Feltes Ag Report

Grain Oilseed Update and Outlook

5/21/2013

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

Soybeans post another new high while grains flounder on heels of largest ever corn area planted in 1 week—42 mil acres vs. prior 1992 record high of 34 mil acres. Grains once again absorb bulk of selling pressure as bullish late planting pillar crumbles with trade expecting near 90% corn planting completion next week. SN/SX posts another new high today near$2.60 (closing at $2.51) –a near 90 cent gain since early May. Producers who in some cases are looking at $3.00-$3.50 old/new crop cash bids are finally capitulating with processors reporting pick up in ownership from 2 day 33 cent rally in SN. Fairmont, MN tonight paying $15.27/bu for delivered beans (N+50 vs. N+90 last week).

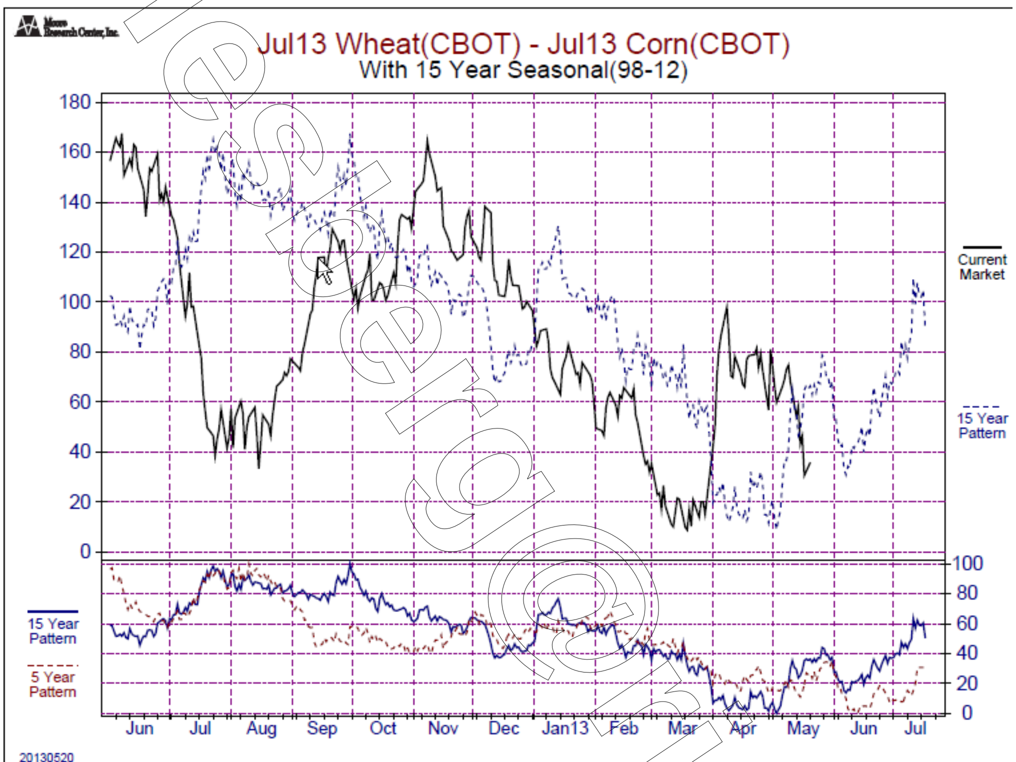
Moore Research seasonals on deck include buying SMN from 5/27-4/10 which has yielded profits in 14 of last 15 years. Spread seasonals include CN/WN from 5/25 to 6/8—a winner in 13 of last 15 years—and SMN/BON from 5/26 to 6/11 which has worked in 15 of last 15 years. We think both spreads warrant consideration; corn/wheat given closer proximity of N Hemisphere wheat harvest along with a much tighter old crop corn situation than wheat. As for meal/oil—we think meal will continue to be the soy product leader given much above average domestic meal basis, hand to mouth end users, labor unrest in world's largest soy meal exporter (Argentina) and relative abundance of edible oils globally. Trade is anticipating a drawdown in domestic soy oil supplies but the reality is that nearby soy oil stocks are still plentiful.

