



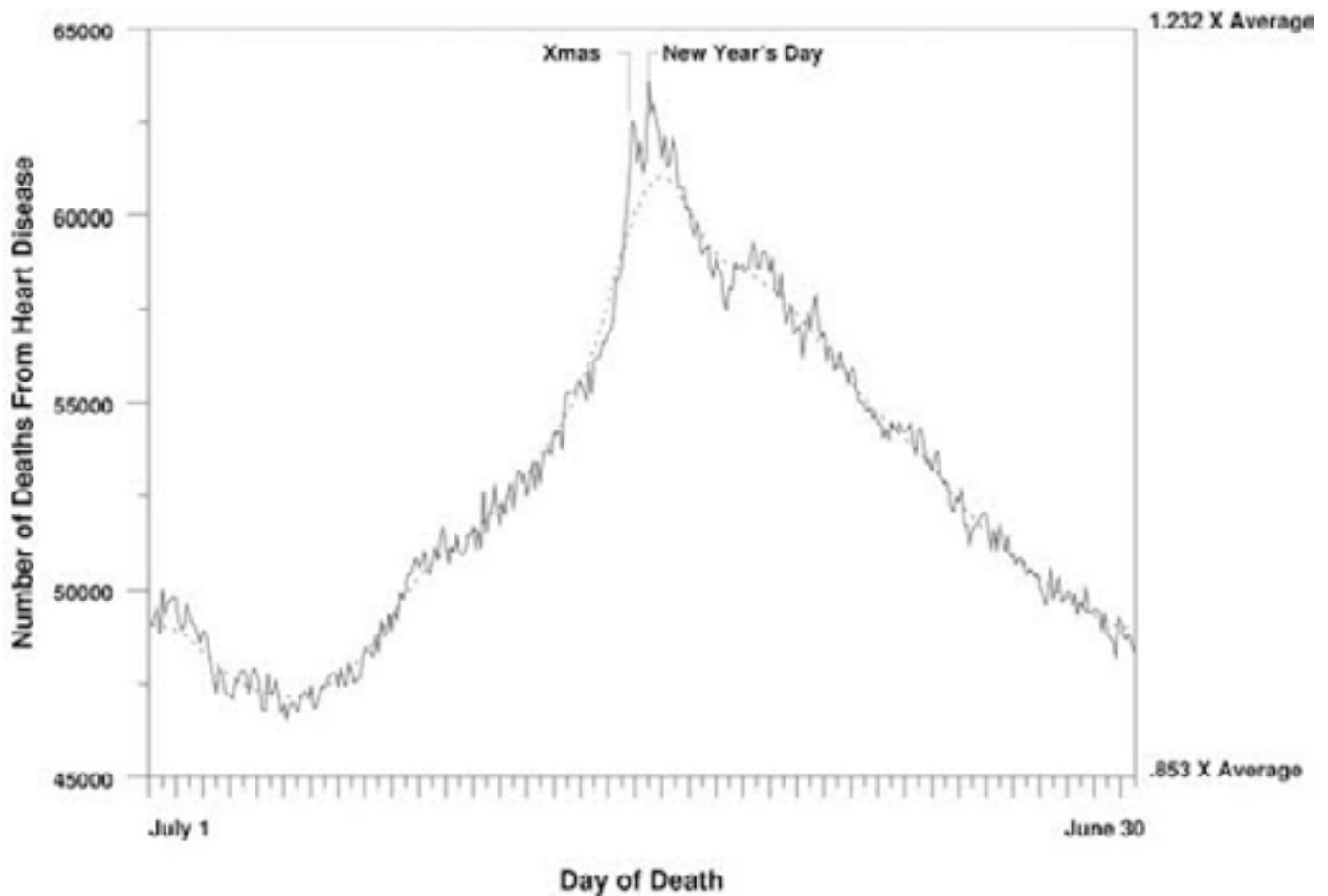
*"Your goals, minus your doubts, equal your reality." - Ralph Marston*

**TUESDAY, JANUARY 03, 2017**

**Morning Summary:** U.S. stocks are starting the new year with an early morning push higher, while the Dow is still trying to break through the 20,000 level. Some insiders are cautioning against betting the so-called "Trump rally" will continue much beyond the most recent highs, believing January can be a very difficult month for the markets. Not only do big players tend to reallocate large sums of money and bank profits, but we also often deal with harsh winter weather that can darken the economic outlook for the U.S.. Keep in mind there's only been three positive Januarys in the past 10-years. And this time around we have a new governing body about to assume control in Washington. All of which makes me a bit hesitant to add to my current positions, even though my personal portfolio feels as if it's been underweight the stock market for the past several weeks. Despite some of the obvious global headline risk coming from China, Europe, and Russia, it's important to remind ourselves that we generally want to be betting alongside the American consumer, who has become increasingly more optimistic. In fact U.S. consumer confidence climbed in December to the highest level since August 2001 as Americans were more upbeat about the outlook than at any time in the last 13 years. The obvious optimism is coming as American households are expecting a Donald Trump administration to deliver on the campaign promise to "Make America Great Again". Trump's inauguration is January 20, at which time it's anticipated his political agenda will become much more clear. Whether his initial moves match market expectations for a more pro-business, lower tax environment is the big unknown and what all traders are watching. I've provide my insight and thoughts about the year ahead in a "special segment" towards the bottom of todays report. There's certainly a lot to think about and a ton of moving parts. On the economic data front, the calendar is pretty packed this week. One of the biggest highlights will be the "minutes" from the U.S. Federal Reserve's December meeting in which they raised interest rates. The main thing traders will be looking for are insights as to what Fed officials were anticipating in 2017. Remember, the last meeting also brought with it an increase to the number of rate hikes central bankers expect in the new year, now up to three. Fed Chair Janet Yellen told reporters that President-elect Donald Trump's proposal to beef up infrastructure spending and cut taxes "may have been a factor" for some policymakers in the stepped-up rate hikes. Other key economic reports out this week include PMI and ISM Manufacturing and Construction Spending today; December Motor Vehicle Sales and ADP's Employment Report on Wednesday; ISM Non-Manufacturing on Thursday; and the December Employment Report, International Trade and Factory Orders on Friday. Internationally, China will be back in the headlines as they release manufacturing data overnight tonight, as well as

with Consumer and Producer inflation data late on Friday. Their latest data released this past weekend showed that the country's manufacturing sector continued to expand in December, though at a bit slower pace than some were hoping to see. Keep in mind December was the fifth consecutive month of growth for Chinese manufacturers. In other words China feels like it's in a bit better place economically than it was last year, but at the same time we are starting to digest more headlines about potential "trade wars" as new U.S. leaders try to renegotiate better deals. The problem is, or at least it feels like, whenever China "sneezes" the U.S. market catches a small cold. Meaning not only am I going to be keeping a close eye on U.S. political changes in the days ahead, but also a very close eye on economic developments inside China. I continue to bank equity profits on the rallies and am staying patient in regard to adding any additional length, at least until I can see a bit further down the road. The map we've recently been handed looks really good, I'm just wanting to make sure there aren't some dangerous and unforeseen detours along the way... Keep in mind the U.S. dollar index is also trading higher again this morning and if it stays on this track it will close at its highest level since the end of 2002. Crude oil is trading at it's highest level in 18-months and Bitcoin is back above \$1,000 for the first time since 2013. Money is clearly rotating!

