



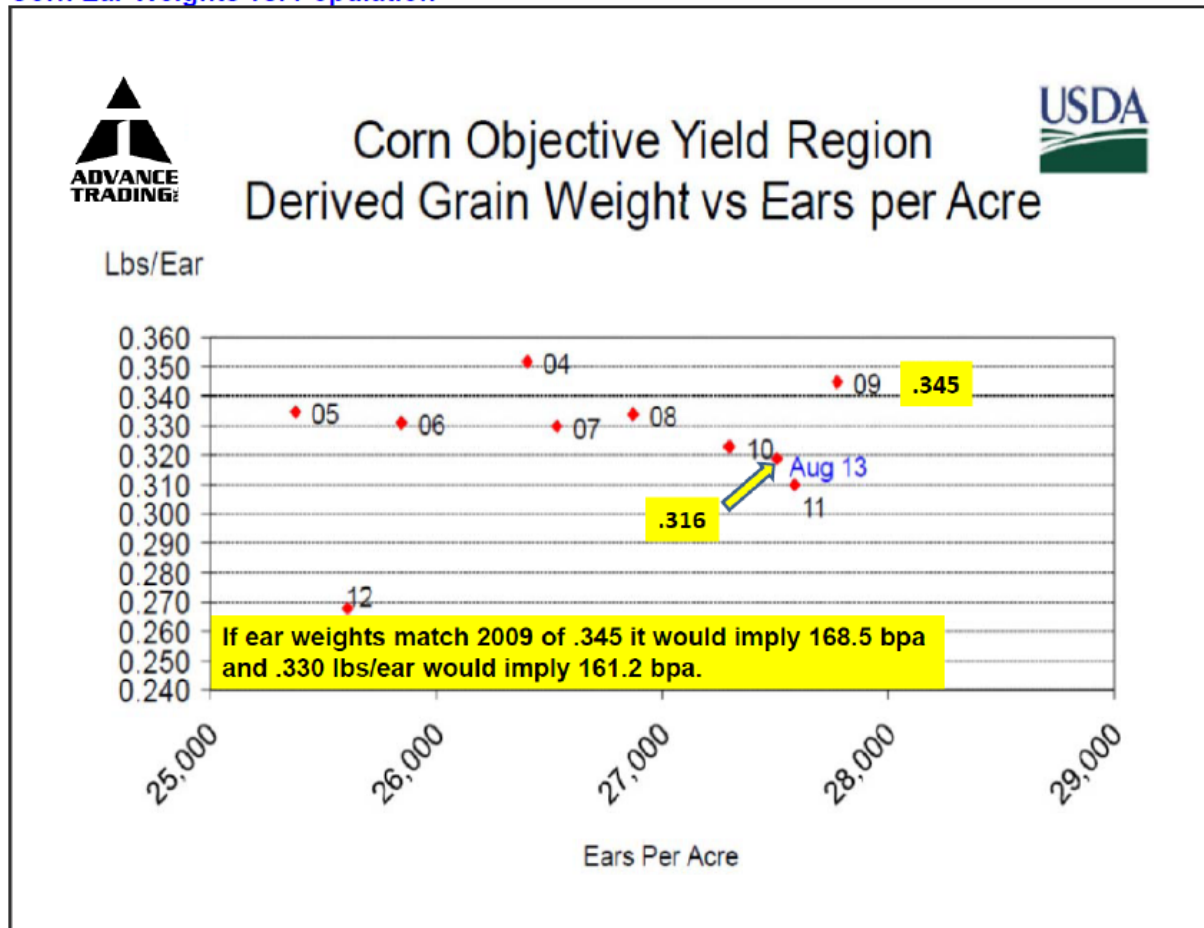
Mark your calendars we are holding a merchandising outlook meeting in Bloomington on Sept 10<sup>th</sup>. This will be for merchandisers and managers with topics on fall space, merchandising & origination.

A similar set of topics will be covered in a fall merchandising outlook meeting at Dragan's Castle Mound Golf Course in Holmen, WI. Meeting will start at 9:30 and conclude at 1p.m. Lunch and 9 holes of golf will follow after the meeting. Please talk with your broker if you plan to attend.

## CORN

- USDA report on Monday brought a surprise to the market with most leaning toward steady/bigger production and carryouts. USDA actually lowered yields by 2 bpa to 154.4 and carryout dropped 122 mbu. The culprit was in their 5 year average ear weights, which includes LY's drought. If they would have excluded LY and used the previous 4 years, the yield would have been 160 bpa. If they would have used a 10 yr avg and thrown out the hi/lo, the yield would have been 161. Looks like we will have to deal with this 5 yr avg weight again in Sept, as there won't be much harvested by Sept 12<sup>th</sup>. Demand was lowered 75mbu, with the group thinking that it is likely still overstated.