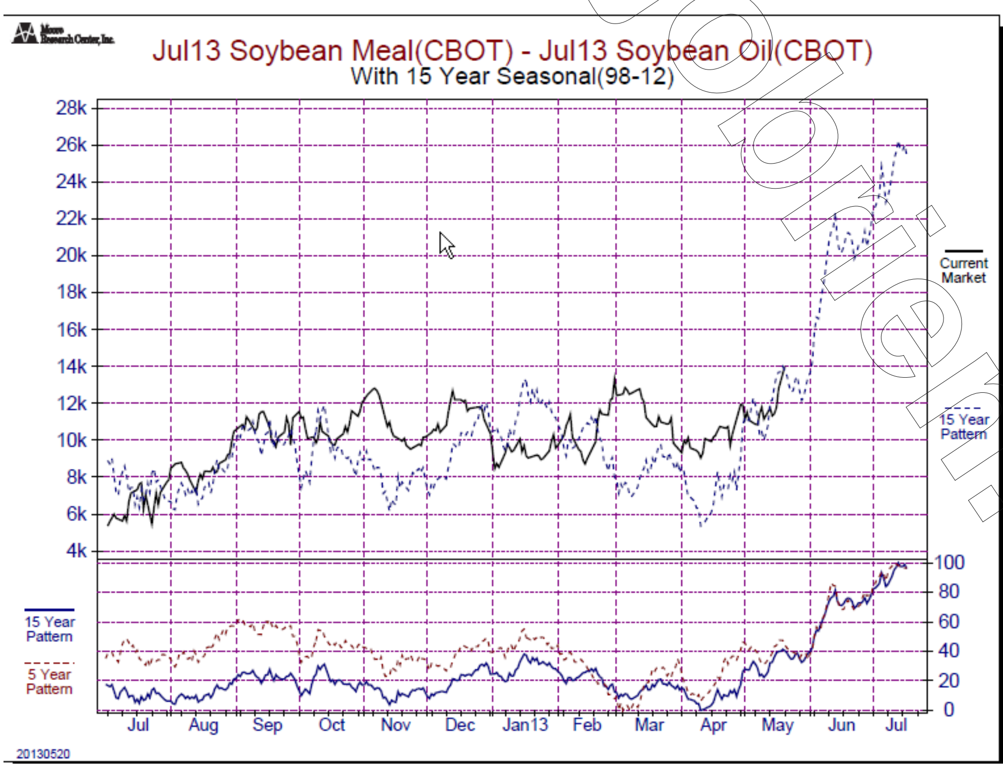
Note also addition of SX/SF Moore Seasonal chart below detailing strong tendency for SX to erode vs. SF. Important to note that USDA's conservative 265 mil bu 9/14 US soy carryover forecast equates to a 8.1% stks/use ratio. Informa's 337 mil bu forecast of 9/14 US soy stocks (predicated in part on 1.2 mil larger bean area than USDA) if realized implies a 10.5% new crop US soy stks/use ratio. Take home point here is that most analog years with increasing new crop US soy stocks typically post widening of SX/SF carrying charge. We think this trade has merit as long as 2013 US soybean production is not seriously threatened. CWG's updated weekly GLAM index released today (see CWG's Mid Day Outlook and Update) continued to reduce odds of a hot/dry summer for the US.

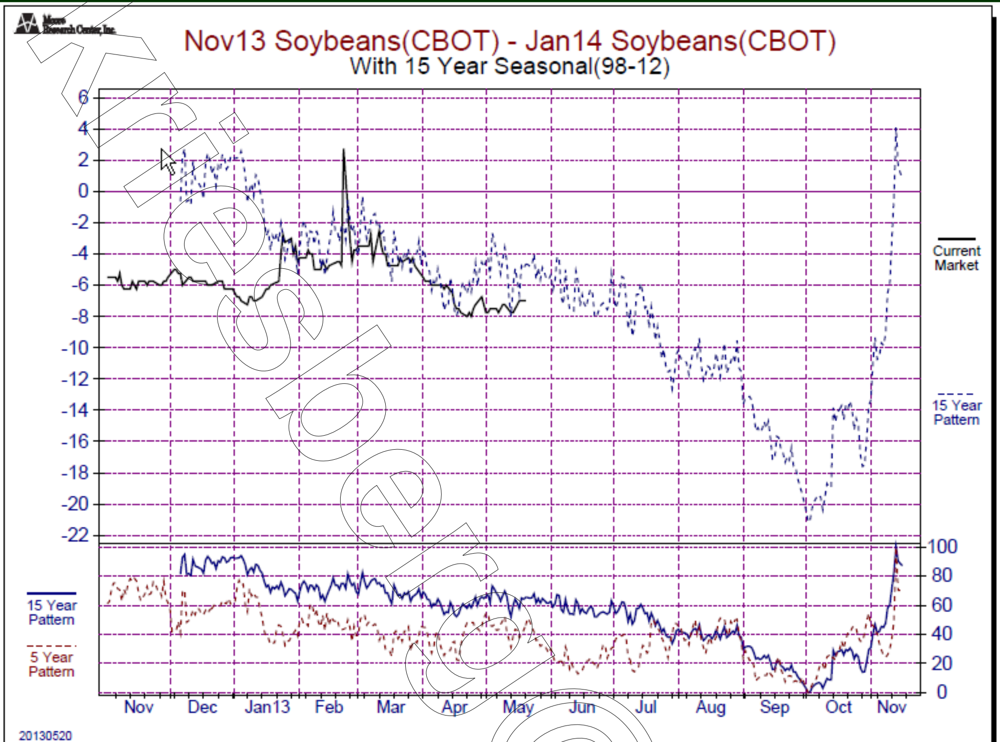
Final Moore Research spread seasonal graphic attached below shows strong tendency for MLS wheat to gain on CGO wheat from late May through mid June. Fundamentals supporting this trade include improved growing conditions across US winter wheat areas, delayed North American HRS seeding and approaching US winter wheat harvest.