**If Your Reading This You Cleared A Major Hurdle:** My good friend Howard Getson over at [Capitalogix](#) pointed out to me that getting past the Christmas and New Year holidays might be a bit more difficult than some of us give it credit. If you look at the graphic below published in the "[Circulation](#)" journal you can see that cardiac deaths spike dramatically during the holidays. In fact cardiac mortality for individuals who are dead on arrival, die in the emergency department, or die as outpatients peaks at Christmas and again at New Year's. There are multiple explanations for this association, including the possibility that holiday-induced delays in seeking treatment play a role in producing the twin holiday spikes. You can read more [HERE](#)

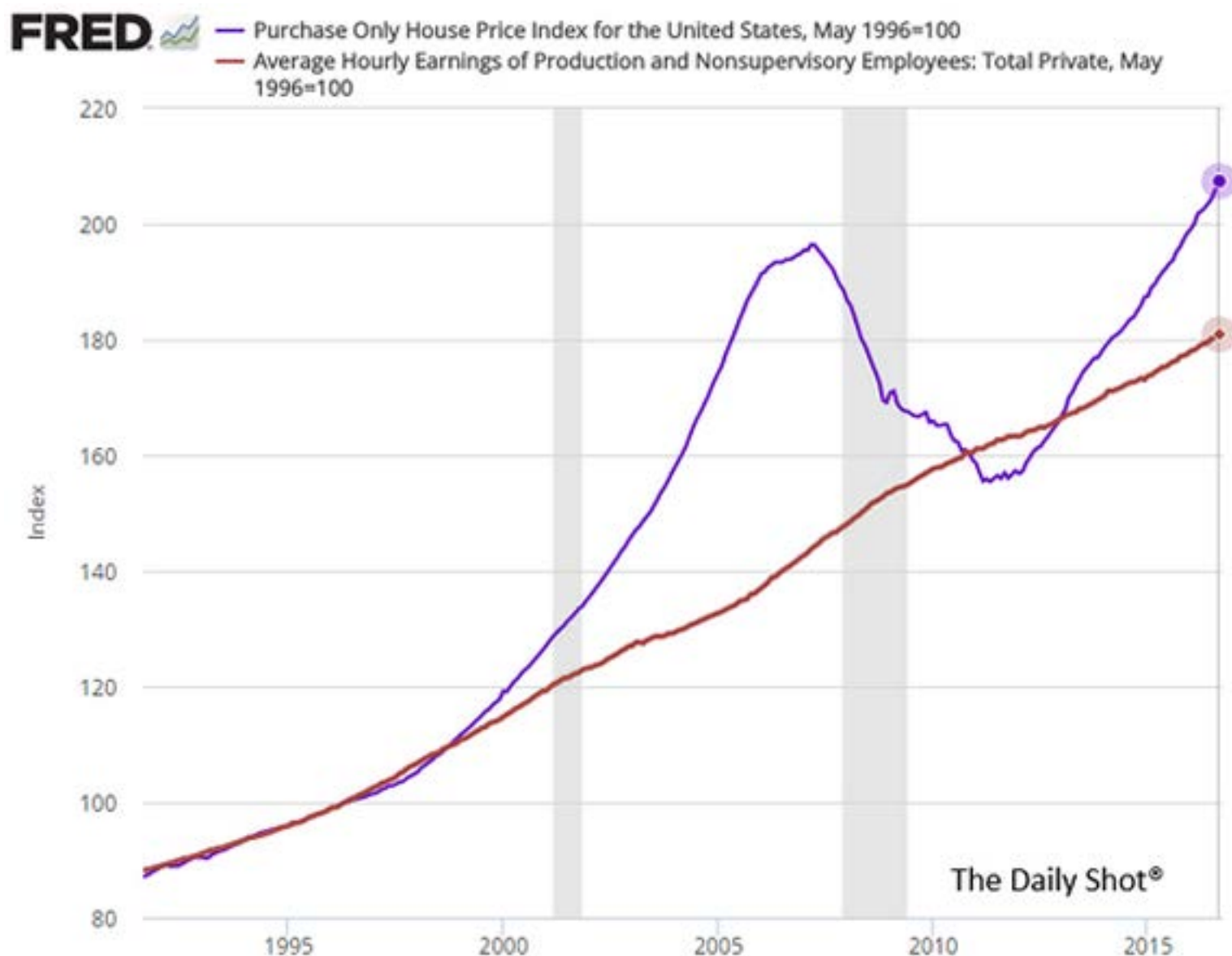


**Don't Underestimate The Fed In 2017:** Allianz's chief economic advisor, Mohamed El-Erian, told CNBC in a recent interview that this year could see the Federal Reserve become more strategic and hawkish about rate hikes contrary to many analysts' and investors' expectations. El-Erian contends that the market, "for the first time in a very long time" is underestimating how much the U.S. Federal Reserve may hike rates. The economist said he believed the central bank's consensus for three rate hikes in 2017 was a minimum amount. "If it's not three [hikes], it's because it's more than three," he said. El-Erian said the Fed's hawkishness will stem from a more positive outlook on incoming economic policy and the condition of the U.S. economy next year. And, while the Fed will likely not act on its expected rate hikes in January as it watches how the administration of Donald Trump is received on Capitol Hill, that won't determine its course for the rest of the year, he said. He warns that investors should not underestimate their inclination to normalize monetary policy after too many years at artificially low rates. (Source: CNBC)

**Alleged Russian Hackers Kicked Out Of The U.S.:** President Obama ordered 35 Russian diplomats out of the U.S. the end of last week under suspicion that they were somehow involved in hacking political groups during the recent U.S. Presidential election. Obama's administration alleges that the accused parties took part in cyber attacks that were directed by "the highest levels of the Russian government." The U.S. has also levied new sanctions against those believed to be involved, including two suspected hackers and three companies that allegedly provided support to cyber operations by Russia's GRU intelligence service. U.S. intelligence officials say they believe "with a high level of confidence" that Russian President Vladimir Putin was personally involved in a covert campaign to interfere with the U.S. election. Russia condemned the expulsion of the diplomats, but has declined to retaliate in kind. Russian President Vladimir Putin said his country would not "resort to irresponsible 'kitchen' diplomacy but will plan our further steps to restore Russian-U.S. relations based on the policies of the Trump administration." For his part, President-elect Donald Trump called Russia's move "very smart" and has promised to reveal new details about the alleged hacking incidents early this week, saying he knows "things that other people don't know. And so they cannot be sure of the situation."

**Home Price Appreciation Outstripping Wage Increases...For Now:** There are some interesting things happening in the U.S. housing market. For starters, a large percentage of Americans are being priced out of the housing market as home price appreciation remains nearly double the wage growth. The October 2016 S&P Case-Shiller home price index showed a seasonally adjusted +5.6% price increase from a year ago for the 20 metropolitan housing markets and a 4.3% yearly price increase in the top 10 housing markets. That is over double the rate of inflation and puts housing prices back at 2007 bubble price levels. The U.S. National Home Price Index has also increased 5.6% from a year ago and has hit an all time high. Basic economics tells us that home prices can not rise further than inflation and wages indefinitely. Nominal wage growth had been running close to 2% since 2010, and picked up a little in 2015, and more in 2016. As the labor market tightens, nominal wages growth will probably increase further in 2017. Additionally, one thing that could curb the home price increases this year is rising mortgage interest rates. Mortgage rates have been on a pretty steep rise since the U.S. Presidential election, reaching 4.32% last week, up from 3.47% at the

*end of October. If the Fed continues its plan to hike rates in 2017, many experts expect it will dampen housing demand and slow price appreciation. (Source: The Wall Street Journal, Calculated Risk)*

