

Grain Oilseed Update and Outlook 7/15/2013

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Grains retreat on heels of improved weather forecast for next week while Aug/Nov soy inverse adds another 21 cents on top of Friday's 29 cent gain in frantic effort to shake remaining soybeans from tight fisted farmer hands. Domestic soy basis expected to be stable to higher in week ahead after posting losses last week. CZ retreats further from 5/11 highs and is on verge of breaking \$5.00 barrier again—a level known to attract PRC interest in new crop US corn. Technically, all new crop ag charts are struggling and hence reflective of waning investor interest in ag markets that are poised for sizeable gains in 9/14 US row crop stocks.

Stepped up inquiries today on CU/CZ and SQ/SX spreads the latter of which surged to \$1.97 today vs. the 7/9 high of \$2.07. Moore Research seasonals of aforementioned spreads (attached) show strong seasonal tendency for both to erode LH July. Advise selling CU/CZ on rallies as majority of Midwest approaches late July pollination with adequate moisture—especially in northwestern Midwest where bulk of remaining on farm corn stocks exist. As for SQ/SX, we look for volatile/erratic trade in old/new soybean spread with support stemming from tight stocks and delayed harvest while “air pockets” in inverse possible on cancellation or rolling of old crop US export sales to new crop and/or meal end users drawing down inventories to minimal levels. Additionally, suspect remaining farmer held beans will move more readily early August if Midwest maintains near normal moisture pattern. In the short term, however, expect further upside follow through on old/new inverses as SQ needs to advance closer to \$15 area to attract stepped up selling and or domestic meal rationing. In summary, advise against shorting old/new soybean spreads but exercise caution on existing long spread positions given historically large inverses already in place.

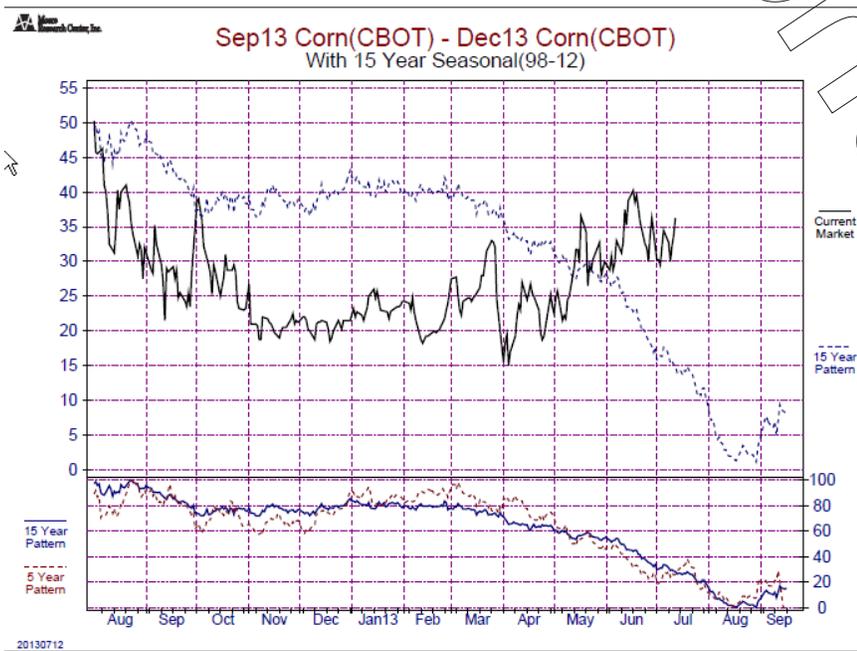
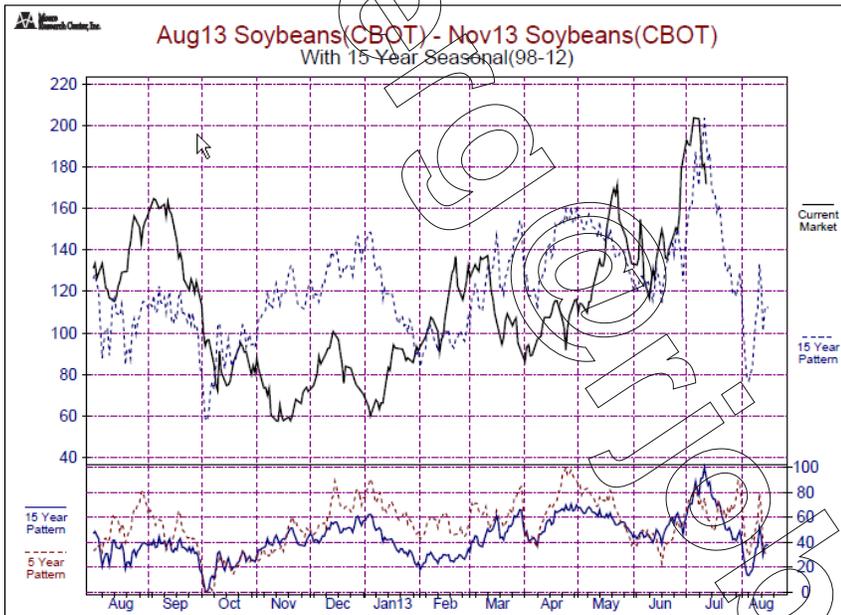
NOPA soybean crush today suggests that USDA's 12/13 US soy crush of 1.660 bil bu is 15-20 mb too low implying 9/13 US soy carryover stocks closer to 110 mil bu than USDA's 125 mil bu forecast unless USDA peels back 13/14 residual use to 1 mb as they did last year in addition to cutting old crop soybean export loadings. Either way, today's NOPA report is mildly supportive to old/new soybean and meal spreads. Remember, however, that WASDE has repeatedly refused to tighten 9/12 US soybean stocks on the last 2 crop reports despite similarly compelling NOPA crush update. Additionally, of greater importance on whether 9/13 US soy stocks are 100 or 125 mil bu level is the mix of board price and basis necessary to spark additional liquidation of farmer longs while discouraging crush and meal consumption.

