Closing Grain & Soybean Comments

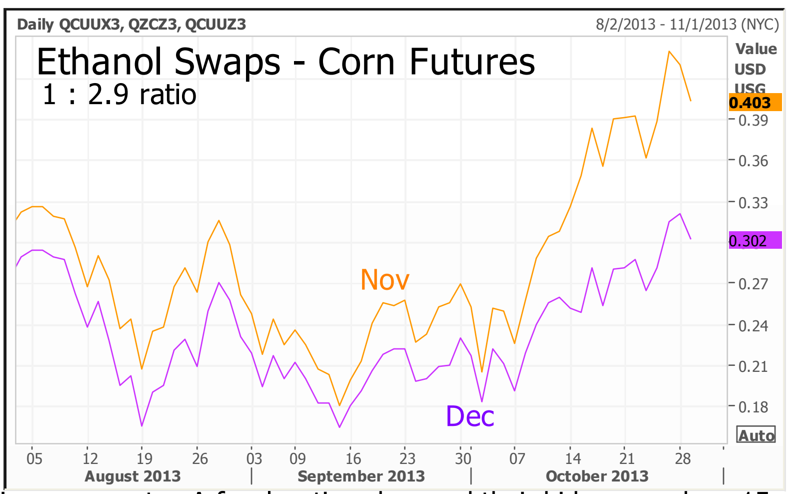
October 29th, 2013

Reminder: Thursday is First Notice Day in November soybeans. To avoid delivery risk, exit long positions by Wednesday's close.

Corn: Corn saw a two sided session but also made a new low for the break. The December traded down to$4.28 ¼ before settling at $4.32, up 1 ¼ cents on the day. The July was up just ¼ cent to $4.60. Reports of end user demand continue to be heard and open interest in corn is still increasing but so far the buying has not been able to stem the downtrend. The corn spreads were firmer. The Dec-Mar settled at 12 ¼ cents carry. The Dec-July walked into 28 cents, its narrowest close in over a week.

The USDA reported the US at 59% harvested as of 10/27 compared to 62% average. Interestingly, they also increased the % of the crop rated good-excellent by 2% to 62%. Traders view this as a precursor to a yield increase on next week's crop report. Widespread rain is expected to move into the Midwest in the next 24 hours. This will limit additional harvest progress for the next 2-3 days.

On the export side, a Chinese think-tank said they are likely to import 5 mmt of corn in 2013 with 100K tons of US corn to arrive in October and 800K tons in November. The USDA is estimating that China imported 3 mmt in the 12/13 crop year and for that to jump to 7 mmt in 13/14. Trade contacts reported that one Korean feedmaker bought 140K tons of US corn, their first purchase of US corn in over a year. Another Korean feedmaker is tendering for up to 70K tons of corn, 60K tons of feedwheat and 55K tons of soybean meal.



Spot ethanol margins are still quite positive and November and December margins had been improving as well. See chart. However, in the last 2-3 days, ethanol margins have been softening even as corn has pressed to multi-month lows. The question on the sharply inverted ethanol market is "Do spot premiums fall into the inverse or do the deferred discounts rise into the inverse?" So far this week, indications are that spot values will be falling towards the back month values.

The funds bought 5,000 contracts of corn.

Midwest corn basis was mixed in the last 24 hours. Most changes to posted numbers were improvements. A few locations bumped their bids as much as 15 cents. Pushes over posted bids also continue to be paid as the farmer keeps his eyes on corn rows and yield monitors rather than the markets. PNW corn bids softened notably yesterday while gulf bids were steady at +76 Z.

Deliverable corn stocks in CBOT warehouses nearly doubled last week to more than 2.5 million bushels. This is also higher than a year ago.

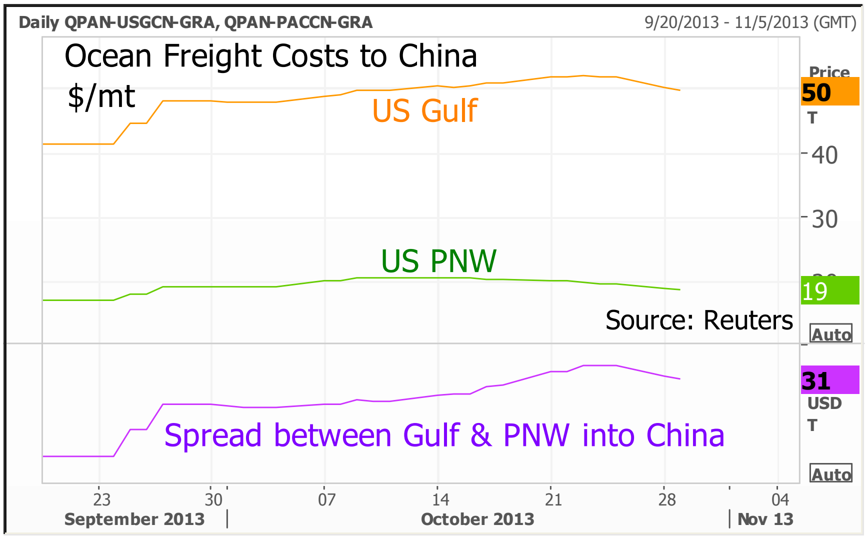
Wednesday will bring the latest ethanol production & stocks data. Last week's report was friendly to corn with production up and ethanol stocks flat. Thursday will bring the export sales report which will finally catch the USDA up to October 24th, their normal one-week lag time. Friday will bring the September Cattle on Feed report with the trade looking for 10.187 million head to be on feed as of October 1st, 92.7% of a year ago. Following those demand indications, look for the trade to turn its attention to next week's USDA Crop Production and S&D reports.

