THE HIGHTOWER REPORT

Futures Analysis & Forecasting

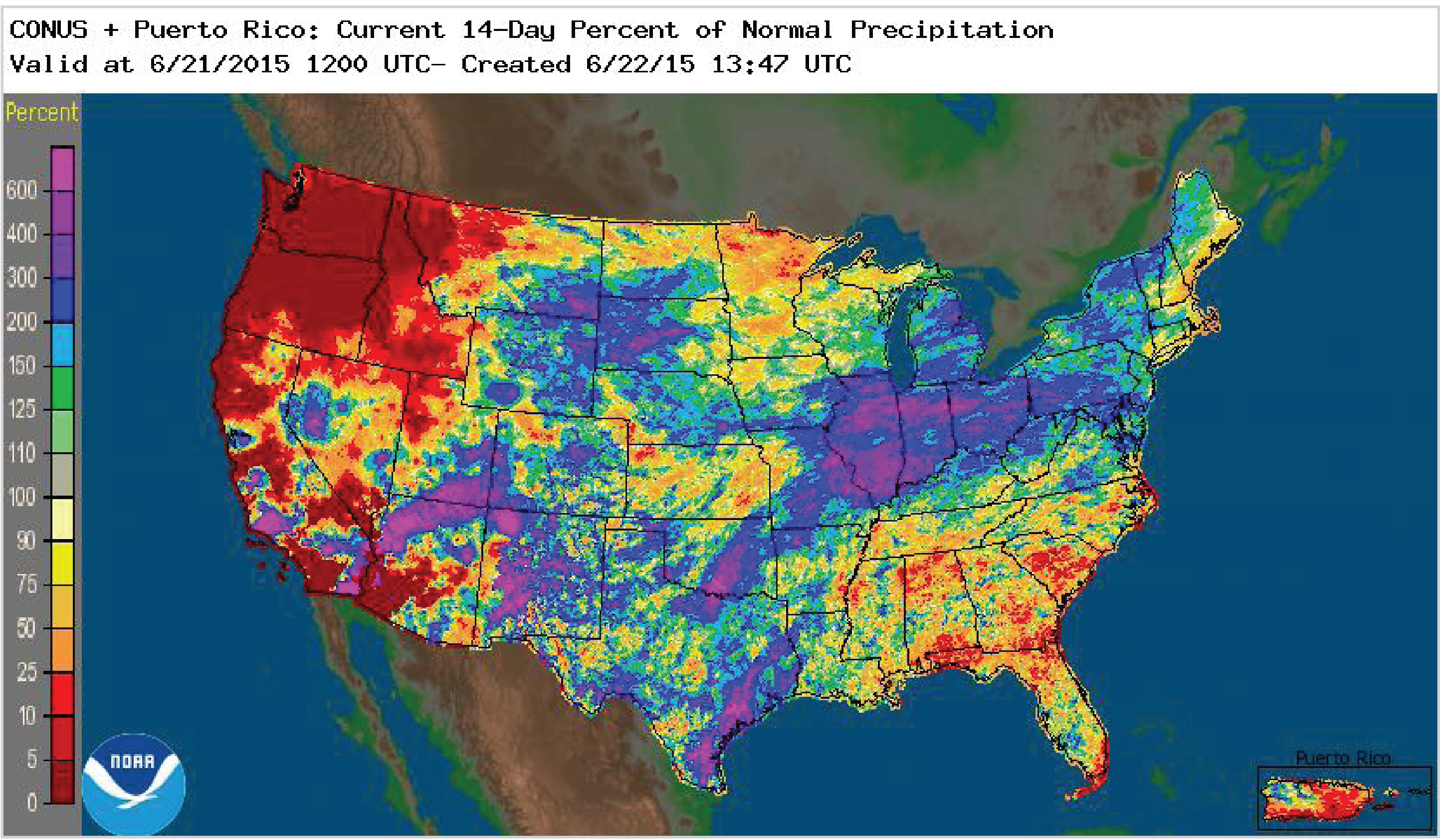
SPECIAL REPORT
HightowerReport.com

June 23, 2015

Are You Prepared for the June 30th USDA Reports?

Traders, especially end users and producers, face a significant volatility event with the June 30th USDA Planted Acreage and Grain Stocks reports. In the past these reports have helped set some of the key price fundamentals for the marketing year in the corn and soybean markets. For example, over the last six years November Soybeans over have dropped an average of 18 ½ cents on the day of the report. For December Corn, the market has dropped an average of 11 cents over the last twelve years. In this paper, we will review some strategies for end users and producers to consider going into that critical report date. (See tables on pages 2 and 3.)

The corn and soybean markets both face huge ending stocks levels, and their stocks/usage ratios levels are considered "comfortable." However, end users of vegetable oils face a very different setup, as



