

Grain Oilseed Update and Outlook 7/9/2013

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Ag markets rally continues on heels of tech buying, concern over ridging in southwestern Midwest, ongoing firm cash markets and concern that SRW harvest delays will reduce intended double crop soybean acreage. SX, comprising 63% of total soybean OI, takes out 20, 50, 100 and 200 DVA's. Rally garners additional support from approach of Thursday's crop report which, despite trade expectations for only nominal changes in 9/13 and 9/14 WASDE soy carryover estimates, has some analysts cutting old crop soy stocks (higher 12/13 demand) and new crop soy stocks (a lower 2013 US soybean yield).

CZ high today represents a 25 cent rally from recent low—SX has posted a 61 cent rally from last week's low. As attached graphics indicate, the two day advance in both contracts is rather tepid vs. summer rallies in recent years although as we noted earlier today-- *largely favorable US temperature pattern, above average US spring/early summer rainfall, large 2013 S American crops, absence of significant stress in FSU/EU, slowing PRC growth and ongoing shift out of commodities to equities collectively suggest more muted summer 2013 row crop rallies.* Nonetheless, while today's CZ and SX closes of \$5.21/\$12.75 respectively are at the high end of summer row crop highs in most years, tonight's CZ close is \$0.80-\$2.80 below **recent year** CZ summer highs and \$0.50-\$5.25 below **recent year** SX summer highs. Take home point here is that current row crop rally is young enough and meager enough to garner more upside follow-through—especially if tech buying accelerates on perceived erosion in new crop yield potential.

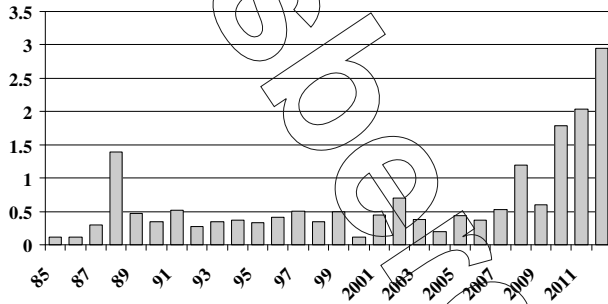
IA crop scout today underscored that late developing beans in this major production state are at greater risk from early autumn frost than corn making late summer monitoring on timing and intensity of seasonal temperature decline especially important. Delayed 2013 US soybean planting, unrealized D Crop US soybean acreage and well above normal prevent plant soybean acres in western Midwest/ND have collectively reduced the soybean market's tolerance for early summer crop stress. Nonetheless, it is important to recall CWG's study showing low correlation between late planted soybeans and final soybean yields. Additionally, the market is well aware that August/FH Sept weather conditions have a far greater impact on final soybean yield than FH July conditions—as vividly demonstrated last year. We would also note that prevailing Midwest weather pattern to date characterized by active rainfall pattern and absence of sustained high temperatures.

As for the July crop report, the market knows that Thursday's production and carryover updates are unlikely to move any needles given delayed crop development across the board and recent 10 BPA July to Final swings in US corn yield (higher and lower) and 2 BPA swings (higher and lower) in July to Final US soybean yields. (Interesting to note that the Final 2012 US soybean yield was 0.5 BPA above the July forecast while the Final 2012 US corn yield was nearly 12 BPA lower.

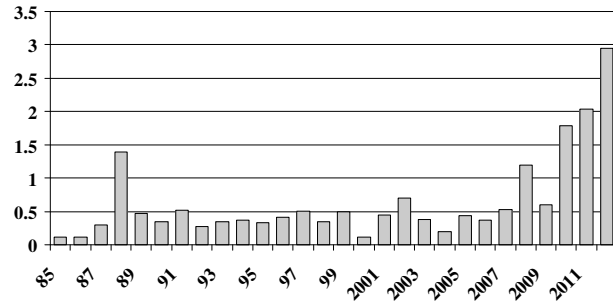
Looking forward—look for CZ rally to \$5.50 and SX advance to \$13.20 after which both markets will take fresh assessment of whether ridge over southwestern US is expanding, late July Midwest temperature outlook and any sign hints of stepped up farmer movement of old crop grain amid new crop rally induced erosion in old/new row crop inverses. Bottom line—we are in throes of classic weather market which by definition are mercurial, difficult to forecast and high risk in nature. Weekends are especially high risk periods—particularly after a week of price gains. The good news

is that a stress driven weather market will telegraph when it's stalling out. Watch for 1st sign that row crop markets are unable to advance further on a threatening forecast and remember sentence shown in italics in paragraph 2 above. Additionally, watch for any sign of expansion in developing dryness across Missouri River Valley (see attached map).

