Closing Grain & Soybean Comments

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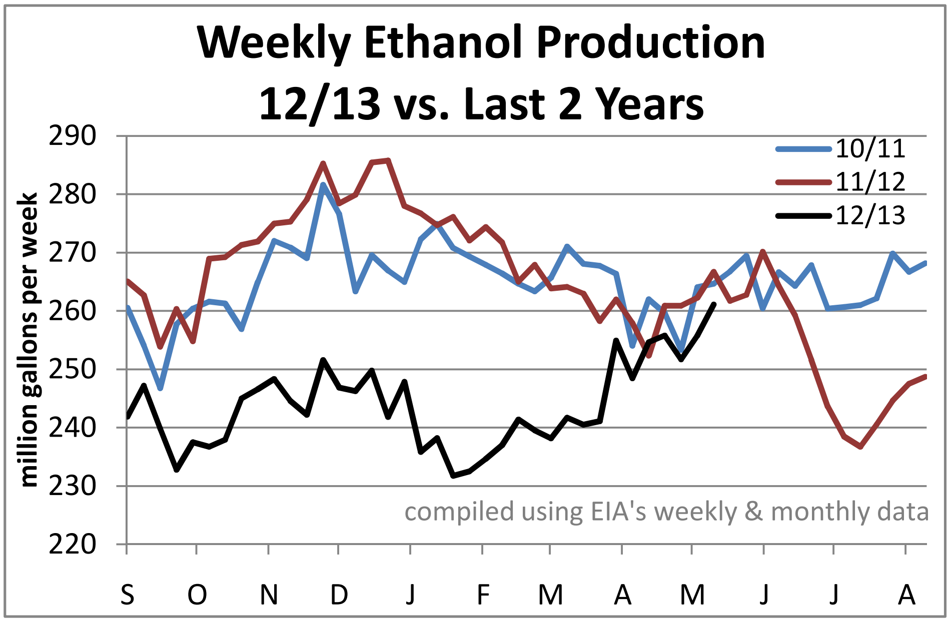
Reminder: June options go off the board on this Friday, May 24th.

Corn: Corn enjoyed its best day in over a week following positive news for both the 12/13 and 13/14 crop years. The July contract finished 18 ½ cents higher, settling at $6.58 ½. The Dec was up 10 ¼ cents to $5.30 ½. Both contracts also saw technical buying move in as the session moved along with the Dec breaking a short term downtrend that had existed since April and the July contract closing above the 50 day moving average for the first time since Mar 27th, the day prior to the USDA's shockingly bearish stocks report. After a break yesterday, the corn spreads rallied again with the July-Sep going home at 98 ¾ cents inverse and July-Dec at $1.28 inverse.

The EIA announced that the US produced 257 million gallons of ethanol last week, up from 252 million the week before. It marked the 7th straight week of 240 million+ production after being below that level from Jan-Mar. The chart at the right shows that after sharply trailing the level of the last two years in the first 7 months of the crop year, the US is now producing ethanol at a level just under those marks. The USDA is currently forecasting corn for ethanol usage in 12/13 to be down 8.2% from 11/12.



Once again, the bigger production did not lead to a build in ethanol stocks as they fell to just 680 million gallons, the lowest level since November of 2010. The booming production and falling stocks implies that ethanol demand is very high at the moment and this is likely to keep ethanol margins supported for as long as that is the case. Margins are already running in the black.

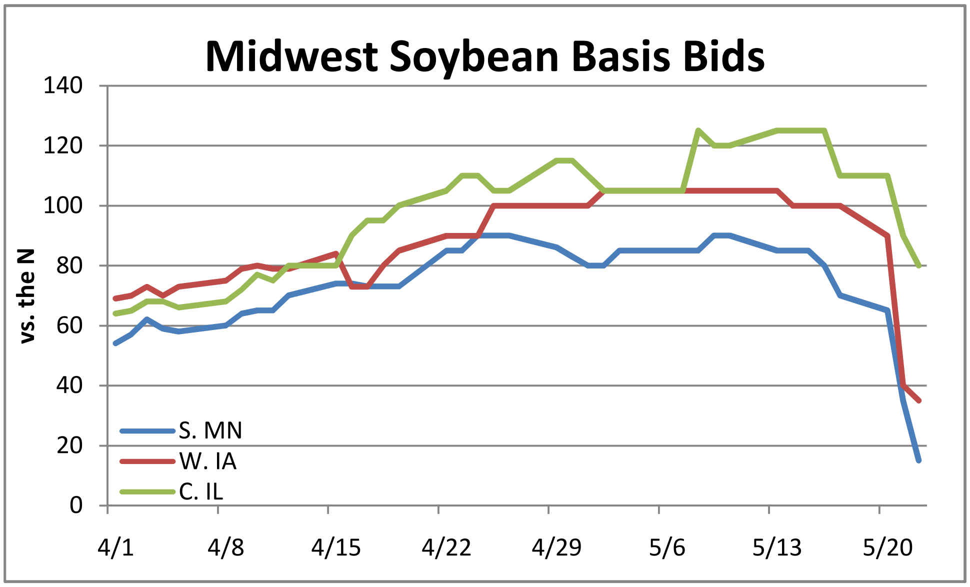
On the new crop, the USDA announced the sale of 540K tons (21.3 mil bu) of 13/14 corn, 360K to China and 180K tons to Unknown. This follows a sales announcement of 120K tons to Unknown made on Monday as well.