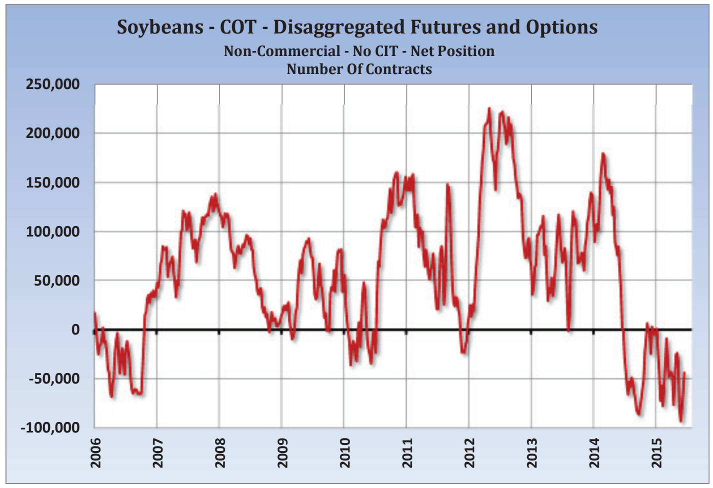
NOVEMBER SOYBEAN FUTURES REACTION TO JUNE STOCKS/ACREAGE REPORT

Year	Price Changes Day of Report	10 Days Later	Aug 1st	Sep 1st	Oct 31st	Notes
1990	0.00	0.25	-37.25	-8.00	-40.25	
1991	-11.00	-29.25	87.25	26.75	-2.25	
1992	***-4.00***	***-43.00***	***-68.50***	***-70.00***	***-69.50***	***Record Yield***
1993	21.50	53.50	48.00	2.50	-38.75	
1994	***-6.25***	***-52.00***	***-68.75***	***-53.25***	***-86.50***	***Record Yield***
1995	-4.00	60.00	10.50	29.25	80.25	
1996	14.25	62.50	-8.50	49.25	-78.50	
1997	-30.00	8.25	28.75	16.25	73.25	
1998	10.75	-38.75	-64.75	-95.75	-58.25	
1999	4.50	-33.50	2.50	34.75	9.75	
2000	-15.00	-28.25	-20.50	36.00	-17.00	
2001	23.00	44.75	27.75	20.25	-35.50	
2002	15.25	26.50	34.50	42.75	58.50	
2003	-5.75	-31.25	-36.25	22.00	241.75	
2004	***-30.75***	***-23.50***	***-103.00***	***-40.25***	***-141.50***	***Record Yield***
2005	***-22.75***	***65.25***	***38.25***	***-67.25***	***-101.50***	***Record Yield***
2006	13.00	-11.25	-21.25	-68.25	7.75	
2007	39.50	17.00	-27.25	25.75	128.25	
2008	14.50	-58.00	-279.00	-275.50	-648.75	
2009	***-2.50***	***-76.50***	***49.50***	***-30.00***	***-3.00***	***Record Yield***
2010	-9.50	85.50	107.50	***106.50***	323.50	***Weather Impact***
2011	-29.00	93.00	85.75	***151.75***	-86.50	***Weather Impact***
2012	24.25	162.75	188.75	***340.50***	119.25	***Weather Impact***
2013	-23.25	11.75	-70.50	***134.75***	28.25	***Weather Impact***
2014	-70.75	-71.00	-98.75	***-125.25***	-240.5	
Higher						
Count	10	13	12	15	10	
Average	18.05	53.15	59.08	69.27	107.05	
Max	39.50	162.75	188.75	340.50	323.50	
Lower						
Count	14	12	13	10	15	
Average	-18.89	-41.35	-69.56	-83.35	-109.88	
Max	-70.75	-76.50	-279.00	-275.50	-648.75	

DECEMBER CORN FUTURES REACTION TO JUNE STOCKS/ACREAGE REPORT

Year	Price Changes Day of Report	10 Days Later	Aug 1st	Sep 1st	Oct 31st	Notes
1990	3.25	-19.75	-40.25	-52.75	-57.75	
1991	-4.50	-8.50	33.00	18.75	15.50	
1992	***-2.50***	***-23.00***	***-35.75***	***-37.50***	***-51.25***	***Record Yield***
1993	4.75	6.75	8.50	-3.00	19.50	
1994	***2.25***	***-18.75***	***-20.25***	***-18.25***	***-26.25***	***Record Yield***
1995	6.25	16.00	-2.25	12.50	52.00	
1996	8.75	18.00	-37.00	-19.75	-95.25	
1997	2.75	18.25	26.75	34.00	41.50	
1998	7.00	-26.00	-39.00	-55.00	-40.50	
1999	1.50	-21.00	0.25	-4.25	-26.75	
2000	-8.50	-16.25	-14.75	-9.50	-1.50	
2001	0.00	20.25	16.75	23.00	-2.75	
2002	-1.00	-6.25	19.50	30.75	4.00	
2003	***-6.25***	***-11.50***	***-6.50***	***16.25***	***23.50***	***Record Yield***
2004	***-10.50***	***-16.75***	***-39.25***	***-30.75***	***-64.50***	***Record Yield***
2005	-5.25	36.25	13.75	-14.50	-35.50	
2006	5.75	7.75	4.00	-16.00	60.50	
2007	-7.50	-2.25	-9.50	2.50	24.75	
2008	***-30.00***	-90.25	-201.50	-187.75	-355.50	
2009	***-30.00***	***-29.75***	***1.75***	***-48.00***	***-1.25***	***Record Yield***
2010	***29.50***	31.75	31.00	74.00	208.50	
2011	***-30.00***	64.50	95.25	139.50	26.50	
2012	***2.50***	137.75	161.00	170.25	121.00	
2013	***-27.50***	-7.50	-47.25	-35.75	-82.75	
2014	***-22.00***	-43.50	-63.00	-61.50	-104.00	
Higher						
Count	11	10	12	10	11	
Average	6.75	35.73	34.29	52.15	54.30	
Max	29.50	137.75	161.00	170.25	208.50	
Lower						
Count	13	15	13	15	14	
Average	-14.27	-22.73	-42.79	-39.62	-67.54	
Max	-30.00	-90.25	-201.50	-187.75	-355.50	

supplies will be relatively tight going into the 2015/16 marketing year. If El Niño brings significant dryness to Southeast Asia, vegetable oil prices could trend sharply higher. In this report we offer some hedge suggestions for vegetable oil end users as well.

