

Closing Grain & Soybean Comments

Kevin Riesberg Thursday, October 3, 2013

CORN: Corn closed slightly better in mostly technical trade with continued support from the rallying wheat market and wet weather hampering corn harvest next day or two. With little fundamental news to trade thanks to the US govt shut down (no weekly export sales report) the market is resorting to following technicals more closely. Informa is out tomorrow morning and traders anticipate them to increase their yield from their last number of 157.2 bpa. Farmer selling remains light with next round of offers thought to lie closer to \$4.50 on Dec corn. Spot basis levels are holding firm until harvest gets further along and space becomes more of an issue. Country contacts report that without a board rally, the US producer is likely to be a patient seller until next spring when they need cash flow and then again toward the summer months. In the table below we compare current basis levels at the Gulf and some processor markets vs other recent years with large ending stocks and carryout to use ratios.

Corn basis J/J in other years of big carryouts..														
Crop Year	Carryout	Co/use	CIF			Eastern Neb processor			Eastern IA processor			Chicago		
			April	June	July	April	June	July	April	June	July	April	June	July
13/14 est	2167	17.6	+51 K	+51 N	+51N or +46U	-12 K	-12 N	-5N or -10U	-7 K	-7 N	-6N or -11U	-8 K	-8 N	-5N or -10U
09/10	1708	13.1	+53 K	+50 N	+39 U	-6 K	-11 N	-23 U	+2 K	-5 N	-16 U	+9 K	+3 N	-6 U
05/06	1967	17.5	+39 K	+42 N	+48 U	-26 K	-19 N	-24 U	-14 K	-21 N	-28 U	-5 K	+1 N	-6 U
04/05	2114	19.8	+40 K	+31 N	+34 U	-15 K	-28 N	-39 U	-1 K	-14 N	-20 U	n/a	+4 N	+0 U

Grain Storage in Mln bu						% On		Ending		Carryout as	
	On Farm	Off Farm	Total	Farm	% chg yr ago	Stocks				% of Avail storage	
2013	13,257		23,828	assume 5 yr growth		2167				9.1%	
2010	12,535	9,741	22,276	56.3%	2.4%	1708				7.7%	
2006	11,415	8,540	19,955	57.2%	1.1%	1967				9.9%	
2005	11,210	8,521	19,731	56.8%		2114				10.7%	

We see that the CIF market for June/July is in line with 2006 values or even stronger than one would expect given the low USDA forecast for exports. The interior processor markets though for June and July do seem to relatively strong compared to 2006 (year with most similar Carryout to use ratio). Now there are a lot of dynamics in play yet with the largest being what is the true size of the current crop. If the yield does not increase much from the current level or forecasts of ending stocks of over 2.1 bln bu are too large because export demand is more robust then June/July values were appear to be more line with 2010. US farmer holds the key and right now they are not in a selling mood (which is supportive to Oct/Nov/Dec basis and nearby corn spreads). Technically Dec corn remains in a \$4.35 to 4.50 short term trading range with Informa numbers tomorrow to set the tone.

WHEAT: Wheat closed higher again led by KC though some late profit taking knocked gains back. KC wheat has rallied 10 days straight for a gain of over 73 cents so a correction heading into the weekend would not be a



surprise. Similar corrections in Chicago and Mpls are likely though Mpls will be watching the Canada Stats production report tomorrow. Avg trade guess for that report is 32.9 mmt vs the Aug report of 30.5 mmt and last year's production of 27.2 mmt.