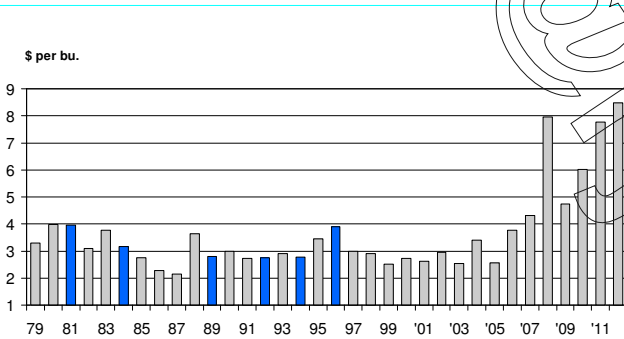
Summer Rallies in CZ



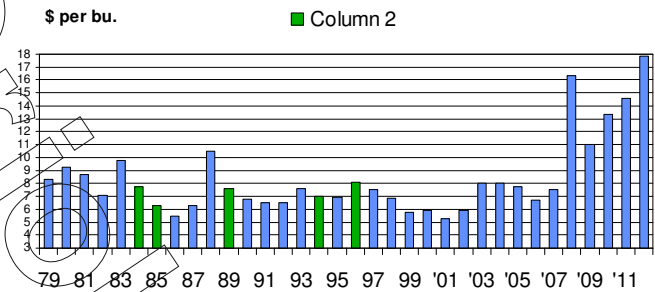
Summer Rallies in CZ



JAN-DEC CZ HIGHS



JAN-NOV SX HIGHS



Additional Items Interest:

- (Reuters) - Brazil's government crop supply agency Conab slightly raised its forecast for the country's record 2012/2013 corn and soybean crops on Tuesday, citing problem-free harvesting and historical expansion in area planted in a report. The agency estimated the corn crop at 79.1 million tonnes, up from its 78.5-million-tonne forecast in June, and lifted its view of the now-harvested soybean crop to 81.5 million tonnes from 81.3 million tonnes forecast last month.
- (Reuters) - The rapeseed crop in Ukraine, a major exporter of the oilseed, is likely to reach or exceed 2.0 million tonnes in 2013 from 1.3 million tonnes last year when the crop had suffered from frost damage, Hamburg-based oilseeds analyst Oil World said.
- PRC June pork prices up 5%--the largest monthly gain since Dec 2012 and a potential sign of either more port imports or efforts to increase domestic pork production.
- (Reuters) Funds bought an estimated net 18,000 CBOT corn contracts, 3,000 wheat, 9,000 soybean, 4,000 soymeal and were even in soyoil - CBOT floor sources.

- (Reuters) - The European Union's 2013 rapeseed harvest will rise more sharply than expected to 20.40 million tonnes from 19.41 million tonnes in 2012 with good weather in many regions compensating for low British and French harvests, German oilseeds analyst Oil World forecast on Tuesday. This was up from 19.72 million tonnes forecast in June by Oil World for the 2013 crop. "Rapeseed harvesting is already under way in the south-eastern parts of Europe, indicating good to very good results and providing optimism that this year's total EU crop may be higher than expected,"
- (Reuters) - France should harvest 35.9 million tonnes of soft wheat this year, a rise of 1.1 percent compared with 2012, the French farm ministry said on Tuesday in its first estimate of 2013 wheat output in the European Union's top producer.
- Cash meal basis at St. Louis river terminals range from \$58 to \$85 a ton over July Chicago Board of Trade futures, up \$11 a ton from the same time last week, according to data from USDA. Grain terminals in the eastern Midwest are quoting bids from \$44-\$50 ton over July futures, up \$12 a ton from the same time last week, according to USDA.
- (CME Daily Livestock Report) US meat demand updates show modest increase for pork and beef and a healthy 3% increase for chicken over the 12 month period ending in May. Only turkey demand appears to be soft at this time. When considered in total, real per capita expenditures (RPCE) for all four species are up 2.4% year-to-date and are 1.7% higher for the 12 months ending in May. RPCE for all species in the month of May was 1.7% higher than last year and 4.4% higher than the 2007-2011 average. When combined with last week's Restaurant Performance Index growth, all of these numbers suggest that U.S. domestic meat and poultry demand is healthy. Perhaps not robustly so but certainly solid.
- (Reuters) - Russia may cut its forecast for a 2013 grain harvest of 95 million tonnes because drought has hit some growing regions in the past two months, Prime Minister Dmitry Medvedev said on Tuesday. Russia, traditionally the world's third largest wheat exporter, needs a good harvest to replenish stocks and boost exports after drought last year slashed its wheat crop by a third. "In June and in early July, the European part of our country saw abnormally hot weather and 13 regions were hit," Medvedev said. Forecasts for the 2013 wheat crop were cut by two leading agricultural analysts on Monday. They cited drought in several growing regions and lower-than-expected yields in the first such downgrades this year.
- NEW YORK--U.S. oil demand in 2013 and 2014 will be slightly higher than expected a month earlier, government forecasters said Tuesday. Demand in the world's biggest oil consumer will average 18.66 million barrels a day this year, up 0.6% from a year earlier. Last month, the EIA forecasted growth of 0.5%. In 2014, demand is expected to inch up 0.2%, to 18.69 million barrels a day, compared with the June forecast that projected a fractional decline. U.S. oil use has fallen by an average of 315,000 barrels a day over the past two years and is well below the 2005 peak of 20.8 million barrels a day. Demand for gasoline, the most widely used petroleum product in the world's biggest oil user, is expected to average a 12-year low of 8.844 million barrels a day over the peak spring-summer demand season, down 0.6% from a year earlier. Increased supplies from non-OPEC countries, led by the U.S. and Canada, will help reduce oil prices, the EIA projects.