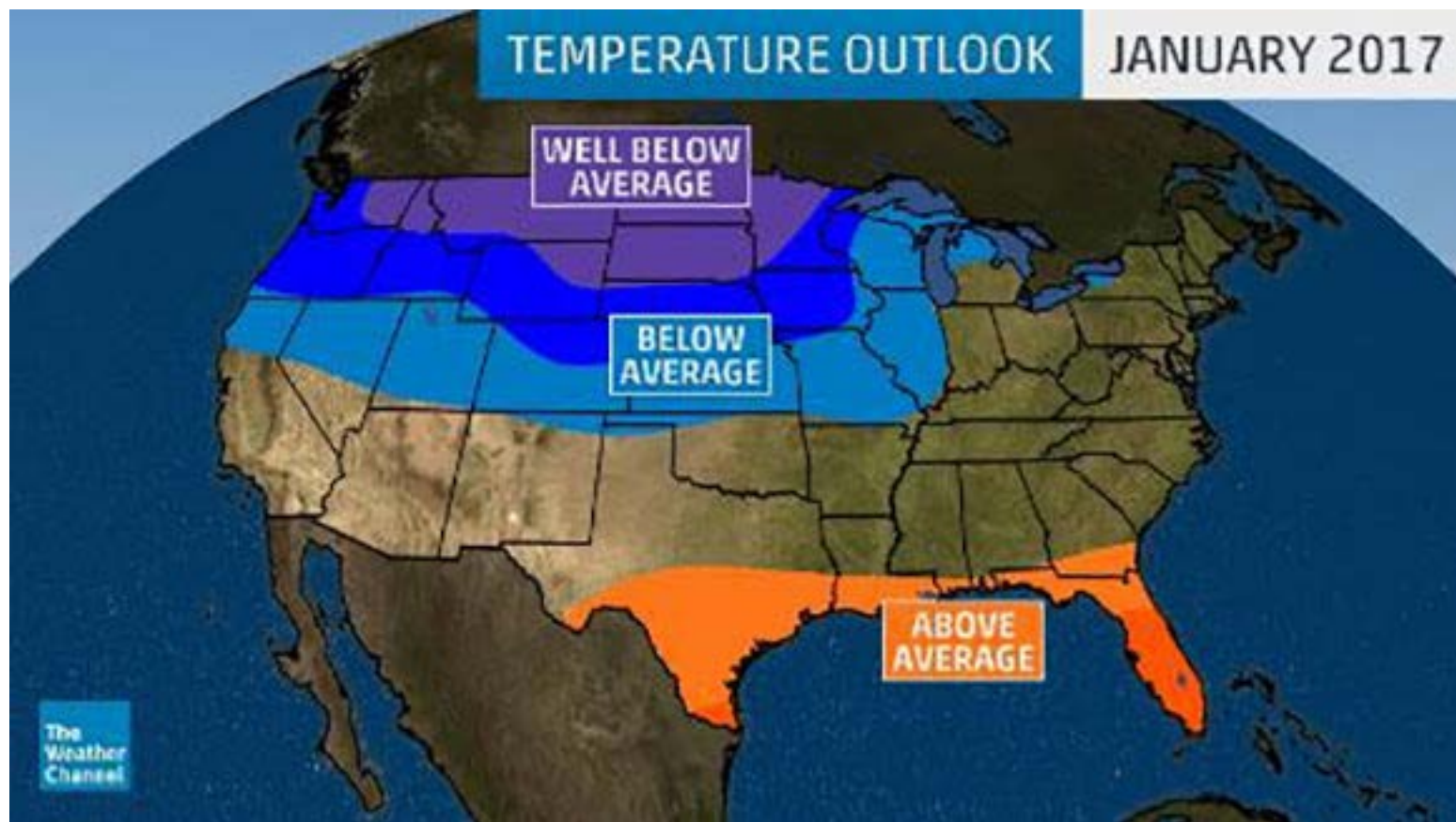


**Weather** for the first week of the New Year is seeing a surge of cold air move across the Midwest. This cold shot is expected to delay transportation and increase the risk to winter wheat in terms of potential low-temperature stress. In the southern Plains, wheat areas continue to be dry. Wheat has already been affected by dryness and earlier cold conditions in western areas. A strong cold wave moves into the region this week which could bring further stress. In the northern Plains, a new blast of cold Arctic air will move in this week. Looking South to Brazil, the northeastern crop areas remain mostly dry. Very little rain fell over the past week. Concern is growing over dryness spreading west into high-production areas of north central Brazil, including Mato Grosso.

**Northern Plains, Midwest To See a Cold January:** *January 2017 is now expected to be much colder than average from the Pacific Northwest into the upper Midwest, while parts of the Gulf Coast states will see a mild January according to the new outlook re-*



leased by the Weather Company. Colder temperatures have already gripped much of the northern tier and will look to continue. The East is expected to continue to experience periods of colder temperatures. One of the biggest factors for the temperature pattern expected in January is La Nina. La Nina usually correlates with colder-than-average temperatures in the northern and western U.S. with warmer-than-average temperatures in the southern and eastern U.S., which is overall what is expected in January.



**Trump's Top-Pick For Ag Secretary?** *Many sources in Washington are saying Trump's top pick for Secretary of Agriculture looks to be former Georgia Governor Sonny Perdue. Mr. Perdue, is a Democrat-turned-Republican who founded a grain and fertilizer business, and served on Trump's agricultural advisory committee during his presidential campaign. Read more at [Bloomberg](#)*

**Corn** continues to trade in a sideways channel between \$3.30 and \$3.70 per bushel vs. the MAR7 contract. On a year-to-year basis the contract is down around -10.5%. The new-crop DEC7 contract has been trading between \$3.60 and \$3.95 per bushel and down just over -5% compared to last year. Corn demand here in the U.S. remains extremely strong with both ethanol and feed usage continuing to provide a pleasant boost. One could argue that while U.S. corn exports have been "good" they might not meet the high expectations most recently forecast by the USDA. There's still a ton of cheap feed wheat and cheap corn floating around in the global marketplace from the Black Sea region. Even though I would love to be bullish, we have to keep in mind, domestically we are sitting on one of our largest corn carryouts in the past three decades. I'm also a bit worried that U.S. pro-

ducer hasn't sold very many bushels from the 2016 record harvest. Meaning most rallies could find heavy U.S. farmer selling pressure, especially now that we've cleared the tax burden and turned the page into 2017. Lets also keep in mind combined production from the biggest producers in South America in 2017 look like they are going to be some +25 to +30 MMTs larger than last year. In other words even though demand is strong, without a major weather hiccup in South America it might be tough for prices to rally or wander much beyond their current upside range. I'm sticking with my "two-strike" approach and still just trying to get on base.

ZCH17 - Corn - Daily OHLC Chart



**Soybean** are trading near \$10.00 per bushel which is viewed by many as critical "psychological" support. Several insiders believe the next few days will set the tone for the next few months. South American weather remains the biggest "wild-card" and something that has had many second guessing themselves. While we were out on holiday break the market thought there were some weather hiccups brewing in northeastern Brazil and promptly added in additional risk-premium. The next thing you know the weather premium was being removed on an improved forecast in Argentina and perhaps not as much concern in northeastern Brazil. Bottom-line, South American weather is a "wild-card" right now and will continue to be for the next several weeks. If we look beyond South American weather, most bears are quick to point to record U.S. acres scheduled to be planted in 2017. While

some sources are conservatively forecasting an additional +2 million more U.S. soybean acres in 2017, others are saying it could be much more like +6 to +8 million more soybean acres in 2107. Keep in mind, regardless of if it happens or not, if the trade starts talking more seriously about 90 million soybeans acres being planted in the U.S. it's going to be tough to rally prices aggressively during the next 90-days without a major South American hiccup. Rember, some of the producers down South here in the U.S. will be planting beans in less than 90-days, so we are not all that far off. Moral of the story, South American weather and U.S. planting intentions will be the main focus during the next several weeks. On the demand side of the equation, China, bird flu, trade wars and geopolitical uncertainties surrounding the new administration in Washington remain in play. For what it's worth, the MAR17 contract pictured below is still up over +11% compared to last year.

ZSH17 - Soybeans - Daily OHLC Chart



**Wheat** bulls continue to point to the fact U.S. winter acres are near 100 year lows. While the bears are quick to counter the argument by saying we have clearly become the world's ancillary supplier of wheat and are whom the world is looking towards to cut acres. We are clearly not the world's low-cost provider any longer, especially when you start to consider the strength of the U.S. dollar. Not only have we been seeing stiff competition from Europe, Romania and Russia, but also now competition from Argentina and Australia. As a producer and a spec I continue to patiently wait for some type of unexpected headline



to catch the bears offside and provide a bit of a rally to the upside in the days or weeks ahead. Perhaps some increasing talk of U.S. dryness or potential winter-kill could provide some nearby assistance? I'm certainly not holding my breath and understand it's going to take much more than either of those two headlines to turn the tide. Staying extremely patient with little fresh news to chew on...

ZWH17 - Wheat - Daily OHLC Chart







**> China's Human Bird Flu Cases Hit 17:** *China announced a new case of a person infected with the H7N9 strain of bird flu over the weekend, bringing the total number of human infections to 17 so far this winter. At least two of those victims have died. China has now culled over 170,000 birds in four provinces since the outbreaks began in October.*

**> U.S. Works To Clear Egg Exports For South Korea Amid Bird Flu Crisis:** *U.S. officials are scrambling to reach an agreement with South Korea that would allow for the import of U.S. eggs as the country deals with a shortage created by its worst bird flu outbreak ever. The two sides are negotiating over terms of potential shipments after South Korea lifted a ban on imports of U.S. table eggs that it imposed when the United States grappled with its own bout of bird flu last year, according to the U.S. Department of Agriculture. The shipments would hold South Korean consumers that are dealing with skyrocketing prices amid the shortage, as well as U.S. egg producers that are suffering from low prices as a result of oversupplies. Most of the more than 26 million birds (15% of the poultry population) that South Korea has culled have been egg-laying hens. The U.S. is hopeful that an agreement could be reached this week.*

**> Ukraine Lifts Grain Export Forecast:** *Ukraine's Agrarian Policy Ministry announced an increase in its forecast for current season grain exports by +1.3 million metric tons due to a larger corn export estimate. Corn exports for the season (July 2016-June 2017) were increased from 17.2 million metric tons to 18.5 million, boosting the estimate for total grain shipments from 40.2 million metric tons to 41.6 million. The country exported 39.5 million metric tons of grain in the 2015-16 season.*

