U.S.**  
 B. Cove Point, MD: 0.82 Bcfd (Dominion–Cove Point LNG) (CP13-113)  
 G. Sabine, LA: 2.8 Bcfd (Cheniere/Sabine Pass LNG – Trains 1, 2, 3 & 4)  
 Q. Kenai, AK: 0.2 Bcfd (ConocoPhillips)

Source: US Department of Energy

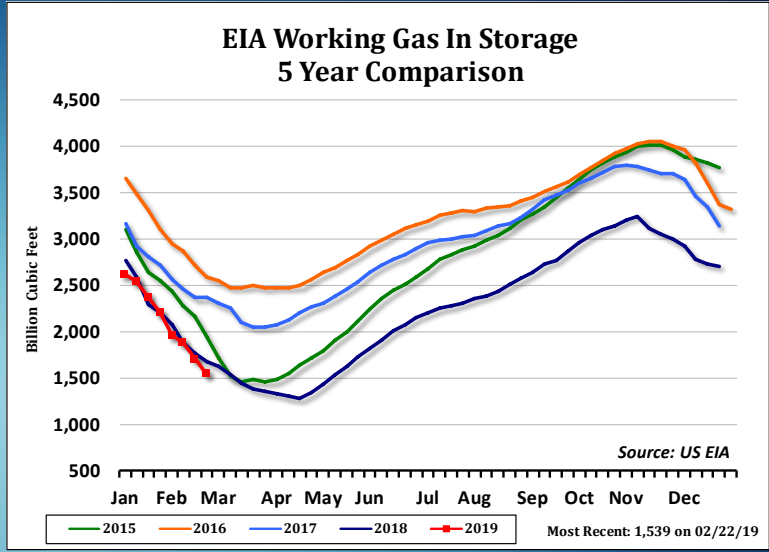


# Tightest in 6 Years

## Monthly Natural Gas



## EIA Working Gas In Storage 5 Year Comparison



# Grains at Maximum Bearishness!

## **Period of Highest Supply Assumptions**

Assumption of flawless South American supply

Higher US Soy acres Reversed

Little Concern for El-Nino/Palm Oil/SEA-China Flooding

A Peak in World ending stocks off SA Production/Slowing/Trade/economic fear/Oil slump

Chinese Corn Supply views coming down to reality

Declining world stocks Corn/Wheat/Palm?

## **Surprise Demand/Bull Issues**

Bio-Diesel Profitability & SEA Mandates

Soaring Hog liquidation/supply & then soaring production outside of China

China Ethanol target a game changer Net Corn use increase 27.5 metric tons /1.1 billion bushels

China 2-3 billion gallon Ethanol Import 5 billion gallon demand

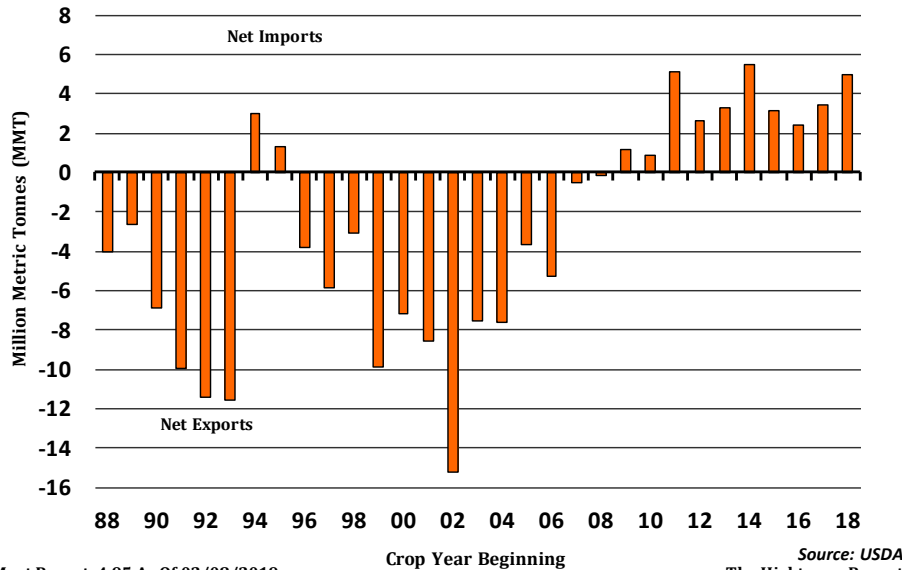
Fund activity from short to long or from minor long to big longs

