

August 27, 2013

MERCHANDISING MEETING NOTES

TURN UNCERTAINTY INTO OPPORTUNITY

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Please join us for a pre-harvest fall planning outlook. Topics will cover the current merchandising plan and outline current conditions impacting the market.

- Where: Biaggi's in Bloomington, Illinois
- When: September 10th, 2013
- Time: 8:00 AM coffee and rolls
- 9:00 AM – 12:00 meeting, followed by lunch
- Please RSVP to your broker

A similar set of topics will be covered in a fall merchandising outlook meeting.

- Where: Drugan's Castle Mound Golf Course in Holmen, WI.
- When: September 18th, 2013
- Time: 9:30AM to 1:00PM
- Lunch and 9 holes of golf will follow after the meeting
- Please RSVP to your broker

CORN

- ATI corn Yield Model drops 1.6 bpa to 162 (admittedly one of the more aggressive yields in the market). Research model suggests 157.9. Total crop estimate stands at 13.835 using the 157.9 yield.
- Overall corn ratings were off two percentage points to 59% G/E, with North Dakota off 10 points and Michigan off 7 points. Of the major corn states, Nebraska improved by 1 percentage point.
- Southern harvest picked up 80 mbu to 308 mbu, leaving this year's progress at approx. 130 mbu behind last year.
- Hearing trains and barges are reaching the interior. This, combined with corn rally has Decatur, IL spot bid down 50 cents at the close on Monday at +125CU.
- The Decatur bid at the +125CU level is still about 65 cents above DVE, if it was Sept 15th today. With the stair step down in bids; potential for harvest to slowly begin moving north; and warehouse receipt trading taking place to move remaining farmer bushels; the CU/CZ only offers protection for LH Sept and FH Oct slots. As slow as it may start, would expect harvest in earnest for LH Oct. Although the recent heat has sped maturation up.
- Warehouse receipts have traded in the \$.30-\$.40 cent range, depending on length of time and quantity. The cost is being driven by the amount of the inverse, allowing the seller of the receipt to build in synthetic carry due to a logistical challenge. Keep in mind there is counter-party risk.

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- So far, a slow start to hurricane season. If rain doesn't come before LH Sept, it may be unwelcome at the cusp of harvest. Perhaps too late to do the crop any good, and keeping us out of the fields for the start of harvest.
- Yield checks around Illinois support excellent yield potential, and with Dent stage just around the corner if not already in it. Makes a frost less intimidating in terms of yield, but could drastically impact quality; i.e. test weight. We'll cross our fingers.
- With 1 week left corn shipments stands at 679 mbu vs. 1.491 bil bu at this time last year. Less than half of last year. Exports use to be the unratable portion of the balance sheet. Other than the crop size itself, the ability to cut exports might be one of the most unbelievable numbers of 2012/2013. It took the industry until March to believe exports could go below 1.0 bbu.
- What number is it this year that the industry is completely wrong about? Crop size? Exports rebounding? Feed Residual increase? Acreage?
- Last week, ATI held its annual Put-In-Bay meeting for Eastern markets. A few tidbits:
 - Not expecting any rate changes out of the NS RR for this fall. A rebound in crop size allows them to remain unchanged at this time. During this past year though, imports of corn displaced several unit movements on the CSX RR. Significant revenue was unable to be earned. Most of the destinations for the import corn were within 100 miles of the in-bound ports.
 - It is thought that some end users may have purchased import corn all the way through July of 2013.
 - The bid/offer spread, say at Columbus, OH, runs normally 3-4 cents. This year the NS RR ran as much as an 8-10 cent premium to CSX RR corn.
 - NS RR looking at short hauls to compete with these truck markets.
 - If Eastern markets are weak due to big crop; substitutes; slow to rebound poultry and hog industry; then corn in the East may have to work its way West. Likely beneficiary; Decatur, IL.
 - Corn crop in the East are generally good. Heard several say it might be their best ever. Michigan and Ontario crops are good too. Corn still looked very green. It has a ways to go.
- Cattle on Feed was a surprise this last week. Placements were 10% below LY and the lowest for July since 2008.
- The size of the US cattle herd has been declining the last six years and drought conditions in the US the last two years has intensified and extended the decline.
- Still maintaining a 75-80% DP short in yc. Majority of longs in the CU. Wouldn't recommend getting 95-100% short until you literally see replacement.



