

Grain Oilseed Update and Outlook 6/26/2013

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Bull spreads in row crops continue to march higher on low farm sales (producers waiting on Friday's crop report), more overnight heavy rains in IA/N IL, hand to mouth end users and cooler Midwest temps next week which will slow GGD accumulation. Volume characterized as "moderate to slow" with SN posting new high for the move while WN posts new low. CN claws back to high end of 30 day trading range for 3 day net gain of only 3 cents—reflecting lack of conviction and/or an abundance of caution ahead of 6/28 report. Suspect that the corn market is feeling the undertow from wheat which is buffeted by better than expected US yields and improving 2013 wheat production prospects across EU/FSU.

Cash sources report new crop HRW protein falling short of expectations in wake of wet finish to 2013 southern plains growing season. KC wheat spreads push to full carry today over concerns on large deliveries of low protein wheat.

Note attached Aug/Oct meal and Aug/Nov bean spreads which chronicle strong seasonally tendency for bull spreads in both to firm from late June into early July. Tight old crop soybean stocks, hand to mouth meal end users, a more robust US soy meal export program than most years, attractive soybean crush margins and a delayed start to 2013 US growing season suggest further gains in both spreads.

An RJO client reacting to our statement yesterday *"that new crop yield prospects in early July trump old crop stocks—even if the later falls below expectations on Friday"* noted that the bullish June 1996 June corn stocks report sparked 2 limit up days but subsequently favorable July weather eventually triggered a sharp LH July sell off. Thus—even if Friday's corn stocks report is bullish—don't lose sight of prevailing 2013 US summer weather pattern which looks favorable for crop development through mid July. (See attached CZ 96 chart).