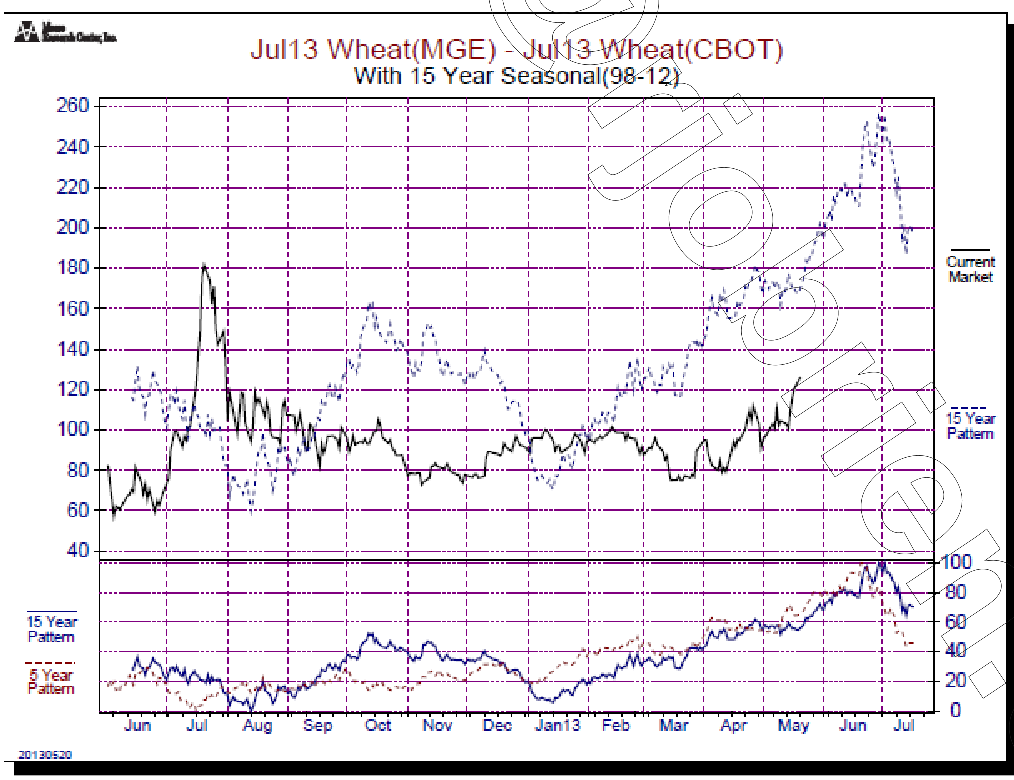
SN surge today to highest level since 3rd week of Feb, despite eroding domestic soybean basis and stepped up farmer movement, reflects concern over Rosario Argentina port strike and associated fear that the US may over-commit on old crop meal exports. Extent to which traders are front running upcoming fund roll (starting next week with Rogers) by buying SN and selling deferred futures is difficult to access but it is increasingly clear that widening board inverses along with the advance in board flat price are taking leadership role in drawing out remaining old crop beans from the red hot domestic basis premiums (currently retreating) that carried the load in recent weeks.

