

Grain Oilseed Update and Outlook
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Row crop markets punch new lows on heels of better than expected rains along NE/IA border, negative Informa new crop corn production forecast, dramatic new lows in wheat and more talk about 2014 shift from corn to soybeans in 2014 S American acreage. Traders lowering downside targets for CZ and SX lows amid continuation of cool August temps and enough rains across key growing areas to limit stress to 25% of Midwest. Potential for above average corn yields east of Mississippi River, West of Missouri River and south of Mason Dixon line will mitigate impact of lower yields in portions of IA, MN and Dakotas. Informa soy production update today viewed as constructive by some although bears note that USDA is overstating 13/14 US soybean demand and that mid to late August soaker across Midwest would boost soy yields and undermine one of last remaining supportive bullish pillars of the soybean market.

Wheat market responding to dramatic improvement in US HRW pre-seeding moisture that sets stage for timely seeding and prompt emergence of 2014 winter wheat crop. Additionally, wheat reacting to strong undertow from successive string of new row crop lows as window for undermining 2013 US CN/BN yield potential steadily closes. Globally, the trade is bracing for likely upward adjustment in 2013 wheat production forecasts for Canada, EU and the US on upcoming August crop report. View setbacks in WZ/CZ (closing today at 98 cents) as buying opportunities given inherently stronger fundamentals for wheat.

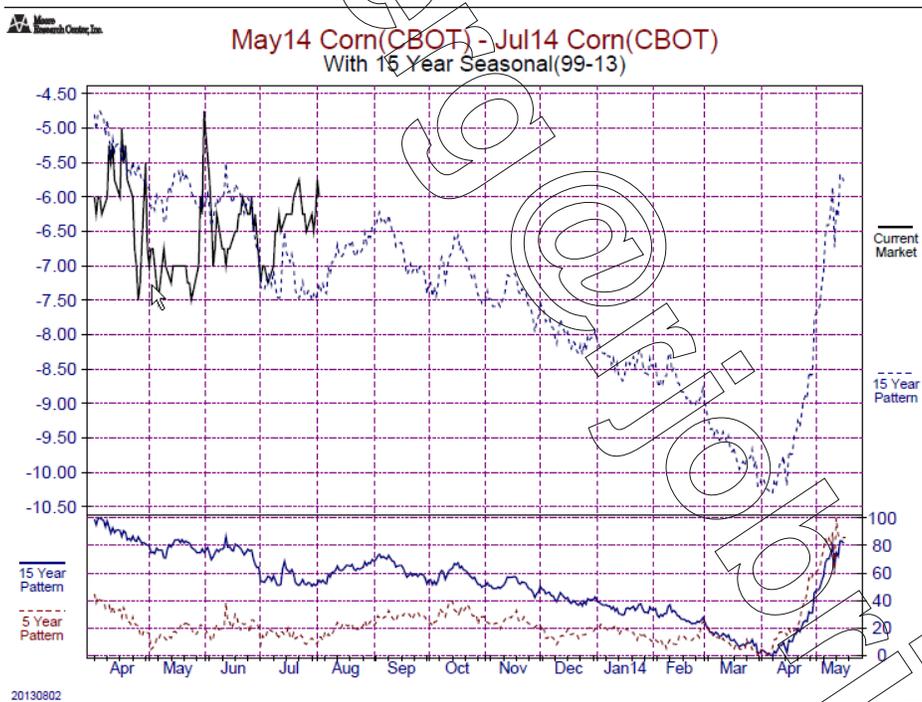
Cool temps that are slowing 2013 US row crop development will up odds of frost event nipping 2013 row crop yield potential thus triggering likely Sept rallies—especially in beans which are more delayed than corn and less frost tolerant than corn. Given largely favorable 2013 crop production prospects across EU, PRC, FSU and Canada—we would view potential US Sept frost driven rallies as selling opportunities. Note that trade is dialing in gains in 2014 S American soybean acres and that private sector estimates of 2014 Brazil soybean production (Safras) are 3 mmt higher than WASDE. Additionally, suspect trade will be unusually skeptical of NASS's estimates of August and Sept US soybean production forecasts given: 1) delayed 2013 row crop development and 2) relatively few analog years of dry Julys followed by a cool August and 3) massive 3.5 BPA August to Final gain in 2012 US soybean yield triggered by LH August rains across Midwest.