**> Mato Grosso Soybean Growing Season Going Well:** *After a very frustrating 2015/16 growing season caused by hot and dry conditions, farmers in Mato Grosso are very hopeful about their 2016/17 soybean crop. The soybeans were planted early and the weather has been very good from the start of the growing season. The early maturing soybeans (90-day maturity) are approaching maturity and a few fields have already been harvested. In their most recent assessment, the Mato Grosso Institute of Agricultural Economics (Imea) is estimating that the state will produce 30.5 million tons of soybeans which would be a new record production for the state. If the weather cooperates and wet weather does not delay the soybean harvest, then farmers in the state will be able to plant their second crop of corn entirely within the ideal planting window which closes about February 20th. An early planting of the safrinha corn increases the chances of good corn yields as well. (Source: Soybean & Corn Advisor)*

**> Iowa Producers Make Record Levels Of Ethanol, Biodiesel In 2016:** *Iowa's ethanol and biodiesel producers made record volumes of the biofuels in 2016 thanks to rising*

blending mandates, according to the Iowa Renewable Fuels Association. The state produced 4.1 billion gallons of ethanol and 297 million gallons of biodiesel, according to IRFA statements. Both figures were up from 2015's 4 billion gallons of ethanol and 242 million gallons of biodiesel. The federal Renewable Fuels Standard requires obligated parties, mostly refiners who produce transportation fuels, to make sure renewable fuels are blended into the conventional fuel pool. In 2016, those obligated parties have been required to blend 14.5 billion gallons of ethanol and 1.9 billion gallons of biodiesel. In 2017, those volumes will rise to 15 billion gallons and 2 billion gallons, respectively. (Source: Platts)

**> USDA To Make CRP Transfer Easier:** The USDA will begin offering early termination options for certain Conservation Reserve Program (CRP) contracts next year. According to a release from USDA, the termination options will make it easier to transfer property to the next generation of farmers and ranchers. Eligible land will be the least environmentally sensitive land enrolled in CRP. If a landowner terminates a CRP contract early, they are generally required to repay all previous payments plus interest. The new policy will waive the repayment if the land is transferred to a beginning farmer or rancher through a sale or lease with an option to buy. Details on the early termination opportunity will be available starting on Jan. 9, 2017, at local Farm Service Agency offices. (Source: Brownfield Ag)

**> China Looks To Boost Farmland In Push For Greater Food Security:** China plans to boost its reserves of farm and arable land over the next three years, the State Council said last week, as part of an effort to maintain sufficient acreage for crops to ensure food security. The Chinese government has identified food security as one of its biggest challenges in the next decade as vast tracts of farmland has been swallowed up by rapid urbanization and environmental damage. As part of its 2016-2020 five-year land management plan, the government said it will add 1.3 million hectares (3.2 million acres) of arable land, partially replacing land lost over the past 13 years. China currently has about 124.3 million hectares of arable land and more than 100 million hectares of farmland. China's Ministry of Land and Resources said on Wednesday a three-year survey had shown that total arable land reserves have fallen by about 2 million hectares since 2003. (Source: Reuters)

**> Natural Gas Became 2016's Best Performing Commodity:** A polar blast that's poised to sweep the U.S. has turned natural gas into the year's best performer among major commodities. Frigid weather will sweep the western two-thirds of the nation in the second week of January, stoking gas demand for heating, according to Commodity Weather Group LLC. The deep freeze comes as output from shale basins slows, sending production in the contiguous U.S. toward a second-straight annual drop. The prospect of supply constraints pushed gas up 59 percent in 2016. The gas rally marks a dramatic turnaround for a market that tumbled to the lowest prices since the 1990s earlier this year amid a glut of supply. Nine months later, the surplus has disappeared as an arctic chill boosts consumption and the U.S. ships its bounty of shale gas to Mexico and overseas buyers. (Source: [Bloomberg](#))

**> Cold Kills More People Than Heat:** Cold temperatures move back in this week across a large portion of the country. High temps are expected to be 15 to 20 degrees below normal, with lows below zero all the way down into Texas and the Delta. This seems like a fitting time to remind everyone how dangerous even moderately cold temperatures can

be. Data from the Centers for Disease Control and Prevention has consistently shown that excessive cold presents a greater threat to life than excessive heat. Take a look at the chart below, plotting annual deaths from hypothermia (too much cold) and hyperthermia (too much heat) in the United States from 1999 to 2015. As you can see, cold deaths outnumber heat-related deaths in just about every year. Part of the disparity may be because of differences in how the human body responds to heat and cold. With heat, there may be a “threshold” temperature beyond which the body’s temperature regulating system essentially breaks down. If the temperature is below that threshold (which likely varies between individuals), your body is essentially good to go. With cold temperatures, on the other hand, the authors of a Lancet study posit that it seems to produce negative health effects in a fairly linear fashion. There’s no threshold; rather, the colder it gets, the more trouble your body has adapting. In their study, the authors found that many deaths attributable to cold happened on moderately cold days (as opposed to extremely cold ones), while a much larger share of heat-attributable deaths happened on days of extreme heat — hinting at the threshold relationship mentioned above. (Source: The Washington Post)

# The cold kills more people than heat

Deaths from hypothermia (excessive cold) and hyperthermia (excessive heat) in the U.S.







**Northwest Tennessee** - *Just finished a little Christmas meal with employees and waiting for all our landlords to show up for negotiations. We farm on nearly 60 separate properties and run corn, soybean and wheat. Our land will rent from \$125 for lower ground up to \$200 an acre. We intend to maintain our 50/50 rotation of corn & beans for 2017, but we have some lower ground that if it gets wet in spring will change that situation. We usually run some feeder cattle but didn't this year as it was so dry and couldn't get any grass up.*

**Northeast Indiana** - *Takings some time to catch my breath! 2016 ran together from mid-April to mid-November. I worked way too many Sundays & barely got caught up on non-fieldwork items on rainy days. My girls are old enough to miss Dad now and I owe my wife a debt of gratitude for sticking out my absence in 2016. I'm lucky that weather cooperated well or I could have been caught pants down. Equipment upgrades and more help should improve 2017. I just purchased an old elevator with 40,000 storage, dryer, scale, 8 dry fertilizer bays, mixer, seed cleaner, and feed mill. Lots of opportunities for the future there. Grain storage will be dedicated organic so no more cleaning out rented bins, legs, augers, dryers, etc. I'm looking to bring on an employee to balance the work load & bring more talent to the table. Hopefully allowing things on the list to get done and plan for the future. I wish everyone a safe & prosperous 2017!*

**Central Michigan** - *I'm spending more on corn seed (per bag) than I ever have. I put all my potash on last spring so I have little k to do this year. I've spent more on repairs this year than any other. My rotation stays the same as it has for the last 30 years. I have no interest in buying ground until it gets below \$4000. I'm going to look for cheap almost new equipment (some showing up already) especially a truck. Going to spend as much time at the lake house as I can. I'm heading to Florida in early March with my Harley all by myself, and going on a 1000 mile crop tour. Happy New Year!!*





**Pork Giant Smithfield Skips Middlemen In Grain Supply Chain:** *Smithfield Food Inc, the world's biggest pork producer, is buying grain elevators and purchasing grain directly from farmers, a move that hits grain handlers already reeling from multiyear lows in corn and soybean prices. The Virginia-based company bought two Ohio grain elevators in September. For the first time, it can ship grain directly from Ohio to feed the pigs that Smithfield slaughters at its Tar Heel, North Carolina, packing plant - the world's largest, processing about 32,000 hogs daily. Smithfield now buys 65 percent of its animal feed directly from farmers, up from the 10 percent of feed it directly bought in 2010. Read more about their strategy over at [Reuters](#).*

**Icahn Says Others on 'Trump Team' More Skeptical on Ethanol:** *Bloomberg's Mario Parker ran this story a few days back, I encourage you to read it in full detail by Clicking [HERE](#) "Billionaire Carl Icahn, a special adviser to Donald Trump and a skeptic of the U.S. ethanol mandate, said there are others on the president-elect's team who have even deeper criticisms of the program."*

**Corn, China and Market Optimism in 2017:** *While the world has harvested several record-large corn crops in a row, a commodity market analyst says the amount of corn in carry-over is deceitful. Dale Durchholz with Illinois-based Agri-Visor says when looking at the global supplies of corn – China's stocks have to be taken out of consideration. "That supply of corn or that supply of wheat is not available to the world market," he says. "For example, when you look at the corn supply in the world outside of the United States and China we're actually going to have the tightest situation going back to the 2012-2013 crop year." He tells Brownfield Ag News there isn't a burdensome supply of corn to deal with and that should give the market optimism in 2017. Durchholz says in the past year, commodity markets have also had money come back into the market as investments – which provides additional price support. "With the election of Donald Trump and some other things around the world, there seems to be interest continuing to put money in commodities," he says. "So I think that's going to be a background support that we're going to deal with." Full interview [HERE](#).*