### Corn Ear Weights vs. Population

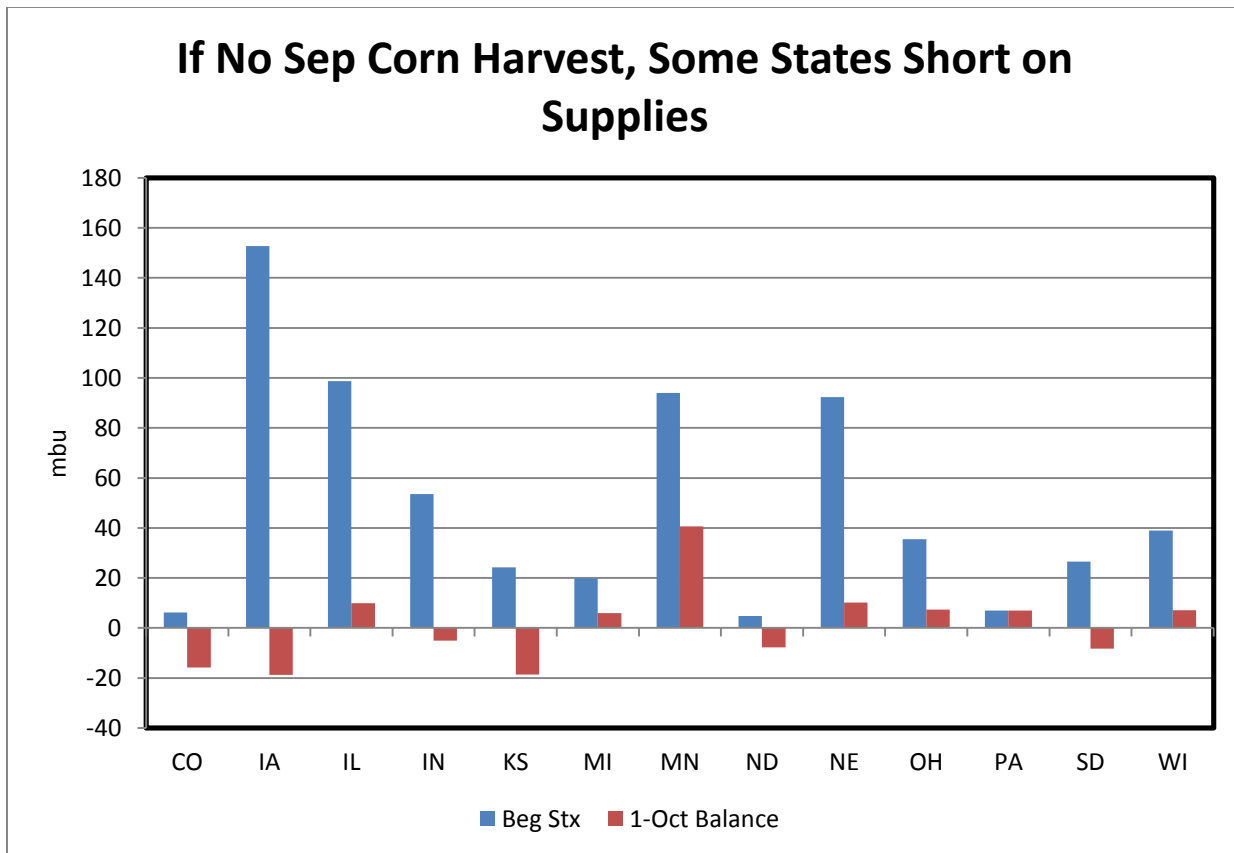




- ATI Research: 159.5 bpa, 14.22 bbu and 2.127bbu carryout. Implied CZ3 on Dec 1 at \$4.02.
- Crop Conditions and USDA state yields don't seem to match well in the central corn belt. Conditions are record high in the east with good yields. WCB conditions are below avg and yields still above avg.

	Rating G/E	USDA bpa	ATI bpa
Eastern Corn Belt	71%	163	174
Western Corn Belt	58%	160	164
ND/SD	66%	129	131
S. Plains	47%	126	133

- Below is ATI Research estimate for corn supplies by state on Oct 1. We assumed ethanol and feed demand and no exports in October for Midwestern states. Note the tightness that remains with several state showing negative balances. How many southern bu's will fill the gap and how much wet corn needs to be cut is yet to be determined.



