

# Closing Grain & Soybean Comments

## August 15<sup>th</sup>, 2013

**Corn:** A big prevented plant acreage number from the FSA was yet another bit of bullish news in a week that has so far included a big sale to Mexico, solid weekly export & ethanol data, and a reduction in the USDA's crop projection; corn was finally able to stage a more impressive rally. The Dec finished 17 cents higher at \$472 ¼, its highest close since July 31<sup>st</sup>. Similar gains were seen in all contracts throughout the 13/14 crop year. The Sep contract finished 16 ¾ cents higher at \$481 ½. In spite of the near steady finish in the Sep-Dec spread, it remains a wide swinging affair with a range of more than 4 cents on the day. The Dec-Mar spread firmed to 12 ¼ cents carry after trading as wide as 13 ½ last week.

The FSA reported that 3.41 million acres of corn were declared as prevented planted against crop insurance policies, eclipsing 2011 as the biggest year in history. Furthermore, the results of another 4-5 million acres were not yet reported. The market will have to wait until September 17<sup>th</sup> (the next release date) for that data.

The table at the right looks at the correlation between prevent plant acres and change in WASDE acreage estimates from July (June intentions figures) and January (Annual production figures) as well as the change to final. The best years for comparison are 2009, 2010, & 2011. Unfortunately, this history does not give us a good guidance going forward. In two of the years, the harvested acres fell by less than 1 million but in 2010

harvested acres actually finished higher than estimated in the July report in spite of more than 2.1 million prevent plant acres. There is also not a strong trend regarding percent harvested. With this poor history, the trade is likely to continue to debate acreage for many months to come.

A net cancellation in old crop corn export sales was reported by the USDA but with just 2-3 weeks left in the marketing year, the trade is instead focused on new crop. The new crop sales were better than expectations at 32.9 million bushels bringing the total new crop sales on the books to nearly 400 million bu. This is the biggest new crop book at this point in the marketing year since 96/97 when 470 million were on the books. Both Mexico and Unknown bought more than 12 million bushels of new crop corn last week.

Corn basis in the Midwest has continued to improve today as the farmer remains on the sidelines. The rally in the board has done little to bring old crop bushels out of the woodwork. Yesterday's strong rally in ethanol values is also supporting corn basis levels. At the gulf, basis bids were up 7-8 cents to +127 U.

Other news included South Korea's FLC and KFA each bought 68K tons of corn for February arrival. The US has been

Corn Prevent Plant vs. Acreage Changes							
Year	Prevent Plant		WASDE				
			July	Jan	Final	July-Jan Change	July-Jan Change
2007	494,494	Planted	92.9	93.6	93.5	0.7	0.6
		Harvested	85.4	86.5	86.5	1.1	1.1
		% Harvested	91.9%	92.4%	92.5%	0.5%	0.6%
2008	864,321	Planted	87.3	86.0	86.0	-1.3	-1.3
		Harvested	78.9	78.6	78.6	-0.3	-0.3
		% Harvested	90.4%	91.4%	91.4%	1.0%	1.0%
2009	1,878,977	Planted	87.0	86.5	86.4	-0.5	-0.6
		Harvested	80.1	79.6	79.5	-0.5	-0.6
		% Harvested	92.1%	92.0%	92.0%	0.0%	0.0%
2010	2,102,329	Planted	87.9	88.2	88.2	0.3	0.3
		Harvested	81.0	81.4	81.4	0.4	0.4
		% Harvested	92.2%	92.3%	92.4%	0.1%	0.2%
2011	2,961,385-Aug 3,013,020	Planted	92.3	91.9	91.9	-0.4	-0.4
		Harvested	84.9	84.0	84.0	-0.9	-0.9
		% Harvested	92.0%	91.4%	91.4%	-0.6%	-0.6%
2012	255,080-Aug 262,467	Planted	96.4	97.2	97.2	0.8	0.8
		Harvested	88.9	87.4	87.4	-1.5	-1.5
		% Harvested	92.2%	89.9%	89.9%	-2.3%	-2.3%
2013	3,411,358-Aug	Planted	97.4				
		Harvested	89.1				
		% Harvested	91.5%				

too expensive to sell corn to Korea but that may change by that timeframe. Taiwan bought 29K tons of US corn and 9,000 tons of US beans. Argentine traders say that they could sell China as much as 1 mmt of corn in 2014. Last month China imported the first bulk cargo of GMO corn from Argentina after signing agreements on GMO-corn last year. Argentina is expected to plant 8.8 million acres to corn this year down from 9.1 million a year ago. The funds were buyers of 22,000 contracts of corn on the day. Farmland values in the Plains were up 25.2% from a year ago according to the Federal Reserve Bank in KC while the St. Louis Federal Reserve Bank said values in the Southern Midwest were up 20.6% from a year ago.

