

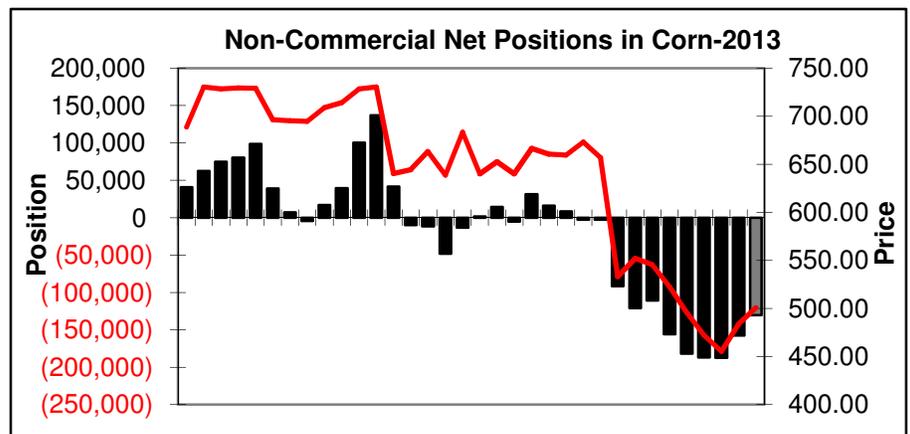
# Closing Grain & Soybean Comments

## August 26<sup>th</sup>, 2013

**Corn:** Corn rallied sharply during the session to trade nearly limit higher before selling off a bit into the close. Hot & dry weather, a rally in the soybean complex, and short-covering by the spec funds were all blamed for the upward price action. The December settled at \$5.00 ½, its first \$5.00+ close since July 19<sup>th</sup>. That was up 30 ½ cents on the day. Most other months in the 13/14 crop year saw similar gains although the Dec 14 was only up 21 ¾ cents to \$5.26 ½. The corn spreads were generally firmer. The Sep contract was an underperformer, up 20 ¼ cents to \$5.15 ¾. After rallying 17 cents Wed-Friday, the Sep-Dec gave back 10 ¼ of that today to settle at 15 ¼ inverse.

The combination of disappointing rainfall totals in recent weeks and 7-10 days of dry weather with upper 90s called for across the heart of the Corn Belt has many in the trade talking about a lack of kernel fill resulting in tipback on the ears. This was already being seen on last week's Pro Farmer tour. Even though the corn crop is not as vulnerable to stress as the still-developing bean crop, weather is still playing a friendly role in the trade. On the weekly crop ratings, the trade is looking for a drop of 2% from the good-excellent to 59%. *This was exactly what was seen as the US crop was rated 44% good and 15% excellent.*

Making weather friendlier is the large net short position that the speculative funds had built up and are now unwinding. According to CFTC data, on August 13<sup>th</sup>, they were short nearly 188K contracts (940 million bu). Last week's CFTC report (as of 8/20) showed them reducing that to 158K net short. With their action in the four sessions since that data was compiled, they are now short an estimated 130K. Price has responded to their buying accordingly. The great commercial long (the US farmer) has also not been overly eager to sell into this early rally, magnifying the effect of the fund buying.



News included: Weekly export inspections were reported at 12.0 million bushels, at the upper end of trade expectations. That brings the total for the year to 677.9 million bushels with 9 days left in the reporting year. A group of Israeli buyers are tendering for 110K tons of corn and 75K tons of feed wheat with results due out later this week. Cargill announced they will have all cattle that were fed Zilmax out of their system by the end of September. Friday's Aug 1 cattle on feed number was disappointingly low at 10.03 mln head; the trade had been looking for 10.21 mln. Obviously this did not have much impact on the corn market today.

Internationally, Agroconsult estimated that Brazil will grow 76 mmt of corn this year compared to 80.25 mmt last year. The USDA is at 72 mmt. The EU's crop monitoring group lowered their corn yield estimate to 6.97 tons/ha (111 bu/acre) from 7.22 mmt (115 bu/acre) previously. Corn-exporter South Africa will also update their production estimate in the next 24 hours with the trade looking for a downward revision.

