

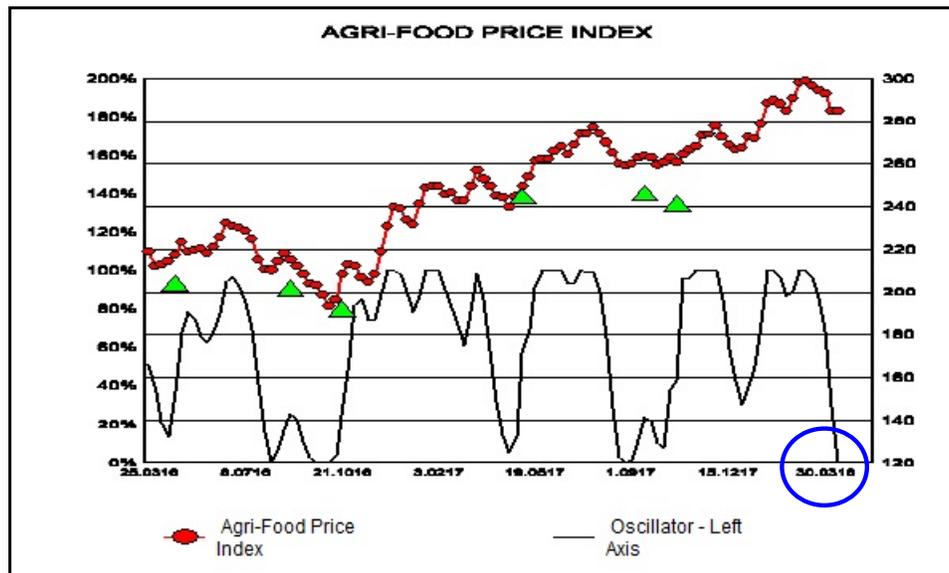
# The AGRI-FOOD VALUE VIEW

“Wealth Creation Through Global Agri-Food Investments”

## INTERIM COMMENTS

14 April 2018

**Trade tariff “standoff” between U.S. and China is not helping, but no pain yet.** A lot of worry is evident in conversations. When will tariffs hit, how much will they actually be, and who will be hurt are all part of the conversations. The Agri-Food Price Index has been down now for several weeks, but as of yet most of that decline has been in US cash eggs, US pork, and US hogs. Thus far, the grains have continued existing trends. All together, the Agri-Food Price Index is now oversold. **But, everyone now awaits news out of China.**



### AGRI-FOOD PRICE INDEX

Last Value	4 Week Change	200-Day Moving Ave.	52-Week High	52-Week Low	52-Week % Change
285.25	- 3.9%	274.41	298.72	244.56	+17%

### U.S. End of Crop Year Days of Consumption in Bins Estimates(USDA WASDE)

U.S. Crop (End Year)	2018 End Crop Year Days	2018 Days Percent Change	2018 Begin Inventory	2018 Crop Size % Change	2018 Usage % Change
Soybeans (Aug)	48 +22	+ 84%	+ 53%	+ 2%	-1%
Corn (Aug)	54 -3	- 6%	+ 32%	- 4%	+ 1%
Wheat (May)	193 - 1	- 1%	+ 21%	- 25%	- 9%

WASDE of last week was *again* really not much of a news item. Lower estimates on soybeans helped those prices. *May's WASDE is far more important for it will contain first USDA estimates for new crop year 2019, which for corn and soybeans begins first of September.* Given prospective planting report and possibility of Chinese tariffs, those estimates will be real SWAGs this year.

*U.S. farmers have a problem. Most are now waiting for ground to be warmed sufficiently to begin planting. But, Chinese tariffs, if they happen, could make a lot of that effort unprofitable almost immediately.*