Soybeans: The soybeans were able to regain some of Monday's sharp losses, finding support near the recent lows. They did trade both sides. Fresh news was limited which led to the technical, "Turnaround-Tuesday" type trade. The November soybeans settled 7 ¾ cents higher at $12.79. The January contract was up just 2 ¾ to $12.70 ¾. Clearly, spreading played a role in the flat price action. The Nov-Jan settled at an 8 ¼ cent inverse, a new contract high. January also lost relative to the back months, softening the Jan-forward inverses. Tomorrow is position day in the November soybeans; longs must liquidate by the close in order to avoid delivery risk on First Notice Day (Thursday).

Oil was the upside price leader. Support came from the palmoil market which traded at its highest level in 7 months and long meal-short oil liquidation. Bean oil finished 60 points higher with the Dec at 40.97. Meal was lower; the nearby months fell harder than the deferreds. December meal settled at $410.80.

The midday weather models increased the precipitation called for later this week in Argentina. The models have been consistent with this rain and if anything have increased the forecasted quantity since the start of the week. This forecast has kept soybean prices under pressure. Brazil has planted 26% of their soybeans as of 10/25, right in line with average. Here in the US, the USDA estimated bean harvest at 77% complete as of 10/27, also right in line with average. Any remaining soybean harvest is likely to cease when the rains move into the Midwest tomorrow.

ADM's COO said they have not seen a drop in soybean meal demand due to the Porcine Epidemic Diarrhea Virus which is infecting and killing US hogs. The mortality rate in young pigs infected with the disease is believed to be 75-100%.



US bean basis has been a mixed affair in the last 24-48 hours. Midwest processors improved their bids again. Many were up 5-7 cents. Iowa and Illinois are seeing the leading posted bids around +10 X. Meanwhile, gulf bids collapsed from over +100 X on Friday to just +88 X last night. Bids did bounce some this morning, reported at +91 X. Speculation on the reason for the break includes: Chinese cancellations, cargoes being switched from Gulf to PNW (see chart), or just the maxing out of Gulf elevating capacity.

The funds bought 3,000 each of beans and oil while selling 2,000 contracts of meal.

Wheat: Like the corn and beans, wheat traded both sides before settling slightly higher. The KC led the way, up 1-2 cents after the USDA showed a drop in HRWW ratings on the latest condition report. Chicago and MN were steady to a penny better. The December contracts closed at $6.81 ¼ in Chicago, $7.51 ¾ in the KC, and $7.36 in the MN. The wheat spreads were generally firmer on the day.

The USDA dropped the percent of the US winter wheat crop that was rated good-excellent by 4% to 61%. The biggest drops were west of the Missouri river in the HRWW and White areas. SD saw a drop of 8%, KS 4%, OK 1% and TX 21%. The eastern half of the HRWW belt will see rains in the next 2-3 days which may shore up conditions. MT, OR, and CA also saw sharp drops in conditions ratings. In the SRW territories, most states saw conditions improve in the last week.

The rains forecast for Argentina this week could buoy their wheat crop but Argentine wheat prices remain very high. As such, traders anticipate another round of US and Canadian wheat sales to Brazil. Thursday's export sales report may confirm the same.

On the international front: Bangladesh is retendering for 50K tons of wheat. They plan to buy 850K tons in the 13/14 crop year to shore up reserves. In the last tender, Indian wheat was the cheapest offer at around $315 per ton ($8.57 per bu). Black Sea values continue to rise as the Russian farmer holds off on selling and the Ukrainian farmer continues to be preoccupied with fall harvest. Values were up about $8 per ton ($0.22 per bu) in the last week.

The funds bought 1,000 Chicago wheat. Deliverable stock levels against possible futures deliveries were similar to a week ago.

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