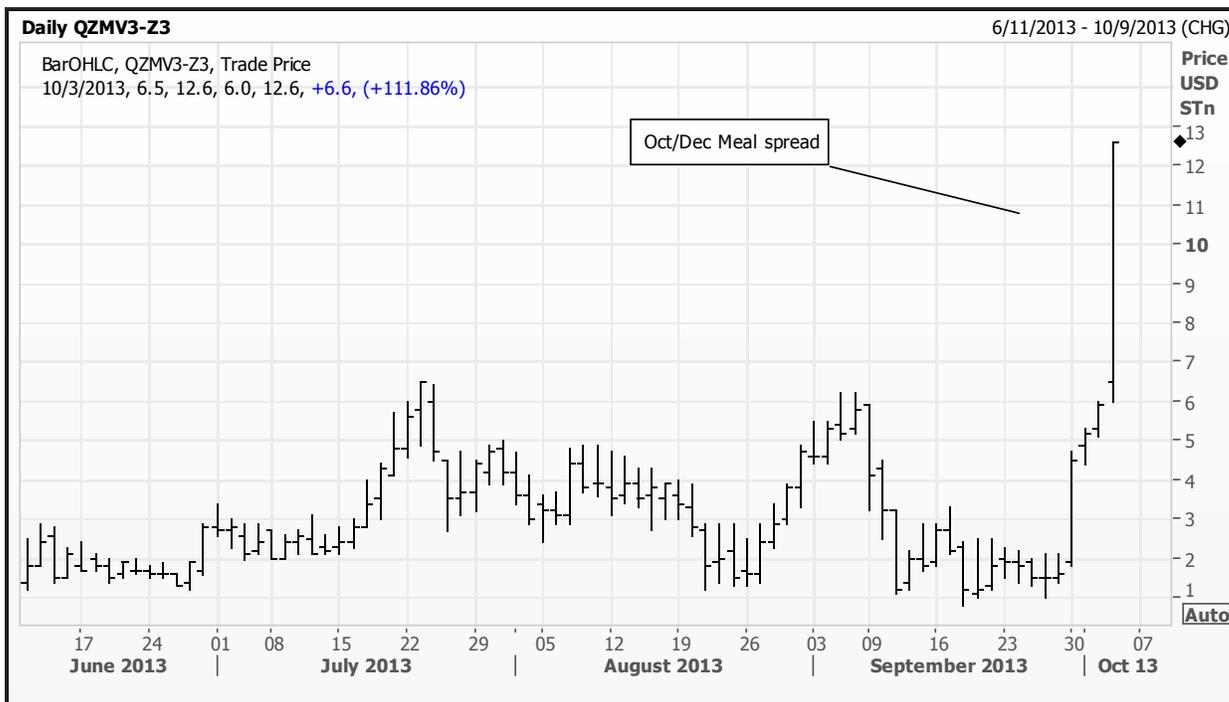
The underlying short covering rally in wheat has

been triggered by a combination of concern about shrinking size of Argentine wheat crop that is forcing Brazilian mills to cover with more North American wheat (US and Canada) along with concern of deteriorating quality of Russian and Black Sea wheat and slow winter wheat plantings there. The wheat/corn spread and wheat technicals turned positive and so encourage short covering the by spec funds. HRW basis has softened in recent days with the futures rally and the nearby futures spread inverting. With a large row crop harvest in coming the next few weeks and lack of carry, country elevators are likely to move wheat out. SRW CIF values also under pressure yesterday and today. Look for softer trade overnight with Canada Stats report to set the tone in the morning.

SOY-COMPLEX: The soy-complex surged higher on technical buying and concern about slowing harvest pace after a wave of rains are moving through the Corn Belt the next 2 days with more rain seen late next week in some forecasts. Tonight's 6-10 day and 8-14 day maps are above normal rainfall for WCB. Good export demand to Europe and Asia is underpinning the meal market with the Oct/Dec spread hitting over \$12 inverse today, see chart below. Nov/Jan bean spread also continues to narrow despite index funds starting to roll though the Goldman roll is mostly next week (see volume chart in the spread picking up the last 4 days).