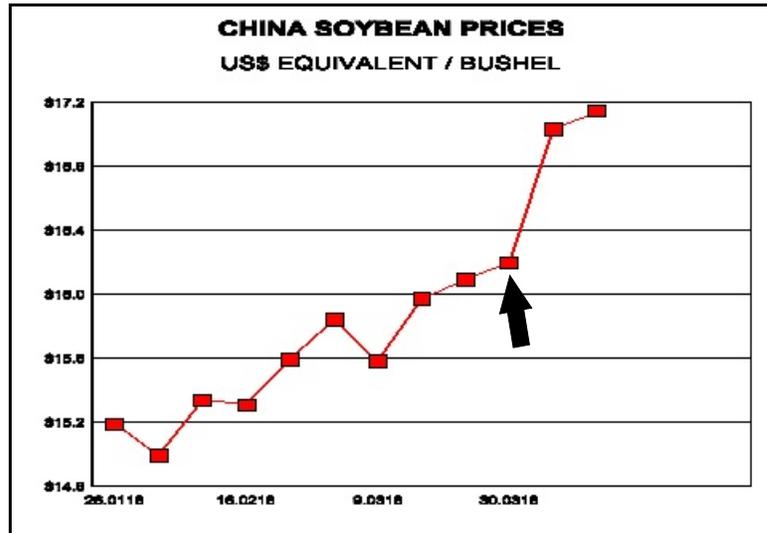
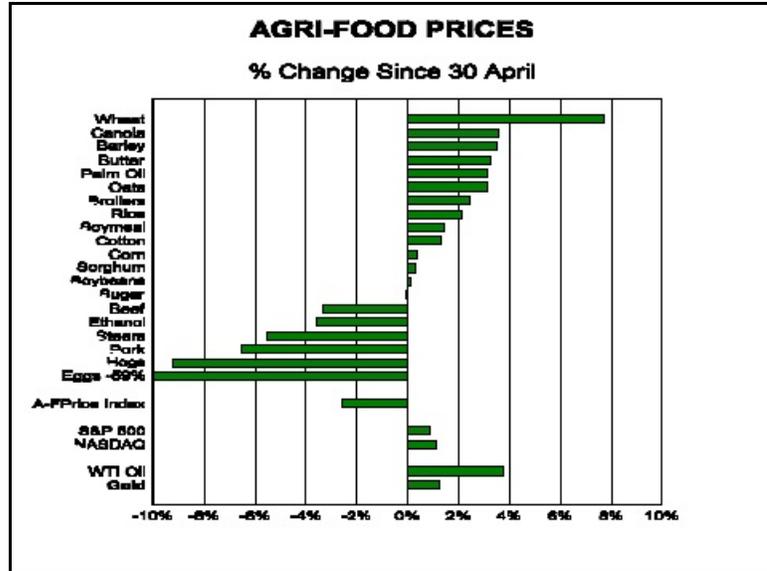
Top chart is percentage price change over past two weeks. Week of 30 April was last "normal" week before the Trump/Xi tariff announcements. Two markets that should have felt those most impact of that talk are soybeans and pork, and we look at them below.

US HRW wheat leads the chart as dry weather in U.S. wheat country was still an issue until late last week. Canola prices seem to have benefitted from fears of Chinese tariffs on U.S. soybeans, and hit 52-week high. Other new highs were soybean meal and sorghum.

Someone, though, is buying lots of U.S. corn and soybeans. Export sales made but not yet delivered are up 37% from a year ago for US corn and 50% up for soybeans. Export sales of soybean meal are up 20% from last year.

Bottom chart is of estimated U.S.\$ equivalent prices for Chinese soybeans. Black arrow points at 30 April, week before tariff announcement. Chinese beans were already rising, but jumped dramatically after announcement. Chinese market does not yet think South American beans are answer. China imports roughly 85% of soybeans consumed. U.S. soybean prices are right near 52-week high.

US cash hog prices are top chart on following page. Black arrows point to first seasonal peak of year, and this year was similar to last. Blue arrow points at seasonal low of last year which came in above seasonal low in 2016. However, the recent low did not hold above that blue arrow low. That is not good news. In latest week hog prices were up, but they had been down for six straight weeks. Our guess is that worry over Chinese tariffs



on pork are causing a problem with pork prices, and that imposition of those tariffs would cause a rough time for U.S. hog producers. Chinese hog producers have excess production. Chinese hog producers are thinking that tariff on U.S. pork will raise prices sufficiently to offset higher cost of soybeans and other grains for feed.

Has now been a little over two months since U.S. equity market peaked. S&P 500 high was on 26 January. Since end of January, S&P 500 is down ~6% while Agri-Equities are down ~5%. But, one important question has not been answered: What happens to Agri-Commodity prices and Agri-Equities if China does impose 25% tariff on U.S. Agri-Commodities?

44% of Agri-Equities have performed better than the market thus far this month. While less than we would like, that percentage is fairly good for the beginning of a new quarter as managers tend to buy technology/fantasy stocks at that time.

