

AM Grain Notes
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Richard J. Feltes, VP – Research
rfeltes@rjobrien.com

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Perfect storm overnight with confirmation that warm/dry pattern will continue, expectations for another week of declining crop ratings, bullish Pro Farmer production forecasts, near limit up Dalian bean futures and a CFTC report still showing only modest managed fund bean long and ongoing corn short.

9/14 US corn stocks will more than double even with Pro Farmer's 13.5 bil bu prod forecast while soybeans facing another year of tight US stocks if dry weather nips late season pod set/pod fill. Time is running out stabilize 2013 US soy yield which still has good potential although extended forecasts are not encouraging.

Weekend travel on I-80 across IA and into N 1/3 of IL shows uniform soybean growth and lush stands although many areas need finishing rains. Areas north of IL river reported late week rains varied from 1-3 inches—in amply time to help beans although some tip back of corn reported from prior dryness.

Soy meal limits expand to \$30 today.

RJO Radio Snap Shot Tour highlights include 10% cut in corn yield potential across C and E Midwest and Dakotas and even more slippage in soy yield. C IL clocking in driest Aug on record—Indianapolis thus far 7th driest ever. About 25-30% of OH crops benefited from rains late last week although additional follow up Sept rains needed to finish beans. IN reporter notes premature drying of crops and not much concern about frost while reporters in MN/SD hoping for another 6 weeks of frost free growing weather. Warm temps this week across NW Midwest helping to close GDD gap created from cool FH Aug temps. Look for slippage in crop ratings of 3-5% in IL and even more in ND. Farm movement shut off in dry areas as farmers watch board rally on unusual late summer dryness. Exceptional corn yields reported in northeast LA while early beans yielding from 41-86 BPA. 25-30% of non irrigated Delta soy laboring under warm/dry weather conditions but overall southern producers expect another year of high row crop yields. Frequent comment from Midwest reporters *"beans are still green thus capable of responding to late summer rains:."*

Weather leans positive with 40% of key crop areas dry through end of next week when some relief arrives across N and E fringes of Midwest. Temps peak this week but stay above average through end of next week. No sign of frost through most of Sept (see attached CWG 16-30 day outlook) while above normal temps through Dakotas, MN/IA will help to reduce frost vulnerability and improve 2013 corn crop quality.

SX rally tallies \$2.31 from early August low. Market has already priced in portion of lower yield potential. The challenge ahead is discerning whether the 2013 US soy yield could slip below 40 BPA

which could trigger even higher prices into 3 day Labor Day weekend. Market will be glued to updated weather forecasts as week advances.

Foreign Markets:

- Palm market up up 67 ringgits at 2434
- Paris milling wheat up 3.25 euros at 188.75
- Dalian beans up 61.25 cents, meal up \$19.90, soy oil up 175 and corn up 5.75 cents.

Additional items of interest include:

Outside Markets:

- **(RJO NY's Janet Mirasola)**
- (Bloomberg) **Economic confidence in the euro area probably rose to the highest level in 17 months in August**, adding to signs that the currency bloc's recovery from a record-long recession is gathering pace. An index of sentiment rose to 93.8 from 92.5 in the previous month, according to the median of 26 economists' estimates in a Bloomberg News survey. The European Commission said Aug. 23 that consumer sentiment in the 17-nation euro zone increased to a 25-month high in August. Unemployment probably held at a record 12.1 percent in July, a separate Bloomberg survey shows. Increased momentum in the region's economy since it returned to growth in the second quarter has boosted European equities, with the StoxxEurope 600 index up 11 percent in the last two months.
- (Bloomberg) China's **stocks rose the most in two weeks on optimism that the nation's economy is stabilizing**. The Shanghai Composite Index (SHCOMP) rose 1.9 percent to 2,096.47 at the close, paring its 2013 decline to 7.6 percent. Trading volumes were 21 percent above the 30-day average. Credit Suisse Group AG and Deutsche Bank AG increased their economic forecasts for China in the past week as data from manufacturing to exports indicate the world's second-biggest economy is strengthening after a two-quarter slowdown. "Signs are emerging that China's economy will rebound,"
- WASHINGTON--**Orders for long-lasting manufactured goods dropped sharply in July** as demand for aircraft fell and business spending was weak. Total orders for durable goods--big-ticket items built to last three years or more--fell 7.3% to a seasonally adjusted \$226.6 billion in July from the prior month, the Commerce Department said Monday. Economists had forecast a 4% drop. Businesses and consumers typically make such purchases when they are confident about the economy, and the decline suggests potential signs of weakness as the economy struggles to grow.
- (Reuters) The **Commodity Futures Trading Commission reportedly is set to release a set of regulatory options for oversight of high-frequency trading**, according to one official. The CFTC's Technology Advisory Committee is expected to consider the options at a meeting in mid-September. Separately, FT reports that asset managers and pension funds are facing significant