Bottom line—corn and wheat charts look dismal, hurting row crops in vegetative stage is rare, there is risk that post-planting farm sales accelerate and recent rains in FSU—for now—have bought more time. Advise selling rallies in deferred corn and wheat along with new crop soybeans while keeping a watchful eye on US weather pattern which thus far is characterized by an active Plains/Midwest precip pattern and absence of prolonged temperature extremes.









Additional Items of Interest:

- (Reuters) - China, the world's largest soybean importer, will increase soybean imports from May to replenish run-down inventories, Hamburg-based oilseeds analysts Oil World said on Tuesday. China's May 2013 soybean imports could rise to 6.0 million tonnes from 5.3 million tonnes in May last year, Oil World estimates. China is likely to import 7.0 million tonnes of soybeans in June, up from 5.6 million tonnes in June 2012, and 6.2 million tonnes in July against 5.9 million tonnes in July 2012, Oil World forecast. "Chinese soybean imports will start increasing sizably from May onward," Oil World said.

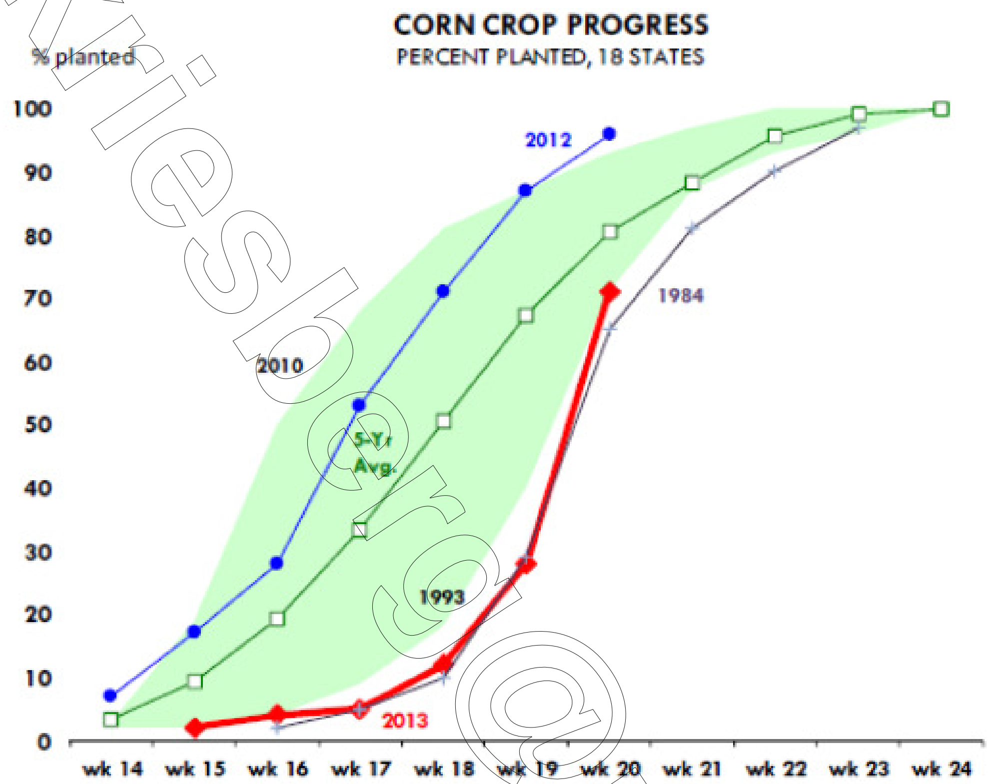
- (Reuters) - The United States, traditionally a massive soybean exporter, is likely to raise soybean imports this season because of tight old-crop supplies, Hamburg-based oilseeds analyst Oil World said on Tuesday. "We estimate that 0.87 million tonnes, or 32 million bushels (USDA 20 mb) , of soybeans will be imported into the United States in Sept./Aug. 2012/13, partly from Canada and partly from South America," Oil World said. By comparison, U.S. soybean imports in the 2011/12 season were only 0.46 million tonnes. Tight old-crop supplies after a poor 2012 harvest and brisk exports have supported old-crop U.S. soybean prices this week.