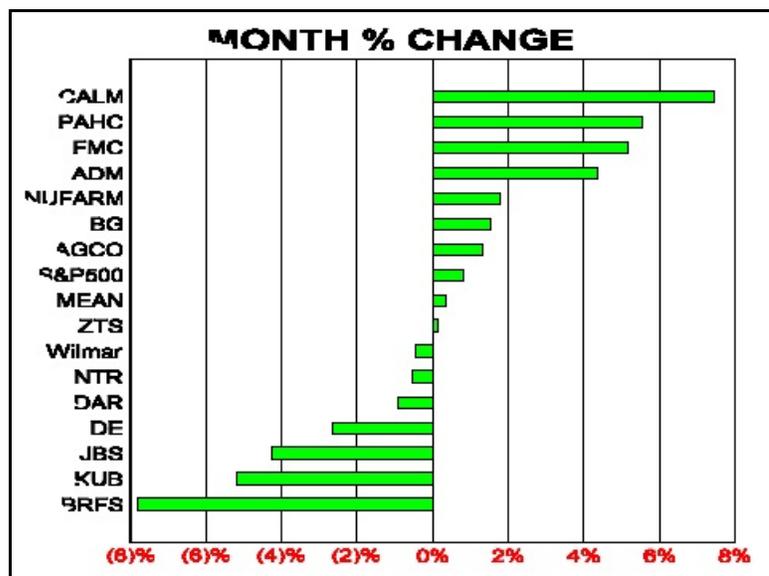
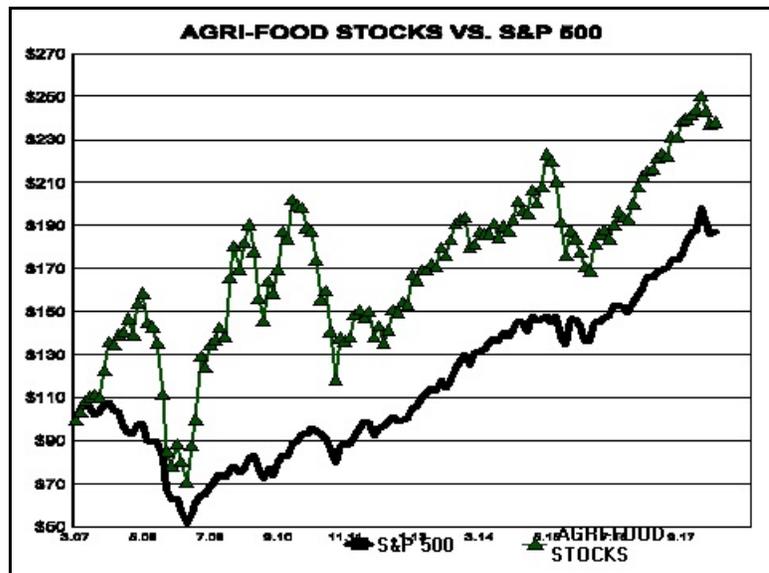
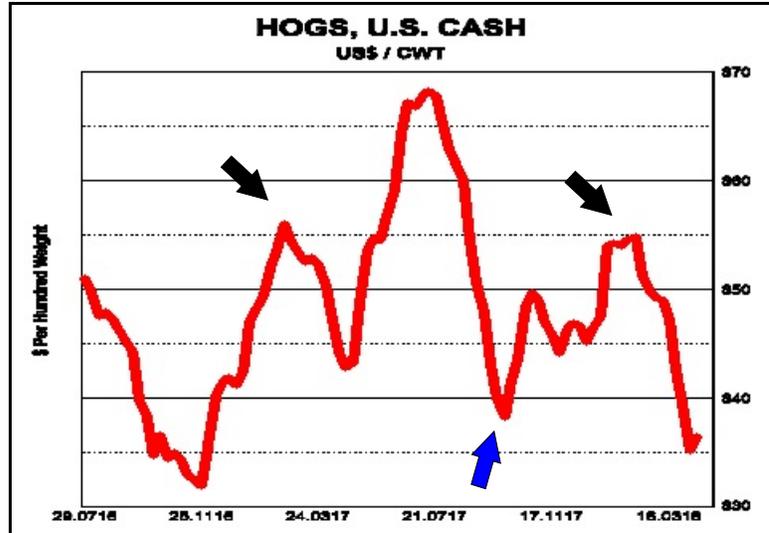
For the month to date:

- NASDAQ: + 0.9%
- Tier One: + 0.8%
- S&P 500: + 0.8%
- Agri-Equities: + 0.4%
- Tier Two: + 0.1%

Bottom chart is of percentage price change thus far in the month for each of the Agri-Equities.

