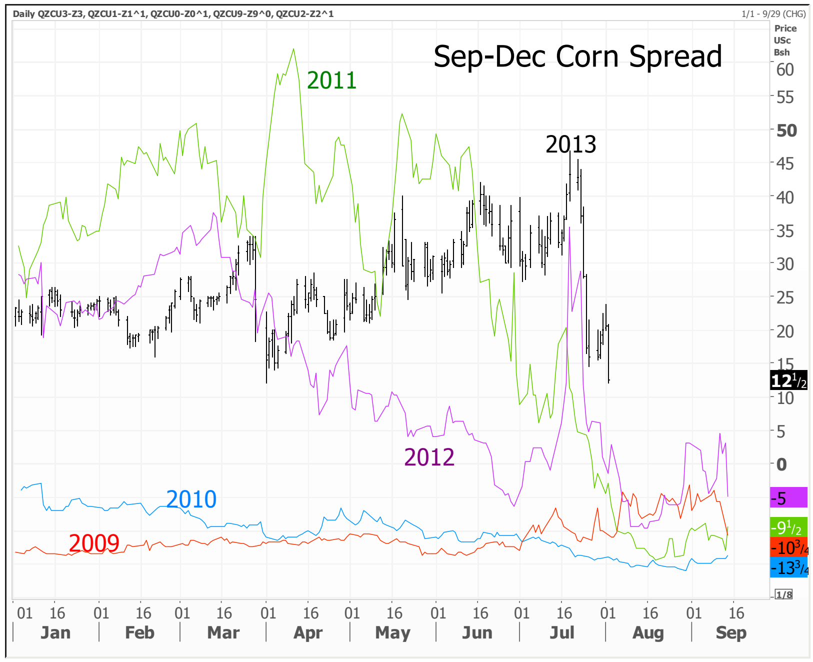
Closing Grain & Soybean Comments

August 2nd, 2013

Corn: Another day of weakness in the corn futures, although it was the September contract leading the way rather than the Dec. The Sep finished 11 ½ cents lower on the day at $4.76, its lowest level in contract history. The Dec was down just 3 ¼ cents, settling at $4.63 ¾, which was also a new low for the move. Negative influences included: rainfall in dry areas of IA and NE, ample rain in the forecast, and reports of southern corn harvest in the US. There was little other fundamental news to aid the bulls.



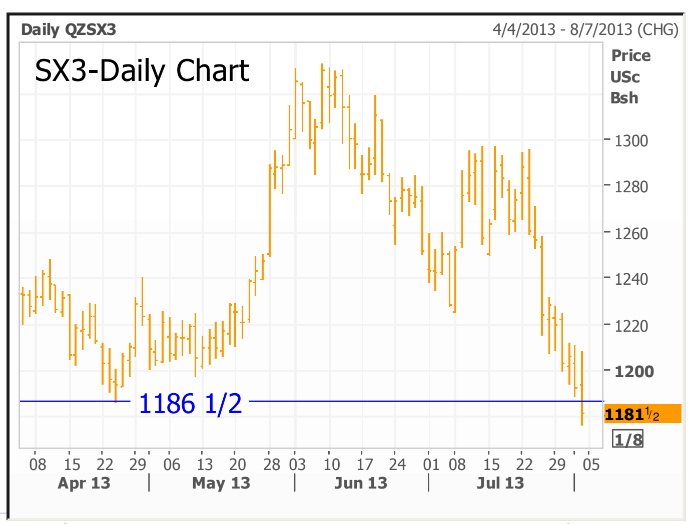
The Sep-Dec collapsed to 12 ¼ cents inverse. The chart at the right shows the history of that spread in the last 5 years. Seasonally it is tough to maintain that spread at an inverse simply because the US corn harvest does come and pressure the Sep. Some traders had been looking for 2013 to follow more of the 2009 seasonality (rallied into delivery before breaking) due to the late planting and slow crop development in the Midwest. Strong basis values in the Western Corn Belt could still offer support to that spread for a rebound.

