

CORN:

Values yanked higher with a limit up soy trade. Trade debating final US crop prospects with hot dry weather now forecasted well into September. Trade also reacting to Pro Farmer crop production estimate Friday at 13.46 billion with a 154.1 yield and 1.8 million less harvested acres. That said, even a PF style crop could keep US stocks building significantly with a supply demand ratio historically associated with values well below tonight's close.

US Corn 13-14

	USDA <u>August</u>	PF <u>PF</u>
Planted	97.4	
Harvested	89.1	87.3
Yield	154.4	154.1
Carryin	719	719
Production	<u>13763</u>	<u>13460</u>
Available	14512	14209
USDA Use	<u>12675</u>	<u>12675</u>
Carryout	1837	1534

Nearby gulf basis values lower with ideas of a sharp flat price rally to eventually stimulate more active farmer selling. Southern corn harvest expanding with cash grain being sold. Producers run the risk of a late season weather rally to rally prices to diminish October price calculations for crop revenue insurance payouts. Weekly export inspections at 12 million vs 15 million last year. As the crop year winds down annual inspections at 678 million bushels vs USDA's 715 million bushel annual export forecast. Funds reported shorter than expected in CFTC update, estimated short 38,000 contracts of corn futures this morning. US cattle on feed down 6% with placements down 10% in Friday's report. Unusually cool summer temperatures may have dramatically tempered the impact on US dry weather on corn yield potential. In the meantime, traders will guess a wide range of US production scenarios now with both acreage and yield influx into the critical October S&D update. Trade now contemplating that four year stretches of below trend corn yields are rare but now becoming more frequent. 1974 through 1977 and 2005 through 2008 saw four years in a row below trend. We are now again experiencing a cycle with four years below trend. This prompting some to question whether the US corn belt can produce normal or above trend yield crops with changing weather patterns. Droughts becoming more common.

SOYBEANS:

Values exploding towards limit up as the trade now faces an open ended production threat in the US with near record high temperatures and limited, if any, rains forecasted for the next two weeks. This diametrically opposed to the situation last year that saw 3 inch rains save the drought stressed US crop in August. Trade now willing to subtract from even Pro

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Farmer's smaller production estimate issued Friday at 3.158 billion with a 41.8 yield and 800,000 less harvested acres. Even a PF style crop with a likely smaller carryin would find USDA forecasting US stocks again to plunge to minimally acceptable levels utilizing their August demand estimate.

US Soy 13-14

	<u>USDA</u> <u>August</u>	<u>ALT 1</u>	<u>ALT 2</u>
Planted	77.2		
Harvested	76.4	75.55	76.0
Yield	42.6	41.8	41.2
Carryin	125	105	105
Production	<u>3255</u>	<u>3158</u>	<u>3131</u>
Available	3396	3278	3251
Total Use	<u>3176</u>	<u>3176</u>	<u>3100</u>
Carryout	220	102	151

Under this scenario traders will again be forced to debate how much US demand could be shifted to South America. Our ideas might center on the possibility of demand being reduced to 3.1 billion without encountering South American logistics limitations which would still keep US stocks at barely minimum levels with a yield 1.4 bushels below the August estimate. The state of Iowa now on track to experience the driest August since before 1980 and the driest July-August period also since 1980 despite a record ever wet spring that replenished soil moisture then. Iowa statewide average precipitation will be less than 1 inch in August and will be no more than 2.8 inches for the two months. Previous driest August was 1.05 inches in 2003 and the same amount in 1984. Previous driest two month July and August total was 4.19 inches last year and 5.22 inches in 2003. Current USDA Iowa soy yield estimated in August at 46 bu/acre or 8% below trend. Last year, with crop saving August rains, the yield was 11% below trend. In 1984, the driest August since 1980, without extraordinary aphid effects saw Iowa yield down 16% from trend. Iowa crop rating however last Monday at 47% good vs 25% last year with early spring moisture tempering dry weather effects currently. Trade expecting deterioration in Monday night crop ratings. Below we include a review of dry Iowa Augusts with soy yields and cumulative dry July-August scenarios with their corresponding soy yield reductions.