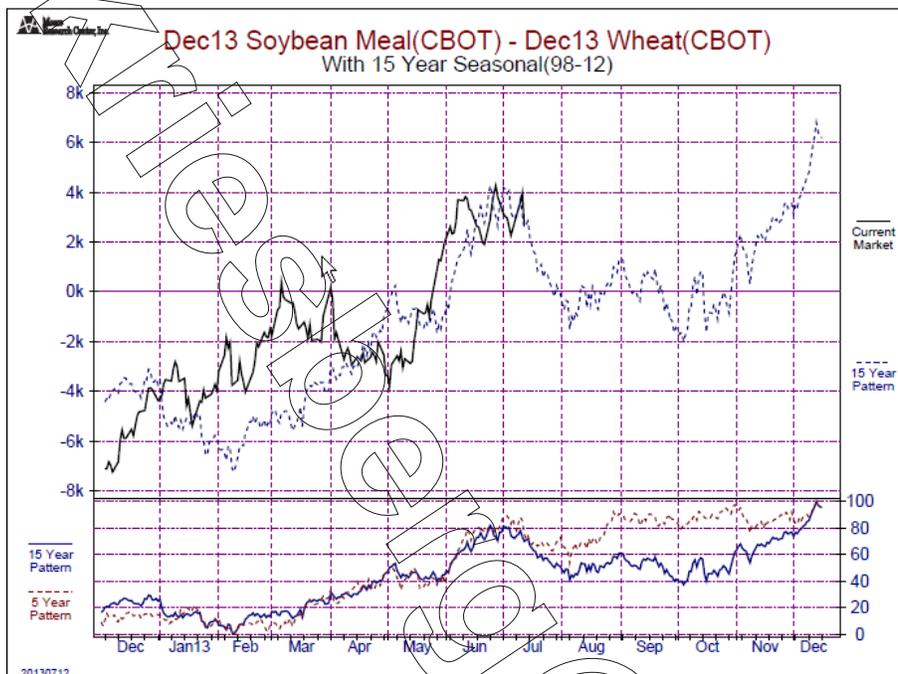
CWG blog today notes that in week leading up to 2013 pollination-July 21-27, that Midwest US temps will be tracking 10-15 degrees cooler than similar week in 2012 crop development calendar (July 8-14, 2012). CWG characterizes next week's Midwest precip pattern as “active” including frontal activity across northern and central ND which have tracked dry in recent weeks. Extent to which rains materialize next week across IA/NE and N Mo will be driver of whether CZ and SX are capable of mounting another rally.