Total Chinese bean imports Not Total Chinese imports from the US

Chinese Corn/DDG imports



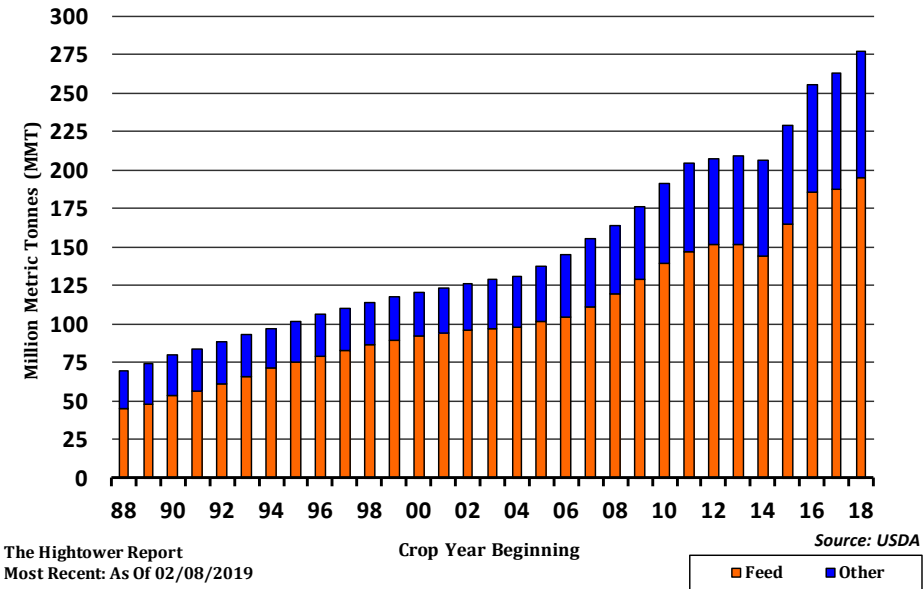
### China Corn - Net Imports / Exports



Most Recent: 4.95 As Of 02/08/2019

Source: USDA  
The Hightower Report

### China Corn - Domestic Usage



The Hightower Report  
Most Recent: As Of 02/08/2019

Crop Year Beginning

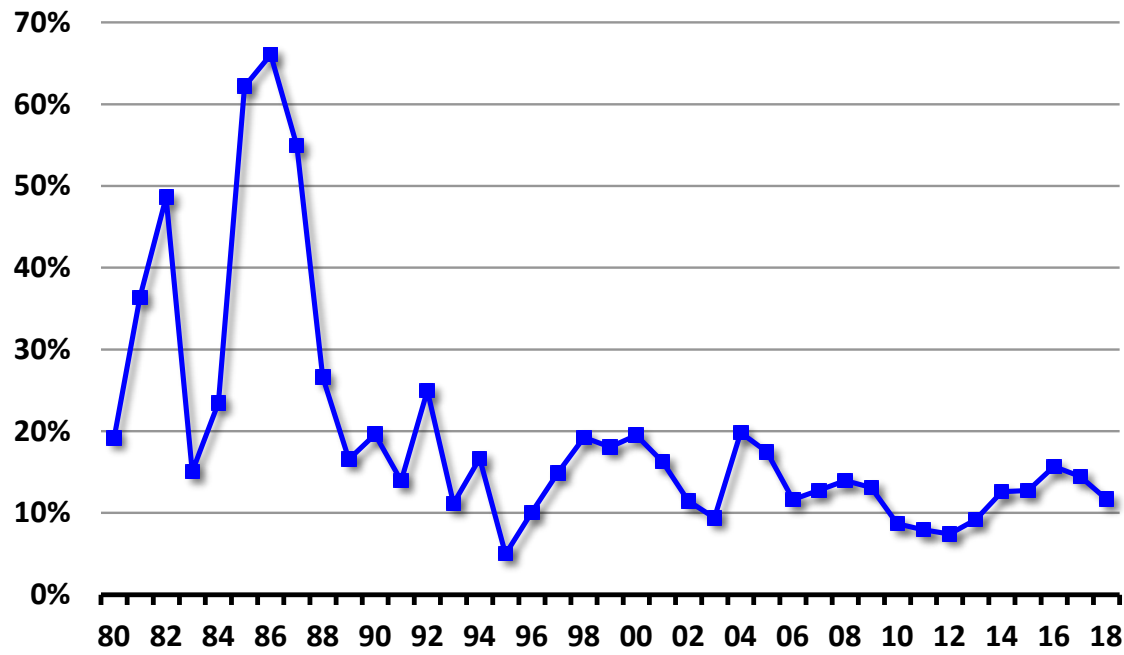
Source: USDA

Legend: Feed (orange), Other (blue)