Dry Iowa Augusts and Soy Yields

	<u>August</u> <u>Rainfall</u>		<u>Iowa Yield</u> <u>vs Trend</u>	
			<u>Bushels</u>	<u>Percent</u>
2013 est	1.00	USDA	- 4.0	- 8.0
1984	1.05		- 5.8	- 16.0
2003	1.05	aphids	- 13.4	- 29.0
2008	1.90		- 2.2	- 4.6

1992	2.55	+ 3.0	+ 7.3
2000	2.69	- 1.1	- 2.5
1997	2.75	+ 2.8	+ 6.4
2001	2.93	- 1.0	- 2.3

Average 4.18

Iowa: Cumulative July/August Precip vs Soy

	Two Month Total Avg Precip		Final Iowa Soy Yield vs Trend (pct)
2013 est	2.80	USDA	- 8.0
2012	4.19		- 11.0
1984	5.08		- 16.0
2003	5.22	aphids	- 13.4
1997	5.67		+ 2.8
1991	5.85		0
2001	6.11		- 2.3
2005	6.37		+ 13.0
1988	6.46		- 21.0
2011	6.71		+ 1.8

Trade struggling to evaluate the appropriate level for US based futures with a likely second year of sharp US crop declines within the context of large South American supplies. With much larger South American stocks, Western Hemisphere September total inventories could still be over 16 mmt larger than a year ago with a 40.5 US yield. However without additional world demand curtailment, total US stocks could again be pulled down to minimally acceptable levels by next spring, similar to the March 1, 2013 stocks levels.

Western Hemisphere Soy

Sep 1	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>
Brazil Stocks	26.1	15.5	24.9	26.3
Arg Stocks	25.8	18.3	24.9	26.3
US Stocks	5.8	4.6	2.7	2.7
US Production	<u>83.3</u>	<u>82.1</u>	<u>84.3</u>	<u>89.0</u>
Total	<u>141.0</u>	<u>120.5</u>	<u>136.8</u>	<u>144.3</u>
Sep-Feb Use	95.9	87.0	100.0	104.0
S/D Ratio	1.47	1.385	1.368	1.387
Price in \$	14.50	17.60	13.89	
Price in reals	23.52	32.45	32.70	

March 1

US Stocks	37.4	27.2	27.8
Brazil Stocks	4.0	2.9	4.0
Arg Stocks	3.6	3.2	5.0
Brazil Production	66.5	82.0	85.0
Arg Production	<u>40.1</u>	<u>50.2</u>	<u>53.5</u>
Total	151.6	165.5	175.3
Mar-Aug Use	113.3	113.0	120.0
S/D Ratio	1.34	1.46	1.46
Price in \$	13.16	14.65	13.57
Price in reals	21.30	29.95	31.92

Expanded acreage setting the stage for large crops in South America could find March 2014 hemispheric inventories up 10 mmt from a year ago. Limitation on South American logistics however will keep the trade guessing on how much US demand can be shifted to South America in coming months. Flat price levels may need to move to levels that will again begin to curtail normal world demand expansion. Trade considering the real possibility of a dramatic additional widening in soybean-corn spread. History shows several instances where the nearby contracts went to 3.25 to 3.3 ratio with extreme spikes beyond that in the 1970's. Increased South American selling encountered with Brazil domestic prices nearing record high levels after recent sharp currency devaluation. US futures made a \$17.89 high last year on September 4 when the August crop was estimated at 2692 with a 36.1 yield. At that time the trade was anticipating the September crop estimate, which eventually was reported at 2634 with a yield of 35.3. Carryout in both August and September that year was projected at a minimum 115 million bushels with demand rationing. By October however the crop had improved to 2860 with a 37.8 yield and final yield was 39.6. December corn was \$8.05 when the near \$18.00 highs were made in soy last year. Weekly export inspections at only 2.4 million vs 17 million last year. As the crop year winds down, cumulative inspections at 1310 vs USDA 1315 estimate. With Census exports running above inspections, US exports will moderately exceed USDA annual forecast pulling ending stocks down to or near 100 million bushels. July-new November spread dramatically widening with ideas that the US again will face extreme summer tightness next year with sharp crop losses developing now. Record new crop soybean export sales with near record soymeal sales on the books. World buyers will now need to revise pricing ideas as US crop prospects change quickly this late in the season. From mid August to October, US soybean good to excellent ratings dropped 18 points in 1995 and 17 points in 2003. Trade will carefully scrutinize crop ratings tonight expecting ratings to drop again next week with accelerating crop deterioration. Funds long 118,000 soybeans this morning, 49,000 meal and short 34,000 oil. Ocean freight steady with PNW to China near \$23 and gulf to China near \$43.

WHEAT:

Values pulled higher with row crop strength prompting very active US farmer selling of HRW supplies. Trade watching dry weather in Argentina with trade rehashing earlier ideas of Brazil wheat production loss due to recent frost. Funds short 47,000 contracts of Chicago wheat. Wheat follows corn.

ECBOT	HIGH	LOW	CLOSE	CHANGE
Sep Corn	5.2275	5.0075	5.1575	+ 20 1/4
Dec Corn	5.0825	4.79	5.005	+ 30 1/2
Sep Beans	14.3525	13.8225	14.2775	+ 62 1/2
Nov Beans	13.98	13.48	13.895	+ 61 1/2
Sep wheat	6.65	6.40	6.5475	+ 20 1/4