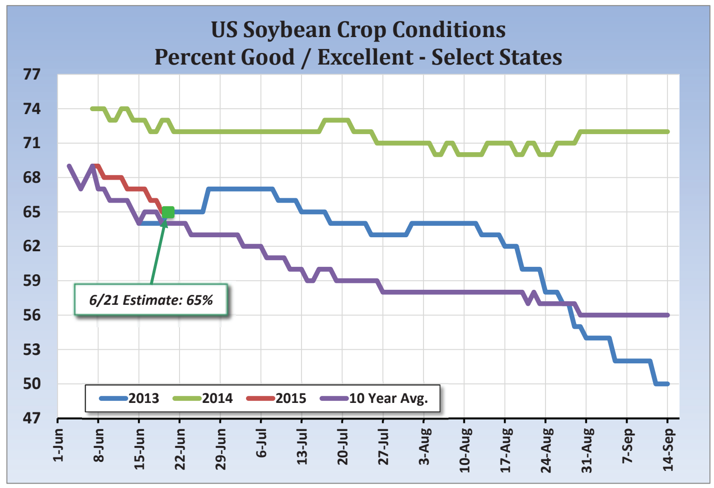


Wettest Month EVER

While it is a common perception that "rain makes grain" and that good moisture in the spring will lead to big crops, the US weather so far this year has been exceedingly wet. Soybeans do not do well with too much moisture early in the year, and abundant and persistent rains can cause significant ponding in many corn fields. Unless these areas dry up and can be replanted in a timely manner, lower yield is a strong possibility.

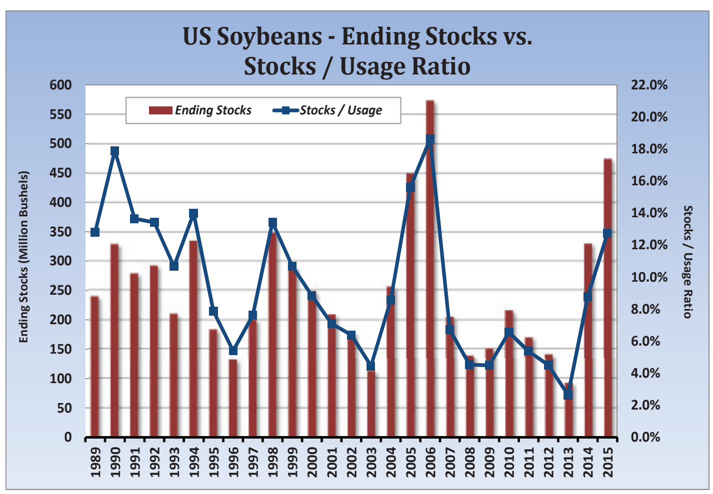
According to NOAA, May was the wettest May for the US since records began 121 years ago. It was also the wettest MONTH ever recorded. The map on page 1 shows the 14-day percentage of normal precipitation for the period ending June 21st. A large part of the central and eastern Corn Belt has seen 200-600% of normal precipitation.

One look at the Commitments of Traders reports and it is clear that speculators believe the weather is bearish, with many traders expecting good weather for July, but this is suspect.



Soybeans – Tighter Old Crop Supply, New Crop Concerns

On May 26th trend-following fund traders in soybeans held a record net short position of 92,991 contracts. This was no surprise. Record planted acreage in the US, record production in Brazil and Argentina, and record world ending stocks and a record stocks/usage ratio left the market in a steady downtrend. However, for the week ending June 19th, November Soybeans closed sharply higher on the week after posting a contract low. This weekly key reversal was a strong bottoming signal. Why the sudden turn? The shift in the "what ifs" for the US balance sheet has opened the door for a tighter outlook than what the market has been expecting.



Until a few weeks ago, traders were looking for planted acreage to be revised upwards by about 2 million acres, and with good weather, yield would end up around 46.7 bushels per acre (down 1 from last year). This would result in ending being a record 608 million bushels and a comfortable stocks/usage ratio of 16.3%. (Scenario C, page 5)

USDA SUPPLY/DEMAND US SOYBEANS	09-10	10-11	11-12	12-13	Jun USDA 14-15	May USDA 15-16	Jun USDA 15-16	"What If's" for 2015/16 Scenario A	Scenario B	Scenario C
Planted Area (M Acres)	77.5	77.4	75.0	77.2	83.7	84.6	84.6	84.0	84.6	86.2
Harvested Area (Acres)	76.4	76.6	73.8	76.1	83.1	83.7	83.7	83.1	83.7	85.3
Yield (Bu/Acre)	44.0	43.5	42.0	40.0	47.8	46.0	46.0	44.5	46.0	46.7
Beginning Stocks (M Bu)	138	151	215	169	92	350	330	280	330	330
Production	3,361	3,331	3,097	3,042	3,969	3,850	3,850	3,698	3,850	3,983
Imports	15	14	16	41	30	30	30	30	30	30
Supply,Total	3,514	3,497	3,328	3,252	4,091	4,230	4,210	4,008	4,210	4,343
Crushings	1,752	1,648	1,703	1,689	1,815	1,825	1,830	1,830	1,830	1,830
Exports	1,499	1,505	1,365	1,317	1,810	1,775	1,775	1,775	1,775	1,775
Seed	90	87	90	89	98	92	92	92	92	92
Residual	20	43	-2	16	38	38	38	38	38	38
Use, Total	3,363	3,282	3,159	3,111	3,761	3,729	3,734	3,735	3,735	3,735
Ending Stocks	151	215	169	141	330	500	475	273	475	608
Stocks/Use Ratio	4.5%	6.6%	5.4%	4.5%	8.8%	13.4%	12.7%	7.3%	12.7%	16.3%

However, traders now see the potential for smaller beginning stocks, smaller acres and smaller yield. Traders believe that the USDA's current estimate of 330 million bushels for 2014/15 ending stocks is too high. The soybean crush for May was a record high, and the basis has been very strong. In addition, the market has inverted, with the July futures trading at a 16 ¼-cent premium to the August and a 29 ½-cent premium to the September. As a result, more and more traders are looking for the USDA to revise 2014/15 usage higher and production for lower, which could leave old crop ending stocks closer to 280 million. This drop is supply could show up in the form of a tighter than expected stocks number in the June 30th report.