# Record Production Needed Ahead

## US Corn Ending Stocks / Usage Ratio



Source: USDA

Most Recent: 11.67% As Of 02/08/2019

Est  
The Hightower Report



# If Only 2 million Acres Higher; Tightness Ahead

USDA SUPPLY/DEMAND									2019/20 Proj
US CORN									
						Dec	Dec	Dec	
						USDA	USDA	USDA	
Source: USDA & Hightower	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	10 Year Trend
Planted Area (M Acres)	91.9	97.3	95.4	90.6	88.0	94.0	90.2	89.1	91.0
Harvested Area (Acres)	83.9	87.4	87.4	83.1	80.8	86.7	82.7	81.8	83.5
Yield (Bu/Acre)	146.7	123.2	158.2	171.0	168.4	174.6	176.6	178.9	<b>176.5</b>
Beginning Stocks (M Bu)	1,128	989	821	1,232	1,731	1,737	2,293	2,140	1,781
Production	12,314	10,755	13,829	14,216	13,602	15,148	14,604	14,626	14,746
Imports	29	160	36	32	68	57	36	45	50
Supply, Total	13,471	11,904	14,686	15,479	15,401	16,942	16,934	16,811	16,577
Feed & Residual	4,512	4,309	5,002	5,286	5,118	5,470	5,298	5,500	5,575
Food, Seed & Industry	6,431	6,044	6,531	6,595	6,647	6,885	7,058	7,080	7,190
Ethanol for Fuel	5,000	4,641	5,124	5,200	5,224	5,432	5,605	5,600	5,700
Domestic Total	10,943	10,353	11,533	11,881	11,765	12,355	12,355	12,580	12,765
Total Exports	1,539	730	1,921	1,867	1,899	2,294	2,438	2,450	2,425
Use, Total	12,482	11,083	13,454	13,748	13,664	14,649	14,793	15,030	15,190
Ending Stocks	989	821	1,232	1,731	1,737	2,293	2,140	1,781	1,387
Stocks/Use Ratio	7.9%	7.4%	9.2%	12.6%	12.7%	15.7%	14.5%	11.8%	9.1%



# Ethanol Developments

- *China imported ethanol from Indonesia and Malaysia 1st Time Indonesia in July and Malaysia in Aug & Sept*
- *US origin ethanol imports incur a 70% import duty in China. Exports out of Indonesia and Malaysia into China are duty free.*
- *The domestic price of ethanol in China is \$686.09/cu m. The cost of US-origin ethanol is \$848/cu m after adding the 70% import duty and 16% VAT.*
- *20,000-25,000 cu m of ethanol exports from Indonesia to China in Oct.*



# Bio-Diesel

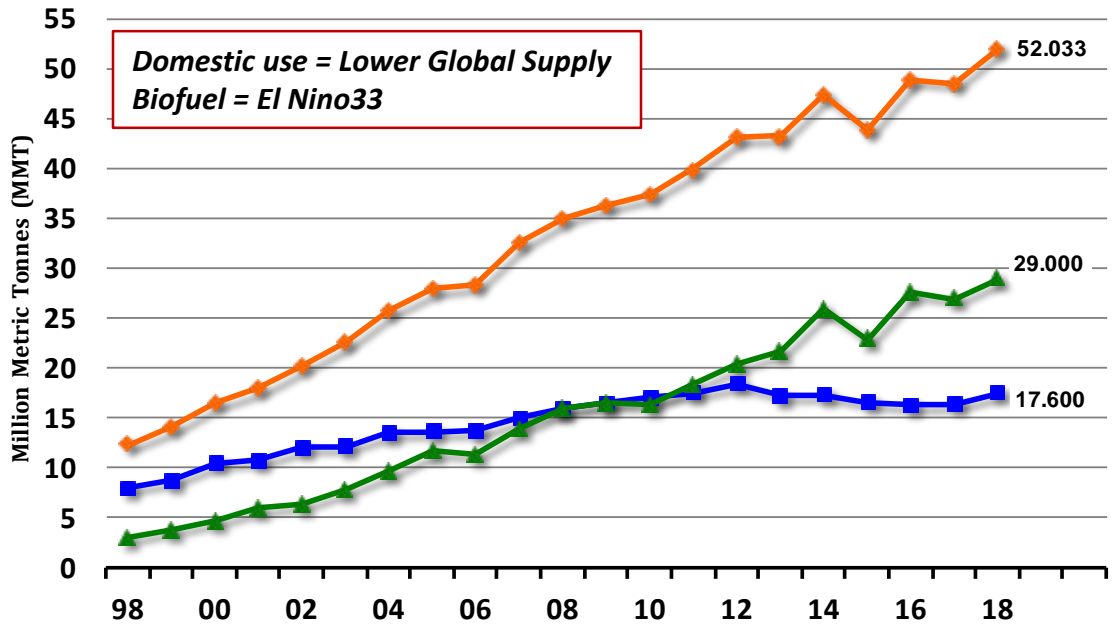
- *Indonesia domestic usage on the rise; Starting Sep, 20% palm oil blend biodiesel for railways and electricity generators*
- *Indonesia Jan to August exports running 127,000 above last year*
- *US biodiesel from soy oil 7.8 bp +9.8% last year and up 26% 2 years*
- *Brazil biodiesel production up 28% from last year*
- *Argentina biodiesel exports, up 7.5%*
- *Malaysia biodiesel output jumped 25% to 900,000 mandate now 10% vs 7% previous*
- *Asia used cooking oil is showing huge demand jump from Europe*
- *EU Countervailing duty will cause Competition for SEA Biofuel supply*