**2017 Factors To Watch In The Protein Sector:** *The Daily Livestock Report has compiled a list of important factors that could drive livestock markets over the next 12 months. They note that "any such list is inherently flawed because the real market movers tend to blindside the market." In other words, "the unknown unknowns." Nonetheless, they have put together some good fundamental items that should be considered in trying to gauge the bigger picture. Check it out [HERE](#).*

**A New Year's Perspective:** *John Steinbeck on Good and Evil, the Necessary Contradictions of the Human Nature, and Our Grounds for Lucid Hope: There are events in our personal lives and our collective history that seem categorically irredeemable, moments in*

*which the grounds for gratefulness and hope have sunk so far below the sea level of sorrow that we have ceased to believe they exist. But we have within us the consecrating capacity to rise above those moments and behold the bigger picture in all of its complexity, complementarity, and temporal sweep, and to find in what we see not illusory consolation but the truest comfort there is: that of perspective. John Steinbeck embodies this difficult, transcendent willingness in an extraordinary letter to his friend Pascal Covici penned on the first day of 1941, as World War II was raging and engulfing humanity in unbearable darkness. Read more from [Brain Pickings](#).*

**In 2016 I Learned That...** *Every year, The Reformed Broker's Joshua Brown puts together a list of "lessons learned", submitted by his friends and fellow bloggers that happen to be some of the brightest minds in the financial industry. Some of them are very insightful, some are just funny. All in all, it's an insightful list. Check it out [HERE](#).*

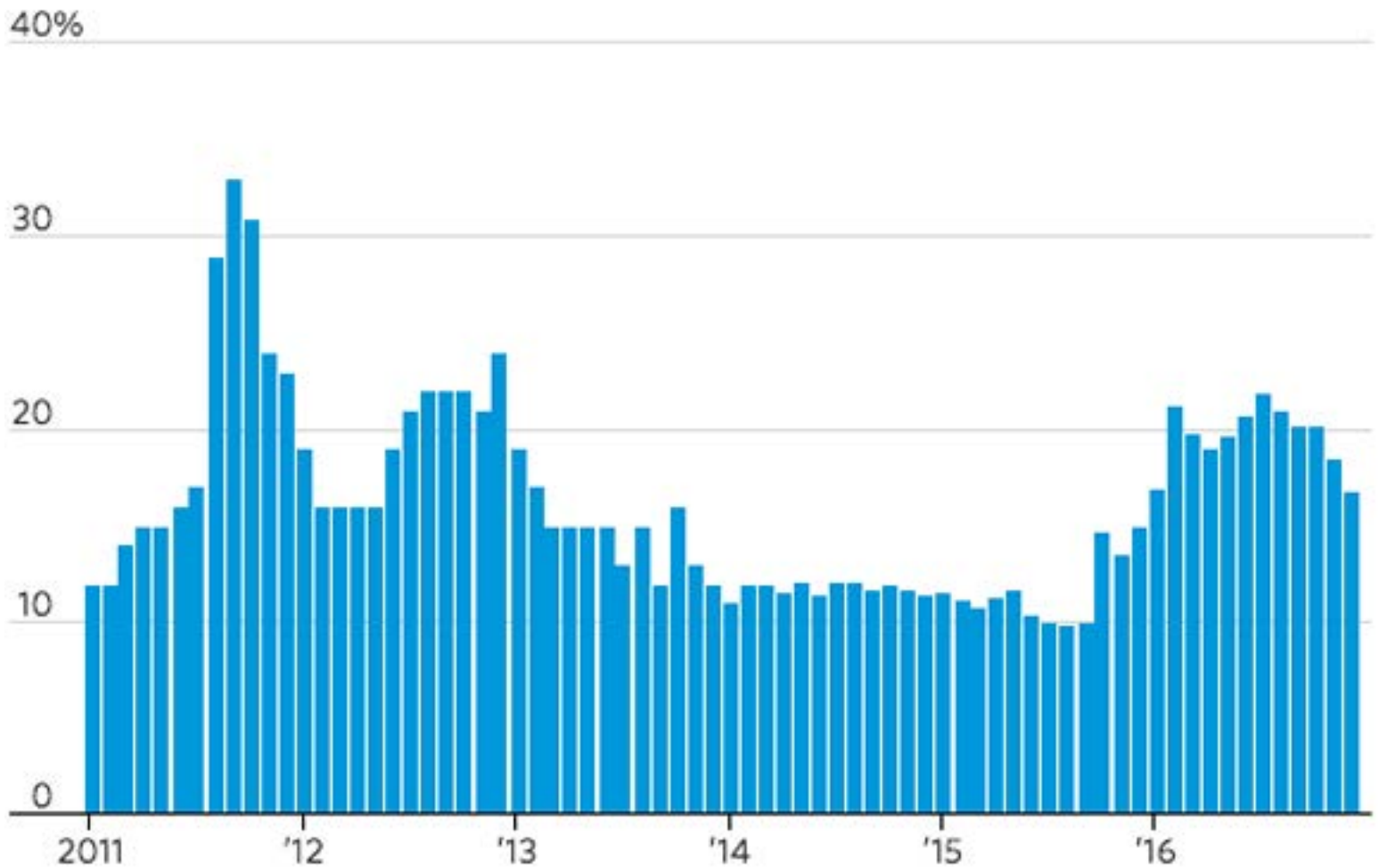
**Twelve Key Science Moments of 2016:** *[The Guardian](#) has compiled the top 12 key science moments from 2016, chosen by a panel of leading experts. Their list of the most significant discoveries and developments of the year includes everything from the Zika virus to the planet Prima B and a surprising secret of marriage.*

**Hedge Funds Bet the Commodity Revival Will Keep Going in 2017:** *Commodities had a resurgence in 2016, with the first annual advance since 2010. The gains will continue next year for many of the markets, at least that's what hedge funds are signaling. Money managers boosted their combined net-long position across 18 commodities by +9.7% in December, government data show. A year earlier, the funds were net-short. Investors have added to bullish positions in cotton, cattle, crude oil and soybean meal, but aren't optimistic for corn, cocoa and wheat. There's a growing chorus of voices that says the rally isn't over. Citigroup Inc., the bank that was ahead of the game back in 2012 when analysts declared the end of the super cycle of rising demand and price, now predicts that most commodities will perform strongly in 2017 as global economic growth picks up. Goldman Sachs Group Inc. in November recommended an overweight position for the asset class for the first time in more than four years. Read more from [Bloomberg](#).*

**Recession Warnings In 2016 Turned Out To Be False Alarms:** *The balance of evidence suggests the U.S. is not in a recession. That wasn't a sure bet when 2016 was young. Over the first half of the year, various indicators pointed to a possible recession in the not-too-distant future: sharp declines in stock markets and a slowdown in job creation, falling corporate profits and contraction in the factory sector, stalled temp hiring and decelerating car sales. As 2017 kicks off, most - though not all—of those yellow warning lights have turned green again. That doesn't rule out a recession on the horizon, of course. But the current economic expansion seems set to ring in the new year. [The Wall Street Journal](#) runs down some of the key indicators and how they looked as of late December.*

## Recession Odds

Average probability of the U.S. economy entering recession in the coming 12 months



Source: WSJ Survey of Economists

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### My Predictions and Concerns for 2017?

During my recent holiday break I tried to get myself far enough away and at a distance where I could better see the forest from the trees. A new year typically brings lots of predictions and thoughts about our future. I've considered some of the major themes and a few of the more intriguing "outside the box" what ifs that have been circulating, and I'm convinced that 2017 will be the most "unpredictable" year of my lifetime. The wave of "technology" is about to forever engulf our lives while the tide of anti-socialist, anti politically correct, anti-diversity, anti-entitlement, anti-establishment of the past many years

seems to be turning in a different direction as noted by the 2016 "Brexit" vote and Donald Trump presidential victory. Here at home and on the surface it's easy to say taxes will cut and U.S. business will prosper in 2017, but I'm a bit more uncertain and more nervous than I've been in many years. I find it interesting that as consumer confidence soars and the masses have become bullish the stock market, I've become more skeptical. From 2009 into 2016 I found myself predominately bullish the stock market. Now in the midst of all this great "change" I'm increasingly more concerned. I suspect it's because I've learned through the years that most plays always seems to look better on paper and in practice than when the quarterback steps under center and actually takes the snap beneath the bright lights and in front of the screaming fans. With this in mind I've listed a few of the moving parts and players I will be keeping a close eye on in 2017. The game is definitely picking up speed...

