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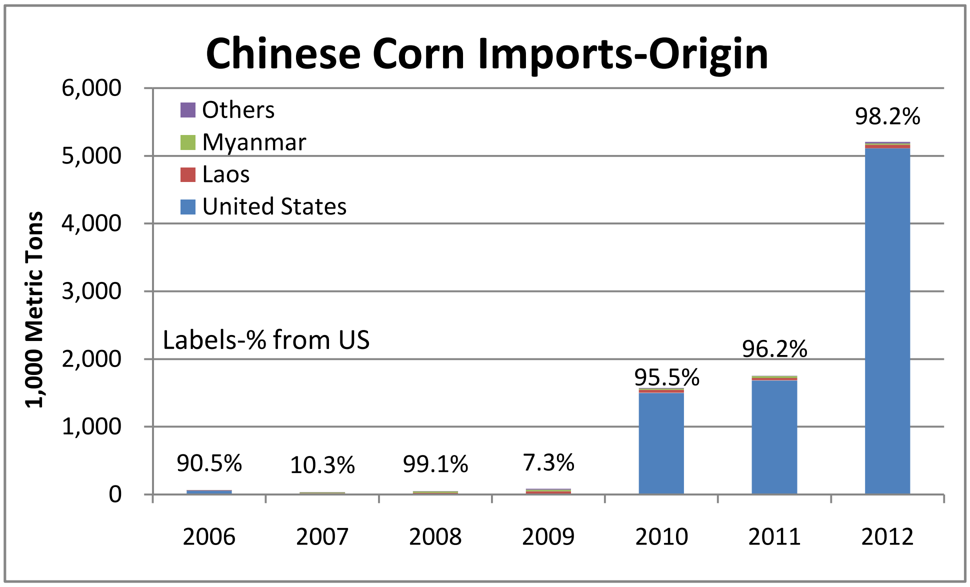
Closing Grain & Soybean Comments

October 1st, 2013

Corn: Corn was on the defensive throughout the session, pressured by yesterday's bigger than expected stocks, further weakness in the soybean complex, and some developments on the export side. The Dec settled 2 ½ cents lower at $4.39, yet another new multi-year low. The July corn was also down 2 ½ cents to settle at $4.66 ½. Along with the flat price weakness, most corn spreads slipped on the day. The exception was the Dec-Mar, which settled at 12 ¾ carry after settling at 13 yesterday.

The revelation of Sep 1 stocks at 824 million bushels (compared to 681 expected by the trade) and all the bearish implications of that continued to reverberate through the corn trade as it moved to its lowest level in 3 years. Adding to this was the weekly crop progress & condition report which showed corn holding last week's improvement in conditions and 12% of the US corn being harvested. RJOMRT's Randy Mittelsteadt put all of yesterday's data through the balance sheet and is now estimating the 13/14 carryout in excess of 2.15 billion bushels. For his full work, visit www.rjomrt.com.



An announcement in the export arena also weighed on prices. Ukraine's Ag minister said their state grain firm will export 240K tons of corn to China in Oct-Dec as part of a prior agreement. They also expect to ship up to 1 mmt to in Jan-June. This 1.2 mmt of corn imports from Ukraine would be unprecedented. The chart at the right shows how China's corn imports have ramped up since 2010 but also how nearly all of those imports have come from the US up to this point. These imports from Ukraine will mark a change in China's approach. It should be noted that the Black Sea region is dealing with excessive rainfall which is slowing their harvest and raising crop quality concerns.

The government shutdown will have a minimal impact on the grain markets this week. However, if it drags on into next week, the October 11th crop production report will be delayed, leaving the trade scouring in the dark through anecdotal emails for yield ideas. It will also push back the announcement of the 2014 RFS mandate levels, making risk management in the ethanol industry an even more challenging process. Tomorrow's EIA energy report will be released as normal, including their ethanol figures.

In other news: Brazil exported 3.45 mmt of corn in September, up from 3.05 mmt in August and bigger than a year ago. Unica, Brazil's cane industry association, lowered their Brazilian cane harvest estimate and are now looking for ethanol production of 6.6 billion gallons compared to a previous estimate of 6.7 billion. Israel is tendering for 40K tons of corn for Dec-Jan delivery. The funds sold 3,000 contracts of corn on the day.

The cash corn market in the US continues to soften as more and more areas move to "new crop" bids. The gulf has been steady so far this week.

Soybeans: The losses keep piling up in the soybean complex as the November is more than $1.40 off the $14.08 ½ high scored less than a month ago. They settled tonight at $13.68, 14 ¾ cents lower. The July was down 12 ¾ to $12.29. The wires blamed the weakness on solid yield reports, harvest pressure & farmer selling, and nervousness over the US government shutdown. However, most traders continue to cite the length held by the funds and their sudden distaste for the soybean complex as well. The spreads were mostly softer too, although the Nov-Jan did firm to 2 cents carry from 2 ¼ yesterday.

After leading the break early in the day, meal managed to be the best performing leg of the complex by the end, down just $1-$2 per ton. The Dec settled at $403.30, nearly $6 per ton off the session low. On the other hand, oil came under sharp pressure and finished 80-85 points lower with the Dec settling at 40.27. No Oct meal deliveries have yet been seen. Oil deliveries fell to 82 contracts yesterday after being 196 on the first day.