Massive rains for May and much of June in Kansas and Missouri have opened the door for a loss of several million acres of soybeans. In addition, ponding across much of the Midwest has left crop conditions in a decline, and this suggests that yield may not be as strong as suggested. For the week ending June 21st, good to excellent readings are expected to be near 64-65% versus a reading of 72% last year at this time. If we were to assume a smaller acreage number, a yield of 44.5 bushels per acre (still the second highest on record) and smaller beginning stocks, ending stocks would fall to 273 million bushels for the coming year, with a stocks/usage ratio of 7.3%. (Scenario A, above)

The USDA's June supply/demand update pegged old crop ending stocks at 330 million bushels, down from their 350 million-bushel estimate in May. For the new crop season, ending stocks were forecast at 475 million bushels down from trade expectations of 487 million and down from 500 million bushels in the May report. World ending stocks for 2014/15 came in at 83.7 million tonnes, down from 85.80 million tonnes expected. World ending stocks for the 2015/16 season came in at 93.22 million tonnes versus expectations near 96 million tonnes and up from 96.22 million projected in May. This was below expectations but still a new record high. Argentine production was estimated at 59.5 million tonnes vs. 58.50 million forecast in May.

The key weather period for soybeans won't occur until late July and early August. For now, the price trend could go either way. As of June 14th, there were still 3.3 million acres left to plant in Missouri and 1.6 million left in Kansas. However, any loss of acreage from here will not show up in the June 30th report, as the survey was done in early June. If the weather turns dry, the USDA raises acreage by a few million acres, and August weather is favorable, there could be more downside price action ahead.

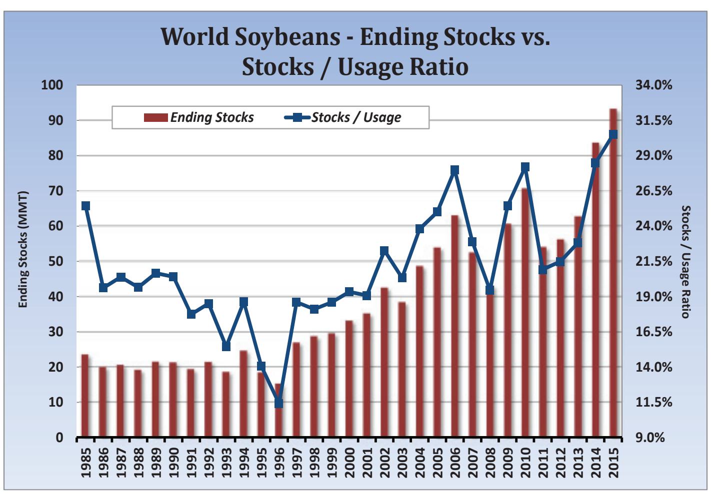
Producer Hedges for Soybeans

Short-term: **SELL** an in-the-money September Soybean Short Dated New Crop (SDNC) $9.60 put for around 45 ½ cents and **BUY** 3 September Soybean SDNC $9.10 puts for around 19 ½ cents each. The net outlay would be 13 cents.

Selling the in-the-money put guards against a temporary recovery following the report and even a surprise weather threat in the early portion of the summer season that would reduce the sensitivity of the long out-of-the-money put position. In the event of a near term rally, the producer could bank some profits on the short put, which would increase the sensitivity of the short side hedge for the remainder of the growing season! On a 50-cent decline, the short put could be expected to lose 36 cents, while the 3 long puts combined could gain 84 cents, for an overall net gain of 48 cents.* If there is a weather threat and the soybean market rallies, the net cost of the hedge remains only 13 cents per bushel.

Longer-term: **BUY** 1 November Soybean futures/**BUY** 4 September Soybean SDNC $8.80 puts for 10 cents each. The delta will be flat to start, but it will become net short on good weather into the critical growing season during late July and early August.

The long futures component is effectively a "hedge of the hedge," as it is designed to protect the short side hedge in the event of a surprise bullish event. If the hedge is not needed and the market runs significantly higher, the hedger can recoup a large portion of the lost options premium. This could be used to implement a fresh hedge at a more favorable price level. The long futures component makes the hedge a "volatility hedge," where wide swings in either direction will serve to benefit the hedger's net position.



End User Hedges for Soybeans

Short-term: **BUY** November Soybean futures/**BUY** an August Soybean SDNC $9.60 put for 26 cents, and wait to **SELL** an August Soybean SDNC $9.00 put for 12 cents. The hedge portion of this trade is the long futures position, which is protected by the purchase of the put.

The short, further out-of-the-money put is a financing mechanism that should provide the hedger with the confidence to pay more for the more expensive $9.40 put. Selling the $8.80 put limits the maximum protection of the long futures, but on an extremely sharp break in soybean prices, the end user should begin to see significantly lower purchase prices on the cash market.

Longer-term: **SELL** 1 March Soybean futures at $9.50/**BUY** 10 March Soybean $12.20 calls for 6 cents each. On a return to the June lows in March Soybeans, **BUY BACK** the futures for a 43-cent profit, hold the calls for a cheap, early 2016 hedge.

This is a leveraged, long-term hedge against higher prices that can be partially or fully financed by market volatility, which is possible given potential size of the crop and the state of flux in the weather. With soybeans already rallying $1.56 per bushel into the report, it would not be a reach to predict a $1.00-$2.00 range into next spring. In order to see that range unfold on the downside, it would require periodic rain and the avoidance of extreme heat. This strategy uses the continuation of downward pricing to lay out protection for the future!