Corn basis changes were mixed. One major processor with locations in multiple states lowered their bids by as much as 50 cents. Meanwhile many ethanol facilities held steady and some even improved. Early in the session, ethanol swap values had actually led corn higher but it finished the session 2-3 cents off the mid-morning higher. Sep ethanol has been rallying as the month approaches. At the gulf, the spot bid was down 5 cents at midday to +150 U and the Sep-Oct slots also showed a weaker tone. There was an uptick in new crop movement on today's higher prices with more expected in the \$5.20-\$5.25 area.

**Soybeans:** The weather rally in the soybeans continued and even accelerated with a gap-higher open and limit-higher trade. The November soybeans couldn't manage to hold limit higher all the way through but still closed an impressive 61 ½ cents higher to \$13.89 ½. Less than three weeks ago, they had traded \$11.65 ¾. Other months were higher too but not to the same degree. The July '14 contract settled at \$13.14 ½ cents up 39 ¾. The rise in the Nov-July spread has been nothing short of parabolic with another breakout being registered today (see chart on next page). It settled at a 75 cents inverse.

The products were sharply higher. Meal, trading with expanded limits, finished \$13-\$18 per ton higher; the Dec

settled at \$436.70. Oil saw even more impressive gains, up 180-190 points with Dec at 44.88.

This rally continues to be all about weather. Last week, Pro Farmer sent out report after report detailing the immature state of the crop and the low observed pod counts. Month-to-date rainfall has been 10-50% of normal across much of IN, IL, IA, WI, MN, and the Dakotas (map below). Some timely rains would have limited the damage and even brought on fresh pods. Instead the forecast sees 7-10 days of temperatures in the mid-upper 90s and very little rainfall. Even the slim chances of rainfall in the extended timeframe are not shown consistently across all models.

On crop ratings, the trade is looking for values to fade to 59% good-excellent, down 3% from last week. *A 4% drop was actually seen with the US crop rated 46% good and 12% excellent.*

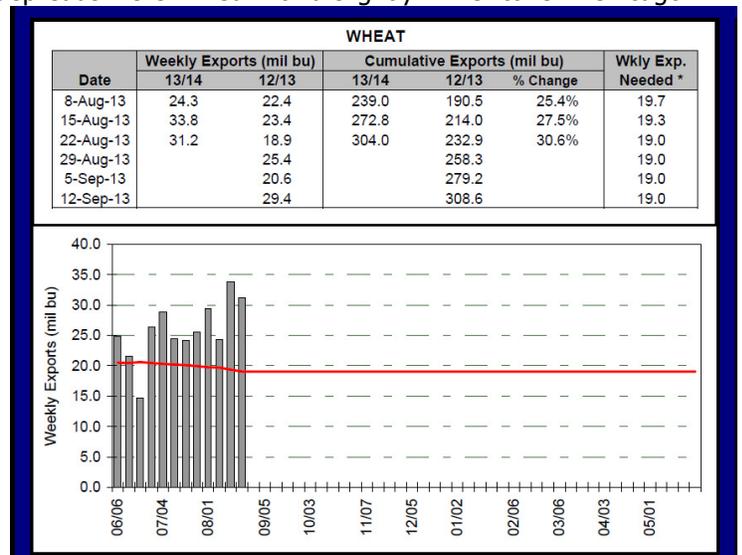
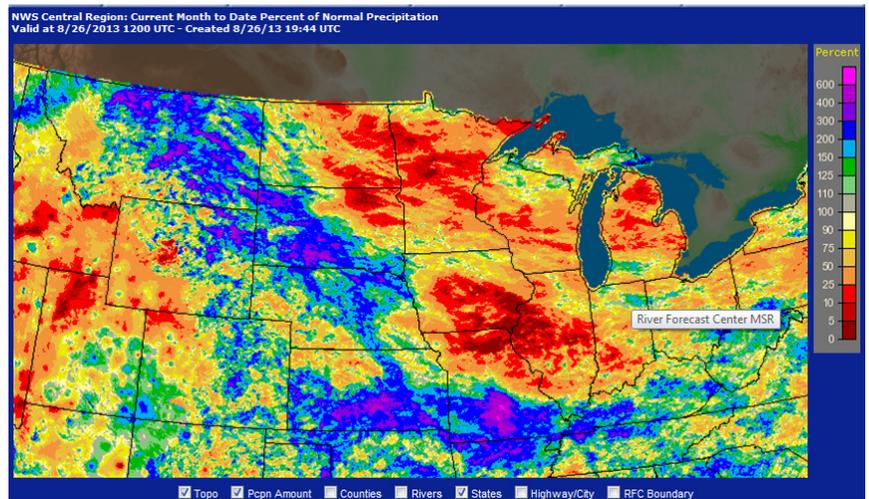
In other news: Weekly export inspections were just 2.46 million bushels but very little were expected. There is only one week left in the old crop reporting year. As the calendar turns over, a record new crop sales book awaits so look for shipments to pick up considerably following harvest. Agroconsult is looking for Brazilian soybean production to be a record 88.4 mmt in the coming crop year; the USDA is at 85 mmt. India announced that they have sold 350-400K tons of soybean meal for Oct-Dec shipment; their soybean production has been strong due to good monsoon rains. A cheaper rupee is also boosting exports into mainly SE Asian countries.

