

Grain Oilseed Update and Outlook 7/10/2013

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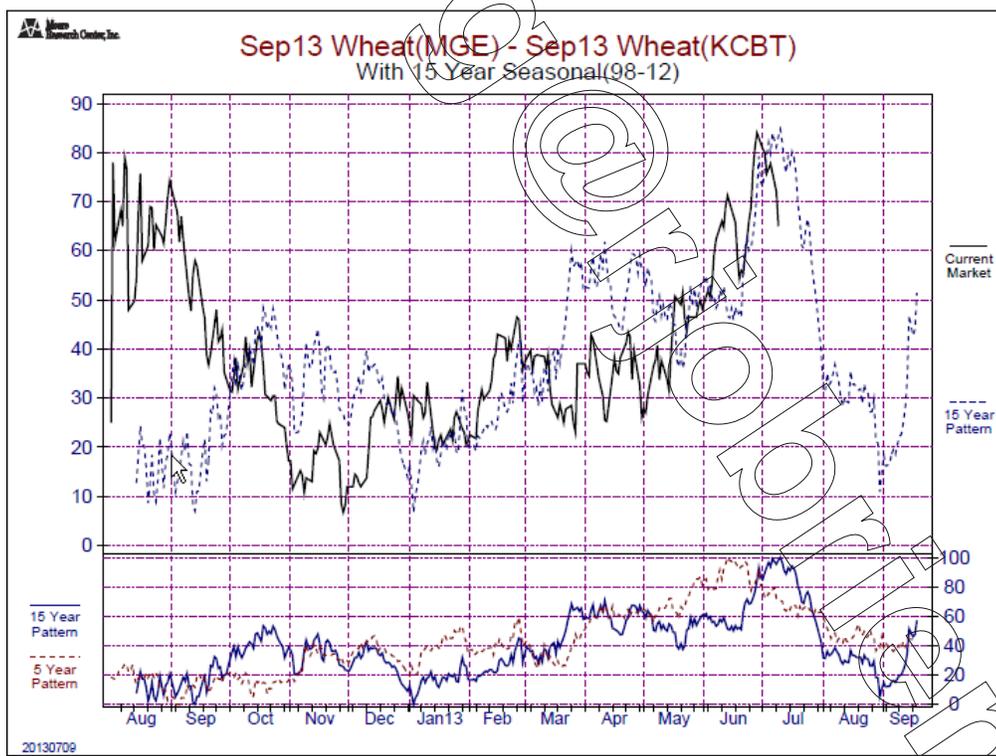
Corn and wheat post modest gains while SN collapses in low volume trade (only 2016 SN contacts traded—mostly spreads). Front end soy weakness driven by reports of western soy processors easing basis mid to late morning. Crude oil high today of \$106.66 is up an astonishing \$10 from 7/1 on heels of shrinking Cushing, OK crude stocks, frantic covering by Brent/WTI spreaders and technical short covering. CRB gaps higher today to close above 50 DMA—the highest level since mid June. Ag traders, well aware that energy markets are linchpin of all commodity markets, are taking notice—especially in view of recent row crop price strength. View impressive crude oil rally as another reason to approach post Independence Day row crop price strength with respect and caution.

Graphic below chronicles strong seasonal tendency for MLS wheat to erode vs. KC wheat during July--a spread which has already gained 12 cent this week. If tomorrow's US HHW production forecast is above trade expectation of 773 mil bu (triggering a decline in KC wheat) advise looking for opportunities to buy KWU/sell MWU. In addition to strong downward July seasonal during July, MLS wheat relative to KC should weaken amid largely favorable July weather outlook for the US and Canadian HRS production areas. Additionally, we think abundance of lower priced competing wheat during 13/14 will undermine demand for 13/14 US HRS exports.

Regarding tomorrow's crop report be advised that:

- Early summer WASDE estimates of new crop US CN/BN production are secondary to updated weather forecasts
- US and global wheat production and carryover updates will resonate with trade more than US row crop production estimates as wheat development is more advanced. Nonetheless, remember that wheat prices are closely linked with corn which is the largest grain crop in the world—150 mmt more output globally in 13/14 than wheat.
- USDA may not cut their record 2013 US soy yield of 44.5 BPA tomorrow but the trade certainly will which along with lower 2013 US soy acreage than USDA (due to PP and fewer D-Crop) suggests 9/14 soy stocks closer to 200 mb than USDA's 265 mil bu. There is a risk of getting too bearish SX too early.
- Tomorrow's crop report will remind traders that there is far more cushion for yield adversity in corn than soybeans during next 60 days. Nonetheless, the SX/CZ ratio is historically high for early July suggesting caution for bean/corn spreaders.
- There is some merit in potential cut in USDA's 156.5 BPA corn yield tomorrow (despite upward trend in condition ratings) given confirmation on June acreage report of higher corn area in lower yielding southern states. Additionally, WASDE is well aware of developing ridge over southwestern US. Recall last year that WASDE analysts boldly lowered the US corn yield from June to July by 20 BPA without the benefit of objective field surveys.

- Trade will be keenly interested in whether WASDE maintains their 10 mmt increase in 13/14 PRC soy imports to 69 mmt given no gain whatsoever in 12/13. It all comes down to whether China, against a backdrop of slowing economic growth, elects to restock soybean reserves at hoped for lower fall prices.
- Other than the US—remaining major wheat producers will post higher 2013/14 production vs. 12/13. Nonetheless, 13/14 global wheat stocks will be stable to lower than last year while global corn stocks advance 25+ mmt to 13 year high. Advise buying breaks in WZ/CZ in \$1.50 area
- Bottom line—other than potentially higher than expected 2013 US winter wheat production update tomorrow—suspect USDA July Crop Report US row crop S/D updates—both old and new crop—are more likely to be supportive than negative. Thereafter, updated Sunday weather model guidance regarding size and duration of southwestern Midwest ridge will set the tone for next week. Interesting to note that afternoon radar activity across eastern Midwest appears more widespread than expected.