In other news: Many areas have been able to finish up corn plantings in the various windows that have existed this week. Taiwan passed on all offers in a tender for 50K tons of corn that was to be delivered in July/August from either Brazil or South Africa. Lanworth pegged world corn production at 965 mmt vs. the USDA at 965.9. On weekly export sales, the market is looking for 4-8 mil bu of old and 4-12 mil bu of new. The funds bought 12,000 corn contracts on the day.

Corn basis was mixed over the past 24 hours. In general, changes east of the Mississippi river tended to be declines of 1-5 cents. West of the river, changes tended to be 3-5 cent improvements. The gulf market was steady at +101 bid for the spot. Barge freight firmed in the last 24 hours by 10-15% of tariff.

Soybeans: The soybeans also enjoyed another constructive session. What made today different was the fact that the November led the charge. November finished 18 cents higher at $12.38 ¾. Technical buying (it was the highest close since April 9th) and rain in the forecast (slowing further progress on bean plantings) supported the November contract. The July contract also finished higher, by 16 cents to $14.94 ¼. Technical buying and short covering were cited as the reasons behind the continued rally as the cash markets fall precipitously even as the futures are rallying. The bean spreads were mixed on the day. The July-Aug inverse closed at 88 ¾, ¾ of a cent firmer while the July-Nov backed off 2 cents settling at $2.55 ½.

The products were stronger on the day as well. July meal was up just $1.90 per ton although the back months were up $5-$7. Bean oil was up 15-25 points. The July contracts closed at $440.60 and 49.64, respectively.



As has been the case all week, the cash markets are racing lower almost as fast as or faster than the July futures are racing higher. Many locations have now rolled their bids from the July contract to the August contract. In the process of rolling those bids, many locations "took" 25 to 40 cents of the spread. Some of the locations that did not roll their bids backed off in even more dramatic fashion (down 50 cents from Monday to Tuesday). The chart at the right shows basis bids at a few Midwest locations since April 1st. The scope of the break has been rather impressive. The break at the export locations has been similarly impressive with the gulf bid at +105 N vs. +160 N last Thursday. The PNW was bid at +145 N vs. +185 N last Wednesday.

The port workers' strike in Rosario, Argentina is now stretching into its 3rd day. Negotiations are again scheduled for Thursday as workers demand higher wages to offset Argentina's double-digit inflation. While the strike has been going on, a lineup of over 50 cargo ships has been built. There are still more than 100 ships lined up outside the Brazilian ports of Santos and Paranagua waiting to load as well.

Soybean plantings will be hampered by rains over the next week or so. Some areas are wrapping up in the Midwest today and Thursday-Friday should be mainly dry before another round of rains move through this weekend. More rainfall is seen in the northern half of the Midwest for next week. With soybean plantings approaching 50% complete, the trade has not gotten too worked up yet but a lot of work still remains.

In headline news: China has cancelled purchases of as much as 150K tons of soybean oil from South America as they try to deal with excess veg oil stocks that now exist in the country. Chinese buyers were aggressive in booking palmoil earlier this year ahead of a change in import policy. Lanworth pegged world bean production at 286 mmt, in line with the USDA at 285.5 mmt. They are also forecasting a slightly larger US bean crop than the current USDA estimate of 3.39 billion bushels. The trade is looking for another very low old crop export sales number in the morning but expect new crop sales to be bigger than the 12.7 million bu seen a week ago. The funds bought 7,000 contracts of beans, 3,000 meal, and 1,000 oil.

Wheat: Wheat also finished higher in a come-along kind of trade. Fund buying (liquidation since they are short) allowed the Chicago to lead the way finishing 7-8 cents higher. KC was up 4-6 cents and MN was steady to 2 higher. News was very light. The July contracts closed at $6.88 ½ in Chicago, $7.43 ¼ in KC, and $8.07 ¾ in MN. The wheat spreads finished mixed firmer.

The midday weather models offered rainfall chances for the eastern HRWW belt in the middle of next week but in general most rains will continue to be concentrated in the northern Plains.

Among the headlines: Lanworth pegged world wheat production at 694 mmt in 13/14, well below the USDA forecast of 701 mmt citing crop concerns in the US and Russia. Jordan continues to issue tenders, pass on all offers, only to retender again. Tunisia is also looking for 67K tons of wheat and 25K tons of barley. Turkey has sold 240K tons of wheat to various countries at various prices. The funds bought 2,000 contracts of wheat on the day.

See table at right for export estimates.

Weekly Export Sales-May 16th

	12/13		13/14	
	Estimates	**Last Week**	**Estimates**	**Last Week**
Corn	3.9-7.9	8.7	3.9-11.8	1.5
Beans	0.0-3.7	0.5	12.9-16.5	12.7
Wheat	0.0-7.3	4.6	11.0-14.7	15.3
*-all in mil bu. Source: Reuters				

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