

# Closing Grain & Soybean Comments

## August 28<sup>th</sup>, 2013

**Corn:** It was a 2<sup>nd</sup> consecutive day of choppy-lower price action following Monday's gap higher trade. Fresh news was light and mostly expected. The December matched Monday's low and is now in danger of falling into the gap on the charts between \$474 1/2 and \$4.79. It settled at \$4.80 3/4, down 5 1/2 cents. Other 13/14 contracts were down 4-5 cents as well. On the other hand, the Sep contract finished 4 1/2 cents higher at \$5.03 1/4. It was supported by still-strong US basis levels. This put the Sep-Dec inverse at 23 1/2 cents and looking like it could retest last week's 29 cent high.

One very astute RJO trader noted that as impressive as the Sep-Dec trading at an inverse just a few weeks ahead of harvest is, it does not hold a candle to the current inversion in ethanol between the Sep and Oct swap months. Indeed, the chart at the right shows that when converted to cents/bu (2.8 gallons/bu conversion rate) the Sep-Oct ethanol inverse is over \$1.00 a bushel!

The EIA announced weekly ethanol production of 241 million gallons, the lowest weekly production since March. This was unchanged from a year ago, however. Not surprisingly, ethanol stocks also fell to 683 million gallons from 692 million while imports were just 4K bpd compared to 19K bpd last week. Separately, UNICA announced that Brazil's center-south sugar cane mills made 515 million gallons of ethanol in the first half of August, a 2.6% uptick in the pace of production seen over the 2<sup>nd</sup> half of July. They are currently converting 52.2% of their crush into ethanol and 47.8% into sugar.

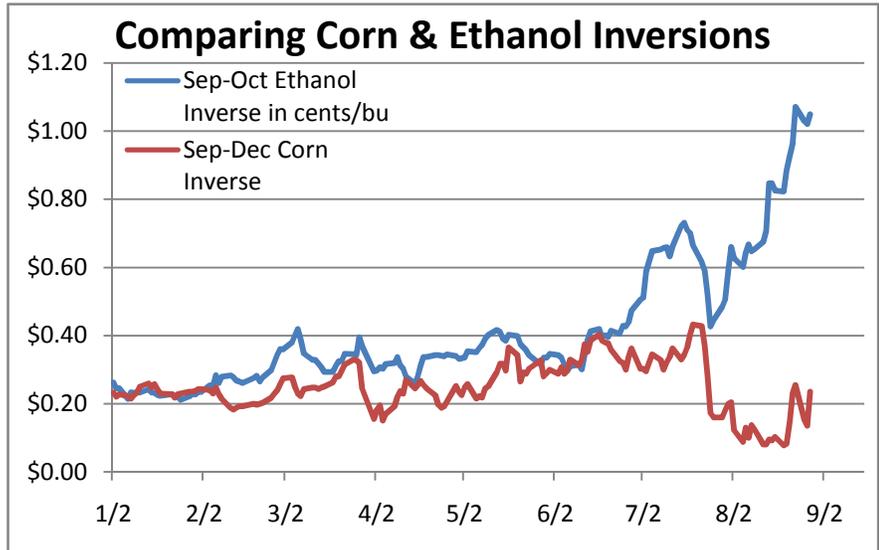
In other news: The trade is looking for old crop corn sales of -2 to 6 million bushels and new crop sales of 14-22 million. Last week's new crop sales were 17 million. The weather forecast was wetter today than at the start of the week, which has helped break the board back. South Korea's Nonghyup Feed bought 60K tons of option-origin corn for arrival by February. The CME raised margin requirements from \$2,025 to \$2,363 for speculators and from \$1,500 to \$1,750 for hedgers. The funds sold 7,000 contracts on the day.

On the basis side of things, old crop premiums in the Midwest continued to rally and traded values are well above posted numbers. A few locations did roll their bids from the Sep to the Dec. More are expected to do so in the next 24-48 hours. The spot bid at the gulf was softer at +135 U compared to +155 U at the end of last week. Barge freight has also rallied 25-50% of tariff over the course of the last week due to low water concerns.

RJO Technical Analyst, Dave Toth issued the following advice on Dec corn: *"shorter-term traders with tighter risk profiles are advised to move to a neutral/sideline policy and first approach recovery attempts to the 4.90-to-5.00-range as corrective selling opportunities with strength above 5.08 required to negate this call."*

**Soybeans:** Beans traded both sides during the session. An improved forecast put a lid on the November beans while an announced sale to China provided support. They finished at \$13.72 3/4, up just 2 1/4 cents. Other 13/14 contracts were up as much as 7-12 cents. Like the corn, the Sep beans rallied sharply relative to other contracts. They finished up 19 cents to settle at \$14.33. The Sep-Nov inverse has now closed higher on 6 straight days, rallying from 18 3/4 cents to 60 1/4 cents. No deliveries are expected on first notice day against the beans or meal contracts.

Oil continued to outperform the meal, settling 20-30 points higher. The Dec settled at 44.78. Meal finished



steady-mixed with the Dec settling at \$429.30.