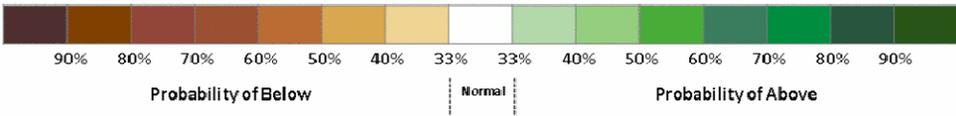
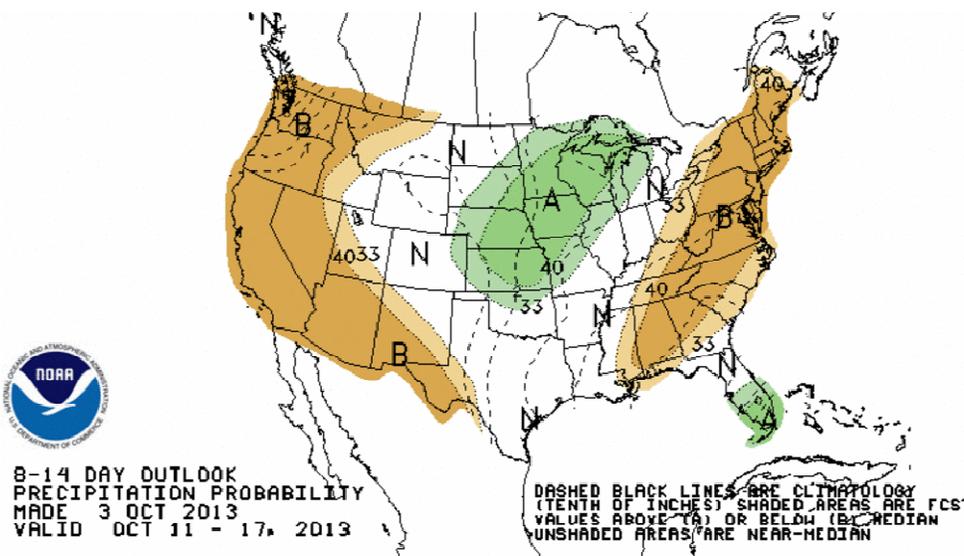
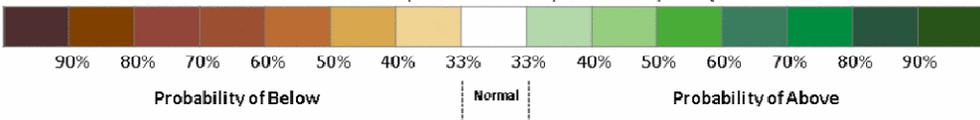
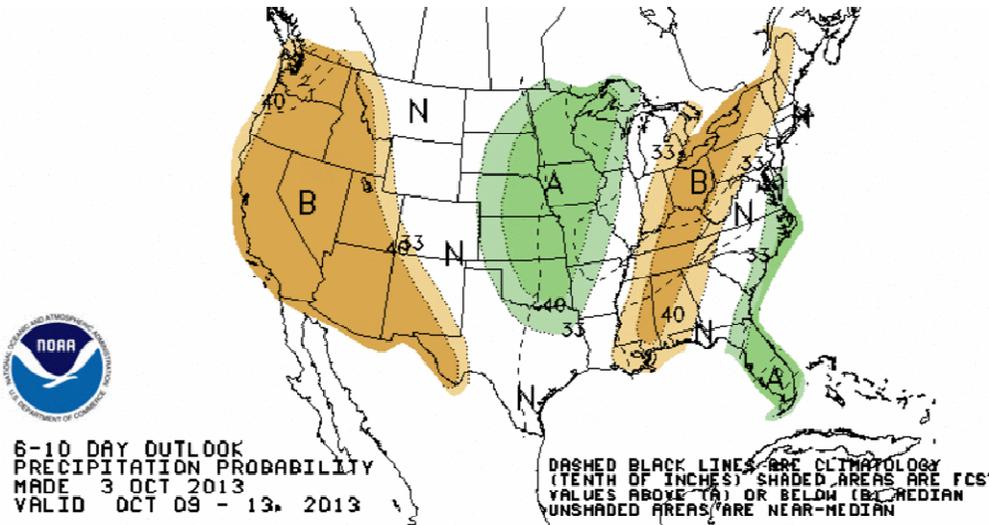
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Informa is out tomorrow morning with their production estimate and traders expect a number unchanged from their last number of 42.4 bpa. Many traders are skeptical that USDA/NASS will be able to issue the crop report next Friday even if US govt shut down ends soon.

Bean basis is steady to firm with support in strong meal basis at the Gulf. Processors are working to ensure not too many beans leave by rail to the export channel. Fresh

export news on beans is quiet with China on holiday this week and should pick back up next week. For now \$13.00 remains a strong resistance point for SX given the big yields on the first 10-20% of harvest.



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