Corn – Are Traders too Pessimistic about Demand and too Optimistic towards Supply?

Corn traders do not have too much to get excited about going into the key June 30th reports. The slow pickup in US ethanol exports, concerns that bird flu will hurt domestic usage, a much bigger Brazilian crop that will leave a longer export tail, and massive corn stocks in China are all seen as bearish factors. In addition, the northern Midwest corn crop was planted on time, so the possibility of seeing a significant decline in acreage from the March expectations is limited.

The excessive moisture in the Midwest could curtail any replanting of ponded areas in a timely fashion, but even if this is a significant issue, it will not show up in the June 30th report. Yields could be dragged down, and there could be a final revision lower in acreage, but will these factors be enough to offset the good start to the crop and the current outlook for a lack of excessive heat in July?

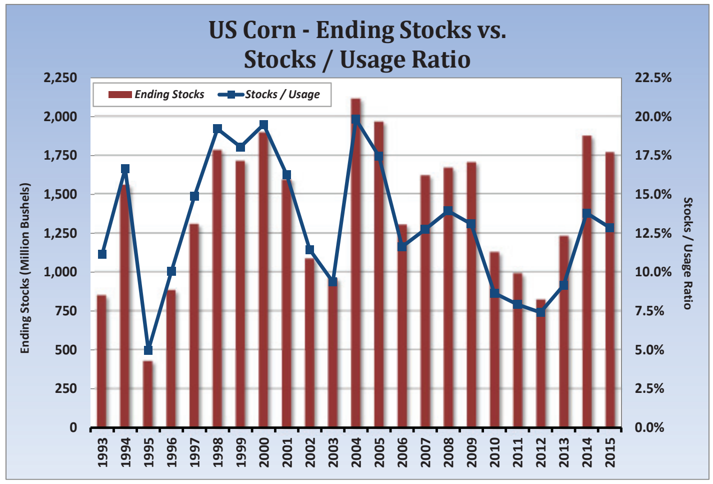
The trade may be too bearish going into the key growing season - traders may be too pessimistic about demand and too optimistic about supply. Stocks are high in the US and worldwide, but they do not appear burdensome in the face of current usage levels. It may take some major weather concern to force the market to put in a significant low, but building a more bearish case from here may also be a difficult task.

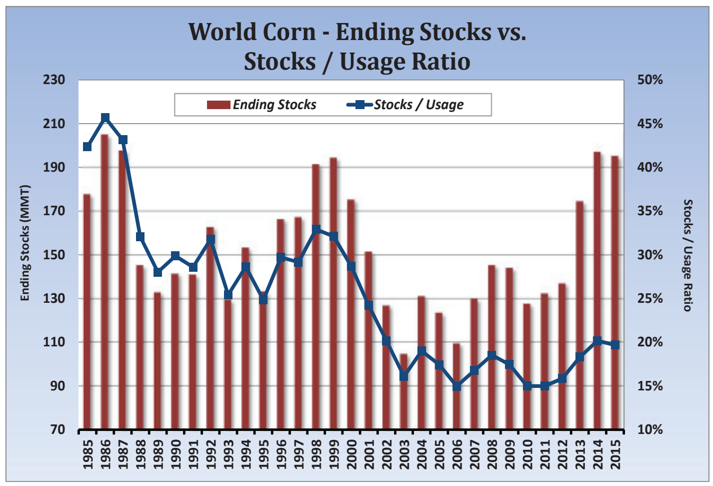
The trade media is full of reports of the potential decline in feed usage in the US due to bird flu as egg prices surge higher. But so far the key broiler production areas have not been affected by the flu, and there has been little or no impact on broiler meat production. The primary impacts have been declines in egg and turkey production and poultry exports.

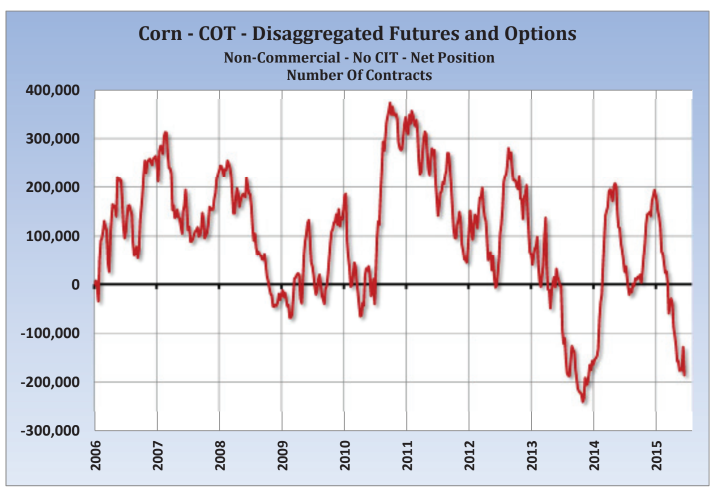
For the five weeks ending June 6th, the average number of chicks placed per week for broiler production has been up 3.7% from the same period last year. Second-quarter broiler production totaled 10.1 billion pounds, up 5% from last year.

Pork is also seeing an expansion. For the June 26th Quarterly USDA Hogs and Pigs report, traders are looking for the number of market animals on hand June 1st to be 8% above a year ago. While it is easy to talk about lower feed demand, we are not seeing the statistics to need to see a decline.

