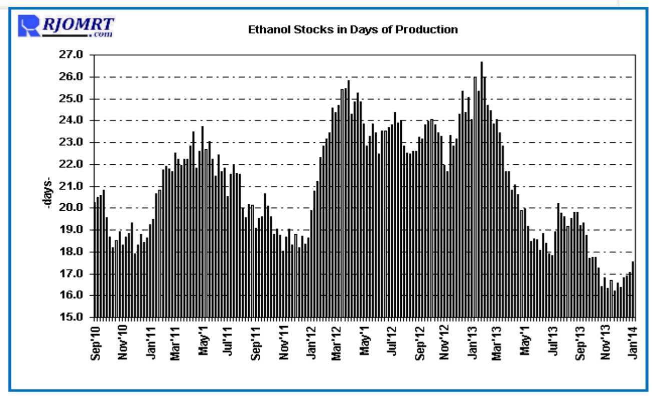
Closing Grain & Soybean Comments

January 8th, 2014

Corn: The March corn endured one of its most negative sessions since September just two sessions before the pivotal January USDA reports. The March finished at $4.17, down 9 cents. The Dec performed slightly better, settling at $4.46, down 7 ¼ cents. Corn was pressured by technical selling, disappointing buying by the index funds, and a bigger than expected build in ethanol stocks. The cash markets have also been softer this week, pressuring the March contract relative to the back months. The Mar-May spread went home at 8 ¼ cents carry after narrowing to 7 ¾ yesterday.

The 50 day moving average has worked as a solid line of resistance for the March corn dating all the way back to last summer. Since the start of December, the market has made three distinct attempts to move above it and each has been rebuffed. The latest of those efforts came late yesterday. The line held. The March also found additional selling today when it took out last week's low of $4.17. The bottom line is that the pattern of lower lows and lower highs remains very much in place.

Some of the bulls had pinned their hopes for a mid-week rally to be driven by buying from the index funds during their annual rebalancing period. The speculation was that the "long-only" funds would need to buy corn so that it made up the appropriate portion of their holdings. This buying was supposed to commence today. Although volume was up notably during today's session, the market was clearly not run over by a rash of fund buying.



The EIA reported US ethanol production in the week ending 1/3/14 at 270 million gallons, up 2 million gallons from the week before. However, any support this might have lent corn was more than offset by the build in ethanol stocks that was also shown. The US now has 678 million gallons of ethanol on hand, the most since mid-September. This is equivalent to over 17.5 days of production after they had fallen to as low as 16 days in November (see chart from RJOMRT).

In other news: In light of the MIR 162 rejections, well-followed Chinese analyst JCI lowered their estimate of Chinese corn imports for the 13/14 crop year to 4.4 mmt from 6.0, previously. The USDA is at 7.0 mmt but could revise that number down as soon as Friday. Syngenta claims that they have met every information request from the Chinese government on the unapproved trait and are waiting for the government to grant its approval. At the same time, anecdotal reports are reaching the trade that Chinese inspectors are being less strict with US DDG containers and that the product continues to move into the country. From Jan-Nov of 2013, China took over 45% of all US DDG exports, an average of 358K tons per month. The USDA will put out weekly export sales in the morning. Trade estimates vary widely from 8 to 28 million bushels; last week sales were just 6 million bushels. Monsanto announced net income of $373 million in the quarter ending Nov 30th, up from $349 million in the year before; their stock price rose on the news.

The funds sold an estimated 14,000 contracts on the day.

Corn basis was mixed-weaker in the last 24 hours. Most locations were steady but a few did soften by 1-4 cents. The gulf bid was also softer this morning, falling to +71 H. An uptick in US corn movement was noted on Monday and Tuesday when corn was trading multi-week highs. Some of the selling is tied to pre-report dumping on the part of farmers.