August 13, 2013

## MERCHANDISING MEETING NOTES

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- Given the cool weather, the crop is holding up well, even in the dry areas of IA and IL. August rains will still be very beneficial to limit tip back and for good kernel dept. Note that the recent rains in the S. Plains should make for a big milo/bean crop.
- Exports: ATI estimate Q1 exports at 380 mbu vs 221 LY. Timing on China loading is key. Ukraine corn remains a big discount to US OND values.
- Agronomists say that freeze losses are limited for corn after dent stage. A 2700 gdu maturity variety reaches dent stage at 2400 gdu's. Using average September gdu's, dent stage is 3 weeks before black layer and before normal frost dates in most areas.
- USDA left ethanol use of corn in 2013/14 unchanged at 4.9B bu. What could push the ethanol industries demand for corn lower? The milo contribution appears set to break a record high, perhaps double LY levels, which was about 108mbu in 12/13. The blend wall hits in 2014 and this likely caps domestic ethanol consumption. Infrastructure for higher blends continues to slowly develop and will help to increase the blend wall. EPA's recent announcements suggest a more willingness to change Advance mandates, particularly cellulosic levels, in the future and more time to comply with all mandated types of biofuel. On the flipside, ethanol demand for corn could rise from forecast levels if margins allow higher utilization of existing capacity. Growing demand could be from higher blends, and export driven. RIN stocks have been depleted recently, obligated parties have the ability to carry-over 20% of their obligation in RINS. Imports are likely to continue to support California's LCFS demand, and supplement biodiesel to the extent biodiesel cannot fulfill Advance mandate levels. More information is due in September from EPA, likely setting the 2014 renewable fuel obligation, a definition of biofuel mandated demand. Renewable information number (RIN) prices rebounded this week 8.5cpg on a settlement basis, 2013 ethanol RINS today at 76cpg, compares to 67.5cpg LW.
- Weekly EIA: ethanol production at 857,000 b/d +4, Imports 36,000 b/d -20, Stocks 16,425 - 291. Seasonal downtime continues. Margins are solid. Import arb limited to low carbon into CA. October forward export arb is open to Europe.
- Short Dated Dec 14 options for March, May, July start trading Aug 26<sup>th</sup>.  
<http://www.cmegroup.com/trading/agricultural/short-dated-new-crop-options.html>
- FSA certified acreage data is available starting Thursday and will be looked at for indications for future acreage changes in the Oct report.

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## Merchandising:

- The old crop merchandising picture was compared to harvesting corn and “we are getting down to the short rows”. Values remain \$1.50 inverted to new crop. Processors are taking down time. Southern harvest is starting to move north. Farmers have a few bu’s left to sell. Be short all you can, keep long hedges in the CU. If you need a few WR’s to access some remaining open store bu’s, they are available. Ask your broker.
- New crop picture is still unfolding. Storage space will be as empty as ever. Farmer selling is record light. End users are as uncovered. Export sales are the biggest in 10 yrs. Spreads are offering excellent carry returns. Yields are expected to be record high in the east. The cash market will be changing from MNS corn working to IL/IN to IN/OH corn working west. We need the farmer to harvest some wet bushels and will have to pay to get that done. How much will it take? I don’t think he (the farmer) even knows that yet. There is no need to take a risk on merchandising for that either. Last week’s notes went through the discussion on originating/selling in this environment, so won’t go thru again. Take a healthy margin and keep time on your side. GMP’s, DP, Forced sales, storage limits may all need to be in the repertoire this year. Given the Oct 1 chart above and a reluctant selling farmer, new crop basis levels may stay firm well into October. As always, freight availability will be a key. October BN cars are at \$800/car, while this week’s UP auction for Oct was all No Bid. We have lots of space to fill, so it doesn’t seem like we need to worry about freight yet, except for the eastern belt which will be more short space than elsewhere. Most are planning on using early premium to make any needed space.
- We continue to suggest 50-75 % of your anticipated Dec 1 ownership locked up in CZ/H and CZ/K spreads. As the CH/K and CH/N move to 9 and 17c areas, consider moving some short H’s forward. Interesting to note that N4/U4 is at 5 cents carry and U4/Z4 is at 6 cents carry. U4/Z4 seems to narrow.



## SOYBEANS

- USDA report surprisingly lowered bean yields by 2 bpa, to 42.6 bpa. Old crop carryout left at 125mbu by imports +10, crush +25, exports -15. New crop c/o at 220, down 75. USDA acreage was lowered by 550k acres. KS -200, MN -100k, SD -100k, NC -100k, AR -50k.
- ATI is using a 43.1 bpa yield and c/o of 189. ATI has Q1 exports at 525 mbu down 95 from LY.
- SK4:CK4 at 2.6:1 suggests more beans planted in Brazil. Talk that bean acres could be up 10%.
- August weather, as always, is the key for the bean crop. Current forecasts are too dry for key parts of IA & IL.

## Merchandising-

- Stay short all you can old crop with long hedges in the U. Like corn, the new crop scenario is still unfolding but with more yield uncertainty. If you are short space, selling ownership makes sense. We would not suggest getting short yet at any basis below DVE. If you have adequate space or not sure if you need to ship at harvest, be patient for at least a basis at DVE.

## WHEAT

- USDA report raised world production significantly. EU +2.8 mmt and exports +2.0 mmt. FSU +4.7 mmt and exports +4.0. EU harvest is late.
- YTD export sales are at 30 yr highs. If shipments are delayed though, world competition could take some unshipped sales to different origins. Short term expect: HRW 10-12 week, SRW 6-8 week.
- Argentina remains dry and could open the door for further HRW demand later in the year if drought continues.
- HRW basis is strong with TX G 12% at 1.50ish. Brazil and Mexico demand are pulling the exports. Chicago crossing is 1.40ish +10 LW. KWU/Z narrowed back under 4c carry. If you are basis short, consider moving half of longs that you will need to roll forward out to KWZ. If you have short hedges in the U, you need to be able to execute.
- SRW basis has weakened since LW. Hedges in the Z and looking to go to the H at 15-17c. If you have high milling quality, suggest hedging in H at current levels.

## Trent Sauder

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