# Minor Palm Changes are a *BIG* Deal

## Palm Oil Exports Comparison



Domestic use = Lower Global Supply  
Biofuel = El Nino33

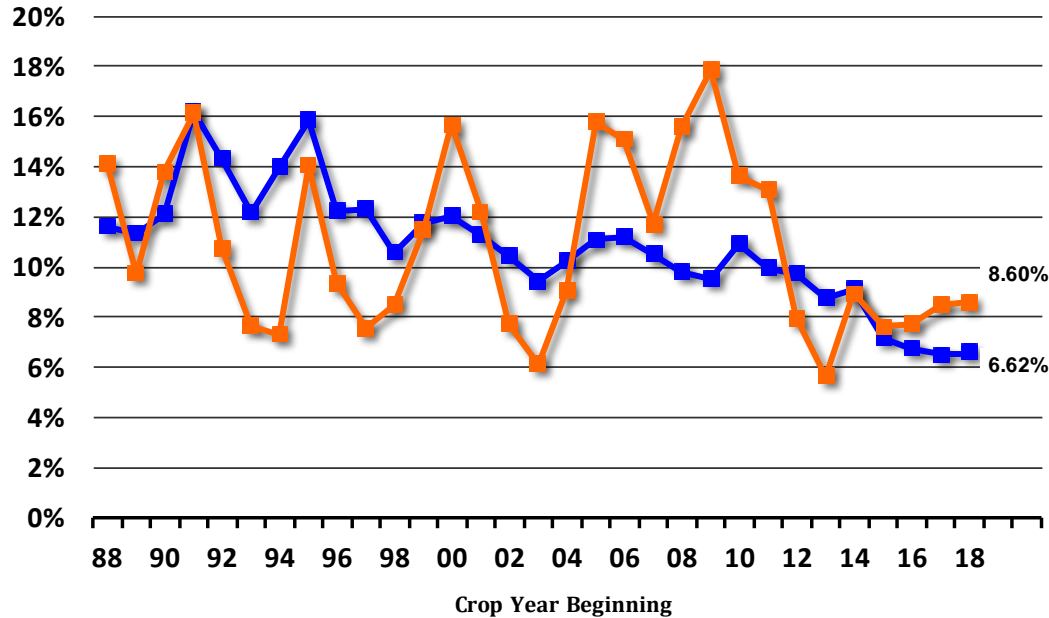
Source: USDA  
The Hightower Report  
Most Recent: As Of 02/08/2019

World Malaysia Indonesia



# Veg Oil Condition is Tight

## World Soyoil - Ending Stocks / Usage Ratio



Source: USDA

Most Recent: As Of 02/08/2019

World United States

The Hightower Report



# Market Personality

- *Weak El-Nino 2015 Oil Reaction then 25 to 38*
- *El-Nino Zones 3-4 not 1-2*
- *Less wind shear & Aussie drought Singapore 14*
- *Oil Volume Pre 2008 434K 2019 3.1 ml*
- *Oil Open interest 2008 200K 2019 500K Net Short*
- *Volatility in Soybeans*