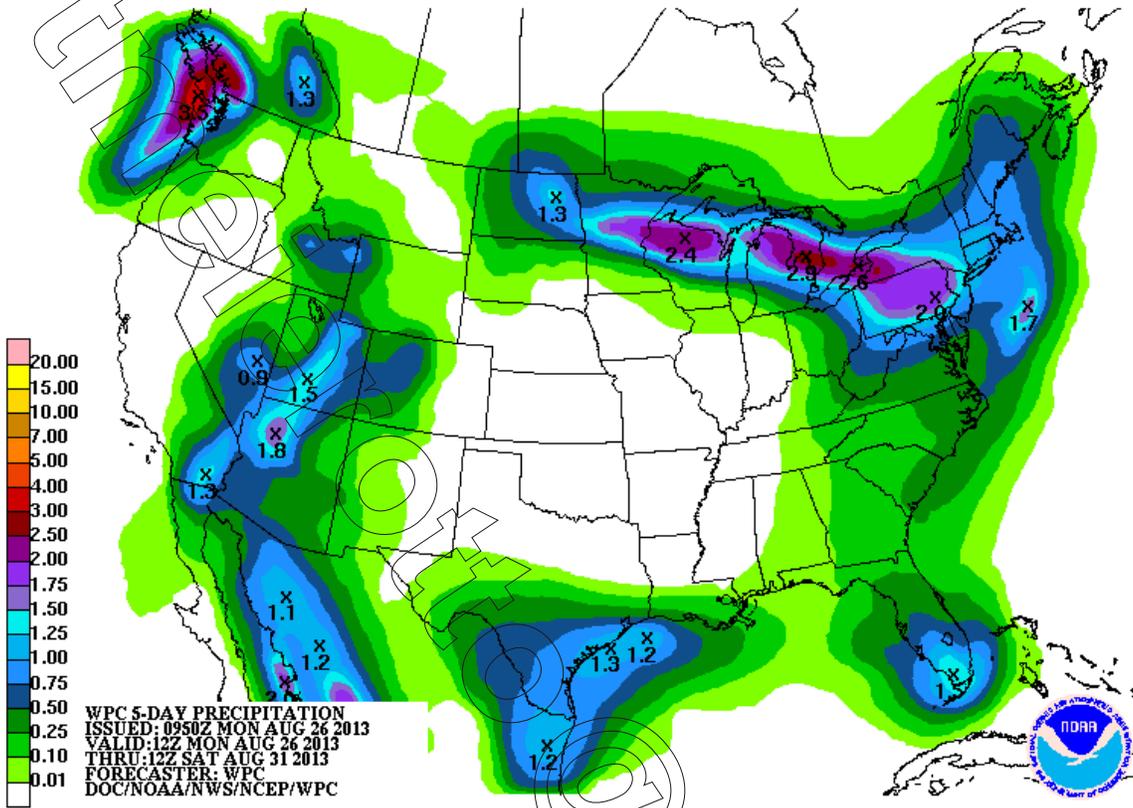
challenges as they prepare for new requirements, mandated by the Dodd-Frank Act, for clearing and reporting of derivatives.