CALM is at the top, and the stock may still be living on latest quarterly reports. US cash eggs prices have plummeted since week before Easter.

NUFARM does have significant exposure to North America, where U.S. seed sales



would be weak under China tariffs, but about three quarters of sales are outside of North America.

AGCO did considerably better than DE. AGCO gets most of its sales outside of U.S. while DE dominates the U.S. markets. Chinese tariffs would indeed hurt U.S. Agri-Machinery sales.

Market seems to be still watching ADM and BG. See comments below on ADM.

***Second largest beef company was created last week.*** Marfrig Global Foods of Brazil purchased 51% of National Beef of U.S. for \$969 million. This purchase will give company a substantial U.S. dollar-based business. Marfrig has a US-traded ADR, MRRTY, which is 1:1 for Brazilian shares. A trend that cannot go unnoticed is that the large companies in global food sectors are increasingly non U.S. companies. ADM may be only US-based, publicly-traded, global Agri-Food company after resolution of BG situation.

President Trump has moved to expand E-15 sales to full year rather than eight months. Sales have not been allowed during Summer. Should increase demand for ethanol somewhat, and prices did rise in response to statement.

BRFS board hopefully will meet on 26<sup>th</sup> to name a new board and hopefully a new chairman, but we have hoped for that before.

Eat well and prosper,

**NED**

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Publication schedule: Next monthly: 4 May      Next Interim Comment: 24 April

AGRI-EQUITIES VALUATIONS (Prices = 13 April 1230 EDT)

<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>
New 52-Wk High	Company	Price	Value / Potential %	New 52-Wk High	Company	Price	Value / Potential %
	<sup>1</sup> WILMAR	<sup>2</sup> \$2.42	\$ 3.6 / +46%		JBSAY	\$5.41	\$9.9 / +83%
	BG	\$75.0	\$79.7 / + 6%		BRFS	\$6.38	\$14.3 / +124%
	ADM	\$45.3	\$45.5 / + 1%		NUFARM	AU\$8.52	AU\$8.6 / + 2%
	NTR	\$47.0	<sup>3</sup> Suspended				
	DAR	\$17.1	\$15.8 / - 8%				
	AGCO	\$65.7	\$59.9 / - 9%				
	KUBTY	\$84.3	\$72.8 / -14%		PAHC	\$41.9	\$32.4 / -18%
	CALM	\$47.0	\$33.4 / -29%		FMC	\$80.5	\$54.6 / -32%
	DE	\$151.2	\$96.8 / -36%				
	ZTS	\$83.6	\$49.0 / -41%				
<b>TIER</b>	<b>ONE</b>	<b>Mean</b>	<b>- 3%</b>				
<b>TIER</b>	<b>ONE</b>	<b>Median</b>	<b>- 8%</b>				

<sup>1</sup>Wilmar Intl. primary market is Singapore. WLMY is U.S. ADR symbol, representing 1:10

<sup>2</sup> US\$ equivalent of Singapore price.

<sup>3</sup> Valuation suspended till merger with POT, but with a favorable view.

***PRIORITY CODING NOTES***

***Core*** refers to those stocks that should be the core holdings for Agri-Food exposure. This group will tend to be larger and more multinational companies. That said, some may not be if their businesses have special long-term advantages. ***These stocks are labeled C.*** Second group we call ***Extend, and are labeled E*** in the tables. They are intended to *extend* the reach of the portfolio beyond the core. This group includes those stocks with the best exposure to the Agri-Food trends being created by China and India. They will be smaller stocks, and have higher business risk. We do expect the long-term results on these to be better than average. We also expect their business risk and stock price volatility to be significantly higher than average stock. ***Final*** group of stocks are those that round out the portfolio. Their businesses help to complete the circle. While likely to benefit from global Agri-Food trends, their activities may be more tangential. ***These stocks are labeled F.***

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***THE AGRIFOOD VALUE VIEW***

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