

Grain Oilseed Update and Outlook 9/3/2013

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All three markets close near session lows in brisk volume trade focused on balancing further slippage in 2013 US soy yield potential vs. negative seasonal factors and hefty \$2.47 rally from recent lows. Soybean market unable to take out last week's high despite ongoing moisture shortage across 40% of US soybean belt and continued dry Midwest conditions through Monday of next week. Trade already talking about likelihood that USDA will offset a portion of reduced 2013 US soy production with cuts in 13/14 US soybean export demand. Additionally, the US is on the cusp of soybean harvest, soy markets tend to top out late August and cash merchants are confident that soybeans will move more readily at harvest than corn.

Upcoming Moore Research Seasonals listed below. We think shorting CZ, SMK and WZ seasonal listed below have merit along with WZ/SX and WK/WH. Moore Research seasonal graphics attached show depict tendency for soybeans to erode vs. wheat and for WK to gain on WH. Fundamentally, soybeans are high on wheat while increasing competitiveness in the global wheat market portends declining US wheat export sales in the weeks ahead.

Sell CZ 9/4-9/17—13 of 15 years
Sell WZ 9/11-9/18—14 of 15 years
WZ/SX 9/12-10/3—13 of 15 years
CZ/SX 9/20-10/6 –13 of 15 years
Sell SMK 9/21-10/3—14 of 15 years
WK/WH 9/21-12/11 14 of 15 years
CH/WH 9/24-12/11—13 of 15 years

Attached Moore Research soy/corn ratio shows tendency for SH to peak vs. CH the 3rd week of Sept and correct modestly into mid Nov before posting new highs into early Dec. SH/CH today at 2.79 to 1 is well under SX/CZ at 2.93 to 1. The job of the soybean market, which is facing a possible sub 150 mil bu 9/14 US soy carryover, is to spur even higher 2014 soy area in S America. Additionally, 13/14 corn stocks, US and globally, will advance markedly along with 9/15 US corn stocks even with a 3-4 mil acre cut in 2014 US corn area.

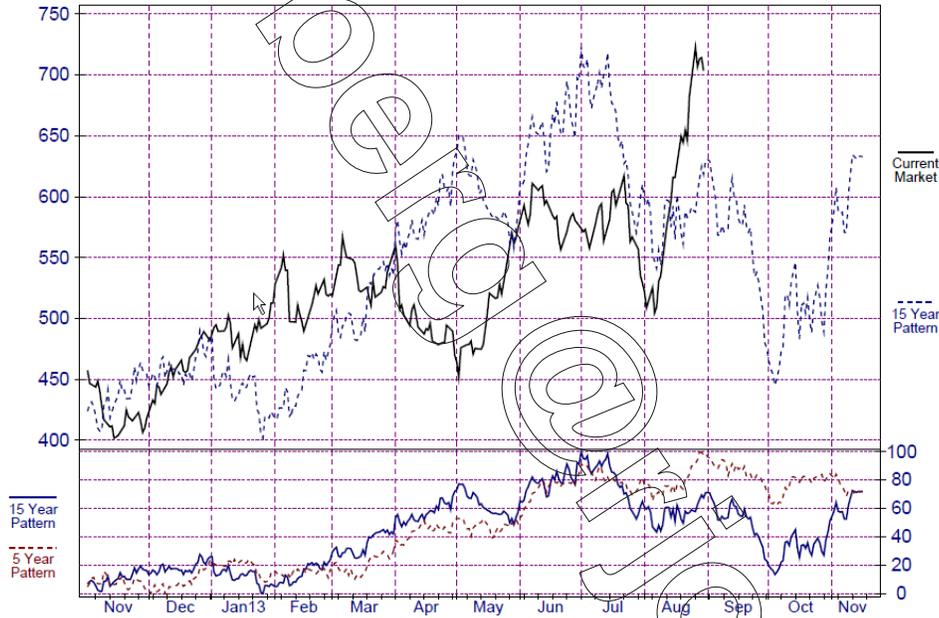
Once the uncertainty over 2013 US row crop production is reduced considerably following the October crop report—suspect trade will openly discuss likely WASDE 14/15 US row crop balance table projections that will be released on 2/21/14 at USDA's Annual Outlook Forum. USDA's 1st 14/15 US row crop balance table forecasts will affirm ongoing snug 9/15 US soybean supplies and adequate 9/15 corn supplies which will further support gains in beans vs. corn. Historically, the bean/corn ratio has exceeded 3.25/1 on 5 occasions since 1970. A 3.10 soy/corn ratio with corn at \$4.50 would imply soybean futures in the \$14.00 area which suggests only limited upside from current levels if one embraces fair value for corn in \$4.50 area. Risks to above analysis would be a much larger than expected 2013 US corn yield which may pressure CZ to \$4.25 implying an upside limit in nearby soybeans of \$13.81 even with a generous 3.25/1 bean corn ratio.

