(C) Initial Thoughts/Analysis of USDA July 11 Grain Reports *-by Randy Mittelstaedt*

Fundamentals

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For a change, the wheat market saw potentially the most fundamentally important set of numbers for the grain markets in today's USDA reports. Despite the wheat crop being much larger than expected, rising demand ideas could be turning the tide in the market. Balance sheet revisions for corn were deemed disappointing as a slight increase in U.S. new crop ending stocks was revealed - opposite of market expectations. USDA largely continues to buy time for the soycomplex.

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Summary of U.S. Ending Stocks in July 11 USDA Report

USDA 2013/14 U.S. Grain Ending Stocks (million bushels)

	Actual	Average Estimate	Range of Estimates	RJO	Last Month
Corn	1,959	1,874	1,618-2,076	1,879	1,949
Soybeans	295	270	166-329	274	265
Wheat	576	624	477-685	667	659

USDA 2012/13 U.S. Grain Ending Stocks (million bushels)

	Actual	Average Estimate	Range of Estimates	RJO	Last Month
Corn	729	722	537-773	766	769
Soybeans	125	121	104-125	120	125

* RJO estimates reflect our ideas on the final marketing year ending stocks, not an attempted guess at the USDA's report estimate for this month

Report released Thursday, July 11 at 11:00 AM CT.

Summary of July 11
USDA U.S. Wheat Production Estimate

USDA 2013/14 U.S. Production (million bushels)

	Actual	Average Estimate	Range of Estimates	RJO	Last Month
All Wheat	**2,114**	2,057	1,942-2,110	2,069	2,080
All Winter Wheat	**1,543**	1,507	1,454-1,555	1,510	1,509
Hard Red Winter	**793**	772	730-808	756	781
Soft Red Winter	**539**	522	478-552	542	509
White Winter	**211**	214	204-220	213	219
Other Spring	**513**	504	475-531	503	n/a
Durum	**58**	61	55-70	56	n/a

*Report released Thursday, July 11 at 11:00 AM CT

Wheat

The wheat market saw a little of everything in today's reports, but in the end, we see today's developments as largely being fundamentally constructive, despite the larger than expected U.S. crop.

USDA sharply raised the winter wheat crop by 34 million bushels, going against overall expectations for a near unchanged crop. USDA's state-level yield revisions more than offset the lower harvested acreage for the hard red winter wheat crop revealed in the June 28 Acreage report. USDA raised the Oklahoma yield 3 bu/acre today, raised Kansas and Texas by 2 bu/acre and Nebraska by 1 bu/acre. The HRW crop rose by 12 million bushels from last month.

USDA raised the soft red winter wheat crop, which was expected, but the 30 million bushel increase was greater than the market's 13 million bushel expectation. USDA is now estimating the SRW crop at 539 million bushels, which would be the largest since 2008 and 2nd largest since 1990. A slight downward revision was made in the winter white wheat crop in line with expectations.

In the USDA's first estimate of this year's U.S. spring wheat crop, the crop estimate of 513 million bushels was slightly above market expectations of 504 million and reflected an average yield of 42.9 bushels/acre vs 45.0 last year. The North Dakota yield was estimated at 41 bu/acre vs 45 bu/acre last year.

All together, USDA put the all wheat crop at 2.114 billion bushels, up 34 million bushels from last month's estimate, and 57 million bushels above expectations as the market was looking for a decline to 2.057 billion.

Despite the larger than expected crop, a number of constructive elements were seen in the U.S. and world balance sheets. Of greatest note, USDA sharply raised U.S. wheat export ideas by 100 million bushels to 1.075 billion and would be the 2nd largest U.S. exports in six years. USDA slightly lowered this year's wheat feed usage by 10 million bushels to 280 million, which we do not have an issue with. We would so note that nearly all of the 34 million bushel increase in production was offset by the 28 million bushel lowering of 2013/14 beginning stocks due to the June 28 Grain Stocks report, which was a known revision to come. The bottom line, given the large export increase, was a lowering of 2013/14 U.S. wheat ending stocks by 83 million bushels to 576 million, and would be the lowest stocks since 2007/08 and down notably from last year's 718 million.

Historically, U.S. stocks at that level would not be deemed bullish. However, in the context of recent years' balance sheet and with China's very apparent interest in buying wheat, a much more constructive structure appears to be developing for wheat at the moment.

On the world front, USDA aggressively revised Chinese wheat import ideas today to 8.5 MMT from 3.5 MMT previously and 3.2 MMT last year. If their imports prove that large, it would be their largest wheat imports since 1995/95. USDA also raised exports by other countries, as well, with Australia up 2 MMT to 19.0 MMT (16.0 MMT last year), EU by 1.5 MMT to 20.0 MMT (18.0 last year) and Canada up 0.5 MMT to 19.5 MMT (18.5 last year). USDA put 2013/14 world wheat ending stocks at 172.4 MMT, down solidly from 181.3 MMT last month and down slightly from last year's 174.5 MMT.

Shifting back to the U.S., and specifically the by-class wheat situation, some other constructive developments were seen today, as well. USDA estimated 2013/14 SRW exports at 280 mil bu vs 193 mil last year and would be the highest in nearly 25 years. Based on today's Export Sales report and known sales to China to show up in next week's report, just 6 weeks into the marketing year, nearly 200 mil bu of SRW has already been sold. Despite the 2nd largest SRW crop since 1990/91, ending stocks and the stocks/usage ratio for SRW could easily be the lowest in 6 years given the solid demand expectations.