**PANDEMICS?** *I thought ["The Atlantic"](#) and several other sources have presented some interesting thoughts and commentary regarding president elect Donal Trump and how things could play out in the event of a major virus outbreak. It seems like there's some worry about how he and his team will respond. Many refer back to his tweets during the ebola crisis and wanting to ground all planes in or out of the U.S. that may have come in contact with infected areas. Also keep in mind he is a self-proclaimed "clean hands freak" and some suggest a bit of a germaphobe ([Politico](#)). Now all of sudden we have millions of birds being killed across Asia as a lethal strain of H7N9 is trying to be contained in China, India, Japan and South Korea. I should note that a few cases of the deadly virus are now being reported out of Russia. I have no idea if this particular virus makes its way to the U.S., but I suspect some type of deadly virus will be one of Donald Trumps first major hurdle. Some fear the team he has assembled will be extremely quick to make decisions, which could be both good and bad. There's some in Washington that believe Trumps team could quickly seal all U.S. borders, ground all flights to and from any infected areas, roll out quarantine guidelines and potential declares martial law if need be to enforce rules. Obviously this would place a huge drag on the U.S. economy and create massive social unrest. These are all a lot of big "what ifs", but I can assure you no one wants to have their loved ones who have traveled abroad locked out of their homeland. There's a ton of moving parts to consider, but I am going to be keeping an extremely close eye on the viruses and pandemic possibilities during the next few years. I'm really starting to become more concerned about the frequency, severity and how exactly they will be managed. Keep in mind just three months after Barack Obama's inauguration, a new strain of H1N1 swine flu was detected and it eventually reached global pandemic status. Then in September 2012, in the dusk of Obama's first term, a new flu-like disease called Middle East Respiratory Syndrome (MERS) was described in Saudi Arabia. In December 2013, a year into Obama's second term, the biggest Ebola outbreak in history began in Guinea before spreading to 10 countries. Then in late 2015 and early 2016, the Zika virus has already started sweeping the Americas. My point is it's not a matter of if but when Donal Trump will have to deal with a deadly major virus outbreak.*

**ISIS?** *The world last year was rocked by a horrific series of terrorist attacks carried out by cells established by ISIS as well a so-called "lone wolf" terrorists sympathetic to the terrorist group. With ISIS territory in Iraq and Syria slowly being eroded by U.S.-led forces, terror experts believe the group and its followers will grow more desperate, leading to more attacks in countries outside their former strongholds. ISIS recruits that came from other countries may be looking to return home too, posing a huge security*



threat, especially in Europe. It's estimated over 5,000 European youths have joined ISIS. The group is also said to be actively trying to recruit and radicalize refugees that have sought asylum across Europe. Another major concern is the types of weapons the group and its supporters may have gotten their hands on in Syria and Iraq, which could include chemical weapons. There's some talk inside Washington that the newly elected and appointed Trump team is going to go in "guns blazing" in an attempt to destroy ISIS. The fear is before being whipped from the earth ISIS will be forced to pull out all stops in a go for broke last-ditch-effort to destroy the West. Meaning terrorist related activity in both Europe and the U.S. could spike as they are backed into a desperate corner.

**EUROPEAN UNION?** There are several major events across Europe in 2017 that could see the euro zone and its one-system currency begin to unravel at a more critical pace. It may begin with Italy, where the country just voted down Constitutional reforms that saw the Prime Minister resign. His replacement, Paolo Gentiloni, has appointed a new government but opposition parties are clamoring for new elections. Gentiloni is regarded as a "carbon copy" of his predecessor and the Italian people are ready for change. Voters and political foes place a lot of blame for Italy's flailing economy on the rules imposed under the euro currency area, and many analysts predict that this year could bring a serious push to leave the zone altogether. France is the next wild card, holding Presidential elections April-May. Far-right leader Marine Le Pen, with widespread support among the working class, has vowed that if she wins, she will leave the euro currency and organize a referendum on whether to leave the euro zone altogether. As one of the EU's founding country's, losing France would be a devastating blow to the union. Another founding, Germany, holds general parliamentary elections by October 22. Right-wing parties have been gaining ground in regional polls, which could deal a blow to Chancellor Angela Merkel's leadership and her efforts to keep the EU united.

**RUSSIA?** I have to imagine Putin will test both the European Union and NATO as both appear to be under internal pressure. How the U.S. responds will be closely monitored? Most political analysts believe President Vladimir Putin has been emboldened by his mostly unchallenged aggressions in Ukraine and Syria. He also seems to view Trump as more "friendly" than "foe", something many Republicans, including Senator John McCain, find very disconcerting. There is a belief among McCain and other U.S. lawmakers that Russia will try to expand its influence even further, and that Trump will not take a hard line against them. The press is trying to write an entire book on the "Trump and Putin" relationship, which I don't think really exist other than being occasional acquaintances. There are however a ton of moving parts surrounding U.S. and Russian relations so we will need to continue closely monitoring Russian movement. Everything right now just involves so much speculation there's no need to get too deep down the rabbit hole.

**CHINA?** Similar to Russia, there's a ton of speculation about China and the new U.S. leadership. Will we see "trade wars" and imposed tariffs on imports and exports between the world's top two economies? Obviously if relations were to take a major downhill spiral China could be forced to dramatically devalue their currency. Which means they could potentially fall into a deep recession and cause world trade and economies to stall. Even though Peter Navarro, Trump's nominee for director of the U.S. National Trade Council, is tough on China, I don't see our relations spiraling downhill and out of control. In fact I truly believe China needs us way more than most give credit. They

may kick and scream a bit as Trump and his team renegotiate trade deals, but I suspect when push comes to shove there is no major fallout. I will however be keeping a close eye on the moving parts in Taiwan and the South China Sea. Remember, Trump riled up China just a few weeks back by speaking to Taiwan's President shortly after he won the U.S. election, which violated a decades long precedent of not acknowledging the island's government. China views Taiwan as a renegade province and is worried it wants to push for formal independence. If the U.S. were to begin establishing formal relations with Taiwan, it might embolden pro-independence forces. China law gives the country the authority to use force against Taiwan if it tries to secede. However, the U.S. is also bound by law to protect Taiwan, though it's always been unclear if the U.S. would actually send forces to help them in the event of war with China. There is also the matter of the South China Sea, which China claims almost entirely as its territory. They've been engaged in island building and are believed to be establishing a military presence on disputed plots, all of which violate international laws and U.S. policy. The U.S. has confronted China in these areas, sailing warships and other vessels in the disputed waters in an effort to enforce international open waters laws. There are worries that with China now arming the area, an unintentional military conflict could erupt.

**MEXICO?** The big questions are obviously "the wall" and "deportation"... which were two big promises that Trump made during his election campaign. The problem now I suppose is that both are much more complicated than Trump may have originally thought. I'm not saying they are not needed and that Trump doesn't want to see them happen, I'm just thinking it could be extremely difficult to make happen. There already seems to be some Republicans who are upset about the thought of deporting some 750,000 young undocumented immigrants who were allowed to stay on an order signed by President Barack Obama back in 2012. For what it's worth there's an estimated +11 million undocumented immigrants in the U.S., so I don't see any easy solution no matter which way we turn. I suspect Trump will revise the NAFTA trade agreement and Mexico will take a major economic hit.

**MIDDLE EAST?** I have to imagine the Saudis have won big, with Israel coming out an even bigger winner on the Trump election. Iran has to be the biggest loser as Trump has promised to scrap the deal recently negotiated by U.S. President Barack Obama and make it tougher on Iran to acquire nukes. Meaning the Iran nuke deal will get torn up and Iran will find itself back under sanctions. The Trump tough talk on Iran will obviously be viewed by Israel and the Saudis as some type of victory. Let's also keep in mind that Iran will hold a very important election during the spring of 2017. If hardliners were to come out victorious, relations with Iran takes a more confrontational path across the Middle East. Let's also not forget that Trump has said repeatedly

**OIL?** I have to imagine the U.S. is going to develop a much more "pro-energy" personality under the new leadership in Washington. This should allow fracking to flow and U.S. energy to be more than ample. I think a key to growth in business and jobs will be cheap energy. Price could temporarily rally from time to time on geopolitical uncertainties but I will be patient and wanting to lock in fuel needs when crude prices again drop to sub-\$40 per barrel.

**GOLD?** I've never been a gold bug, but I have to imagine with so many moving parts and uncertainty revolving around Trump and how he is going to govern give gold a reason to be in a portfolio. Any time the world gets extremely nervous and we see

heightened political risk asset allocators tend to take a longer look at gold. I'm not a big owner of gold, and never have been, but I can see it having a spot on my roster during the next couple of years.

