

Grain Oilseed Update and Outlook 6/24/2013

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SN, with only 14% of remaining OI, rallies late amid ongoing tight cash market and release of U of IL Ag Econ report stating *"it now appears that soybean and soybean product prices will have to remain strong through the final quarter of the 2012-13 marketing year in order to limit consumption"*. And while SN close tonight is over 40 cents below 6/12 highs—there is no sign as yet that existing \$2.40 SN/SX inverse (or SQ/SU inverse of \$1.05) is triggering enough movement to meet demand of crushers who are still paying pushes to generate soybean sales. Strong soybean showing failed to generate much interest in grains however as both corn and wheat close near session lows with the later feeling the pressure from expanding harvest and better than expected new crop yield reports. Meanwhile, traders are staying alert to possible weather pattern shift early next month that would boil new crop shorts. Know that SX has posted summer rallies of nearly 1.50 or more in 6 of last 6 years while CZ has staged summer rallies of \$1.25-\$3 in 4 of last 5 years.

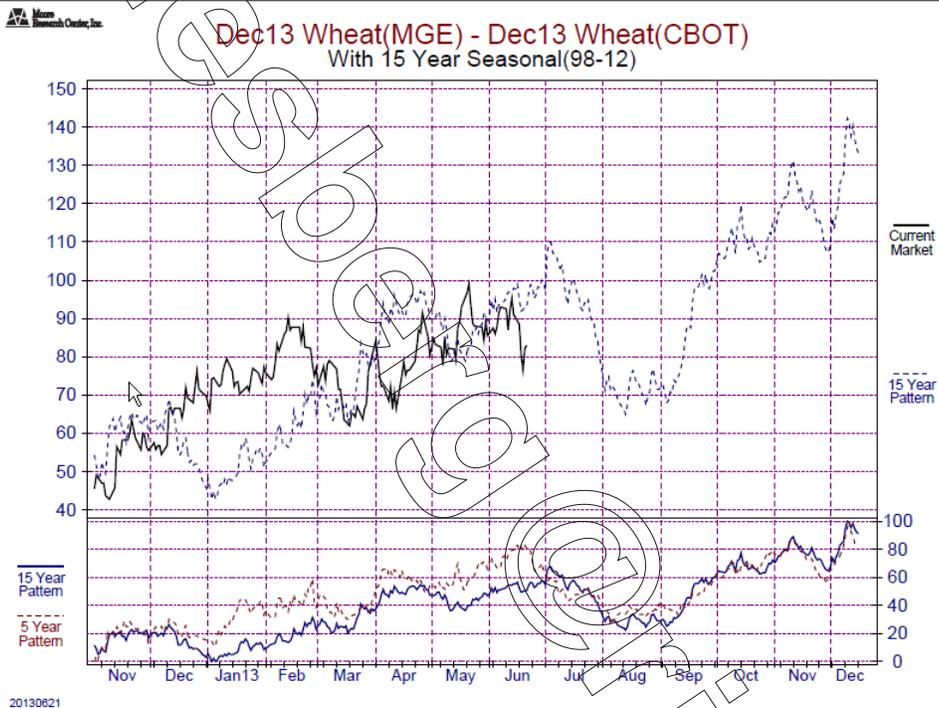
Note strong seasonal tendency on graphics below for WZ to gain on MWZ from early July through the Aug Crop report and for KWZ to gain on MWZ from just after the 4th of July through the end of August. We know that an extraordinarily wet May/June has cut initial HRS intentions (informa is off 0.9 mil acres from March Intentions) but it is noteworthy that HRS conditions are trending steadily higher and that intense upper Great Plains summer heat has, as yet, failed to materialize. Additionally, USDA's 1st US wheat by class S/D for 13/14 to be released July 11th is likely to show 9/14 US HRS stocks near 180 mil bu—more than adequate—especially given ample moisture across Canadian HRS belt and prospects for a large and lower priced 2013 FSW wheat crop.

US corn condition advances only 1% to 65% G/E last week vs. last year's 56% rating which declined 7% from the prior week. Soybean planting advanced only 7% to 92% planted (at the low end of expectations) vs. 95% average suggesting 2.3 mil late planted beans of the 5.7 mil acres that are not yet planted. US soy condition, like corn, climbs 1% to 65% G/E vs. the 53% reported last year which declined 3% from the prior week. HRS conditions advance 2% to 70% G/E vs. 77% last year. Winter wheat condition harvest still lagging at only 20% (37% normal) although winter wheat conditions improved 1% contra-seasonally to 32% G/E. Taken collectively, view today's updates as constructive although upside follow-through on new crop futures will be limited as long as active Midwest rainfall pattern persist.