The general fundamental structure appears to be shaping up for HRW, as well, but this was much more anticipated given the sharp reduction in production this year. On the other hand, the HRS balance sheet is looking very similar to recent years should the crop prove near today's USDA estimate.

We will provide a series of charts and updated balance sheets on the wheat situation later today.

Corn

The corn market saw a mixed bag of new information today, which was generally negative on face value. With so much focus on the new crop/production situation, the fact that USDA left 2013/14 U.S. corn ending stocks near unchanged at 1.959 billion bushels vs 1.949 billion last month was disappointing to the market. A decline to 1.874 billion was anticipated. However, USDA did lower old crop ending stocks to 729 million bushels from 769 million last month, which was in line with expectations.

Regarding the old crop balance sheet, the USDA raised feed/residual usage by 50 million bushels to 4.450 billion. However, they stated this increase was due to ideas of less early-harvested corn being available, resulting in greater use of old crop stocks in the 4th quarter. Interestingly, they did not mention the June 1 stocks report, which came in below expectations, as an indicator of larger feed usage.

We also found it interesting USDA did not raise corn for ethanol usage despite production rates over the last two months running solidly above USDA corn demand projections. We clearly feel there is room for a 25-50 million bushel increase in the USDA's 4.650 bil bu corn for ethanol usage estimate if production continues near recent levels through the end of the marketing year. We also are beginning to feel the USDA's 700 mil bu export estimate could prove a bit low. While there is still work to be done if this is to prove true, the last three weeks' sales have average a somewhat impressive 12.7 million bushels/week, well above the miniscule 2.4 mil/week needed based on exports of 700 million bushels. Three or four more solid weeks of sales before the end of the year, barring any notable cancellations, could push exports up towards 725-740 million when all is said and done.

The ethanol and export situations are clearly "possible" situations, predicated on demand remaining solid over the next two months. However, it is a situation which warrants attention. In the end, though, depending on weather and yields, old crop ending stocks proving to be 50-100 million bushels lower, if that is the case, would/could easily be offset by a mere 1 bu/acre increase in yields for the 2013/14 crop. Nonetheless, it is an interesting development for corn.

For new crop, revisions were a bit disappointing as USDA left their yield estimate unchanged, as we expected, and with the June 28 Acreage report results applied, USDA's 2013/14 corn production estimate slipped to 13.950 billion bushels from 14.005 billion last month, but still easily record large.

USDA lowered new crop feed usage by 50 million bushels, again citing the lack of early harvested supplies this year, while 2013/14 exports were lowered by 50 million bushels, as well. The reduction in total supplies of 90 million bushels was nearly perfectly offset by demand being lowered 100 million bushels, leaving ending stocks near unchanged.

We continue to feel the market will have a very difficult time putting together any truly meaningful and extended attempts at upside price action in the months ahead with a backdrop of near-2.0 billion bushel ending stocks. Should a true weather/pollination problem be seen, this view will obviously be reconsidered, but with the prime window of opportunity for damaging weather being the next 2-3 weeks and weather models continuing to waffle on the likelihood of any extended periods for significant ridging, we are clearly leaning towards the expectation for steady to rising yield expectations moving forward.

World corn balance sheet revisions were rather mundane of little focus.

Soybeans

USDA again largely "punted" on the soybean complex this month, completely leaving the 2012/13 U.S. soybean balance sheet unchanged, while only slightly tweaking the product balance sheets. While we continue to feel old crop soybean crush needs a bump higher, while exports may decline a little, USDA is waiting for a bit more information apparently. Some of that will come on Monday when NOPA releases crush data for June.

USDA bumped 2012/13 soybean meal exports higher, as needed, by another 100k tons, while lowering domestic usage by 50k tons. Due to a slight yield revision, the addition of 50k tons in production prefectly offset the demand revisions. USDA raised 2012/13 soybean oil ending stocks by 15 million pounds to 1.745 billion due to a same increase in production, while all demand estimates were unchanged. We continue to look for 2012/13 soybean oil stocks to move a bit higher in the end as we feel USDA remains too optimistic on bio-diesel.

The new crop balances were equally uninspiring as USDA applied the June 28 Acreage report numbers to the soybean balance, but changed nothing else. This resulted in a 30 million bushel increase in production to 3.420 billion bushels and pushed 2013/14 ending stocks up to 295 milLion from 265 million previously and 125 million in 2012/13. Like corn, we feel new crop soybeans will continue to struggle to achieve any true upside price momentum with the backdrop of a 135% increase in ending stocks coming next year, even with demand estimates rising 180 million bushels over the course of the year.

USDA lowered this year's Argentine soybean crop as expected to 50.2 MMT from 51.0 MMT previously, but exports were left unchanged at 7.8 MMT. China's 2013/14 soybean imports were left unchanged at 69.0 MMT and compare to 59.0 MMT last year. 2013/14 world soybean ending stocks ticked higher to 74.1 MMT from 73.7 MMT last month and compare to 61.5 MMT last year.

Updated balance sheets and a selection of data charts related to today's reports will be posted later today.