Subject: Advance Insight - 8/23/13

Corn

CU 495.5 up 8, CZ 470 up 5.5. Outside markets bounced on idea poor new home sales may cause Fed to delay their exit from bond buying. Very warm and very little precip supported prices today. Hot weather and little rain likely reducing production south of I-80, but north of I-90, the hot weather will aid late planted crops. Southern harvest's late start and good yields seem to be continuing with reports from Ms and Ark. ProFarmer crop tour came out with a 154.1 yield and a 13.46bbu production estimate. This likely will not have much impact on trade. Cattle on Feed report showd July Placements at 90% of LY vs. guess of 97.5 indicating a drop in feed demand. Cash markets were "en fuego" today with +250 Group 3 Ne and +300 Hereford rumored to have traded for spot corn. A Domestic Miller who is a major eth producer was actively buying nearby cash eth. This may be easier than buying corn and could be interpreted as a signal of a grind slow down. However, the rise in the cash eth values are working hard to keep corn coming to the plants. Sep eth was up 13.5c/gal today, or the equivalent of 37.8c/bu in corn equivalent. And the Ethanol Sep/Oct futures inverse closed at 40.2c/gal (112c/bu) up 5.9c/gal (16.5c/bu). The surging basis levels and ideas that harvest will arrive 10 days later than normal has caused the CU/CZ to reverse strongly this week from a Wednesday low of 7.25 to a hi today of 29. Conventional wisdom is that CU is never any good at the end due to harvest availability of new crop corn. But with this year's later than normal harvest and central belt ethanol plants out of corn, it is a good reminder on why you should "never say never" when describing what the market will do. Many FHOct bids look 10c+ above DVE vs. the CZ at plants and in rail markets. This means those hoping to deliver vs. the CU and buy corn in cheaply in FHOct to offset the losses from delivering in LHSep are starting to have 2nd thoughts. The out of position short in CU may be in serious jeopardy.

Jeff Hainline

Beans

Bean futures were the leader today with Nov. up 41/4 cents for the day, 25 cents for the week , and up over $1.60 since bounce of recent lows on 8/7. This rally, combined with the Brazilian Real breaking (although firmer today) has South American farmer selling. The COT (Commitment Of Traders report) this evening showed that the commercial short increased 67K contracts in the past week to 167K net short and we know that isn't US farmer selling. The COT also showed the large spec increased their long 48K contracts to a 62K net long in the past week. ProFarmer's final tour results came out with a US yield of 41.8 bpa(Aug USDA @ 42.6) producing 3.158 Bbu(Aug USDA @ 3.255), noting they took off 800K acres to preventive planting from USDA's August number. Meal basis felt firmer in the West and basis was mixed. Some plants slowing, some pushing, some treading water. The Delta harvest is likely to start next week in Louisiana. New crop export basis is firm to a robust fall export program that is not covered in by the export short. The SX/SF is now at ½ cent carry and likely will stay firm until the export basis breaks. The gulf is booked up through early Nov. Next week ends with a 3-day holiday weekend so look for basis and spreads to do more work/firm.

Ben Peters

Wheat

Uneventful wheat trade to end the week as trade was more interested in watching the developments with row crops and counting the days until fall harvest. Futures closed the day higher in Chicago and KC while Minneapolis posted red numbers as better spring wheat yields and realization of a big Canadian crop settle across the market. Spreads were actually weaker for all three classes. Mnpls Sept/Dec trading as weak as 8 ¾ cent carry after reaching a 2 cent inverse earlier this week. KC Sept/Dec hit the 2 cent inverse early in the session before trading back to settle at 1 ¾ cent carry. Combination of cheaper fall corn bids and wheat/corn spread strength is finally taking wheat out of SW feed rations. Some feedlots have had wheat in the ration for over 2 years. Last-half September wheat would now be 125% the value of corn for most SW feedlots. Open interest will be near 20K contracts for Sept KC wheat on Monday. Export markets closely watching freezing temperatures across Argentina this weekend. Crop wasn't big to start with, and combination of dry and freezing conditions trimming back more of the crop, will just keep more emphasis on US wheat exports. Brazilian buyers are reportedly happy with US wheat and not willing to switch to Canadian supplies that are cheaper and available. Recent collapse of spring wheat premiums might test their resolve of sticking to US HRW. Rain falling in Western Ukraine should help winter wheat germination. ICE's anticipated takeover of the NYSE Euronext also includes the Matif milling wheat contract. For financing and regulatory reasons, it is expected that the wheat contract will be sold. Most analysts are in agreement that the logical buyer would be the CME, though reports of any bidding have been limited ahead of the 2014 ICE transaction date.

Kelly Herrick

Cattle on Feed

Today's USDA Cattle on Feed report showed July placements fell a surprising 10% from last year. Placements came in 3% below even the low end of the range of estimates and were the smallest for July since 2008. The decline was likely driven by a combination of factors including a shrinking US cattle herd and fewer feeder cattle imports from Mexico as improving weather and pasture conditions there allow producers to retain more animals. The weather has also improved this year in the East and most of the Midwest, allowing cattle in these regions to stay on pasture longer. In addition, poor current margins for cattle feedlots could be discouraging placements. While futures point to lower feed prices down the road, current feed costs are very high and feed yards may be trying to delay placements until lower cost, new crop, feed becomes available. With the sharp decline in placements, the number of cattle on feed August 1 was also smaller than expected, down 6% from last year and the smallest since 2010.

Phil Gore

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