**Soybeans:** The beans continued their recent rally with the Nov finishing 26 ½ cents higher at \$12.65 ½, an impressive \$1.03 above the low scored last week. The large number of prevent plant acres (1.6 million) as well as a strong week of exports lent support. The November contract also found support from the spreads as it gained notably against several back months. The July '14 finished just 12 cents higher while the Nov '14 was up just ¾ cents

on the day! The Nov-July soybean spread traded at 20 cents carry last week but after the bullish WASDE report on Monday and today's bullish prevent plant data, it goes home tonight at a 17 cent inverse!

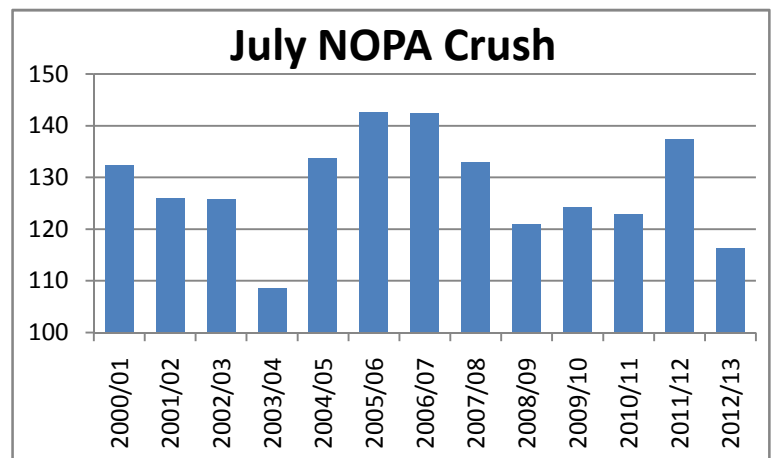
The products were also higher. Oil finished the day 75-85 points higher, supported by a smaller than expected oil stocks number on the monthly NOPA number. The Dec contract finished at 43.45, its highest close since July 26<sup>th</sup>. Meal was the laggard but was still up \$8-\$9 per ton with the Dec settling at \$387.60.

The FSA's initial release on prevent plant acres in soybeans showed that just over 1.6 million acres have been claimed. This is slightly larger than in 2010 and 2011 when 1.35-1.45 million were declared. The same table shown for corn above is shown for

Soybean Prevent Plant vs. Acreage Changes							
Year	Prevent Plant		WASDE				
			July	Jan	Final	July-Jan Change	July-Jan Change
2007	590,292	Planted	64.1	63.6	64.7	-0.5	0.6
		Harvested	63.3	62.8	64.1	-0.5	0.8
		% Harvested	98.8%	98.7%	99.1%	0.0%	0.0
2008	591,013	Planted	74.5	75.7	75.7	1.2	1.2
		Harvested	72.1	74.6	74.7	2.5	2.6
		% Harvested	96.8%	98.5%	98.7%	1.8%	0.0
2009	933,370	Planted	77.5	77.5	77.5	0.0	0.0
		Harvested	76.5	76.4	76.4	-0.1	-0.1
		% Harvested	98.7%	98.6%	98.6%	-0.1%	0.0
2010	1,347,381	Planted	78.9	77.4	77.4	-1.5	-1.5
		Harvested	78.0	76.6	76.6	-1.4	-1.4
		% Harvested	98.9%	99.0%	99.0%	0.1%	0.0
2011	1,420,815-Aug 1,447,177	Planted	75.2	75.0	75.0	-0.2	-0.2
		Harvested	74.3	73.6	73.8	-0.7	-0.5
		% Harvested	98.8%	98.1%	98.4%	-0.7%	0.0
2012	159,229-Aug 159,579	Planted	76.1	77.2	77.2	1.1	1.1
		Harvested	75.3	76.1	76.1	0.8	0.8
		% Harvested	98.9%	98.6%	98.6%	-0.4%	0.0
2013	1,618,595-Aug	Planted	77.7				
		Harvested	76.9				
		% Harvested	99.0%				

beans. There is a stronger relationship between prevent plant and acreage changes in beans. In the years of big prevent plant acres ('09, '10, '11), harvested acres did fall from July to Jan and also from July to final. The average July to final drop was 667K acres. Remember that the USDA already revised the harvested acres down 500K acres from July to Aug. Even considering that drop, it is not hard to envision another 100-500K acre drop before it is all said and done.