US corn condition declines 3% to 56% GE vs. 22% last year with corn denting advancing 19% to 42% vs. 61% average. Soy condition declines 4% vs. last week to 54% G/E vs. 30% last week.

HRS harvest advances 22% to 64% G/E while HRS condition rating advances 3% contra seasonally to 70% G/E—an indication of better than expected harvest yields. On balance, today's updates are in-line with expectations leaving price discovery tonight and tomorrow contingent on upcoming weather forecasts with market already discounting a dry week ahead. A turn to a dryer forecast next week would be supportive and vice-versa. Corn dealing with dual negatives of better than expected southern yields and eroding basis—a definite undertow for soy market until combines verify or refute expectations for below trend soy yields.

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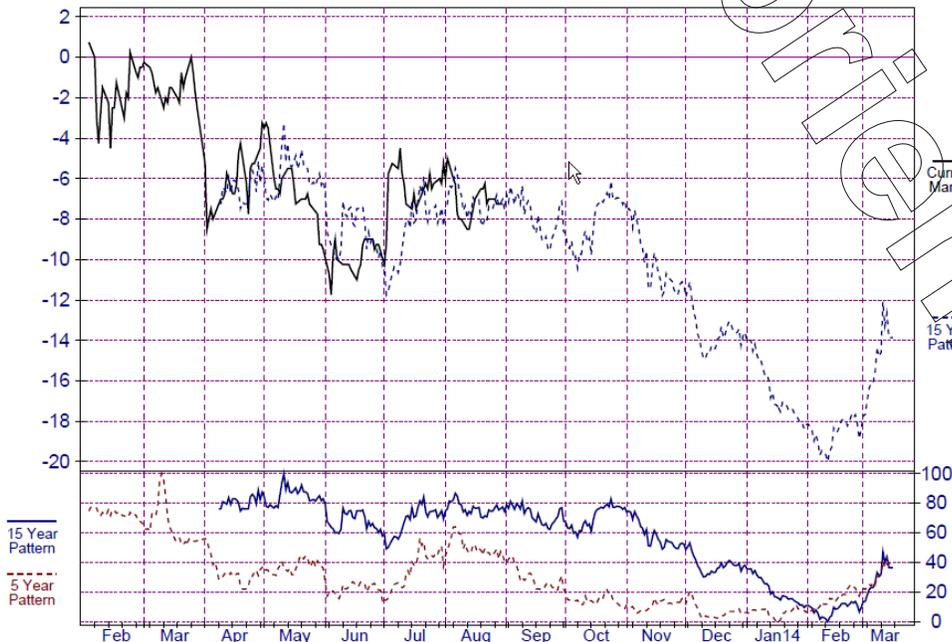
Nov13 Soybeans(CBOT) - Dec13 Wheat(CBOT)
With 15 Year Seasonal(98-12)