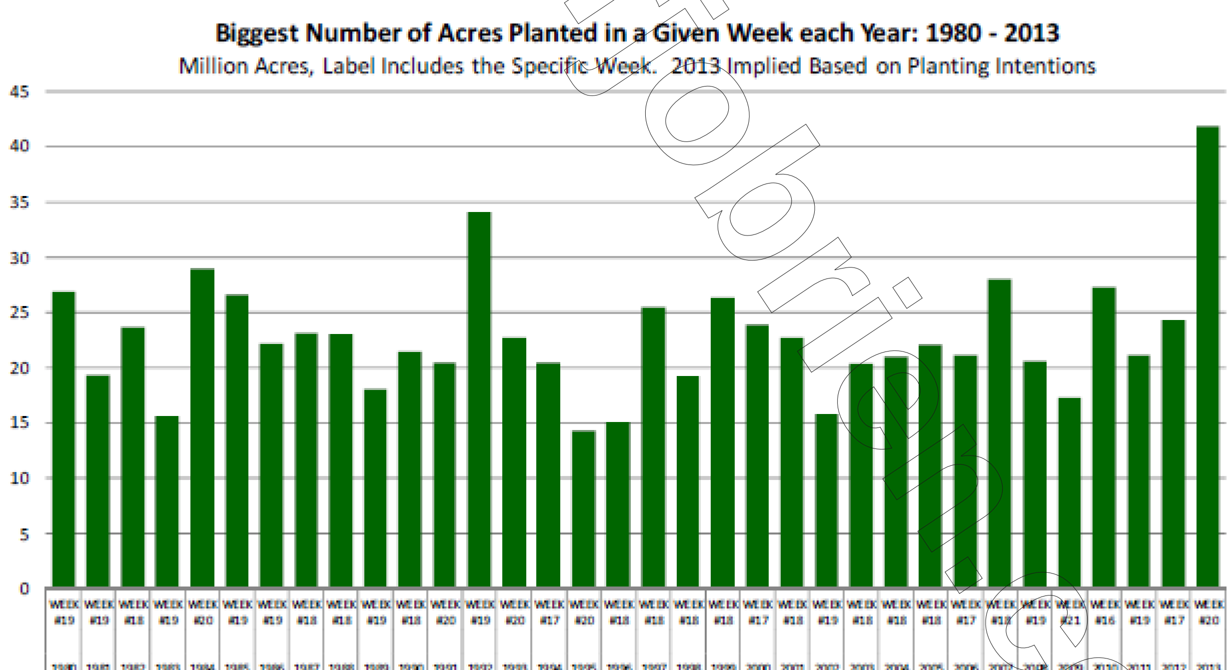
- (Domesticfuel.com) Mixed emotions are emanating from the introduction of the "Foreign Fuels Reduction Act," introduced by U.S. Senators Joe Manchin (D-W.Va) and Bob Corker (R-Tenn). The legislation would allow only domestically-sourced fuels to be used to meet the requirements of the Renewable Fuel Standard (RFS) It would require a reduction in the volume of cellulosic biofuel required under the RFS. It would also result in a pro rata reduction to the total volume of renewable fuel and advanced biofuels,a fight many anti-biofuel camps have been engaged in for years. While this would "ensure" only domestically produced biofuels are used, it would lower the total amount required until production levels ramp up significantly.

- (Reuters) Funds sold an estimated net 9,000 CBOT corn contracts, 1,000 wheat, bought 4,000 soybean, bought 2,000 soymeal and bought 3,000 soyoil - CBOT floor sources.

- (Barron's blog) "The End of the Commodities Supercycle" this week predicts that the boom time is over this year for metals, oil and other key commodities. Citi predicts a return to normalcy starting this year -- meaning commodity prices reflect the ups and downs of specific markets. That's opposed to the persistent gains that China's growth -- now slowing -- created in commodities: The downward shift in China's economic growth rate combined with the decline in the commodity intensity of growth have a permanent and profound impact on global markets. China has reached a new phase, less focused on infrastructure and urbanization, both of which are highly commodity intensive. Lower single-digit economic growth shifting to a greater emphasis on consumption rather than investment hits industrial metals, bulk commodities and to a lesser degree energy demand.

- (Reuters) - High wheat prices, a government tax rebate plan and expected good weather will prompt Argentine farmers to expand planting of the grain by 40 percent this season compared with the 2012/13 crop year, Agriculture Secretary Lorenzo Basso said on Tuesday. "The area will be close to 4.5 million hectares, for sure," Basso told the Reuters Latin America Investment Summit. In the 2012/13 growing season, which ended in February, the Argentine government says farmers sowed wheat on 3.16 million hectares, the smallest area on record. Other estimates vary. The Buenos Aires Grains Exchange forecasts Argentina's 2013/14 wheat area at 3.9 million hectares, up from its estimate of 3.6 million last season.





Please do not re-distribute without the expressed written permission of the author.