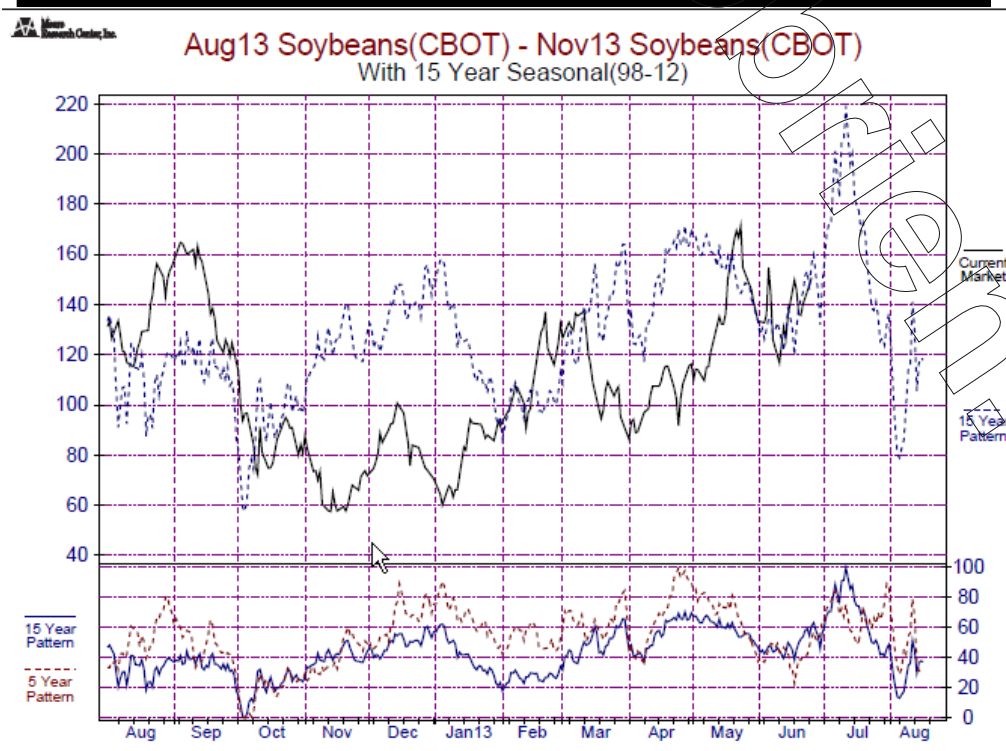
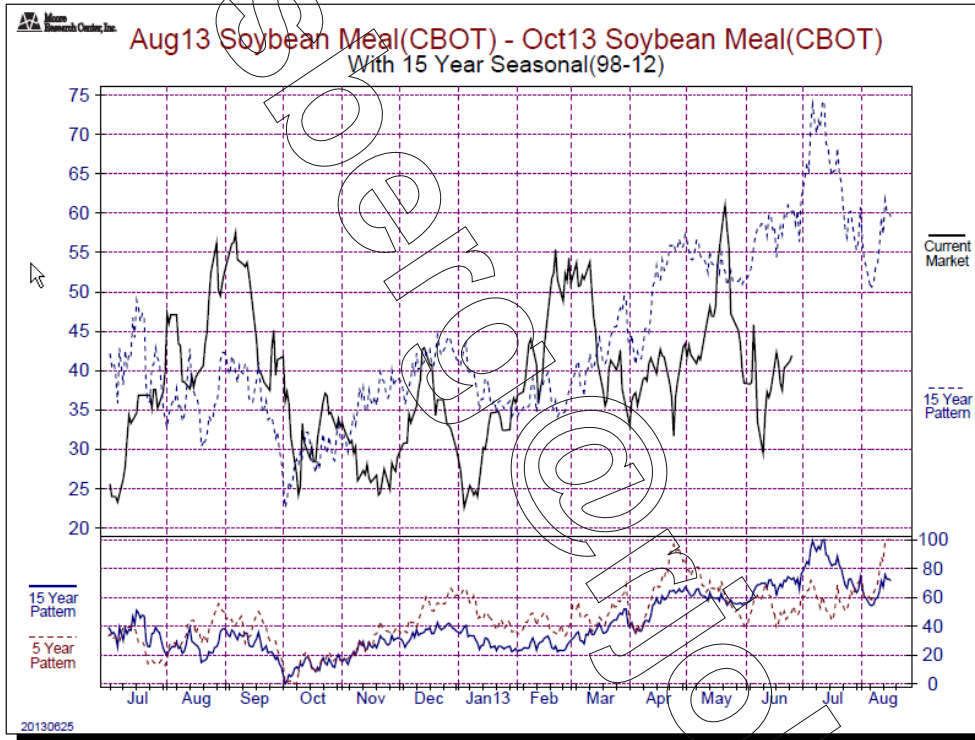
Our historical graphics of the day include a history of March/April/May US feed and residual use which has trended generally lower over the 5 years in part on increasing DDG use and high priced corn induced substitution of alternative feed ingredients. As we noted yesterday, the average trade guess on June 1 corn stocks of 2.845 bil bu assumes Q3 corn feeding of 830 mil bu vs. 858 mil bu Q3 last year. Additionally, we noted that in the last 3 years, Q3 US feed use of corn has varied from 718 mb in 2011 to 1.276 bil bu in 2010—a 558 mil bu spread!! In the event that Friday's June 1 corn stocks is within 50 mil bu of the trade average guess of 2.845 bi bu—we would advise selling CZ outright.

Insofar as the acreage component of Friday's report—note attached graphics showing history of March to June changes in corn and soybean area which underscore:

- Corn area declines in excess of 1 mil acres are rare
- March to June soybean area has advanced in 3 of last 5 years
- Extreme 2011 soy planting delays triggered a nominal 0.4 mil acre March to June decline
- Extreme 2011 corn planting delay did not trigger a March to June decline in corn area

Take home point here is that Friday's planted area updates are more likely to be bearish than bullish—even if the trade assumes that further cuts in row crop area are likely on the Aug and Oct crop reports. Remember that June to Final declines in US corn area in excess of 1 mil acres are rare although there is ample precedent for June to Final soy area declines of 1.25 mil acres or more.