- (JPM tapering update) It still looks like the first taper announcement will come on 9/18 barring a disastrous jobs report on 9/6 (although increasingly it seems that the first reduction will be a small one weighted towards Treasuries). While the Fed remains on track to taper QE it isn't close to raising rates (nor are any of the world's other big CBs).
- (Upcoming Sept eco events) 9/6 jobs report, tapering timing, tapering logistics, German election, and potential change in European central bank policy. Additionally, all formal PMI's come out the week of Sept 2. The Sept 5-6 G-20 Leaders Summit in St. Petersburg is expected to be a non-event.
- (WSJ) Nearly every participant at the weekend Jackson Hole Meeting thinks the Fed should do a better job providing guidance to markets on how it plans on dialing back LSAP.
- (FT) Emerging markets dominated Jackson Hole as officials debated the impact Fed tapering; many think volatility would continue in EMs but that the pain would be tolerable.
- (Washington Post) Obama should settle the battle for the Fed soon.
- (WSJ) Average US worker wages are barely keeping pace w/inflation, a major factor holding back the economy.
- (WSJ) More crude oil is being moved by truck, barge, and train than at any time since '81 due to a shortage in pipeline capacity.
- (Bloomberg) ECB members split over rate cut; in the last few days ECB officials have expressed varying opinions on the prospect of a further rate cut. Reuters reports Jens Weidmann sees no change to the bank's current monetary policy stance.
- (Reuters) Chinese growth is showing clear signs of stabilization according to the state statistics bureau; demand trends are being helped by policy support and some improvement in global demand. The country is on track to hit the full year 7.5% GDP growth goal.
- (Bloomberg) China will speed up infrastructure construction for new major projects in the west of the country this year, according to a statement posted to the National Development and Reform Commission's website.
- (Bloomberg) -- Federal Reserve officials rebuffed international calls to take the threat of fallout in emerging markets into account when tapering U.S. monetary stimulus. The risk that the Fed's trimming of bond buying will hurt economies from India to Turkey by sparking an exodus of cash and higher borrowing costs was a dominant theme at the annual meeting of central bankers and economists in Jackson Hole, Wyoming, that ended Aug. 24. An index of emerging-market stocks last week fell 2.7 percent, the steepest in two months, compared with a 0.5 percent gain in the Standard & Poor's 500 Index.

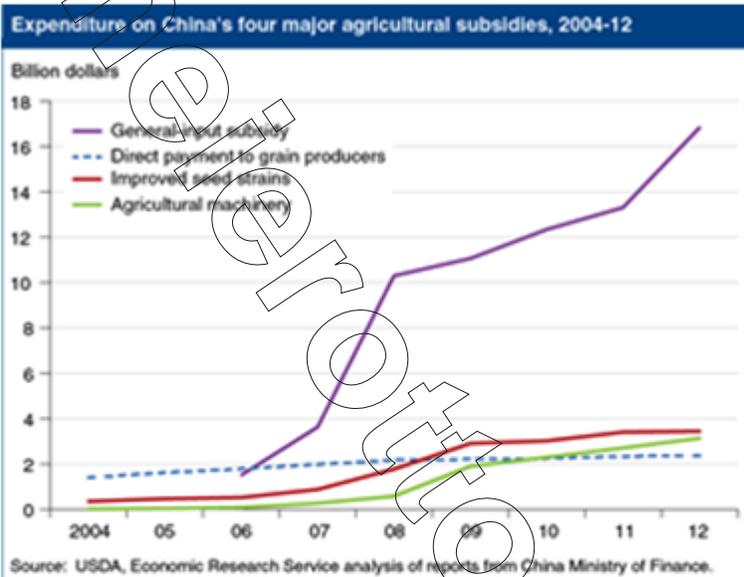
- (Bloomberg) -- Unprecedented outflows from Indian gold funds are set to reverse as money managers predict the rupee's slump to an all-time low and resurgent inflation will spur demand for bullion as a store of value. Kotak Mahindra Asset Management Co. and Reliance Capital Asset Management Ltd. expect investors to boost holdings after withdrawing a record 3.1 billion rupees (\$48 million) in June and July. Bullion prices in the world's biggest gold-consuming nation have surged 24 percent since the end of June, according to data compiled by Bloomberg,
- (Bloomberg) -- Hedge funds and other speculators raised bets on higher gold prices to the most in six months as signs of slowing U.S. growth drove bullion above \$1,400 an ounce for the first time since June. The net-long position increased 29 percent to 73,216 futures and options by Aug. 20, U.S. Commodity Futures Trading Commission data show.

Ag Markets:

- Saudi's buy 720 tmt O/O HRW (likely German) at values \$35-40/ton below US.
- S Korea passes on tender for 60 tmt feed wheat citing high prices
- Cattle on feed Friday considered bullish cattle and negative feed demand with placements at 90% vs. 98.6% estimates.
- Managed funds go to buy side of pad by upping bean longs 53K contracts and reducing corn short by 31K to -92K contracts. Managed funds in 5 major ag markets buy a whopping 118K contracts.
- Pro Farmer cuts 100 mil bu off USDA Aug soy production and 300 mil bu off corn in part on harvested area cuts of 0.8 in beans and 1.8 mil acres in corn.
- US CN/BN ratings expected to decline another 2-3% vs. 61%/62% respectively reported last week. Additional ratings declines expected next Monday if current forecast is fulfilled.
- FND for Sept on Friday. Domestic corn basis remains at historically high levels suggesting no deliveries. Cash sources report crushers purchased 3-5 days of new crop beans on Friday as crush margins advance on firming of domestic meal basis by \$5/ton

