

Grain Oilseed Update and Outlook 8/1/2013

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CZ and SX probe new lows in 1st of month selling spree triggered by mounting concern over 13/14 US row crop demand (on heels of largely favorable 2013 N Hemisphere production), approaching late week rains that will trim dry western areas and tech selling especially in soybeans—the only major ag commodity where managed funds are still nursing longs. Wheat bleeds lower as well on strong undertow from corn and steeped up shipments of FSU wheat. Ease of row crop decline, despite delayed development, suggests that ag markets are adjusting to reality of larger global grain supplies, intensified export competition, topping out of ethanol boom and largely un-hedged US farmer longs.

Interesting to note that SX price freefalls in 2004 and 2008 both started in late July. The soybean market continued to erode through the late summer and fall in 2004 before bottoming late February the following year. The 2008 soybean price freefall did not bottom until late December. The 2004 soy price freefall triggered a 2 year range bound trade in soybeans while the 2008 soy market did not regain its footing until late April of 2009. These analog years provide little comfort to remaining soy longs held by managed funds who have already established large short positions in corn and wheat.

Congress adjourns today with plans to return early Sept leaving only 11 legislative sessions to complete Farm Bill prior to 9/30/13 expiration of existing legislation. Insiders anticipate a temporary extension of existing legislation knowing full well that other legislative priorities—immigration, debt ceiling, tax reform—will “suck nearly all oxygen out of the room”. Our best DC sources “would not rule out possibility of a government shutdown. Both sides are entrenched and there is no leadership from White House”. Crop Insurance and food stamp programs will continue without interruption. Historic Congressional failure to forge Farm Bill compromise signals growing Senate/House friction that could undermine agreement on any important legislation for the remainder of President’s term.

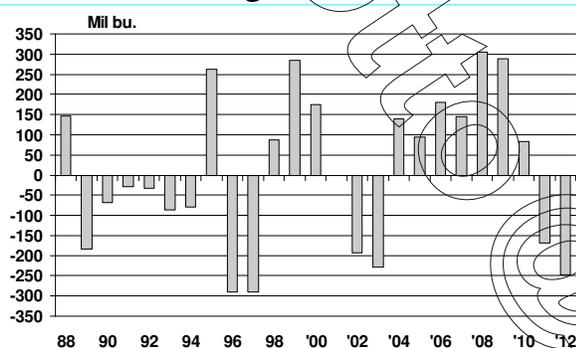
Only 7 trading days until August crop report which marks USDA’s 1st integration of actual field measurements into estimating 2013 US corn/soy yields and production. Graphics below show USDA corn and soy production vs. trade expectations. Interesting to note that USDA Aug 1 corn production has exceeded the average trade guess in 7 of last 9 years by 100-300 mil bu (2011 and 2012 were drought stressed years). Conversely, USDA August soybean production has fallen short of trade expectations in 11 of last 12 years—(mostly by 35 mb or less—1 mmt). Take home point here is that history says USDA’s August corn production is likely to exceed expectations—potentially by a wide margin—that could push 9/14 US corn stocks well over 2.0 bil bu. As for any shortfall in USDA 2013 US soy production vs. trade expectations—remember that soy traders will be facing a potentially record 2014 S American soy crop—up 7-9 mmt over 2013 production—that will mitigate shrinkage in WASDE’s 9/14 US soybean S/D that already assumes a sizeable 180 mil bu (5 mmt) gain in 13/14 US soybean demand.

Wide range in Aug/Nov beans (20 cent range today closing 4 cents lower at \$1.64) is not a stinging endorsement of purported tight cash soy markets even though select S MN soy processors increased the soy basis another 10 cents today. What it does say is the majority of soybean volume is shifting

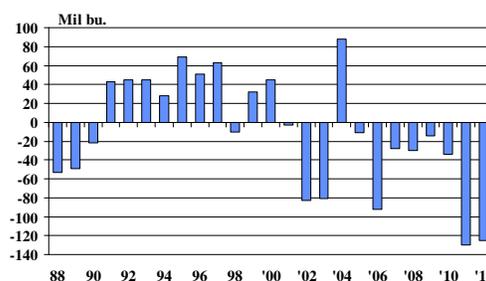
to the Nov where nearly 2/3 of OI resides in a market that smells a large rebound in 2013 US soy production and potentially overstated WASDE 13/14 US soybean demand forecast. The no-man's land between tight old crop soybean stocks and more plentiful new crop soybean stocks appears less foreboding. SX/CZ at 2.55 to 1 is still high. Managed funds will take hard look at remaining soybean longs over the next few days—especially if late week western Midwest rain forecasts are realized.

FCS estimates the 2013 corn yield at 157 BPA (USDA 156.6) with prod at 13.993 bil bu or +43 mb vs. USDA and beans at 43 BPA (USDA 44.5) or 3.309 bil bu—67 mil bu below USDA. FCS used USDA's July harvested acres. These forecasts, if realized, do not represent a clarion call to reverse prevailing downtrend.

