***SEE ATTCHED FYLER FOR SUMMER OUTLOOK MEETING IN PUT-IN-BAY, OH***
**THURSDAY, AUGUST 22, 2013**

## General market observations:

- Without drowning you in numbers I wanted to express an overview of the corn and bean market structures. The old crop supplies are very tight and the nearby cash market is/has been over futures delivery guarantees almost the entire season on beans and since late February on corn. With the basis over delivery values, inverses in futures emerge and persist. High nearby basis and inverses create an environment that signals all elevator hedgers to move their inventory into nearby premium markets. This movement usually satisfies nearby needs if there is enough company owned grain to cover nearby demand. Many end users have built cash carries from the nearby premium to extend deferred coverage. If the high basis and inverses exhaust elevator ownership, many elevators will originate DP inventory and push that into market. That too has been exhausted and both old crop corn and bean/meal cash markets are trading over their respective July futures, so inverses increase as July futures have to converge up to the cash markets in the delivery process. The uncovered user has no choice but to rally their cash basis to procure their physical needs, at what are still profitable margins. If end users rally their cash price to eventual negative margins, they may slow down the plant or shut down as the stocks are not available at profitable levels. That has not occurred as bean crush margins and ethanol margins are still profitable. What is the market to do? Continue to buy nearby cash/futures (further inverses) until we either ration the demand, import stocks or get farmers to sweep bin bottoms. How high will inverses/cash need to go? That is what the market is trying to accomplish and again, there is no limit to inverses to accomplish this.

- We will see a lot of basis volatility in nearby corn and beans in the coming weeks. July goes off the board on Friday. Right now, there is positive nearby margins in ethanol and soy processing, but ethanol margins in August/Sept are not black. Bean margins, driven by high meal values are $1.50-$2.00 positive, but can evaporate fast as the nearby rally (inverses) appreciates to make users stop their aggressive buying today and wait for cheaper deferred values. If we have to crush corn into ethanol in Aug/Sept, we have to improve margins for the producer. If that occurs, the industry has to buy the farmer corn that is left. Right now it takes $7.25-$7.50 cash on corn, and $16.00-$16.50 on beans to interest farmers. If the board rallies for other reasons, the basis doesn't have to do all the work. If the board doesn't rally and margins continue profitable, basis will have to maintain these flat price levels and/or firm further. You and I can't predict what the board is going to do, so the certain thing is to be short basis as an elevator and be cautious on your bids as the farmer can quickly dump it on us now that they are nearing tasseling/silking in areas. For the user, the boss can tell you how aggressive to be on forward coverage. Most are going to let the margins dictate the Aug/Sept crushing story.

**Corn**

- General optimism among our group on a good crop potential in the US corn belt. A lot of variations in planting dates all across country but that does not mean that corn can't yield well. It does bring into play a long drawn out harvest, drying income potential for country elevator, worries of early frost and hence quantity/quality issues.

- Very limited new crop ownership in the country elevator. Is the farmer worried about early frost? Or is there still the hope of new crop values coming up to old crop prices? It may be a while before we see substantial selling. That, in the face of an empty pipeline will make for nearby lead premiums well into harvest and users will need to get their coverage. Likely a firm basis and spread environment until they get Oct/Nov/Dec covered, and the elevator industry feels they will fill.

- It was mentioned that Informa has S/O/N US exports at 380 mbu. We may not have Sept exports available due to late maturity of crop and empty pipeline.

- Brazilian corn will work into the SE US right up to new crop. Wheat is being extensively fed, making that SE corn basis very volatile on crop or logistic delays or import performance.

- The CN railroad has rate for 25's from Mississippi to Argo (Chicago) on corn. They are at 75-80 cents and will be available if we need to move imports or Mississippi corn north before new crop is available in normal draw to Chicago processor.

- The Eastern corn basis has firmed 10-15 cents this week after breaking +/- 40 last week in the transition of the July/Sept bids. Still harvesting wheat in the Carolina's. The Western corn basis is up 5 to 10 cents on the week. Pekin at +40CN, Decatur @ +30 CN. Iowa at +160-175 CU. S. TX corn and milo harvest going strong. Mexican buying that first harvest.

- The BN corn that has been feeding into the central IL processor market all year has dried up.

- How much August ethanol grind is covered? No margins. Should see a lot of maintenance. Ethanol stocks are low. Going to be very volatile corn basis in August/Sept. i.e. may be no bid, to…plants trying to buy with no offers.