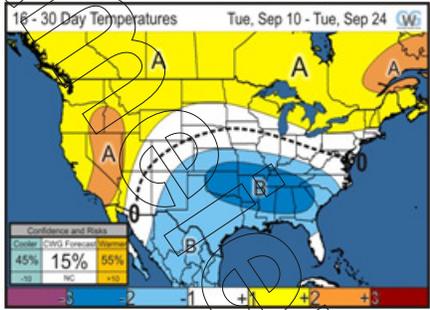


China's agricultural subsidies rise following establishment of general-input subsidy program

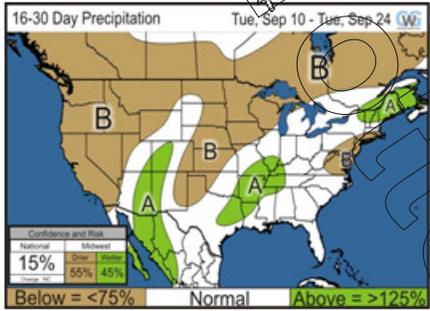


China's expansion of agricultural support is driven by a mix of factors, including a campaign to "modernize" agriculture by inducing adoption of modern inputs and increased investment, concerns about rural-urban income inequality, and concerns about maintaining "food security." Growth in subsidy payments reflects the strategy of increasing subsidies annually. Most of the growth in payments is in the "general-input subsidy" that aims to offset rising production costs in order to maintain net returns to grain producers.

16-30 Day



Mon, Aug 26, 2013 at 5:07 AM



Mon, Aug 26, 2013 at 5:10 AM

Weekly Ag Scorecard shows funds covering corn and extending soy longs

CBTAGS (#'s = 1,000's Contracts)	PRODUCER, MERCH PROCESSOR, USER (COMMERCIAL)						SWAP DEALER (INDEX FUNDS)						MANAGED MONEY (NON-COMM)					
	C	B	W	Oil	ML	Total	C	B	W	Oil	ML	Total	C	B	W	Oil	ML	Total
	06/04/13	-273	-180	-73	-34	-129	-689	254	64	106	79	45	548	91	141	-18	-21	61
06/11/13	-269	-195	-75	-31	-139	-709	255	67	109	77	43	551	83	153	-17	-19	70	270
06/18/13	-265	-179	-67	-43	-132	-686	261	71	116	79	46	573	74	134	-29	-22	65	222
06/25/13	-267	-186	-77	-38	-127	-695	262	87	115	78	49	591	71	128	-19	-28	62	214
07/02/13	-158	-165	-41	-31	-120	-515	261	80	115	79	47	582	-20	111	-50	-36	53	58
07/09/13	-144	-164	-55	-31	-118	-512	263	76	115	80	46	580	-56	112	-48	-38	48	18
07/16/13	-140	-178	-58	-36	-122	-534	262	74	116	83	46	581	-37	124	-34	-36	51	68
07/23/13	-102	-160	-44	-27	-112	-445	265	77	115	84	47	588	-83	110	-49	-47	47	(22)
07/30/13	-81	-141	-46	-19	-96	-353	267	75	110	73	50	575	-109	75	-41	-44	33	(86)
08/06/13	-59	-72	-46	-7	-86	-270	263	75	110	73	53	574	-113	44	-47	-55	23	(148)
08/13/13	-65	-92	-42	-16	-94	-309	262	75	106	70	52	565	-123	47	-44	-48	25	(143)
08/20/13	-125	-153	-38	-31	-119	-466	278	71	103	72	50	574	-92	100	-43	-35	45	(25)
WKLY CHANGE	-60	-61	4	-15	-25	-157	16	-4	-3	2	-2	9	31	53	1	13	20	118

C	B	W	O	ML		C	B	W	O	ML
15%	9%	20%	21%	16%		-5%	12%	-8%	-10%	14%
<i>Index % of Open Interest</i>					<i>Man Money % of Open Interest</i>					

C	B	W	Oil	ML
10%	21%	12%	11%	30%

Index + Managed Combined % Long O.I.

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