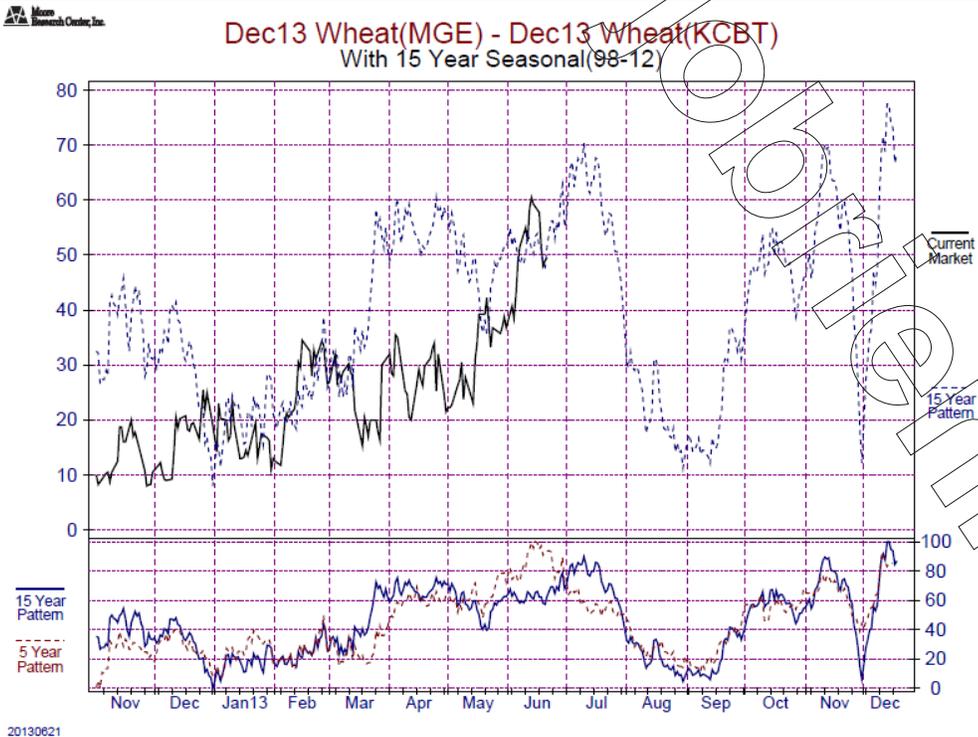
Fate of CU relative to deferred corn futures will pivot on late summer appetite of ethanol plants (where margins are negative) for corn, DDG accumulation relative to normal the next 60 days and degree to which domestic livestock feeders can stretch corn reserves into cheaper and more plentiful new crop supplies. CU/CZ (closing at 34 cents) continues to flounder from 6/17 high near 42 cents on stepped up farmer movement and exit of old crop longs ahead of high risk crop report on Friday. Know that late harvest of 2013 corn crop on the back of an extremely tight old crop carryover is well known at this point—what we don't know is how aggressively ethanol plants will reach for late summer corn.

Bottom line—soybean market, which took a beating last week while corn rallied, resumes floor leadership role today knowing in part that risk of a super bearish soy stocks update Friday is far less threatening than in corn. Degree to which importers start locking down cheaper new crop supplies

as 2013 US crops develop will determine ease with which CZ and SX shed risk premium (if weather is OK) in coming weeks but in the short term—2013 summer row crop price direction can go either way depending on mid July weather which is still a mystery. Trade is anxious to get Friday's crop report in the history books so we can reduce our focus to weather and magnitude of follow up de-risking in wake of Bernanke tapering which is a spooking asset holders globally.



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Additional Items Interest:

- EXPORT INSPECTIONS: Wheat 14.758 (expecting 19-24), Corn 5.843 (expecting 6-11), Soybeans 7.827 (expecting 1-3).
- (HRW Harvest Update) Harvest really rolling along. Yields starting to be better than expected from central Ok. north. About 25-35% done Enid to Ks. state line. Spotty test cutting as far north as I70. An area around Salina has had 15 in rain since may 1 so some deterioration there. Still think HRW 800 mil. Protein is still a question mark, but with most of the carry over higher protein don't think it will be a major issue. Farmer selling is light. Expect 3-4 weeks away from better movement.
- (CME Daily Livestock Report on C.O.F.) The report implies that there will be a few more cattle coming to market in the last four months of the year than previously expected. Placements of heavier cattle imply the additional pounds will be skewed more towards the front of the holiday season (late Sep - Oct). However, the market has been buoyed recently on speculation that high pork and chicken prices could push retailers and foodservice operators to feature more beef during the year end holiday season. When it's all said and done, demand remains THE critical factor for beef prices.
- (Reuters) Funds sold an estimated net 7,000 CBOT corn contracts, sold 6,000 wheat, bought 4,000 soybean, bought 3,000 soy meal and sold 3,000 soy oil - CBOT floor sources
- (Reuters) - The United States generated more than 1.16 billion D6 ethanol renewable identification number (RIN) credits in May, data from the Environmental Protection Agency (EPA) showed on Monday. The D6 credits, which mostly reflect U.S. production of corn-based ethanol, rose 77 million over April, when manufacturers generated just under 1.1 billion of the credits. Ethanol manufacturers generate one RIN for each gallon of the fuel they produce. EPA rules require refiners and importers to blend 16.55 billion gallons of renewable content like ethanol with their fuel output in 2013 or buy RIN credits to make up for the difference.
- (Reuters) - Seed developer Monsanto Co MON.N said on Monday that it would spend \$100 million over the next 10 years on breeding corn for Western Canada, a move it said might change the crop makeup in a fertile region that produces big harvests of spring wheat and canola. Monsanto said it would focus on producing corn that matures earlier than current varieties, making it a seeding option for an area of Western Canada spanning 26 million acres (10.5 million hectares). Factoring in farmers' crop rotations, corn may annually occupy 8 million to 10 million acres of Western Canada by 2025, Monsanto said in a release.
- (Reuters) - Egypt has bought 3.7 million tonnes of wheat from local farmers so far and will continue to buy until the end of August, the agriculture minister told a news conference on Sunday. Egypt, hit by a deep economic and financial crisis after two years of political turmoil, has reduced its purchases of imported wheat, betting on a higher domestic crop. Minister Ahmed el-Gezawi said the government was still aiming to reach its target procurement of 4.5 million tonnes of local wheat.
- (Reuters) - European Union negotiators gathered on Monday for talks to finalize reforms of the bloc's 50 billion euro-a-year farm policy that could remove almost half of the subsidies now given to some of its largest grain and livestock producers. Many of the proposals are meant to make the 50-year-old common agricultural policy (CAP) more fair and environmentally friendly, to justify the huge sums paid to farmers each year. But critics say EU politicians plan to reverse some of the progress made in previous CAP reforms and the proposals could harm Europe's food security. Representatives from EU governments, the European Parliament and the European Commission will hold two days of talks in Luxembourg to agree the likely shape of the reform, before reconvening in Brussels on Wednesday to seek a final deal.

- (Hays KS Post) Yields for both soft and hard winter wheat range from 50 to 70 bushels per acre, and test weights are right at the 60 pound per bushel benchmark. The crop quality is not expected to be as high this year as in past years due to more late-season rains than normal, and the crop is slow to dry down.
- (Reuters) - The Republican-controlled U.S. House of Representatives needs to solve its farm bill impasse by enacting the Senate's bipartisan bill, Majority Leader Harry Reid said on Monday, warning that the Democrat-run Senate will not extend current law again. The House defeated its own farm bill last week - the first time such a bill has failed in a House vote - and analysts have said a short-term extension of the 2008 farm law would be the easiest solution. A spokesman for House Majority Leader Eric Cantor said "no decisions have been made on next steps."
- (U of IL's Dr Good) It now appears that soybean and soybean product prices will have to remain strong through the final quarter of the 2012-13 marketing year in order to limit consumption to the available supply. The USDA estimate of June 1 stocks of soybeans to be released on June 28, however, will provide an important benchmark for verifying the supply of soybeans available for export or crush during the final quarter of the marketing year. As reported last week, the magnitude of March 1 stocks and estimates of consumption in the March-May quarter should result in a June 1 stocks estimate near 438 million bushels. Any substantial surprise in the size of that estimate could mean that the pace of consumption would have to slow even more than calculated here, or that supplies are more abundant than projected.
- (Reuters) - The U.S. Supreme Court on Monday rejected a challenge by oil and food industry groups to sales of a higher blend of ethanol allowed by the Environmental Protection Agency. The U.S. ethanol industry, which mostly makes fuel from corn, has pushed for E15, which contains 15 percent ethanol versus the traditional blend containing 10 percent. "The Supreme Court's decision denies the petitioners their day in court and will have negative repercussions for consumers," said Charles Drevna, the president of the American Fuel and Petrochemical Manufacturers industry group. Ethanol groups applauded the rejection of the challenge. The decision clears the way for more fuel options for U.S. drivers, said Jeff Lutt, the CEO of POET, one of the world's largest ethanol producers.
- (JPM on Fed) Revised Fed outlook reflects lessened concerns about downside risks to growth. The median first hike expected by the FOMC is now probably in 1H15, instead of 2H15. In recent years the Fed has shown a tendency to err on the side of caution. Whether policy will now view risks as more two-sided will depend on the choice of the next Chairperson.
- Trade Estimates for USDA 6/28 crop report—acreage (1st table) and stocks (2nd table).

	Corn	Soybean	All	Spring Wheat	Durum Wheat
Average trade estimate	95.313	77.933	55.902	12.132	1.699
Highest trade estimate	96.900	79.240	56.400	12.700	1.800
Lowest trade estimate	94.200	77.100	55.200	11.700	1.550
USDA March estimate	97.282	77.126	56.440	12.701	1.751
USDA 2012 final	97.155	77.198	55.736	12.289	2.123

	Wheat	Corn	Soybeans
Average trade estimate	0.745	2.845	0.442
Highest trade estimate	0.781	2.952	0.500
Lowest trade estimate	0.718	2.725	0.413
USDA June 1 2012	0.743	3.148	0.667
USDA March 1 2013	1.234	5.399	0.999

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