Advise buying Dec wheat and selling Dec soy meal—the latter of which we think is overpriced relative to wheat. Moore research seasonal attached shows strong tendency LH July for meal to erode vs. wheat. Recall USDA's July crop report which posted a gain in 13/14 global soy stocks and a decline in global wheat stocks. Additionally, soy meal prices are still tracking above long term

price levels vs. wheat which has already experienced pressure from the expanding 2013 N Hemisphere wheat harvest.

US corn ratings decline 2% vs. last week to 66% G/E vs. 31% last year and 66% in 2011. Corn sikling climbs 10% to 16% vs. 35% average for mid July. Soybean conditions decline 2% as well to 65% G/E vs. 34% last year and 64% in 2011. Only 26% of soy crop blooming vs. 40% normal. HRS conditions decline 2% as well from last week to 70% G/E vs. 65% last year. Winter wheat harvest at 67% trails average by only 4% but still 1/3 of harvest to go with yields expected to increase as cutters move northward across the Plains. Taken collectively, trade may get modest Monday night/Tuesday bounce off of today's lower than expected US row crop ratings although updated maps tonight that either confirm or scale back western Midwest rains next week will be primary driver. There is nothing in updated crop ratings to spark managed fund managers to cover corn shorts or expand soybean longs.





Additional Items Interest:

- (Update from northeast SD) I just heard up in NE South Dakota most ethanol plants have corn bought up till mid Sept. And more will be sold to them this week. Window closing quickly up here. A ton of old crop moved last week.
- (Empire Survey) The Empire State manufacturing survey's headline increased from 7.8 in June to 9.5 in July. The details in the July survey improved nicely and the survey's ISM-weighted composite increased 4.9 points to 51.3, reaching its highest level since February.
- US wheat export inspections at 24.5 mb, corn at 16.3 mb and soybeans at 3.7 mb with row crops off measurably from las year (especially beans) while wheat inspections exceed 1st year by 9 mb.
- CHICAGO--U.S. cash basis levels for spot corn supplies are displaying declines Monday from an increase in country movement after the rise in cash and futures prices last week. Cash basis levels are off the prices witnessed previously, as end users from domestic processors to exporters have most of their near term needs covered, shifting their focus to cheaper new crop supplies.
- (CME Daily Livestocks Report) Broiler companies were positioned to grow as soon as they were confident that feed prices would be below the record levels of the past crop year. This year's delayed plantings likely pushed such decisions further into the summer than would have been preferred but continued strong crop condition ratings have apparently outweighed most concerns about crop development and weather risk. Companies had the chance to lock in new crop corn on the Board in the low \$5.00 area and could have priced soybean meal on the Board in the mid-\$300s during May. Both would represent substantial cost reductions relative to last year and, when combined with current revenues, be quite conducive to expansion.
- (Reuters) - China plans to reduce its growing cotton inventories in the next three or more years, the general counsel for China National Cotton Reserves Corp (CNCRC), the country's

state-owned reserve, said on Monday. At a cotton conference in New York on Monday, CNCRC's General Counsel Liu Hua reaffirmed Beijing's plans to continue its current cotton stockpiling program through 2013. At the same time, he said, the country needs to whittle down its growing inventories.

- (NOPA) June Soybean Crush 119.05 Million Bushels; -June Soyoil Stocks 2.3B Pounds; Down 169 Million Versus Month Ago.
- (U of IL's Dr Good) Even with harvested acreage less than currently estimated, prospects for corn and soybean yields near trend value in 2013 point to large crops and the likely build-up in stocks during the 2013-14 marketing year. Due to the extreme lateness of soybean planting in some western and northern growing areas, soybean yields may be at more risk than corn yields. Soybean yield uncertainty could persist later in the season than is normally the case, with new crop soybean futures reflecting more production risk than new crop corn futures.
- (Reuters) - Canada is poised to harvest a record-large canola crop and produce its most wheat in 17 years, despite challenging conditions early in the growing season, according to a Reuters poll of 15 traders and analysts. Canola production will reach the long-held industry target of 15 million tonnes in 2013/14, setting an all-time high and beating last year's production by about 13 percent, based on the poll's average estimate. The all-wheat harvest is seen on average around 29.7 million tonnes, up 9 percent from 2012/13 to the highest level since 1996's bin-buster.
- Funds sold an estimated net 5,000 CBOT corn contracts, sold 4,000 wheat, bought 4,000 soybean, bought 3,000 soymeal and sold 3,000 soyoil - CBOT floor sources.

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