Other corn spreads were steady-mixed on the day.

The forecast is calling for rains to move through the southern half of the Corn Belt in the next 24-48 hours. Another, more widespread event, is called for Sunday-Tuesday with yet another chance for light precip at the end of next week. The 11-16 days is also calling for additional moisture. If the forecast bears out, dry pockets in the Midwest will be all but eliminated by mid-August. The temperatures are seen warming a bit early next week but then to slip back to below normal for the rest of the forecast. This persistent call for rain worked as a bearish influence all week.

Fundamental news was rather light and included: Informa is expected to release their US crop production estimates early next week. Ukraine's state grain firm GPZKU is set to export 120K tons of corn to China during October-November as payment against a $1.5 billion loan the Chinese made to them to improve their agricultural infrastructure. South Korea's NOFI passed on all offers in their latest 140K tons corn tender. The Buenos Aires Grains Exchange is estimating that Argentina's corn harvest is 97% done, with rains holding up the last 3%.

Midwest corn bids firmed again in the last 24 hours with many locations improving their bids 5-20 cents. Only a few locations were seen softening their bids with those concentrated in the Eastern Corn Belt. Posted values have not fully recovered from last week's break but generous pushes are being paid beyond the posted figures. Corn movement remains scarce. The gulf was steady on the day, bid at +130 U.



The funds sold an estimated 7,000 contracts of corn on the day. The CFTC report showed the spec funds selling over 25K contracts between 7/23 and 7/30 bringing their net short to more than 180K (909 million bu).

Soybeans: Beans traded higher early before falling out of bed and finishing double digits lower. August paced the break, down 26 ¾ cents on the day. Falling cash values at the gulf and in the eastern Corn Belt exhibited negative pressure on the August and September. Meanwhile, the wet forecast pressured the November as well. It finished at $11.81 ½, down 11 cents. Additional selling was seen after November violated the April low of $11.86 ½ (see chart). Obviously, the old crop-new crop inverses contracted sharply while the new crop spreads were steady-mixed. The Nov-July walked out to 13 ¼ cents carry, its widest settlement in nearly a month. Since that time it had traded as high as a 9 ¼ cents inverse.

Old crop soybean meal was off sharply (down $12-$13 per ton) as meal basis in the Midwest continued to fall. Corn and bean basis have each made efforts to rebound from the late-July weakness. Cash meal values have made no such effort, falling $80-$100 per ton during the month of July. That pressure is now being felt in the futures as well. New crop meal fared better, down $5-$6. The Dec settled at $354.20.

Oil was down just 5-10 points as it benefits from the unwinding of long meal-short oil positions. The Dec settled at 42.84.

News included: Fresh rumors circulated through the trade that China will auction government held soybeans. However, the price is believed to be too high to garner much interest with ample, cheap Brazilian supplies currently and a US crop just weeks away. Aboive is estimating that Brazil will export 39.5 mmt of beans next year. The USDA is estimating they will export 41.5 mmt. Argentina's Buenos Aires province is restricting the use of pesticides near cities (prohibiting aerial application, tighter restrictions on ground application). They have reportedly worked out an agreement with farmers to compensate them for the higher costs they will incur as a result of the measure. Similar measures are in effect already in Cordoba and Santa Fe.

Bean bids generally improved by 5-20 cents in the Western Corn Belt in the last 24 hours but bids on the rivers and in the Eastern Corn Belt were generally softer. This was prompted by a gulf bid that was 5 cents weaker today than yesterday at +190 X. Meal basis was down another $1-$5 per ton throughout the belt.