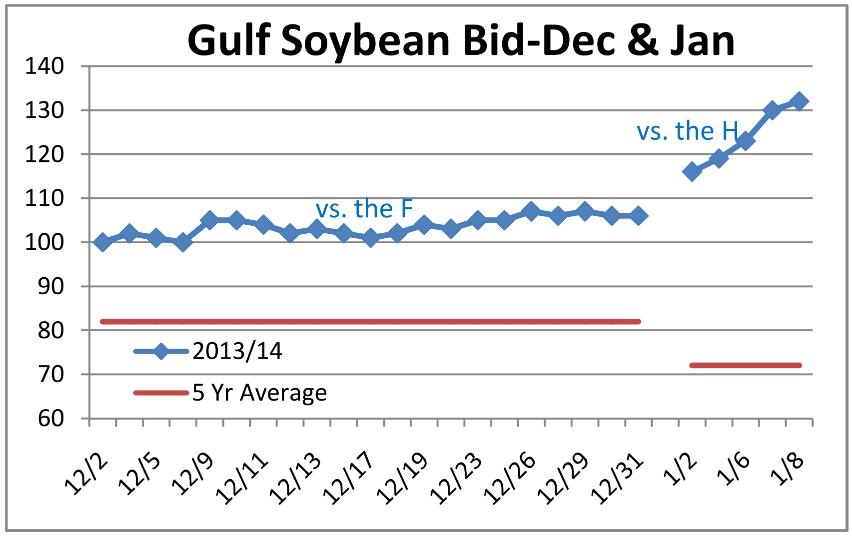
Tomorrow's session is likely to be dominated by pre-report positioning. This may be supportive to corn as the funds are short and profit-taking could be seen following today's break.

Soybeans: The soybeans were under pressure throughout the session but to varying degrees. The Nov '14 made another new contract low and settled at $11.04, down 12 ¾ cents on the day. Firmer cash markets supported the in-delivery January contract as it managed to actually finish higher. The March contract was caught in between the two, settling 6 ¾ cents lower to $12.69 ¾. There seemed to be little fundamental influence on the soybean complex outside of the strong cash markets as it chops around ahead of the uncertainty of Friday's reports. The bean spreads were up across the board; the Mar-May rallied to an 18 ¾ cent inverse, its highest level since early Dec.

Bean oil, along with other world veg oils, continues to fall. It was down another 25-30 points during today's session with the March settling at 37.68, another new contract low. Meal, which has been the stalwart of the soybean complex, finished lower too. It was down $3-$4 per ton with the March settling at $412.50.

The midday weather models had a drier look for Argentina and Brazil than had been offered by previous runs but the changes were not significant enough to warrant much of a bounce in the market. This was partly because many forecasters had discounted the previous wetter runs already. Conditions in Brazil and most of Argentina are still not a major concern with rains to fall over the 2nd half of this week.

The USDA did announce the sale of 115K tons of 13/14 soybeans to China, the 2nd announced sale in two days. The two day total was 465K tons. The trade is looking for weekly export sales to be 17-35 million bushels, down from last week's 35 million. Other fundamental news was limited. The funds sold an estimated 2,000 beans and meal and 1,000 oil.



Midwest soybean basis was steady firmer yesterday. Many locations bumped their bids by 3-5 cents. The strengthening soy bids seem to be following the lead of the gulf market, which started to firm a week ago. It continues to do so, up to +132 H bid and offered at +138H. Meanwhile, Midwest meal basis has been falling, squeezing cash crush margins.

With beans near their lowest level of the last two months, it would not be surprising to see some profit-taking support the market tonight.

Wheat: The wheat closed lower for the 2nd straight day, moving below last week's low. Today's price action completely negated the constructive sessions that were seen on Friday and Monday. The SRW market saw the deepest losses, down 12-13 cents. HRW and HRS futures were down just 8-10 cents. The March contracts settled at $5.88 ¾ for the SRW, $6.37 for the HRW, and $6.27 for the HRS. The wheat spreads were mixed with the SRW spreads softer and HRW spreads firmer.

There continues to be a good deal of world wheat business going on. Sources indicate that Brazil grows more nervous everyday that Argentina will be unable/unwilling to supply their wheat import needs. Eventually Brazil may be forced to extend its suspension of their import tariff on North American wheat. This would keep US wheat flowing into the South American country. Most other world business does not feature the US. India continues to offer wheat and is expected to continue as long as the world price stays above $260 per ton ($7.08/bu). EU wheat exports have also been running 48% above the pace of a year ago. Buyers include Oman and Bangladesh among others. The best prospect for the US to earn some business may be the latest Iraqi tender for 50K tons of wheat from Australia, Canada, or the US.

Other news included: UkrArgroConsult estimated that Ukraine will grow 60 mmt of grains in 14/15 vs. 56.5 in 13/14. US weekly export sales are expected to be just 7-18 million bushels, on par with last week's 9 million.

Looking ahead, don't be surprised if values stabilize in the 1 ½ sessions that remain before Friday's report, though the reports offer less uncertainty for wheat than for corn or beans.

Weekly Export Sales-1/2/14		
	Estimates	Last Week
Corn	7.9-27.6	6.1
Beans	16.5-34.9	34.7
Wheat	7.3-18.4	9.1
*-all in mil bu. Source: Reuters		

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