The June USDA supply/demand update was considered bearish for the world numbers and neutral for the US numbers. The USDA pegged 2014/15 US ending stocks at 1.876 billion bushels versus 1.859 billion expected and 1.851 billion in the May report. For







USDA SUPPLY/DEMAND US CORN	10-11	11-12	12-13	13-14	Jun USDA 14-15	May USDA 15-16	Jun USDA 15-16	"What If's" for 2015/16 Scenario A	Scenario B	Scenario C
Planted Area (M Acres)	88.2	91.9	97.3	95.4	90.6	89.2	89.2	88.7	89.2	88.7
Harvested Area (Acres)	81.4	83.9	87.4	87.5	83.1	81.7	81.7	81.2	81.7	81.2
Yield (Bu/Acre)	152.6	146.7	123.2	158.1	171.0	166.8	166.8	162.0	166.8	167.0
Beginning Stocks (M Bu)	1,708	1,128	989	821	1,232	1,851	1,876	1,876	1,876	1,876
Production	12,425	12,314	10,755	13,829	14,216	13,630	13,630	13,161	13,628	13,567
Imports	28	29	160	36	25	125	25	25	27	25
Supply, Total	14,161	13,471	11,904	14,686	15,472	15,506	15,531	15,062	15,531	15,468
Feed & Residual	4,777	4,520	4,315	5,034	5,250	5,300	5,300	5,300	5,300	5,300
Food, Seed & Industry	6,425	6,421	6,038	6,503	6,522	6,560	6,560	6,560	6,560	6,560
Ethanol for Fuel	5,019	5,000	4,641	5,134	5,175	5,200	5,200	5,200	5,200	5,200
Domestic Total	11,202	10,941	10,353	11,537	11,772	11,860	11,860	11,860	11,860	11,860
Total Exports	1,831	1,541	730	1,917	1,825	1,900	1,900	1,900	1,900	1,900
Use, Total	13,033	12,482	11,083	13,454	13,597	13,760	13,760	13,760	13,760	13,760
Ending Stocks	1,128	989	821	1,232	1,876	1,746	1,771	1,302	1,771	1,708
Stocks/Use Ratio	8.7%	7.9%	7.4%	9.2%	13.8%	12.7%	12.9%	9.5%	12.9%	12.4%

2015/16, ending stocks were projected at 1.771 billion bushels versus expectations for 1.779 billion and 1.746 billion reported in May.

In the same report, world ending stocks for 2014/15 came in at 197.01 million tonnes versus 192.5 million forecast in May. World ending stocks for 2015/16 came in at 195.19 million tonnes from 191.94 million tonnes last month.

Trend-following fund traders held a massive net short position of 186,216 contracts as of June 16th. This leaves the market vulnerable to short-covering if yield, stocks or acreage come in below trade expectations.

For now, the trade is convinced that July's weather will be cool, with normal to above normal precipitation due to El Niño. The USDA is starting the year using an above-trend yield of 166.8 bushels per acre that would also be the second highest on record. If the weather stays normal, this may be a good projection. However, the heavy rainfall in May and June has left some ponded areas that may not get replanted in time, and this could drag down yield.

Given the acreage issues in a few parts of the western Corn Belt (such as Missouri), acreage could ultimately be adjusted down by 500,000 acres. If we assume a yield of 167 bushels per acre, then ending stocks would come in near 1.708 billion bushels. (Scenario C)

However, if yield is adjusted down to the 20-year trend of 162, ending stocks could slide to 1.303 billion bushels, with a relatively tight stocks/usage ratio of 9.5%. (Scenario A)

The point of the exercise is to show that it may take some very good weather to expect a 166.8 yield. If we look at the last 10 years and keep the record year in and throw out the drought year, the average yield is still only 154.9 bushels per acre. If we use the current USDA projections but plug in a 154.9 yield, ending stocks would drop to just 798 million bushels, with an extremely tight 5.8% stocks/ usage ratio. Again, while it is easy to believe we can have another excellent weather year like 2014, it will not take much in the way of pollination issues or unexpected heat in July to cause reductions in the yield outlook.

Producer Hedges for Corn

Short-term: **SELL** December Corn futures, and protect that position by **BUYING** an August Corn SDNC $3.70/$4.00 bull call spread for around 11 cents.

This strategy is appealing because of the recent rally of 73 cents per bushel in corn off the June lows. The short corn futures position makes the hedge very sensitive to the growing fears of a large crop, while the bull call spread in SDNC options provides cheap, temporary protection against a sudden rally. The producer has a very responsive hedge but also has a modest "hedge of the hedge" to protect against bullish surprises.

Longer-term: **SELL** 1 December Corn $3.60 put for 20 cents and **BUY** 5 September SDNC Corn $3.45 puts for 4 ½ each (22 ½ cents total). The net outlay will be 2 ½ cents.

This strategy offers a leveraged and short side-hedge at a reduced cost. It also allows for some protection and financing of the hedge from the sale of a single, short-dated put. If the December $3.60 put moves deep into the money prior to the expiration of the September SDNC $3.45 puts, the September puts should be even deeper into the money and should be acting almost like short futures. If there is a near term upside extension, the hedger can decide to bank profits on the short December $3.60 put, which would increase the sensitivity of the long puts and will add a limited, defined amount of exposure to the net cost of the hedge. For example, if short $3.60 put position is liquidated at 10, the added cost would be $500 per hedge, but then there would be nothing to get in the way of benefiting from a summer slide in corn prices.

End User Hedges for Corn

Short-term: **BUY** December Corn futures/**BUY** a September Corn SDNC $3.60 put for 10 cents/**SELL** a September Corn SDNC $4.15 call for 6 ½ cents.

The net cost for the options will be 3 ½ cents. This hedge provides sensitive long protection with the direct negative threat of option time decay. The long hedge remains sensitive until the December corn futures expire. The purchase of a SDNC $3.60 put serves as protection for the hedge, while the sale of the SDNC $4.15 call is a tool to offset the cost of the put. If end users want full protection against a shift in corn fundamentals into an outright bullish environment, they should not sell the $4.15 call. On the other hand, end users can sell the call and be quick to take a profit on it or plan to exit if and when the weather begins to turn more threatening.