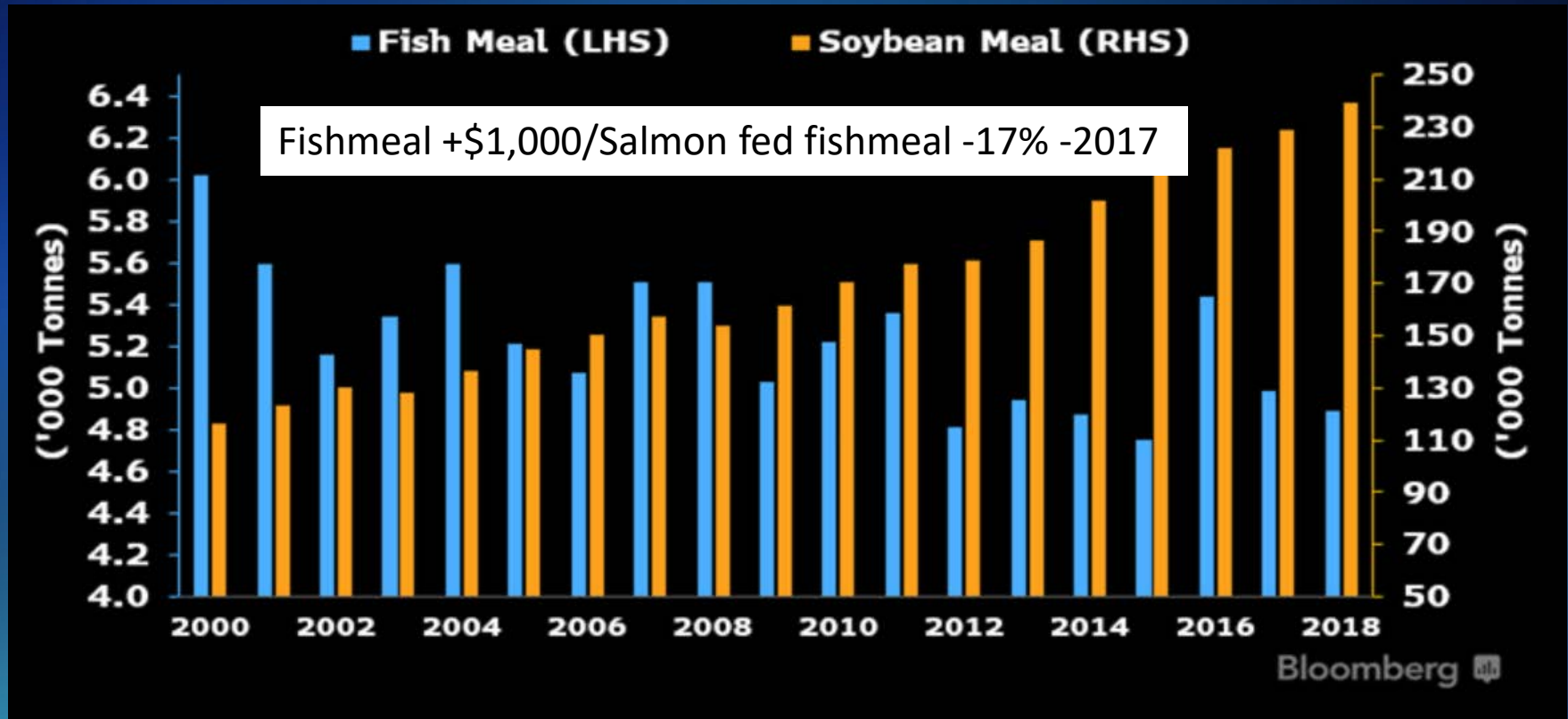


# China's We have a Case, or two, of ASF

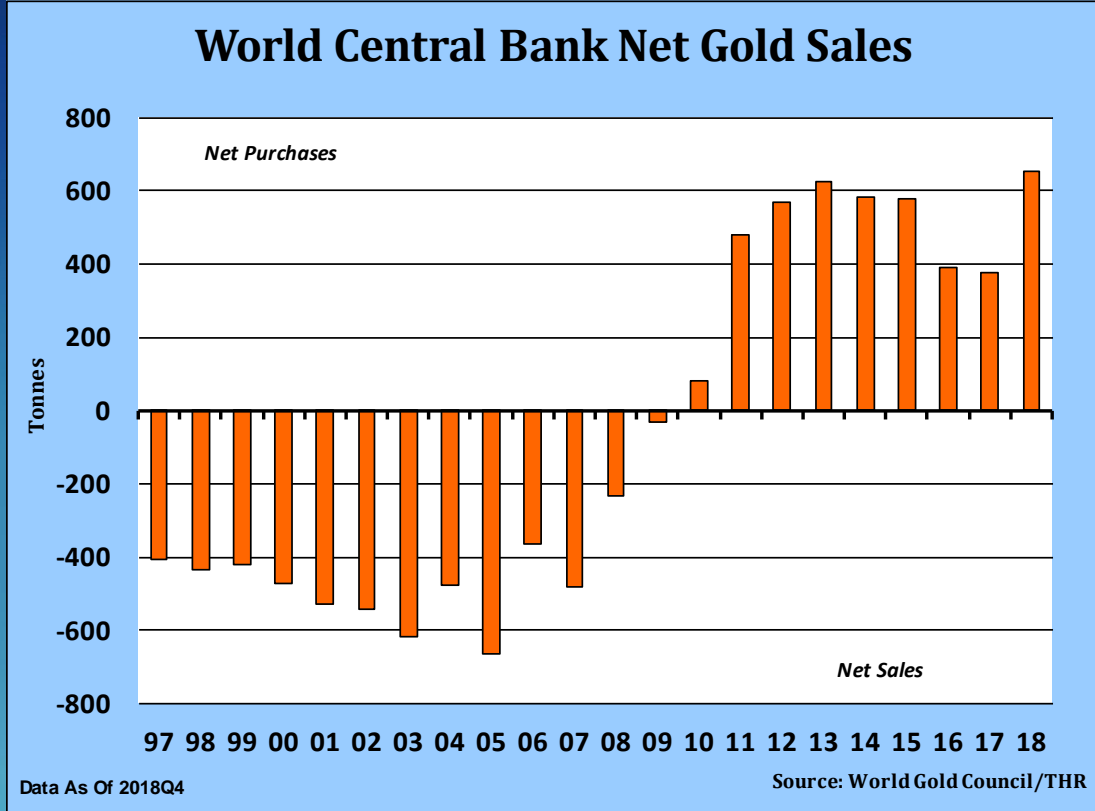
- *Hundred of cases reported 1,000,000 killed*
- *Concern cases are being covered up fits history*
- *Taiwan herd 5.39 ml, US 74.5 ml, 700 million China*
- *Starting over retaining breeding stock during spread?*
- *US Production 1<sup>st</sup> to 2<sup>nd</sup> quarter production down*
- *Vietnam Philippines Thailand*
- *Feed Mill diversification Aqua/pets/Bio?/rabbits*