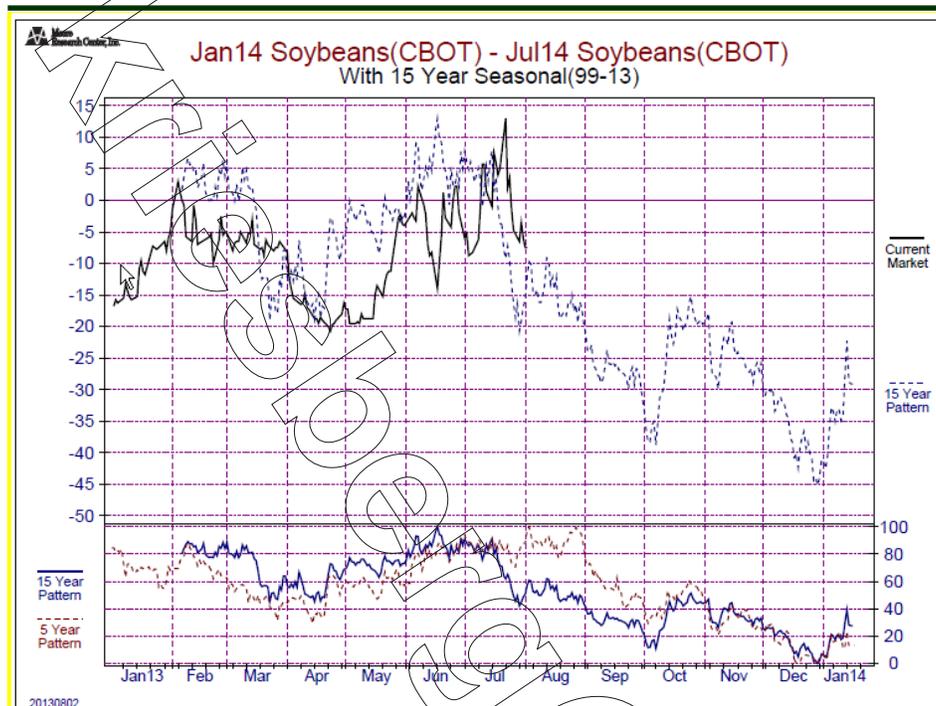
As confidence in large 2013 US row crop production increases—look for deferred carries in corn and soybeans to widen. Thus advise buying SN/selling SF in 6-7 cent area looking for downside objective of 20 cents. Also advise look for opportunities to buy CN and sell CK in 5.5 cent area for downside objective of 12 cents. Note favorable Moore Research seasonal tendencies on both trades in attached graphics. Historically, deferred corn carrying charges tend to widen appreciably LH Aug through Sept in years of sizeable gains in US corn carryovers.

As for widely expected tight farmer holding of new crop corn and soybeans, we would note that US farmer will be undergoing mental transition from recent year pattern of marketing grain in a tight stocks environment to marketing grain in a plentiful stocks environment. Store and hold may no longer be the best strategy—especially if large 2013 US crops are followed by trend of higher 2014 S American row crop yields. Initial early US harvest row crop basis strength, as commercials scramble to secure inventory to capture widening new crop carrying charges, will eventually fade with

advancing calendar as producers sell to meet cash needs and as they ponder prospects of further gains in 9/15 US row crop stocks. The soybean market, knowing that S American soy production and stocks will trend steadily higher, will become increasingly tolerant of "adequate" US soybean carryovers that will limit post harvest soy price appreciation in the absence of US/S American crop adversity. Take home here is that bubble in US farm land prices and rents, which may have further short term upside amid cash rich farmers looking for more land, may pop next year as farmers come to grips with potential for extended period of row crop prices below cost of production.

US corn rating advance 1% to 64% G/E vs. 23% last week while corn in dough stage only 18% vs. 31% average. Soy ratings advance 1% vs. last week as well to 64% G/E vs. 29% last week. 39% of US soy crop setting pods vs. 51% last year. Meanwhile, HRS conditions ease somewhat to 68% G/E with 2% shift from excellent to good. Taken collectively, today's updates are negative as row crop rating typically decline seasonally August forward. HRS crop holding its own despite dryness in key areas. As for slow row crop development—the trade is well aware of elevated frost risk and pricing for it accordingly.





Additional Items Interest:

- EXPORT INSPECTIONS: Wheat 25.464 (expecting 22-28), Corn 15.120 (expecting 8-14), Soybeans 1.361 (expecting 1-3)
- (Lanworth Crop Tour in W Midwest) So far today, corn crops surveyed in eastern Nebraska have been a mix of irrigated and dryland. The irrigated corn has great grain length and kernel count that scouts said could result in 200+ bpa yields. Dryland corn was showing signs of moisture stress and need precip. Scouts are also counting soybean pods and flowers, but plants are still young. Pouring rain is now forcing the scouts to count pods and kernels in the car.
- U.S. cash markets for corn and soybeans remain weaker than in recent weeks, as many buyers expect large harvests of each crop in coming months to reduce prices. For right now, anybody who needs grain isn't going to pay up to get it. They feel they're going to be able to buy it cheaper as harvest activity picks up
- (Bloomberg) US beef production is expected to plunge to 21-year lows (falling for the fourth year in a row) and the 'herd' on July 1st was the smallest for that date since at least 1973.
- (Reuters) Floor traders note that recent spike in US wheat prices had turned off import demand for US wheat...as customers turned to the Black Sea region. The fall in wheat was more technical after prices slipped below a contract low in Sept but quiet export demand overhung the market.
- (U of IL's Dr Good) The size of the 2013 U.S. corn crop remains clouded by both acreage and yield uncertainty resulting from the late planting and late maturity of the crop in some areas. Summer weather conditions have been generally favorable for crop development, but with some important exceptions. The USDA will release its first survey-based yield and production forecasts on August 12. Confirmation of large production prospects would suggest that some further modest price weakness would be expected as the long tail price pattern is completed

near harvest. The bulk of the consumption response was in the export market. With less than a month left in the 2012-13 marketing year, U.S. corn exports are expected to reach only 700 million bushels, 843 million less than exported last year, and 550 million less than the USDA forecast in September 2012. The sharp decline is in contrast to previous short crop, high priced years when exports remained strong.

- (JPM) According to the latest all-industry PMI survey, global economic activity has accelerated from its very weak showing through much of 2012 and early 2013 and is now expanding at a trend-like pace. The J.P. Morgan Global Business All-Industry Output/Activity Index, which is a proxy for global GDP growth, jumped 2.9-points in July. The move more than reverses the surprising decline in June, leaving the index at its highest level since March 2012.
- Egypt tendering for O/O wheat tonight
- (Reuters) Funds sold an estimated net 4,000 CBOT corn contracts, sold 7,000 wheat, bought 2,000 soybean, sold 2,000 soymeal and bought 2,000 soyoil - CBOT floor sources
- Informa US prod updates:

Corn yield 158.6 bpa vs. 160.0 previously and USDA 156.5

Corn prod 14.140 bil bu vs. 14.259 previously and USDA 13.950

Soybean yield 42.7 bpa vs 43.9 bpa previously and USDA 44.5

Soybean prod 3.266 bil bu vs. 3.376 previously and USDA 3.420 (acres dn 0.5 mil)

All Winter 1.547 bil bu vs USDA 1.540

HRW 797 mil bu vs USDA 793

SRW 540 mil bu vs USDA 539

Spring Wheat 520 mil bu vs. USDA 513

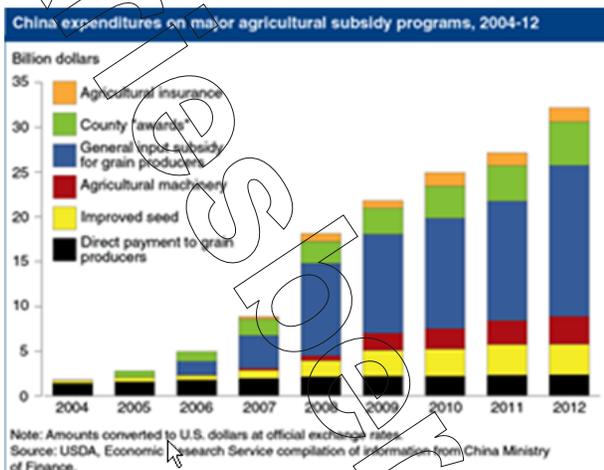
Brazil corn production 80.9 mmt, up 0.8 mmt from last month.

Brazil soybean production 85.1 mmt, up 0.8 mmt from last month.

China soybean production 13.0 mmt, up 0.7 mmt from last month.

EU corn production 64.1 mmt, down 1.5 mmt from last month

China's agricultural support program is expanding



Monday, August 05, 2013

China's agricultural support program began in 2004 when it introduced three small subsidies targeted at grain producers: a direct payment, a subsidy for improved seed varieties, and a partial rebate for farm machinery purchases. The Government's direct role in grain markets was reduced to an indirect one of buying and selling reserves to maintain food security and stabilize prices. Since 2004, expenditure on the initial set of programs has grown rapidly and new ones have been added. China's support for agriculture is now large and wide-ranging. In 2012, China's Ministry of Finance reported budgeted

spending for agricultural production rose to \$75 billion, equal to \$127 per metric ton of grain produced. The programs shown in this Chart of Note accounted for about half of that total. Other major expenditures included \$9.8 billion for subsidized loans and storage of commodity reserves and \$17.3 billion for irrigation/water projects and onfarm infrastructure. Smaller amounts were spent on agribusiness support, drought mitigation, and technical services. This chart can be found in [Growth and Evolution in China's Agricultural Support Policies](#), ERR-153,

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