NOPA's July soybean crush came out about as expected at 116.3 million bushels. That was down from 119.1 in June. It was the smallest July NOPA



Crush since 2003/04 (see chart). The daily crush rate fell in every geographical reporting region but was down hardest in IA & IL. This crush pace keeps the USDA on pace to meet the USDA's recently increased 1.685 billion bu forecast for the 12/13 crop year. Bean oil stocks came in at the low end of expectations at 2.05 billion lbs, down from 2.298 in June. The 2012 crop continues to be one of the highest oil yielding crops in recent memory at over 11.9 lbs per bu in 4 of the last 5 months.

Like the corn, the old crop sales on soybeans last week were a net cancellation of 400K tons. Also like in the corn, the new crop sales exceeded expectations at 69.6 million bushels. The new crop sales book of 658 million bushels is the biggest new crop amount ever for this point in the year. Of these sales, 92.7% are made to China or Unknown.

The weather remains a friendly influence as most areas of the Midwest have trended too dry during the month of August. The midday weather models show the next credible chance of precipitation moving into the Midwest at the end of next week with details still rather vague but generally less than 0.50" called for. The latest drought monitor shows 74.5% of IA, 44.8% of IL, and 96.6% of NE experiencing at least abnormally dry conditions.

In other news: China sold almost 200K tons of soybeans of the 500K they offered out of government held reserves. This was better interest than they saw on their first auction but the price is still higher than for imported beans. Cargill announced they will re-fire their Lafayette, IN processing plant which has been down since May due to tight soybean supplies in the area. The funds bought 10,000 soybeans, 5,000 meal, and 4,000 oil.

Midwest soybean basis was slipping this morning led by a break in MN/IA processors. Some posted bids have slipped as much as 30 cents. Many others were down 20 cents or more. Values are now backing away from the +200 X that was being paid earlier in the week. On the other hand, gulf bids were 5-10 cents higher at +170 X for spot and +160 X for LH Aug.

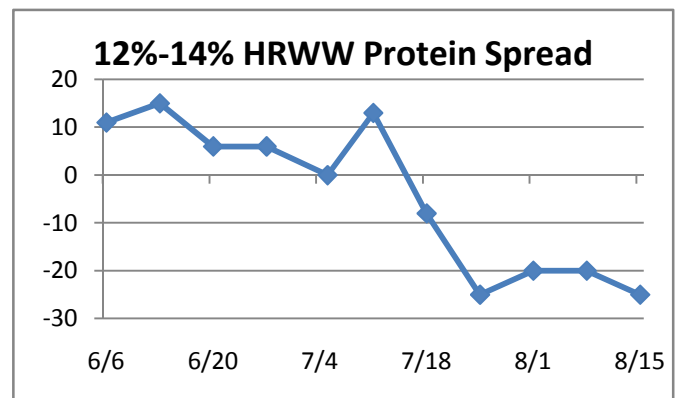
**Wheat:** With all of the fireworks in the corn and soybeans regarding prevent plant acres, wheat was relegated to the role of follower. The weaker US dollar was also supportive. News was rather light for the wheat. Chicago wheat managed the best gains, up 6-7 cents on the day. KC and MN were up just 2-4 cents. The Dec contracts settled at \$6.49 1/2 in Chicago, \$7.06 3/4 in KC, and \$7.43 in MN. The wheat spreads all had firmer tones.

Export sales for wheat were just 18 million bushels, less than trade expectations. YTD, sales are still up 42% from year ago levels. The most prolific buyer continues to be Brazil, buying over 5.1 million bushels last week. China also sourced another cargo. Traders did report that Taiwan bought more than 101K tons of US million wheat for Sep-Oct shipment. Jordan is also tendering.

Demand for 12% protein has been very strong as it is retaining an average premium to the ordinaries but is also trading at a premium to 14% protein levels.

In other news: Strategie Grains estimated EU soft wheat production at 134.2 mmt, up from 133.4 mmt a month ago.

England planted just 3.7 million acres last year due to wet field conditions at the time of sowing. This has turned them into a net importer of wheat in recent months. The funds bought 4,000 contracts of Chicago wheat on the day.



**THOMAS MEIEROTTO**  
Commodity Risk Manager

[tmeierotto@rjobrien.com](mailto:tmeierotto@rjobrien.com)

d (515) 221-3555 // m (319) 470-7732 // tf (800) 283-5132 // f (515) 221-9559



**RJO'Brien**  
939 Office Park Road, Suite 225  
West Des Moines, IA 50265  
[www.rjobrien.com](http://www.rjobrien.com)

**This material has been prepared by a sales or trading employee or agent of R.J. O'Brien and is, or is in the nature of, a solicitation.** This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions.

DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION.

The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that R.J. O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.