- Basis stair stepping down and in tight windows. Bought significant corn on the rally, but believe producer will not be overly aggressive until the snouts are in the field.
- Risk /Reward scenario still suggests locking in CZ3/CH4. One can look at it as a hedge against not buying much corn.
- By only going as far as the CH4, one can take advantage of weakness later, if the crop turns out bigger, and producers sell heavy after the first of year expenses are due.
- Producers may start asking about DP rates before you are quite ready to advertise them. Simplest solution is to just make it a penny or so a month less than your storage rate. By having bushels on DP, it builds logistical flexibility into the merchandising program.
- Will producers fill all bin space on the farm this year, or take a bigger percentage to town. Not messing around with bins this year lessened the work load (i.e. less work). Suppose it boils down to each elevator's ability to take the crop. Old dryers may be the hang up this year.
- J/F/M bids were improving this week. In the East they appreciated by a nickel to soft DVE type numbers.

SOYBEANS

- ATI Yield model declined 9/10's of a bushel to 44.8. The ATI yield estimate dropped a ½ bpa to 42.4. Production is estimated at 3.207 bbu vs. 3.245 bbu last week, for a 38 mbu decline in one week.
- Michigan and North Dakota lead the drop by backing off 11% and 10% respectively. Illinois, Minnesota and South Dakota all lost 5 points each. Nebraska was able to remain unchanged.
- Year to Date export shipments stands at 1.311 bbu vs. 1.350 bbu last year.
- The Unshipped total of soybean sales heading into new crop is a record high 732 mbu, vs. last year's total at this time of 730 mbu.
- A similar scenario for SBM. Combined old and new crop unshipped sales continue record large at 2.6 mmt's, 280 K MT above a year ago.
- With the recent rally in soybeans, spot crush margins are hard to define. With the jump in meal prices out-pacing soybeans by close to 1 ½% and Decatur adding \$15+ to its posted meal basis, margins have surged from \$.44/bu on the previous days to \$1.74 by weeks end. Similar gains were seen in Fostoria, Ohio, and Lincoln, Nebraska.

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- Road travel, by ATI brokers, doesn't suggest bean crop changing much yet. Rule of thumb has leaves yellowing and then harvest a month later. Not seeing any yellowing leaves at this time.
- Not much rain in the forecast. Can it still do some good if we get it?
- Kansas, Oklahoma, and Southeastern states all reportedly have a good crop of double crop beans coming.
- Almost every state behind on podding levels.
- Producers picked up their selling pace on new crop beans on this rally the past week, but to buy a lot of soybeans, not sure what target level producers have in mind.
- New crop bean basis has not backed off on this rally. Have not seen one market bidding a DVE type number.
- SX3/SF4 going home at 5 cent inverse on Tuesday. Normally, one might suggest a bear spread at this time of year as a substitute sale. This year is different. With the lack of replaceability in the near term, would suggest standing down at this time. Be patient waiting for fall basis to appreciate, or potentially hit stair stepped inverse if your market gets harvesting before others.
- Buyers attempting to buy packages of beans, say Oct/Nov/Dec. Make sure the deferred slot that you sell meets normal basis goals. Try not to be short the basis unless at or above DVE for your market.
- Continue to hedge in the SX3.
- Like corn, if one must quote a DP rate, put it just slightly under the posted storage rate. But with the market inverse, the incentive to originate DP beans is much stronger than for corn.

WHEAT

- Spring wheat G/E was at 67%. Results of ATI crop model at 515 mbu with an avg. yield of 43.1 bpa. Harvest at 42% vs. 18% LY and 87% avg.
- So far, all wheat shipments stand at 304 mbu vs. 232.9 mbu LY. With 40 weeks left, need to avg. 19.9 mbu per week.

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- HRW shipments stand at 137.0 mbu vs. 104.5 mbu LY.
- SRW shipments stand at 100.0 mbu vs. 34.5 mbu LY.
- As of Aug. 9th, the unshipped book of 110 mbu for SRW was far above the 10 yr. avg. of 30 mbu. China is the driving force behind the surge in business with outstanding sales of 82 mbu. The key now will be how quickly the bumper EU crop works its way into the world pipeline.
- Should have plenty of moisture in the West get the wheat crop planted in good shape.
- In the East, it feels like acreage could be down again, especially if soybean prices stay firm.
- HRW has seen a modest basis drop, attempting to put a little carry back in.
- Would be in the December with hedges for both HRW and SRW.
- Not much carry in HRW spreads, but replaceability of space with corn makes a lot of sense. Soybeans not so much.
- In the East one can carry corn or wheat. Keep moving the soybeans.
- Basis levels in either wheat market are probably not high enough to be short, unless one can replace the space with something that pays better, like corn or milo.

WHEN WE RETURN FROM THE LABOR DAY HOLIDAY, WE WILL BE IN A NEW MARKETING YEAR FOR CORN AND SOYBEANS. HAPPY NEW YEAR!!!!

Jack Fitzgerald

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