The 1-5 day forecast was basically unchanged with hot and dry conditions called for in the majority of the Midwest. By the weekend, portions of MN, WI, MI, IN and OH could see rainfall. The entire Midwest will see cooler temps into early next week. The 6-10 day timeframe of the midday GFS was wetter with the northeast half of the Corn Belt seeing 0.3-0.8". The 11-16 day also shows heavy rains. However, this wetter bias in the 6-15 day forecast is not being embraced by all forecasters.

The USDA announced the sale of 120K tons of beans to China for the 13/14 crop year. It was the first daily sales announcement since August 16<sup>th</sup> (nearly 2 weeks). Prior to that dry stretch, 1-3 sales announcements had been seen per week for 6 straight weeks. On tomorrow's weekly export sales, the trade is looking for -4 to 6 million bushels of old crop and 22-33 million bushels of new crop. Last week's sales were 34 million.

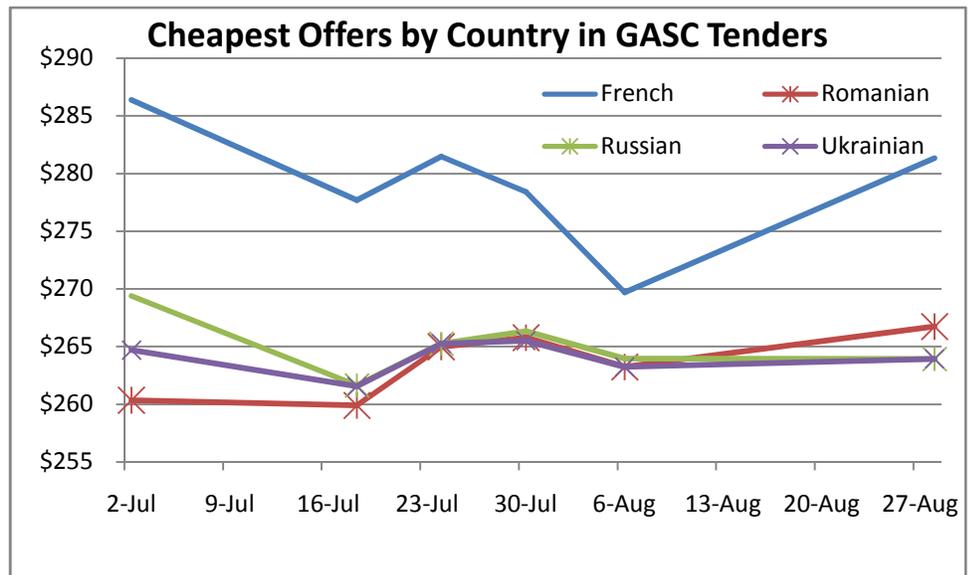
Elsewhere, Argentine crush workers are staging a 2 day strike in Rosario. They have blocked entry roads to the point of cutting truck traffic by half. It is scheduled to end on Thursday evening. The CME raised margin requirements on beans and meal. For speculators beans are now \$4,725 for beans and \$3,038 for meal. For hedgers, they are now \$3,500 and \$2,250. The funds bought 4,000 beans and 3,000 oil. They were even in the meal.

Bean basis in the Midwest was mixed in the last 24 hours. Changes of 5 cents in either direction were common. The gulf bean bids were softer at +140 X, down from +150 X at the end of last week. Meal basis was steady to up a bit.

**Wheat:** Like the corn, the wheat saw a 2<sup>nd</sup> straight day of choppy lower price action after participating in a soy-led rally to start the week. A large purchase by the world's biggest buyer did little to offer support (none will be sourced from the US). However, the USDA did announce an unusual multi-year export sale that supported prices early. Chicago finished 4-5 cents lower; KC was steady to 1 lower. The MN market managed to finish steady-5 cents higher. The wheat spreads were just as mixed.

The USDA announced the sale of 119K tons of wheat sold to unknown with 40K for the 13/14 crop year and 79K for 14/15. Weekly export sales (to be announced tomorrow) are expected to be 13-20 million bushels. Last week's were 18.2.

Egypt's state wheat buyer GASC bought 295K tons of wheat from a combination of Ukraine, Russia, and Romania. This was the 2<sup>nd</sup> largest quantity since they resumed buying in early July after a 5 month hiatus. The chart at the right shows the cheapest offers submitted in each of the 6 tenders since then. Stars on the charts indicate winning bids. Black Sea wheat has been dominant, undercutting European wheat by \$5-\$15 per ton (\$0.14-\$0.41 per bu). By comparison, US SRW laid into Egypt would be \$271.50 before elevation and loading costs (i.e. gulf bid + ocean freight). No formal US offers were submitted in the latest tender. On the other hand, China and Brazil have been tapping US supplies.



Weather continues to be a non-influence with the hot and dry conditions supporting spring wheat harvest efforts on the Northern Plains and this summer's rains having largely allayed moisture concerns ahead of winter wheat planting. The funds sold 1,000 contracts of wheat on the day.

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