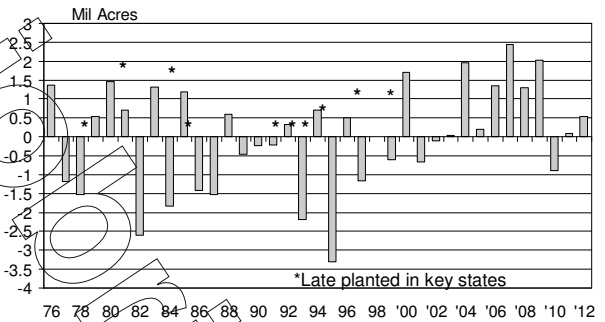
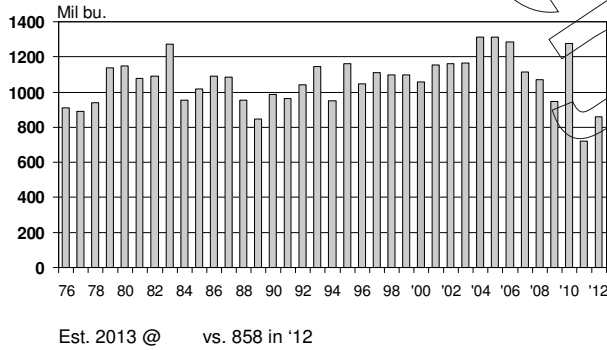
Bottom line—after 3 days of trade--CZ is down 12.5 cents, SX is up 2 cents and WN is off 32 cents. Take home—row crops are on hold awaiting the crop report while wheat is responding to harvest pressure—a status that row crops will hold in 100 days.



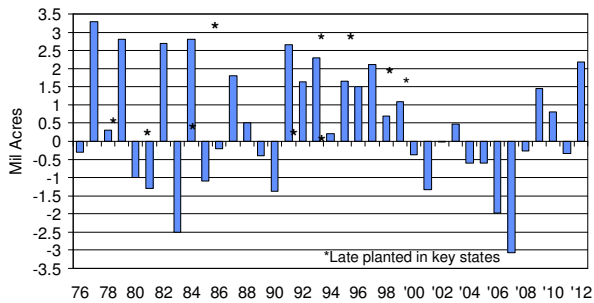


US Corn Feed Use
 Mar/Apr/May

U.S. Corn: June/July Acreage
 vs. Mar/Apr Intentions



U.S. Soybeans: June/July Acreage
 vs. Mar/Apr Intentions



Additional Items Interest:

- (Iowa State Climate Scientist) "We don't have a La Nina going on in the Pacific right now; neutral conditions are expected in the Pacific through the fall," Anderson said. "We also have an area of high pressure originating near the island of Bermuda that can sometimes bring a stressful hot pattern inland, but that is not likely to happen this year. And third, forecasts for hurricane activity are for a larger-than-average number. This implies that a killer southeast U.S. ridge is not likely this year."
- Weekly ethanol production up 12 tbd vs. last week to 885 tmd –the highest since 6/12.
- (Reuters) Talk among floor traders today is that some of the HRW harvest is coming in with low protein (10-11 percent), pushing KCBT spreads to full carry on concerns of low-protein deliveries against KCBT July. {Protein below 10.5 is not deliverable as a reminder, anything under 11 has a 10 cent discount
- (U of IL Ag Econ addresses "Is the Corn Boom Ending?) The recent period of growth in the U.S. corn industry appears to have peaked. The domestic ethanol market has hit the E10 blend wall and will be dependent on consumption of higher blends in order to expand total domestic consumption and to increase corn consumption. The domestic livestock industry is also mature and may require larger exports for production growth. Finally, the corn export market has become a lot more competitive in the past several years as high corn prices have stimulated an increase in world production. If the size of the U.S. corn market has peaked, a period of lower prices and reduced acreage may be required. Lower prices would be beneficial for the livestock industry, at least initially. Lower crop farm incomes might result in some downward pressure on farm land prices, particularly if interest rates continue to increase.
- (Reuters) - China will tap global markets for more top-quality wheat after rains during last month's harvest damaged some 10 million tonnes, over 8 percent of the annual output of the world's top producer of the grain. "Rains have damaged wheat quality in southern parts of Henan and also parts of the province of Jiangsu," said Ma Wenfeng, an analyst at Beijing Orient Agri-business Consultant Co.
- (Reuters) Funds bought an estimated net 3,000 CBOT corn contracts, sold 3,000 wheat, were net even in soybeans, bought 2,000 soymeal and sold 3,000 soyoil - CBOT floor sources.
- (U of IL's Dr. Good on Friday's report) The corn stocks number will be the most important. Acreage estimates will still reflect a fair amount of intentions and may change in subsequent reports. In addition the acreage estimates are not nearly as important as the average yield outcomes will be. Feed numbers are actually feed and residual numbers and therefore contain a lot of noise on a quarterly basis. Trying to correlate use to animal numbers on a quarterly basis is very difficult. An estimate of 868 is as good as 801 in my opinion.
- Estimates for USDA 6/28 crop report—acreage (1st table) and stocks (2nd table).