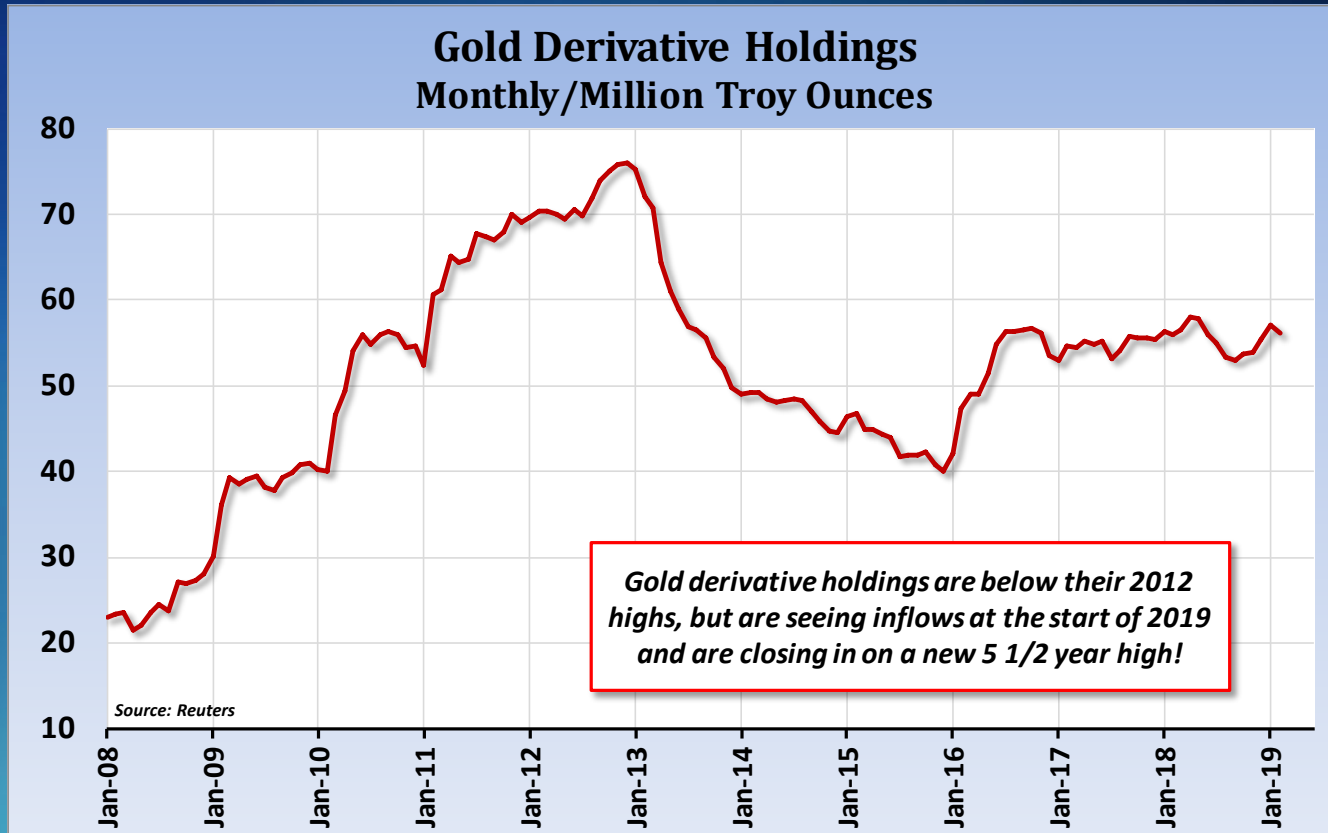


# Fishmeal Price 2.5 Times Soymeal

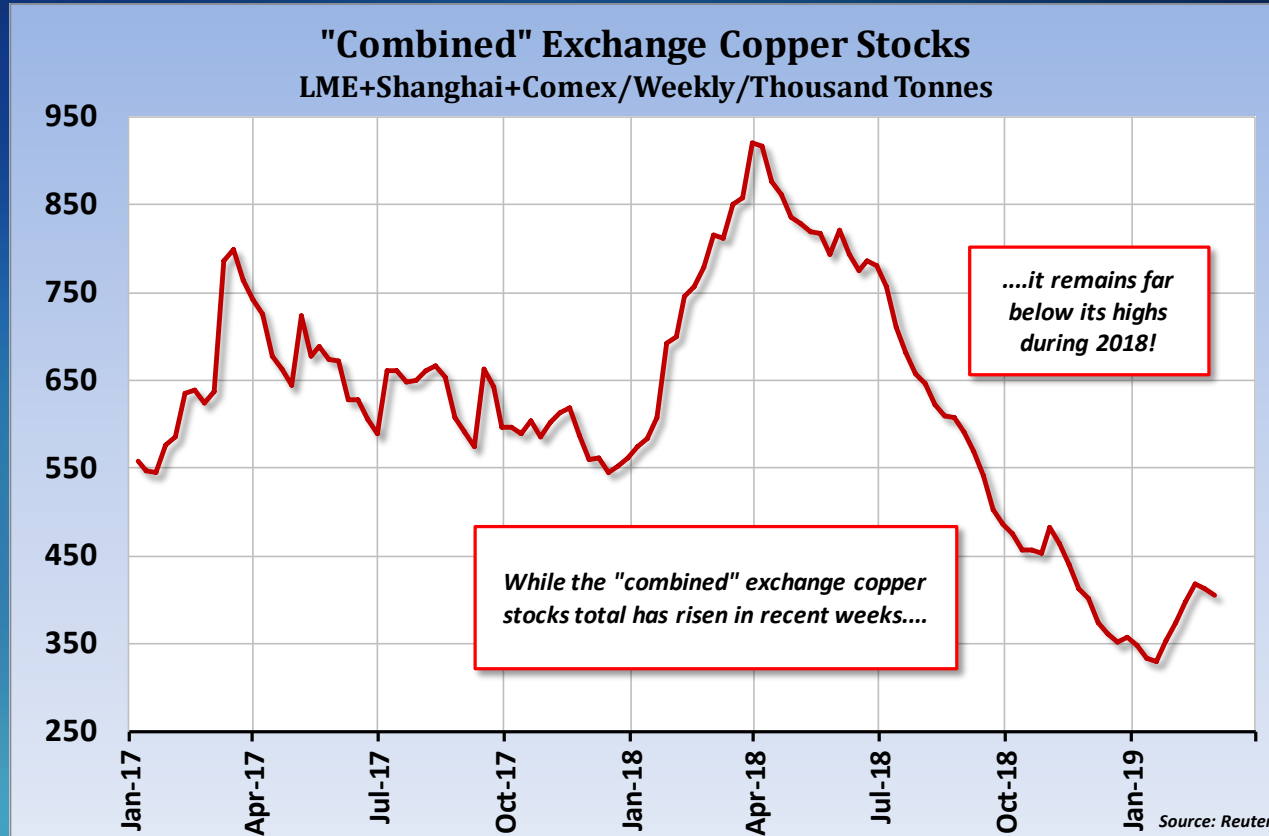


# Central Bank Buying Trend Returns





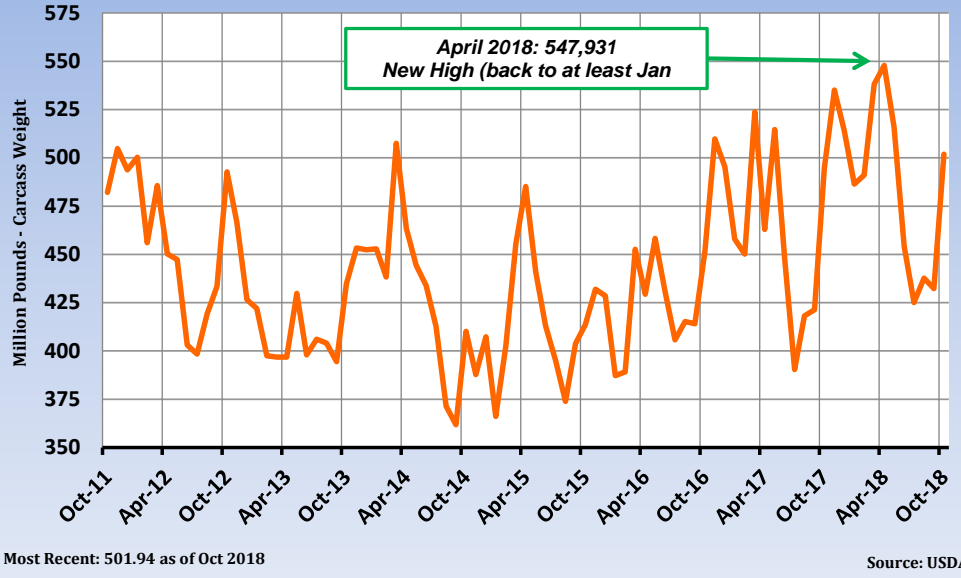
# World Copper Exchange stocks





# 2019 Hog Action - A major Impact?