- The strong demand for soymeal discussed in the bean section, has stimulated strong demand for DDG's and is propping ethanol margins.

- Domestic livestock corn book feels limited. Hopeful of cheap new crop feed/corn.

- The Dec13/Mar14 corn spread closed unchanged at 11 ¾. We still recommending scale in orders starting at these levels for current and expected new crop ownership – on a third to as much as half. For end users not yet covered Oct forward, this spread could also be utilized as a substitute basis purchase until you get covered. Again, end user coverage for new crop is minimal, space tributary to the IWDS appears to be surplus, producers are not excited nor have they sold much new crop in the corn belt, and the variability in crop maturity throughout the corn belt will drag out harvest over a longer period of time (extending the old crop demand window). Could we have a 14 + bbu crop and narrow up the spreads? With space and usage chasing bushels, light producer sales and a strung out harvest…….basis and spreads may remain firm well into harvest.

- Arkansas crop update: Wheat harvest is complete. Generally speaking they have seen a greater interest/booking of wheat for feed than previous years and recently saw more get booked to cover them through July into early August. Guestimates today are that they will get 25% of the crop harvested by the end of August. Between end of August and mid Sept they will have 75% of the crop harvested. Guessing there will be a 1 to 2 wk gap between end of wheat feeding and gut slot harvest that will need to be covered. "Southern discount" has narrowed for July values but August currently penciling a 75 cent discount to CIF values. Seeing some more interest in northern barge movement, but little to no trade at this point.

- Mississippi update: Weather has turned a little dry – irrigation has kicked in. Until 2 weeks ago conditions were perfect. Though a little dry temps have been mild. Corn crop a week to 10 days behind normal – 2 to 3 weeks behind last year. Guestimates that 2/3 of the crop will be harvested by end of August – farmer has sold a good part (70%) of his new crop. Seeing Southern discount bids of 50 cents though nothing trading. Some interest being shown for corn FOB dock – nothing really traded yet.

## Soybeans

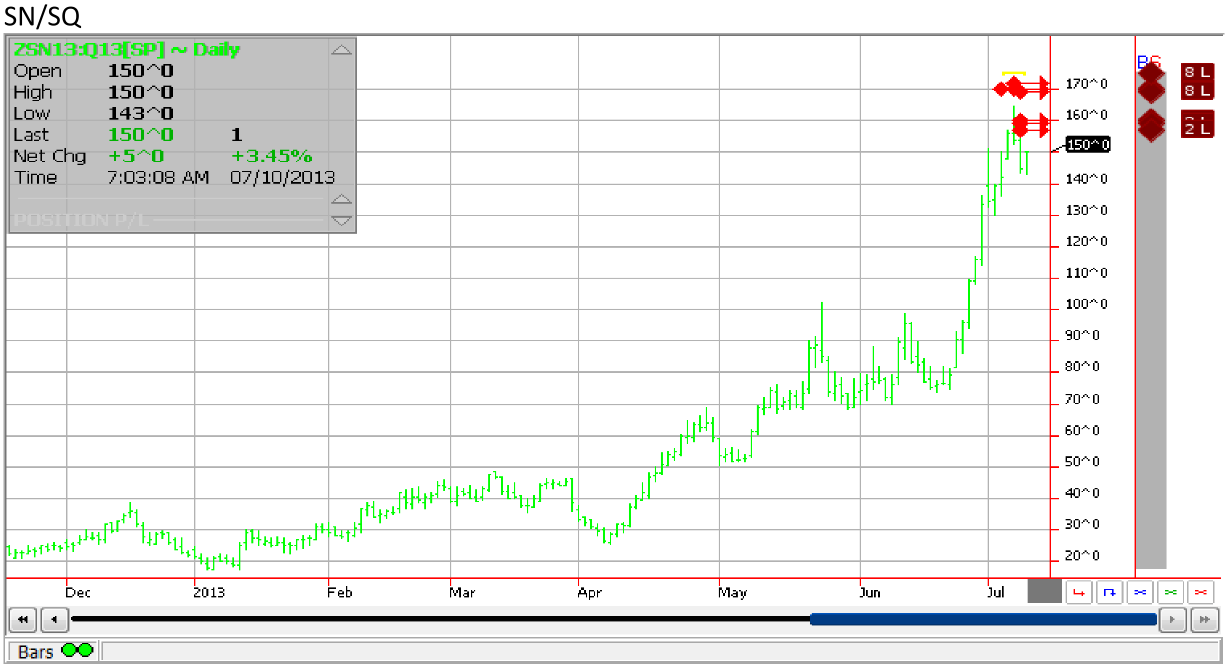
- US domestic crushers have $1.50 to $2.00 per bushel nearby crush margins allowing them to continue crushing with aggressive bids (basis) that is well over delivery value and prompting a squeeze on July beans and meal futures.