Longer-term:

1) **SELL** 1 September Corn SDNC $3.60 call for 24 cents/**BUY** 4 December Corn $4.30 calls for 8 cents each.

This strategy employs long term leveraged call protection that is partially financed by the sale of a single, closer to expiration, call. Unless bullish conditions surface right away, the September SDNC call will lose sensitivity, as it will only have 52 days until expiration as of the report date. Hopefully, initial weakness in prices will allow for a profit to be banked in the short call, which would then allow the hedger to open up coverage of the hedge and simplify the position.

2) **SELL** December Corn futures/**BUY** 5 May 2016 Corn $5.10 calls for 6 cents each.

This strategy provides the end user with longer term coverage in a leveraged option position. The premium outlay is initially protected by the short corn futures, while the leveraged call position should remain effective for almost 300 days! If corn prices dive in the wake of the report or they decline due to improvements in crop conditions during the growing season, the hedger should have to ability to bank profits from the short futures and defray the 30-cent combined premium cost for the calls. If corn prices fall to a significantly lower level, this strategy would allow the hedger to recoup the entire premium expense and reset it at a lower level!

Potential Volatility in Soybean Oil

Vegetable oil end users and speculators are in a tough position this year, as the oilseed production outlook is extremely bearish but vegetable oil stocks are relatively tight. If any El Niño weather problems develop in Southeast Asia, world vegetable oil prices could advance.

The outlook for global soybean prices has rarely presented a more bearish case than the one facing the markets now. World ending stocks, stocks to use ratios and stocks in the hands of exporters are all registering bearish signals, but the potential for even lower prices looms if the feared supply builds become a reality.

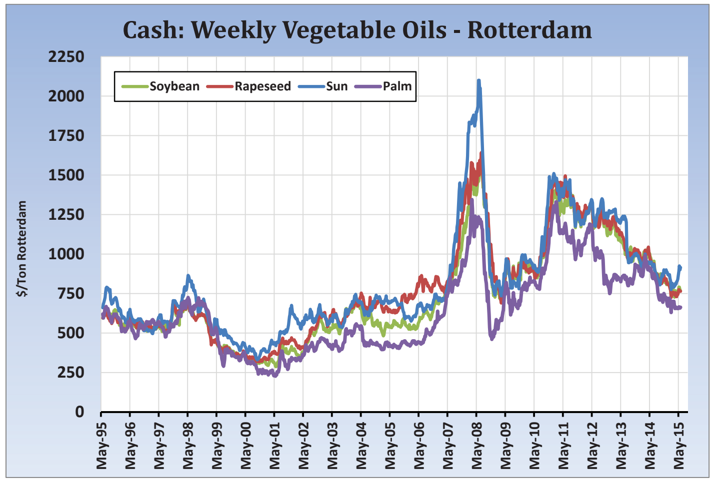
The potential for an El Nino event is initially a bearish force for soybeans, as it can increase moisture in both the US and Brazil. However, a severe and sustained El Nino event later this year and into next year could have the greatest impact on palm oil production and on palm, soy and vegetable oil prices. Burdensome supplies of soybeans would seem to reduce the risk against oil buyers, but the potential for a market-turning weather event should not be discounted. With soybean oil prices already posting a low to high bounce of roughly 15.5% from their early 2015 lows, it would seem that the trade is registering some concern with future weather conditions.

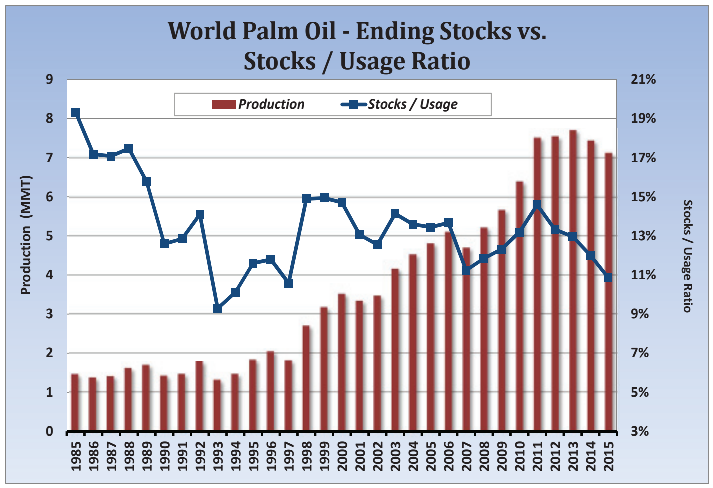
With record crops in Argentina and Brazil and record planted area in the US, one would assume that there is (or will eventually be) plenty of soybean oil to meet the world's demand. However, the world vegetable oil stocks/usage ratio is historically tight, even with record palm oil production and exports of 45.5 million tonnes onto the world market.

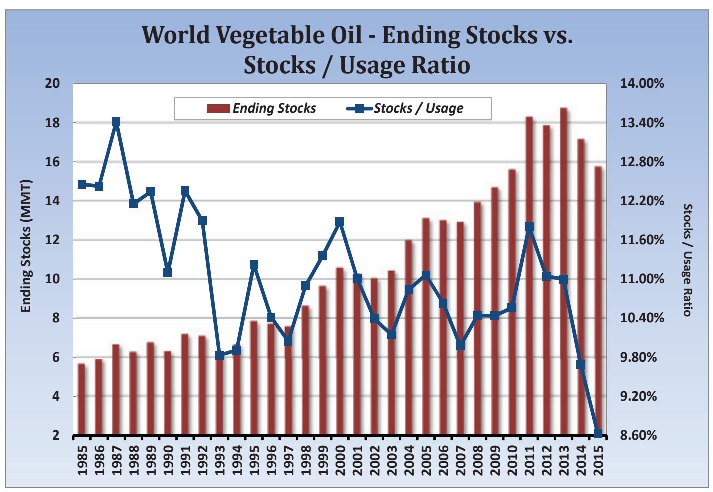
The primary reason that El Nino dryness in Malaysia and Indonesia is such a concern is that 86% of world palm production comes from that region. If there are production difficulties and exports decline, soybean oil exports will need to make up the difference. Global soybean oil exports are projected at 10.77 million tonnes. If palm exports drop 10%, soybean oil exports will need to jump to 15.3 million tonnes, a 42% increase from the current estimate.