	Corn	Soybean	All	Spring Wheat	Durum Wheat
Average trade estimate	95.313	77.933	55.902	12.132	1.699
Highest trade estimate	96.900	79.240	56.400	12.700	1.800
Lowest trade estimate	94.200	77.100	55.200	11.700	1.550
USDA March estimate	97.282	77.126	56.440	12.701	1.751
USDA 2012 final	97.155	77.198	55.736	12.289	2.123

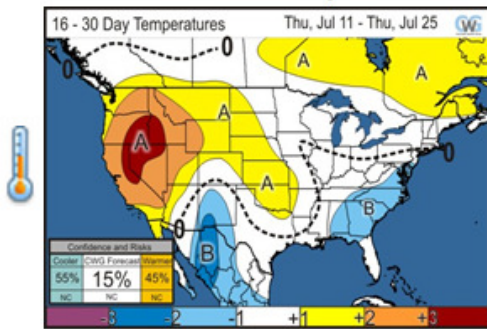
Wheat Corn Soybeans

Average trade estimate	0.745	2.845	0.442
Highest trade estimate	0.781	2.952	0.500
Lowest trade estimate	0.718	2.725	0.413
USDA June 1 2012	0.743	3.148	0.667
USDA March 1 2013	1.234	5.399	0.999

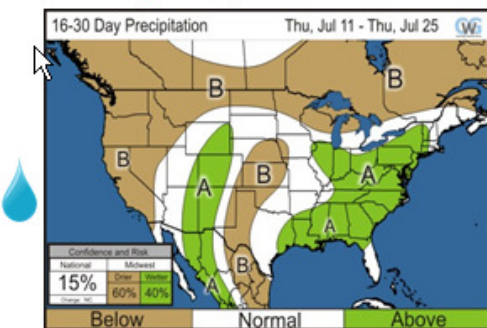
Weekly Export sales estimates:

	2013/14 Estimates	2014/15 Estimates	Week Ago Actual 2013/14	Week Ago Actual 2014/15
Wheat	350,000-550,000	zero	432,700	2,000
	2012/13 Estimates	2013/14 Estimates	2012/13	2013/14
Corn	100,000-200,000	150,000-250,000	133,400	77,100
Soybeans	zero-100,000	250,000-450,000	52,600	108,500
Soymeal	50,000-100,000	zero-75,000	26,500	114,600
Soyoil	zero-10,000	zero	00	zero

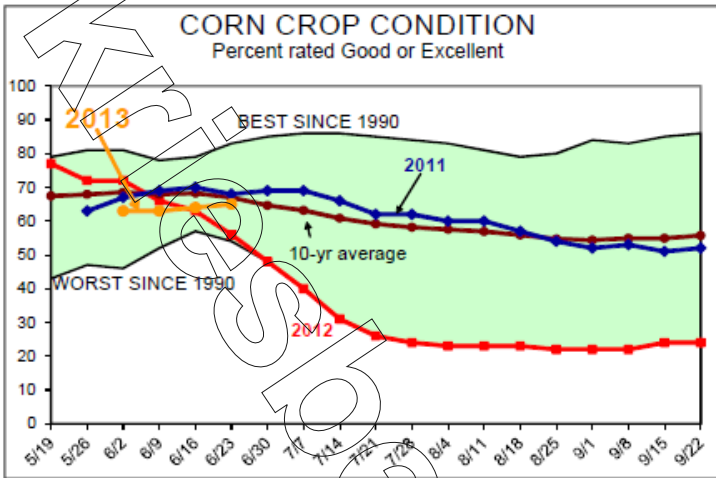
16-30 Day



Wed, Jun 26, 2013 at 5:16 AM



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