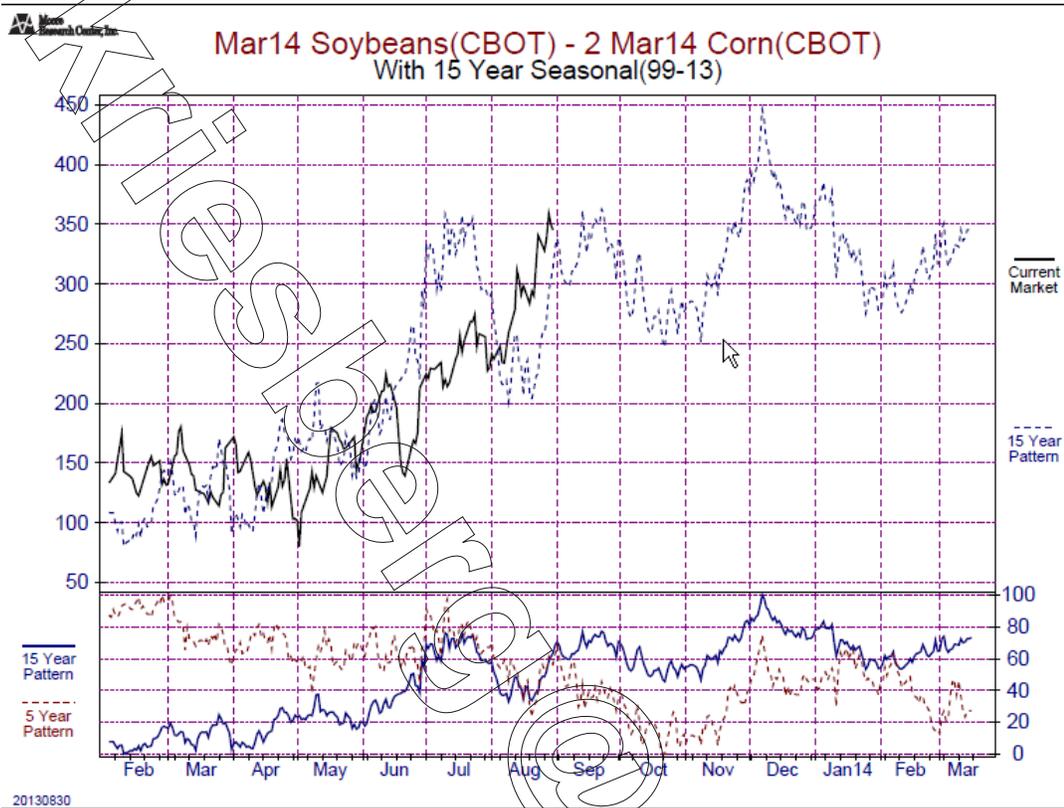
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Mar14 Wheat(CBOT) - May14 Wheat(CBOT)
With 15 Year Seasonal(99-13)



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Additional Items Interest:

- (Reuters) - Russian wheat export prices fell in shallow-water ports last week due to weaker demand from Turkey, Russia's second-largest customer after Egypt, the Institute for Agricultural Market Studies (IKAR) said in a note. IKAR quoted Russian Azov Sea export prices for wheat with 12.5 percent protein content at \$220 per tonne last week, down \$6. At deep-water ports, Black Sea wheat export prices were down \$2 at \$250 per tonne on a free-on-board basis. "Azov Sea export prices have plunged ... mostly because of Turkish lira devaluation and weakened demand from this key market," IKAR said.
- (CME Livestock Updates) Restaurant operators' outlooks for the next six months turned negative in July with the percentages expecting sales volume growth and better economic conditions falling to 37% and 23%, respectively from their June levels of 46% and 30%.
- (Reuters) U.S. EXPORT INSPECTIONS (1,000 BU) SOYBEANS 1,422, WHEAT 36,410, CORN 17,436
- Egypt tendering for wheat again tonight.
- (Reuters) Funds sold an estimated net 9,000 CBOT corn contracts, sold 2,000 wheat, bought 9,000 soybean, bought 3,000 soymeal and sold 2,000 soyoil - CBOT floor sources
- (U of IL's Dr Good on row crop prices) At this juncture, the 2013 corn crop is expected to be large enough that rationing of consumption during the year ahead will not be required. The average farm price will likely be higher than expected a month ago, but a sharp increase in prices from current levels to discourage consumption is probably not needed. Prices during the first half of the marketing year may be relatively flat. There is more concern about the size of the soybean crop and prices have risen sharply over the past month. Unlike corn prices, soybean prices are expected to unfold in more of a short-crop pattern like that of last

year. Under such a pattern, prices would be expected to peak very early in the marketing year in order to discourage consumption and decline as the year progresses, particularly if the South American crop is large again in 2014.

- (D-Bank on upcoming EPA decision on 2014 bio-fuel rules) Should the EPA keep the conventional mandate flat with the 2013 level, it would weigh on corn prices as it diminishes chances the corn-based industry will ever achieve the targeted 15 billion gallon ethanol cap. By contrast, we continue to view the situation as positive for soybean oil. Soybean oil prices fell on the EPA announcement in August that it anticipates potential adjustments to the 2014 volume requirements. However, the EPA's analysis with respect to 2013 strongly indicates that it is relying on excess biodiesel production to help meet advanced volume requirements. Hence, we see an accelerated pace of demand pull for soybean oil from the biodiesel sector this year, particularly if renewal of the \$1/gallon biodiesel tax credit looks to be in jeopardy.

- Yield Updates:

Sabetha KS (northeast) –test sample corn moisture was 32%. Yield was 160. He was hoping for field avg. of 180.

Prairie County (Hazen, Arkansas) – corn harvest – yields reported 233 to 267 bu/ac. – irrigated corn.. running 17% moisture.. wet spring, corn was planted late, yield better than expected.

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