Argentina is the world's largest soybean oil exporter, with 5.1 million tonnes forecast for this year. US exports are projected at just 907,000 tonnes. It will be difficult to quickly find another 4.55 million tonnes to make up for any shortfall of palm oil out of Southeast Asia. A significant expansion of biodiesel usage in the US, South America and Southeast Asia could also keep stocks tight.

It will be important to see normal monsoon rains in India. Otherwise their import requirements could increase as well. Chinese demand continues to advance, too.





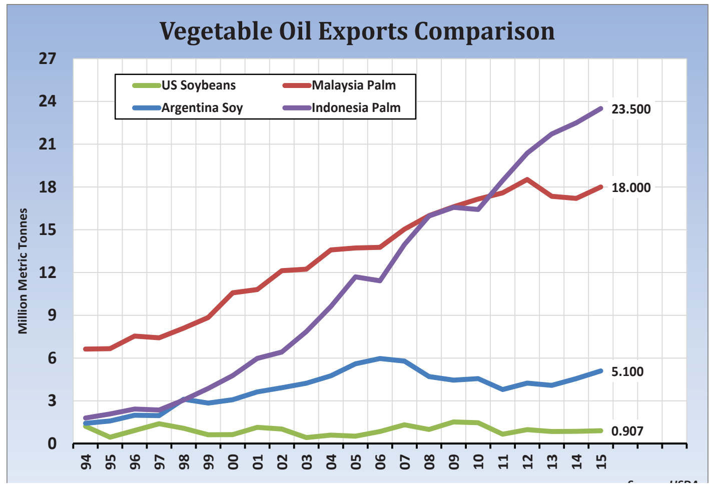


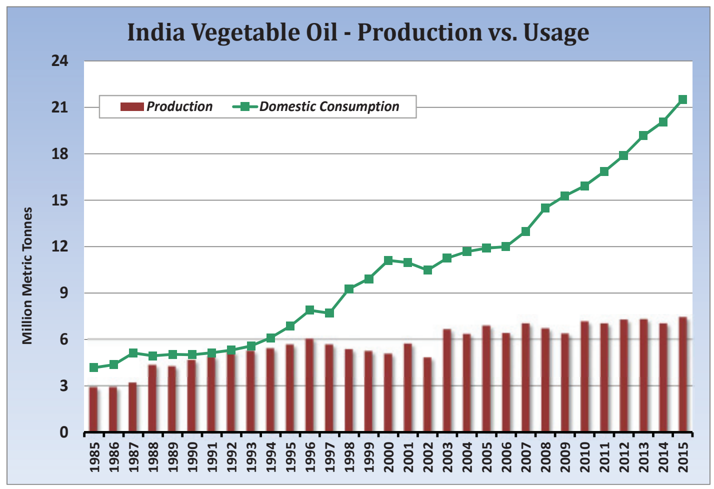
End User Hedge for Soybean Oil

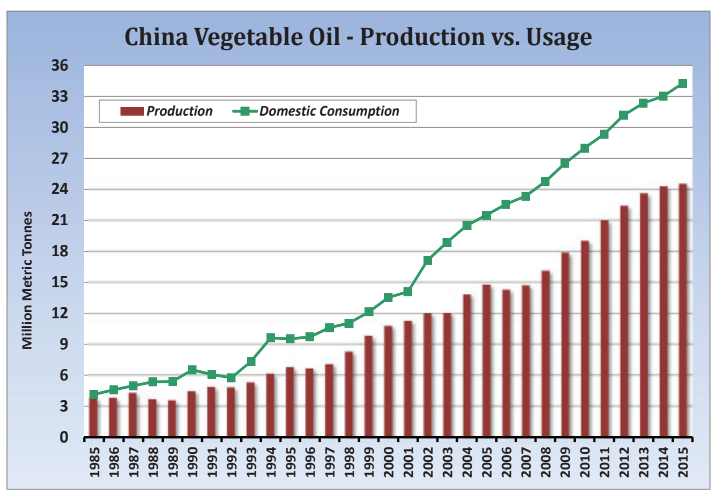
Given the potential for the current forecast for historically high ending stocks being undone by adverse weather, the prospect of significant volatility in soybean oil is high. This is something that end users could use to their advantage.

We suggest that they consider buying multiple May 2016 (or later expiration) calls as a hedge against a change in the current outlook. Given that soybean oil prices for May 2016 delivery are 3.5 cents above their 2015 lows, hedgers might consider hedging the premium outlay for the calls with the sale of a soybean oil futures contract. This is a volatility play that needs a significant range-up move to provide a windfall. However, if bearish weather for the US crop pushes ending stocks expectations even higher and/or the El-Nino threat dissipates, a significant portion of the hedge premium outlay could be recouped with the short futures position.

This is essentially a "volatility" hedge. With the long multiple call/ short futures position, the worst case scenario for the hedger would occur if market fails to swing up or down. Our interest in this strategy stems from the potential for good production weather in the US to be followed by unfavorable production weather for Malaysia and Indonesia later this year. If a hedger buys 3-4 out of the money May calls and sells a May futures contract, the short futures position can be lifted on weakness early this summer, leaving the end-user covered against any uptrend into 2016.







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