## US Monthly Pork Exports



- *If ASF disease destroys 16% of China's herd, all of the pork exporters in the world would need to double their exports to make up the difference.*
- *If US doubles exports in 2019, US per capita supply would drop to a record low.*



### Hogs - COT - Futures and Options CIT Commodity Index Trader Net Position Number Of Contracts

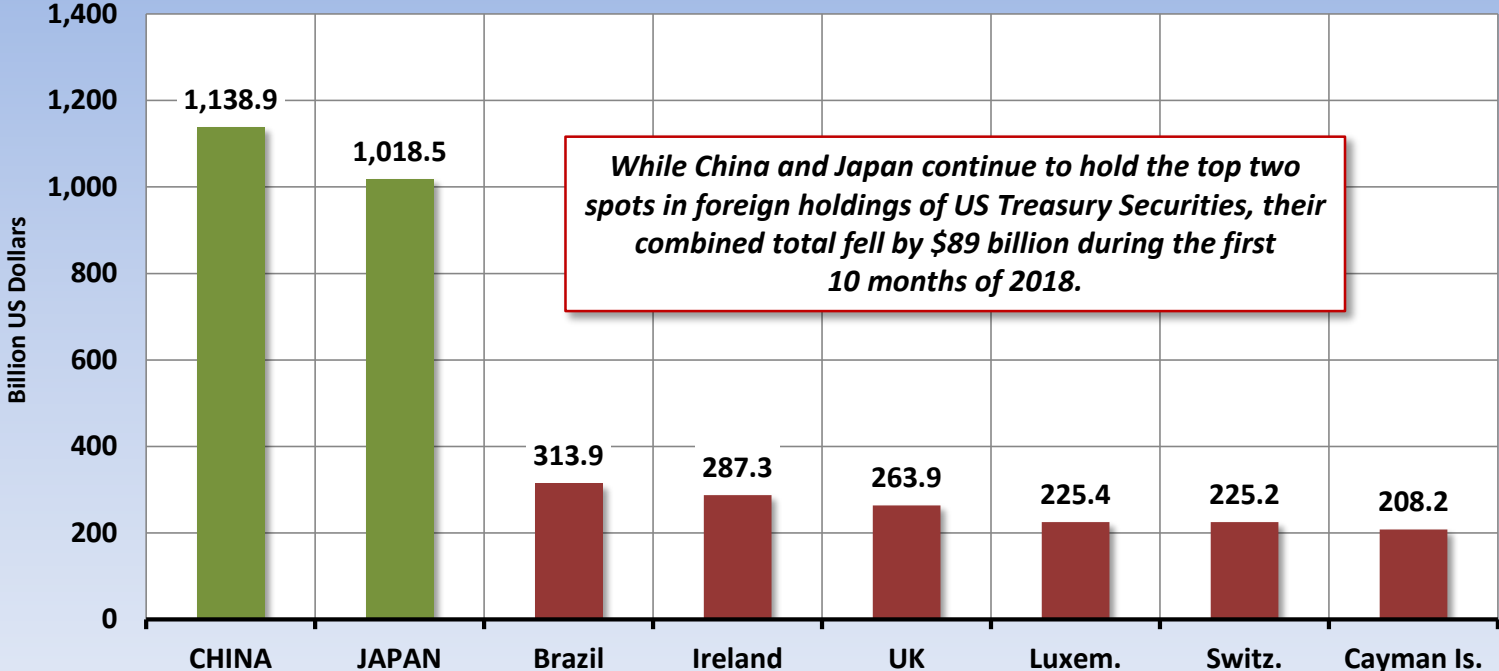


The Hightower Report | Source: CFTC

Max: 127,379 (6/3/2008) - Min: 46,004 (3/3/2009) - Most Recent: 65,176 (02/12/2019)



## Largest Foreign Holdings of US Treasuries Billion US Dollars/October 2018 (Latest TIC Report)



Source: US Dept. Of Treasury