- Dr. Shonkwiler reports outstanding old crop SBM sales are 1.2mmt while USDA only expects 0.8mmt bal of yr exports. This is keeping cash crush very hot with IL SBM basis quoted yesterday between 33 and 50 over the July and prompting a squeeze on July beans and meal.

SMN/SMQ (July/Aug meal spread)


– High crush margins are keeping crushers in search of more beans. Basis over delivery, therefor the SN/SQ is getting squeezed. We will need cancellations, and, or, imports of SBM. Market is trying to find an inverse that makes this happen.

SN/SQ





- Dr. Shonkwiler made an observation for consideration in new crop bean basis merchandising. *"China's AG Ministry was estimating 8.8 MMT bean imports for the month of June yesterday. Customs came out last night with a 6.9 MMT figure. If the latter is the gospel, then July-Aug imports would need to be 22% or about 2.6 MMT greater than July-Aug 2012 to reach USDA 59 MMT import forecast. Not as much inventory rebuilding as earlier thought. Customs data now suggests we are likely to have a decent SON export program around the 525-540 mbu range but certainly not as big as 2012's 620 program. FWIW, Sep1 S Am stx currently estimated to be about 500 mbu greater this year".* This will be significant from a merchandising basis/spread environment coming in and through fall. If you remember last year, the US had a huge Sept/Oct/Nov export program and that was on the books coming into fall but very difficult for the exporter (who was short that basis) to get covered in, so basis was over delivery value and new crop spreads were at steep inverses well into harvest. Not a great environment for warehouseman. This year, it felt like the Chinese were rebuilding inventory and perhaps our S/O/N program would be smaller, but the customs data above indicates that the rebuilding may not be occurring. Inverses/economics would say to wait to rebuild, but China is not an economic animal with respect to reserve/stocks. Be patient in offering new crop basis to the export market or domestic again this fall. More clearly, it feels like the basis will perform to DVE versus the November. If it doesn't, the hedges you have should be in Nov. and spreads will widen. If we do get a chance to lock in some SX/SF carries at >7 ½ for elevators that need time to merchandise into a processor of for logistics, get the orders in.

**Wheat**

- Market looking for a smaller spring wheat crop from both reduced acres and yield.

- Harvest is only 74% in North Carolina where they are usually done. This is mirrored all across the SRW belt. This delayed harvest inherently is delaying the planting of double crop beans and the window is closing in the next couple of weeks. One only needs to yield 7-8 bpa beans to cover the costs of planting/harvesting double crop beans. Seeing aggressive drying of wheat to get it out and get beans in.

- Quality concerns in SRW. Some 4-5 ppm vom in Western IL. Yields are good with 100-125 bpa in S. IL. Heavy rains in northern IN and OH the past two days could hurt quality further.

SRW:

- U/Z at 12. Should we be locking in carries right now? The size of the corn and bean crop may help wheat spreads push out to 5 cents/month. What will farmer do at harvest? What about quality concerns? The contract specs tightened up on voms where it is 12 cents a point to 3, 3 max. Use to be able to deliver up to 4 parts. If one can move ownership versus the September, wait for 15 in the U/Z. Question: Do you go to Dec or March? If you can move wheat with fall crops, go to December. If one can't execute wheat logistics with fall crops, go to the March.

- Basis: Chicago and Toledo millers at -10 to option. Just under delivery value. So the U/Z at 12 is probably price right at them moment.

- Gavilon purchase 4-trains of SRW this past week. A couple originated out of eastern corn belt.

HRW:

- Harvest is 87% done in KS (all but done). Yields are tailing off toward the end of harvest. Quality is good. Low 11's proteins.

- Farmer selling is minimal.

- U/Z in from 22 to 19 in the past week. For a house that can execute versus the September, be in the Sept. If need time, one can go all the way to the May.

- Text book basis/spread behavior in the N/U worthy of review. The N/U was even money on June 20th (basis firm), then broke to full carry early in delivery (harvest pressure), now at a slight inverse (offers dried up and basis firmed).

**Ben Peters**