**U.S. DOLLAR?** Last week, China tweaked its currency basket, adding 11 new ones in order to reduce the share of U.S. dollars. China has been particularly active in promoting the yuan's value against a growing group of currencies rather than the U.S. dollar, especially as the rise of the greenback in 2016 led to the yuan's largest annual loss against the dollar since 1994. The additions will increase China's foreign currency basket to 24, up from a current 13. A majority of the new currencies are from Asian countries and have close trading ties with China, so to an extent it makes sense that China wants to stabilize the yuan's value against those currencies. However, China has for years been calling for a new global currency to replace the dominant dollar. One interesting twist witnessed in 2016 was the more than +120% rally in Bitcoin, the cryptocurrency that is not subject to any one country's financial regulations. A main driver of Bitcoin's soaring valuation has been money from China. In his latest edition of "Greed & Fear," CLSA's Christopher Wood notes that daily turnover in Shanghai-based BTC China, the world's largest bitcoin exchange by volume, rose from around 1 billion renminbi in late September to a peak of 27.8 billion on 22 December. If governments and companies in China and other countries are actively seeking shelter in Bitcoin, it is not a stretch to believe they might use the electronic funds as a way around the U.S. dollar, which is expected to continue rising amid higher U.S. interest rates. It would also allow them to subvert any new trade sanctions that Trump's administration might impose as the currency is virtually untraceable and not subject to international banking laws.



**FED?** *Not only is there a ton of speculation around rising interest rates, but perhaps more importantly who will replace Janet Yellen as Fed Chair? Given what president elect Trump has said to this point about the Fed's monetary policy, there's speculation that Yellen could step down before her term ends next January, which will give Trump the ability to appoint her replacement. I personally don't see Yellen stepping down early. Keep in mind however there are two vacant seats Trump can fill as soon as he takes office and gets the Senate to confirm them. And perhaps four or five more in the next two years. As for rates, most sources are projecting two or perhaps three interest rate hikes in 2017.*

**U.S. SUPREME COURT?** *You have to imagine Trump will immediately nominate a conservative Republican to take the empty seat of former Supreme Court Justice Scalia. He has posted his [list of 21](#) potential candidates and has since said he has it narrowed down to three or four. Keep in mind there are couple of fairly young judges on the list. meaning Trump's pick could sit in the Supreme Court for years to come. From what I understand at least eight Democrats will be required to give Trump's nominee the 60 votes needed for confirmation. But if they hold out and attempt to filibuster, Republicans may elect to simply change the rules to allow nominees to be confirmed by a simple majority vote. Keep in mind the Democrats made a similar change for all judicial nominees except the supreme court back in 2013. Also keep in mind current Supreme Court Justice Ruth Ginsberg is now 83 years of age and could allow for a second Trump appointment to the highest court. Supreme Court Justice Anthony Kennedy is also now 80 years old.*

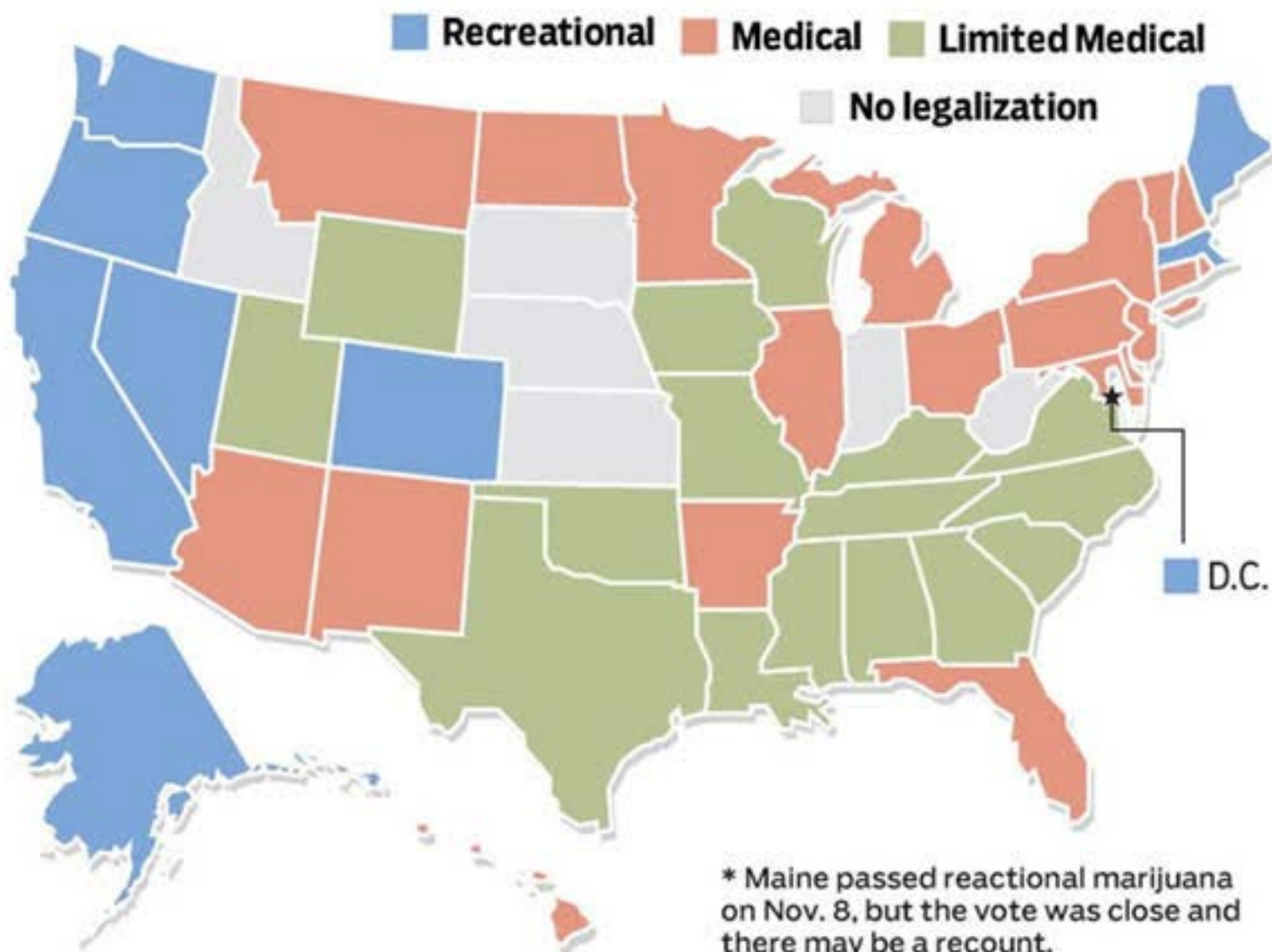
**U.S. PRESIDENTIAL ELECTION 2020?** *I've been hearing more talk that Starbucks Executive Chairman, Howard Schultz, might be making plans to run for the Democratic party in 2020. Early talk is that he would be a big favorite for major donors, high-profile party operatives, and leading Democratic members to begin rallying behind.*

**ARTIFICIAL INTELLIGENCE?** *The technology of Artificial Intelligence (AI) has continued to gain ground across an immense number of industries, and tech experts believe researchers and innovators will find even more applications for it in the year ahead. The computing trend is not new, but the advancements in machine "learning" capabilities have been truly astounding and they are being utilized in everything from algorithmic trading to medical diagnoses. Think tanks believe AI will gain ground on "big data" as the biggest technology disruptor this year. Keep in mind, the longer these systems are online, the more the smarter they get. What's more, some of the biggest companies in the world are sharing all that data in the cloud, meaning the amount of information available to these new AI empowered apps and software will continue to grow exponentially. It could have an even bigger impact on financial markets in the year ahead too. Algorithms have already proven to be huge disruptors, but there are several big projects in the works that might push the advantage even further into the realm of those with the biggest and best computer systems, because they will be combing through thousands of bits of minutia that even a group of the smartest traders and analysts would not be able to analyze quickly enough to take advantage. One example is a push by traders to develop an algorithm that would trade based on Donald Trump's tweets. Such a system would be heavily reliant on AI as it would need to be able to interpret natural language as well as be able to parse the use of sarcasm and irony. As the information database of Trump tweets and how they correspond to market moves grows, the trading system would, in theory, grow even more accurate.*



**Legalization of Marijuana:** So many states have already legalized marijuana, in direct conflict with Federal laws, that it seems Congress has no choice but to finally address the issue. Some political experts think lawmakers may be worried about a possible backlash from their constituents with trying to legalize it at a national level. Instead, they would likely strip the Federal government of its authority over the drug and allow individual states to enact their own laws - much the same way marriage and cigarette laws work. With the drug having proven to be a pretty lucrative tax-revenue source in the states that have legalized and regulated it, it stands to reason that a majority of the holdouts may soon feel a tremendous amount of pressure to follow suit.