Trade estimates for US All Wheat Production and US/World carryover stocks

US Wheat	All Wheat	All Winter	Hard Red Winter	Soft Red Winter	White Winter	Other Spring	Durum
Average trade estimate	2.070	1.507	0.773	0.525	0.214	0.499	0.063
Highest trade estimate	2.140	1.555	0.808	0.552	0.220	0.540	0.080
Lowest trade estimate	2.015	1.454	0.730	0.506	0.199	0.452	0.055
USDA June estimate	2.080	1.509	0.781	0.509	0.219	na	na
U.S. 2012 wheat	2.269	1.645	1.004	0.420	0.222	0.542	0.082

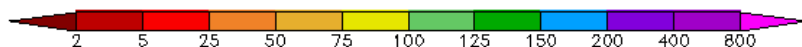
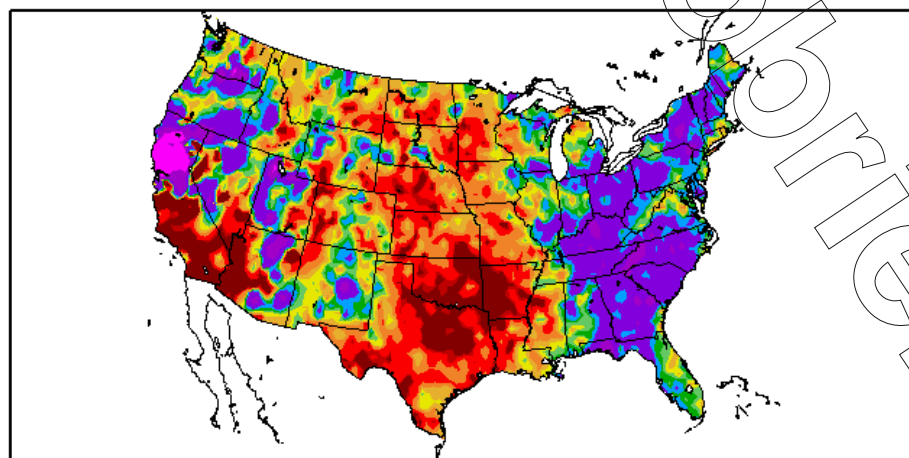
US Carryover Stks

	2012/13		2013/14		
	Corn	Soybeans	Wheat	Corn	Soybeans
Average trade estimate	0.725	0.121	0.632	1.898	0.266
Highest trade estimate	0.800	0.135	0.690	2.338	0.329
Lowest trade estimate	0.537	0.104	0.566	1.618	0.164
USDA June	0.769	0.125	0.659	1.949	0.265

World Carryover Stks

	2012/13			2013/14		
	Wheat	Corn	Soybeans	Wheat	Corn	Soybeans
Average trade estimate	179.344	124.222	60.938	180.293	152.404	73.557
Highest trade estimate	181.030	127.590	61.300	183.000	158.897	75.000
Lowest trade estimate	177.000	122.600	60.185	175.000	149.700	69.487
USDA June estimate	179.870	124.310	61.210	181.250	151.830	73.690

Percent of Normal Precipitation (%)
6/25/2013 - 7/8/2013



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