Additional Items Interest:

- Ethanol production last week 881k bpd vs. 863k the previous week. Ethanol stocks build slightly to 15.7 million barrels from 15.4 million the previous week.
- (Delta Update) We are not to any abandonment stage yet but we are seeing a "flash drought" across much of the Delta. Many areas have not seen any significant rainfall in 5 - 6 weeks and temps are heating up. We caught a break from the heat last week, with highs below 90. This week has turned hotter and dry areas are starting to show. We irrigate a lot of ground in the Delta and fields with center pivots can water up late/double crop beans. However, fields that use flood or furrow irrigation are at risk. It is very easy to kill small beans with those

types of irrigation methods, especially in the heat. All of this is complicated by the fact that the wheat crop was about two weeks late this year and we still have a lot of small beans due to later than normal planting.

- (KS Update) Clients indicate corn crop in the western one-quarter of KS under severe stress due to heat. Dryland and some irrigation is already being abandoned.
- Floor traders watching news flow and markeing behavior
- (Reuters) - Iran's major grain buying campaign is continuing at a brisk pace, with traders reporting an almost half a million tonne wheat purchase this week, partly financed by frozen oil revenues in Iran's overseas bank accounts. The country's state grains buying agency GTC bought about 450,000 tonnes of milling wheat for August shipment, European traders said. This latest purchase, including of Russian and Baltic Sea origin, comes after Iran bought more than 800,000 tonnes last month in two weeks, ahead of the country's elections.
- Malaysian palm stocks at 1.647 mmt are well below median trade estimate of 1.740 mmt and represent 2 year low. Malaysian palm stocks typically bottom out in June or July before trending higher.
- (Reuters) Smithfield CEO Pope says the deal is the "opportunity that America has been looking for to import jobs." China is looking to another market to help feed its growing demand, he says, saying thd deal creates jobs and opportunities for US farmers to grow.
- (Reuters) Funds bought an estimated net 2,000 CBOT corn contracts, were even in wheat, bought 5,000 soybean, bought 2,000 soymeal and bought 3,000 soyoil - CBOT floor sources.
- (Reuters) Estimates for the USDA's weekly export sales report to be released at 7:30 a.m. CDT (1230 GMT) on Thursday:

| | 2013/14 Estimates | 2014/15 Estimates | Week Ago Actual 2013/14 | Week Ago Actual 2014/15 |
|----------|----------------------|----------------------|-------------------------------|-------------------------------|
| Wheat | 650,000-900,000 | zero | 593,000 | zero |
| | 2012/13 Estimates | 2013/14 Estimates | 2012/13 | 2013/14 |
| Corn | 150,000-250,000 | 200,000-350,000 | 233,200 | 81,400 |
| Soybeans | zero-100,000 | 200,000-350,000 | 120,600 | 249,100 |
| Soymeal | 50,000-100,000 | 50,000-150,000 | 116,300 | 4,200 |
| Soyoil | 5,000-20,000 | zero | 1,600 | zero |

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- Trade estimates for US All Wheat Production and US/World carryover stocks

| US Wheat | All | | Hard Red | Soft Red | White | Other | Durum |
|------------------------|-------|--------|----------|----------|--------|--------|-------|
| | Wheat | Winter | Winter | Winter | Winter | Spring | |
| Average trade estimate | 2.070 | 1.507 | 0.773 | 0.525 | 0.214 | 0.499 | 0.063 |
| Highest trade estimate | 2.140 | 1.555 | 0.808 | 0.552 | 0.220 | 0.540 | 0.080 |
| Lowest trade estimate | 2.015 | 1.454 | 0.730 | 0.506 | 0.199 | 0.452 | 0.055 |
| USDA June estimate | 2.080 | 1.509 | 0.781 | 0.509 | 0.219 | na | na |
| U.S. 2012 wheat | 2.269 | 1.645 | 1.004 | 0.420 | 0.222 | 0.542 | 0.082 |

US Carryover Stks

| | 2012/13 | | 2013/14 | | |
|------------------------|---------|----------|---------|-------|----------|
| | Corn | Soybeans | Wheat | Corn | Soybeans |
| Average trade estimate | 0.725 | 0.121 | 0.632 | 1.898 | 0.266 |
| Highest trade estimate | 0.800 | 0.135 | 0.690 | 2.338 | 0.329 |
| Lowest trade estimate | 0.537 | -0.104 | 0.566 | 1.618 | 0.164 |
| USDA June | 0.769 | -0.125 | 0.659 | 1.949 | 0.265 |

World Carryover Stks

| | 2012/13 | | | 2013/14 | | |
|------------------------|---------|---------|----------|---------|---------|----------|
| | Wheat | Corn | Soybeans | Wheat | Corn | Soybeans |
| Average trade estimate | 179.344 | 124.222 | 60.938 | 180.293 | 152.404 | 73.557 |
| Highest trade estimate | 181.030 | 127.590 | 61.300 | 183.000 | 158.897 | 75.000 |
| Lowest trade estimate | 177.000 | 122.600 | 60.185 | 175.000 | 149.700 | 69.487 |
| USDA June estimate | 179.870 | 124.310 | 61.210 | 181.250 | 151.830 | 73.690 |

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