## Marijuana legalization by state



\*\* Seven states, including Ohio, have laws on the books that are not yet operational. They are Florida, Louisiana, Arkansas, Ohio, Pennsylvania, Maryland, and North Dakota.

Source: The National Conference of State Legislatures and National Organization for the Reform of Marijuana Laws

LINDA SCOTT / STAFF

## **Looking Back... Our Family's "Big Project" from 2016**

Once Michelle and I became "empty nesters" it got a little quiet around the house. Never fully understanding or appreciating the "art of relaxing" or how to pull our oars out of the water, we decided to embark on another crazy venture. This time around, as many friends and readers have heard, we decided to restore one of the oldest homes in Kansas City. The home was on both the state and national historical registries and dates back to the mid-1800s. To say we dove in with both feet would be a gross understatement. All of our spare time in 2016 was devoted to rebuilding and restoring the beauty of this historical landmark. Let me just say it takes a lot more than you think to get one of these old girls back dancing again. Both my wife and I have a fair amount of real estate experience and thought we had a fairly strong handle on the budget and what would be need to bring her back to life. Wow... where ever wrong! About six months in to the project I told my wife the budget was officially out the window, the project had become personal and I was now viewing it exclusively as "art". This allowed me to mentally turn what I once believed was a well thought out investment strategy into something with a value only set by the eye of the beholder. In other words I got in way over my head, my budget wasn't even close to being correct, and I was so deep down in the hole I couldn't stop digging until I got to the other side. I probably wouldn't do it again, but looking back and seeing what we did for the neighborhood, the preservation of history and how it helped bring our family even closer it has been worth it's weight in gold. My wife and I use to always say you never know the strength of your relationship until you've been on a two-day float trip with college friends. We know throw restoring an old historical home into that mix. Whenever the kids where back in town or during any of our collective free time we spent it together down at the "old house." We also had lots of old friends and family down helping from time to time as well. So in the end, there probably wasn't any major financial gain, but the intangibles and the bonding it fostered are irreplaceable. Kind of like the memories we've all created on the farm... sometimes you just can't put a price tag on those types of things. That's why I liked being a part of it and electing to do most of the work ourselves. I wanted the kids and my wife and I to have real "skin" in the game, I wanted them to have passion for it. Remember, things don't mean a lot in life if you don't have to sacrifice much to get them. I have to constantly remind myself as a parent that I need to make the kids "work for it". We all want to make it a bit easier on our kids than we had it ourselves, but in doing so I'm afraid they lose the "passion". My grandma use to always tell me, "don't throw the baby out with the bathwater." I think I'm finally starting to understand! Below are some of the before and after shots. If you ever make it to Kansas City, come by and we will give you the personal tour.

# Van Trump Family Restoration Project 2016



*Before*

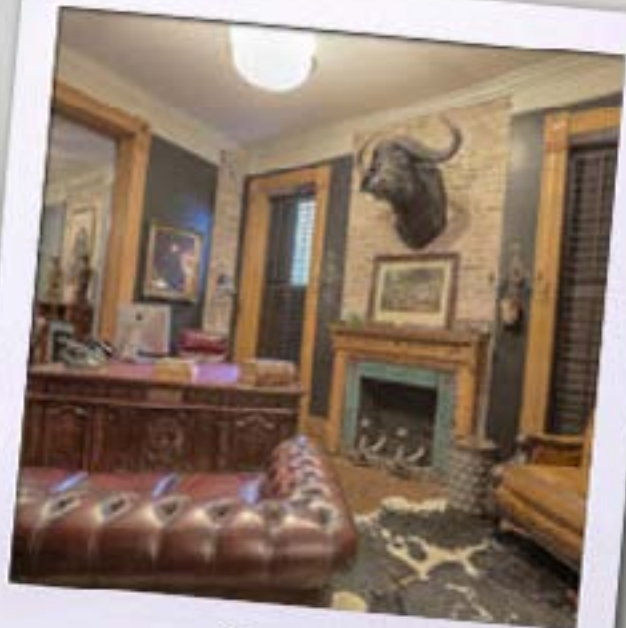


*After*

## Inside Kevin's Personal Office



*Before*



*After*



## Our New Conference Room



*Before*



*After*

## One of the New Offices



*Before*



*After*



# One of the Staircases



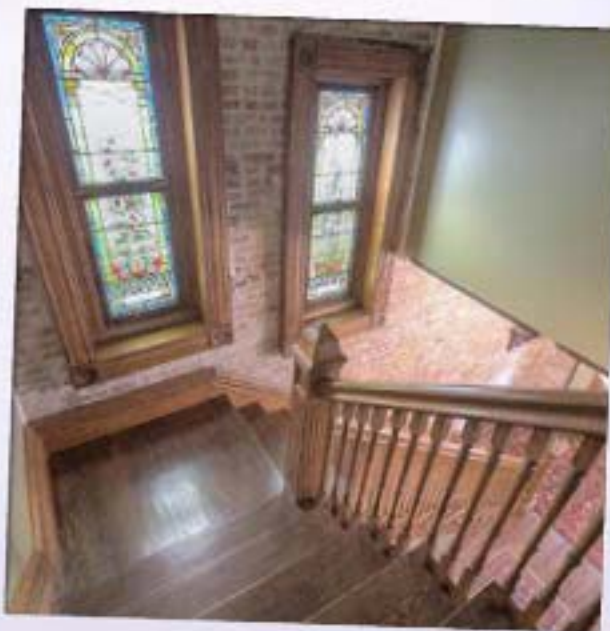
Before



After



Before



After

## Kitchen Number 1



*Before*



*After*

## Upstairs Living Room



*Before*



*After*



## Kitchen Number 2



*Before*



*After*

## Outside the Carriage House



*Before*



*After*

# Carriage House Kitchen



*Before*



*After*



*Before*



*After*



# CASH SALES & HEDGING TOTALS

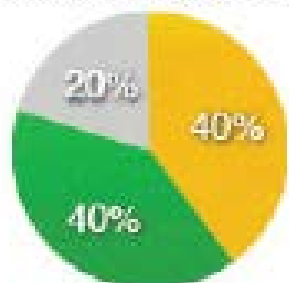
## CORN 2015 CROP

100% SOLD  
0% HEDGED  
0% Cash Remaining



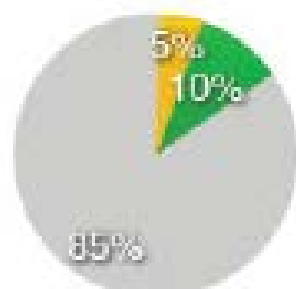
## CORN 2016 CROP

40% SOLD  
40% HEDGED  
20% UNPROTECTED



## CORN 2017 CROP

5% SOLD  
10% HEDGED  
85% UNPROTECTED



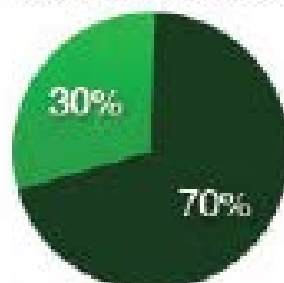
## SOYBEANS 2015 CROP

100% SOLD  
0% HEDGED  
0% Cash Remaining



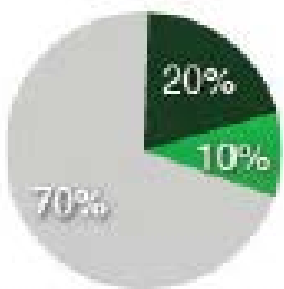
## SOYBEANS 2016 CROP

70% SOLD  
30% HEDGED  
0% UNPROTECTED



## SOYBEANS 2017 CROP

20% SOLD  
10% HEDGED  
70% UNPROTECTED



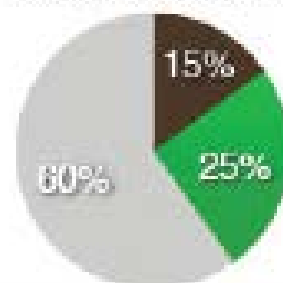
## WHEAT 2015 CROP

100% SOLD  
0% HEDGED  
0% Cash Remaining



## WHEAT 2016 CROP

15% SOLD  
25% HEDGED  
60% UNPROTECTED



## WHEAT 2017 CROP

0% SOLD  
10% HEDGED  
90% UNPROTECTED