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U.S. Crop Production Estimates October 1, 2013

Production (-mil bu-)	RJO 2013/14	USDA 13/14 Sept 12	2012/13	2011/12	2010/11
Corn	13,689	13,843	10,780	12,360	12,447
Soybeans	3,156	3,149	3,034	3,094	3,329

Yield (bushels/acre)	RJO 2013/14	USDA 13/14 Sept 12	2012/13	2011/12	2010/11
Corn	154.6	155.3	123.4	148.9	152.8
Soybeans	41.5	41.2	39.8	41.9	43.5

* USDA is currently scheduled to release updated U.S. corn and soybean crop estimates on October 11, but may be subject to the U.S. government shutdown. Our U.S. corn crop estimate assumes 96.7 mil planted/88.5 mil harvest acres vs USDA's last 97.4 mil plant/89.1 mil harvest. We're using soybean acreage of 76.8 mil plant/76.0 mil harvest vs USDA at 77.2 mil plant/76.4 mil harvest.

** Our yield model/approach continues to struggle to push yields much above the USDA's September estimates, although our yield estimates have risen from earlier expectations. Anecdotal comments remain widespread of "better than expected" yields, but harvest is much too early, in our opinion, to anticipate this year's crops sharply outpacing historically-established crop condition/weather relationships with yields.

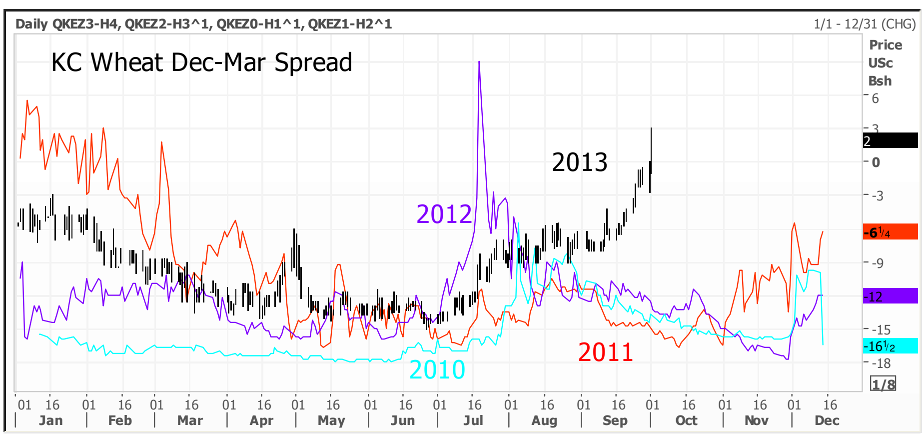
After yesterday's close, the USDA bumped the percent of the crop rated good or excellent by 3% following the better US weather seen in the LH of September. 53% of the crop is now rated G-E. RJOMRT's Mittelstaedt sees those ratings implying a national yield of 41.5 bu/acre (see table at left). This would actually be up a bit from the USDA's last yield of 41.2. Early yield reports have also been good.

In other news: Before shutting off the lights, the USDA did announce the sale of 113K tons of beans to China. Chinese buyers also did this business with one foot out the door as they will be on "Golden Week" holiday until October 7th. Brazil's shipment of soybeans in September fell to 3.47 mmt from 5.38 mmt in August but they were still bigger than a year ago. They shipments of meal and oil increased month on month. South Korea bought 80K tons of meal including 55K from the US and 25K from India.

The US soybean cash market was mixed today. Many locations were steady while the US gulf firmed to +100 X for spot and is bid +95 X for FH Oct. Some locations near rivers also firmed their nearby bids.

The funds sold 4,000 each of the beans and oil but were estimated to be even in the meal.

Wheat: As has been the case for 2 weeks now, wheat outperformed the corn and especially the soybean complex. The MN market led the way, up 6-8 cents, while KC and Chicago were steady to 3 cents higher. The December contracts settled at $6.81 ¼ in Chi, $7.45 in KC, and $7.36 ¾ in MN. The wheat spreads were also firmer across the board with the Dec-March in KC trading at an inverse. The chart at the right shows that in the last three years, that spread has typically been widening at this point of the crop year. In 2013, it is rallying and was even before the report. One astute RJO trader notes that this will continue to encourage Plains elevators to pitch wheat out the door to make room for fall harvests.



The higher protein wheat markets of KC and MN gained on Chicago yet again. This stems from yesterday's by-class adjustments in US wheat production which saw a bigger SRW crop and smaller HRW crop than expected by the trade. Chicago will be able to keep up with its fellows as long as the funds keep covering their net short positions. US news was quiet today and weather remains a bearish influence.

On the export side, Russia saw a slower grain export pace in September but the USDA said in an attaché that they still expect them to export up to 22 mmt of grains in 13/14. Bangladesh passed on foreign offers in their latest wheat tender and sourced the grain domestically. They are currently living on a prior purchase of cheap Ukrainian wheat but are expected to come to the world market again. Tunisia also bought 75K tons of milling wheat that is likely to be sourced out of Europe.

The funds bought 4,000 contracts of Chicago wheat as they continue to cover shorts.

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