USDA August Corn Production
vs. Average Trade Guess



USDA August Bean Production
vs. Average Trade Guess



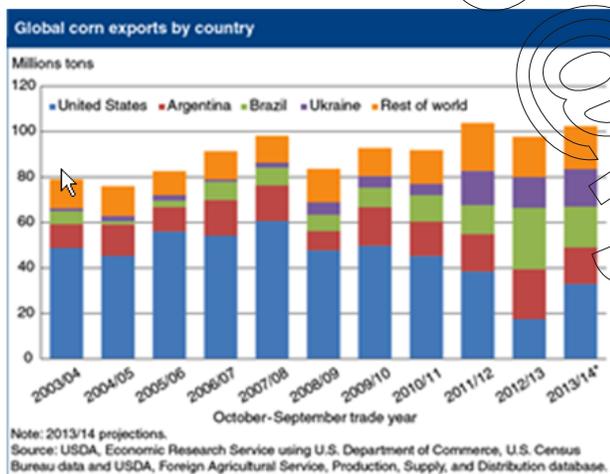
Additional Items Interest:

- (CME Daily Livestock Report) Japan has long been the largest customer for U.S. muscle cuts of pork. It remains, by a huge margin, the number one market for U.S. pork in terms of value, a ranking that is closely related to the fact that trade policy virtually requires products to be of relatively high unit value to get over the gate price and thus avoid incurring what amounts to a larger-than-normal tariff.
- (Reuters) U.S. House Republicans plan to propose a \$40 billion cut to the nation's food stamp program, the head of the House Agriculture Committee said on Thursday, twice the cuts previously sought by conservatives.
- (Reuters) Funds sold an estimated net 15,000 CBOT corn contracts, sold 3,000 wheat, sold 8,000 soybeans, sold 3,000 soymeal and bought 2,000 soyoil - CBOT floor sources
- (Reuters) - The Korea Corn Processing Industry Association (KOCOPIA) has rejected all offers and made no purchase in a tender for 55,000 tonnes of corn, which closed on Thursday, European traders said. The lowest price offered was \$253.50 a tonne c&f by Concordia to be sourced from the Black Sea region, traders said.
- (Reuters) - Growth in Argentine soy cultivation will outpace that of chief rival corn in the upcoming season, to be planted over the two months ahead, prompting forecasts of a record soybean crop spurred by relatively cheap production costs. "Soy area will hit 20 million hectares," said Gustavo Lopez, head of the Agritrend consultancy. That would be higher than the current season's 19.5 million. The recently-harvested 2012/13 crop is forecast at 49

million tonnes by Lopez, who says the 2013/14 harvest could reach 55 million tonnes. That would easily beat Argentina's record 52.7 million tonnes reached in 2009/10.

- (Reuters) - The European Union is likely to reap a bumper maize (corn) crop this summer despite some poor western European harvests, cutting its need to import the feed grain, analysts said on Thursday. "The EU is on course for a considerable increase in its corn crop this year with most of the increase focused on east and central Europe," said F.O. Licht. "This will mean the EU will be able to provide more of its own corn supplies in the coming year and will probably need lower imports from regions such as South America." F.O. Licht currently forecasts the EU 2013 maize crop will rise to 67 million tonnes (USDA 65.6 mmt) from 59 million tonnes in 2012, with both figures including new EU member Croatia.
- (IGC) World corn production during the 2013-14 crop year is forecast to hit 942 million metric tons, the International Grains Council said Thursday, revising lower its previous forecast by 4 millions tons due to dry weather in the U.S. corn belt. The IGC also said it revised higher its forecast for world wheat production by 4 million tons this month to 687 million tons, reflecting better prospects for the European crop than previously expected and a larger harvest out of India.

United States has lost corn export market dominance



Thursday, August 01, 2013

For most of the last century, U.S. corn accounted for between 50 and 75 percent of world corn exports, but over the last decade the United States has lost its dominance in world corn markets. The U.S. ethanol program provided underlying support for corn prices after 2005 and, together with rising global feed demand and policies in some foreign countries, encouraged expansion in foreign corn production, with Brazil and Ukraine notably successful. In 2012/13 (October/September), with several years of below trend U.S. yields compounded by severe drought, foreign corn has become increasingly competitive in world

markets. U.S. corn export market share is forecast to fall to less than 20 percent in 2012/13. With record U.S. corn production projected for 2013/14, U.S. export share is expected to increase and the United States is expected to return as the largest exporter. But the U.S. market share is forecast to remain well below 50 percent, while Brazil, Ukraine, and Argentina are each forecast to account for 15 to 20 percent of world corn trade. This chart is adapted from the [Feed Grains Chart Gallery](#).

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