Bean basis was mixed on Friday with 20 cent declines to 20 cent improvements seen. Softer numbers were being put out today (down 10-30 cents) with the futures up so much although little movement was being seen. The gulf was steady at midday, still bid at +175 X.

The funds bought 23K contracts of beans, 7K oil, and 3K meal on the day.

**Wheat:** Wheat continued in its role as a follower of the corn and soybeans although some positive developments on the export front also lent support. Like the corn, short-covering by the funds played a role too; they bought 7,000 in Chicago. The Chicago market is more susceptible to outside market influences and fund buying; it led the way, finishing 20-21 cents higher. KC was up 12-18. MN was up 10-13. That left the Dec contracts at \$6.66 <sup>3</sup>/<sub>4</sub> in Chicago, \$7.13 <sup>1</sup>/<sub>4</sub> in KC, and \$7.37 <sup>3</sup>/<sub>4</sub> in MN. The wheat spreads were mixed with a slightly firmer tone in Chicago but softer in the KC contracts.

Weekly export inspections were reported at 31.2 million bushels, above estimates of 24-30. This continues a string of strong weeks since early July (see RJOMRT chart at right). Weekly export sales have also tended to outperform in the same timeframe. YTD inspections are up 31% vs. a year ago while the USDA is forecasting just a 9% jump in exports. Furthermore, traders said that Saudi Arabia bought 720K tons of hard wheat for Nov-Dec delivery with optional origins including the EU, Australia, South America and North America. Tunisia also lowered their crop production projections and increased their export ideas to 1.6 mmt of wheat and barley in the coming year. France is set to begin exporting wheat to China following the sale that was announced a few months ago.



Over the weekend, freezing temperatures in Argentina may have damaged Argentine wheat that was in the jointing stage. Remember that the combination of a short Argentine crop and frost damage in their own areas has turned Brazil into a leading buyer of US wheat in recent months. CONAB has cut its Parana wheat production estimate by 27% following the July freezes in Brazil.

Weather in the US is not playing as big a role in the markets with the winter wheat in between crops and the spring wheat harvest now well under way (42% complete on this afternoon's ratings).

**THOMAS MEIEROTTO**  
Commodity Risk Manager

[tmeierotto@rjobrien.com](mailto:tmeierotto@rjobrien.com)

d (515) 221-3555 // m (319) 470-7732 // tf (800) 283-5132 // f (515) 221-9559



**RJO'Brien**  
939 Office Park Road, Suite 225  
West Des Moines, IA 50265  
[www.rjobrien.com](http://www.rjobrien.com)

**This material has been prepared by a sales or trading employee or agent of R.J. O'Brien and is, or is in the nature of, a solicitation.** This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions.

DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION.

The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that R.J. O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.