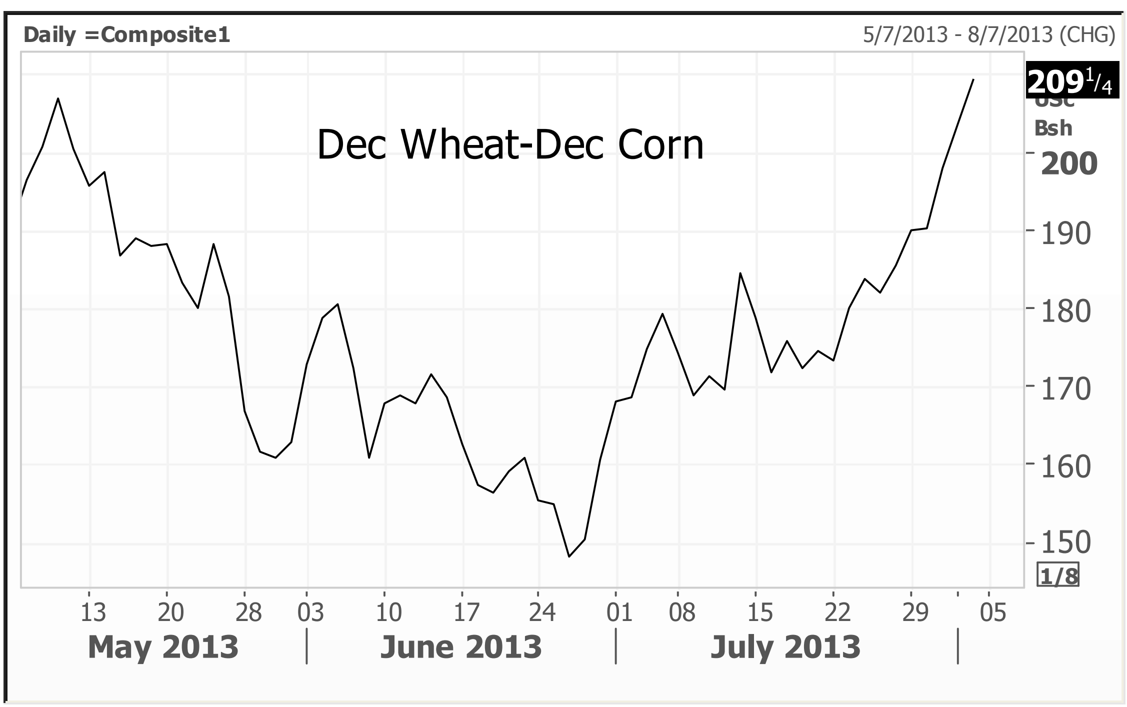
No deliveries were seen against the August beans or meal while 70 contracts of oil came out. The funds sold 6,000 beans, 3,000 meal, and 1,000 oil on the day. From 7/23 to 7/30, the spec funds sold almost 35K beans and 14K meal. The index funds were also sellers of the beans and oil.

Wheat: Yet again, wheat outperformed the corn and soybeans. Short covering by the funds was cited as one primary driver behind the relative strength as was the continued interest in the world wheat market. Chicago wheat finished 1-2 higher but 5-7 cents off its high while MN and KC settled steady to 1 higher. The Dec contracts settled at $6.73 in Chicago, $7.18 ¼ in KC, and $7.50 in MN.

The funds bought an estimated 2,000 contracts on the day. For the period between 7/23 -7/30, the funds bought over 7,000 Chicago wheat and 1,000 KC wheat, reducing their net short 75K and 15K, respectively.

Fresh fundamental news was light. July volume in the KC Wheat contract was down 43% from June levels at 16,924 contracts per day. Volume in Chicago wheat, corn, and beans was down as well but by a lesser amount. Kazakhstan now expects to harvest 16.3 mmt of grain, up from an initial estimate of 15 mmt. 7-8 mmt of that could be exported. Last year's harvest was just 12.1 mmt.

Wheat basis was steady-firmer this week at most locations.



THOMAS MEIEROTTO
Commodity Risk Manager

tmeierotto@rjobrien.com
d (515) 221-3555 // **m** (319) 470-7732 // **tf** (800) 283-5132 // **f** (515) 221-9559

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RJO 'Brien
939 Office Park Road, Suite 225
West Des Moines, IA 50265
www.rjobrien.com