

CHS Hedging Research



USDA Report Comments – **Release Time 11:00 AM CDT, Wednesday, June 12, 2013**
June 7, 2013

	2012/13 Ending Stocks		2013/14 Ending Stocks	
	June	May	June	May
	<u>CHS Hedging est.</u>	<u>USDA</u>	<u>CHS Hedging est.</u>	<u>USDA</u>
Corn	734	759	1,761	2,004
Soybeans	125	125	262	265
Wheat	741	731	643	670

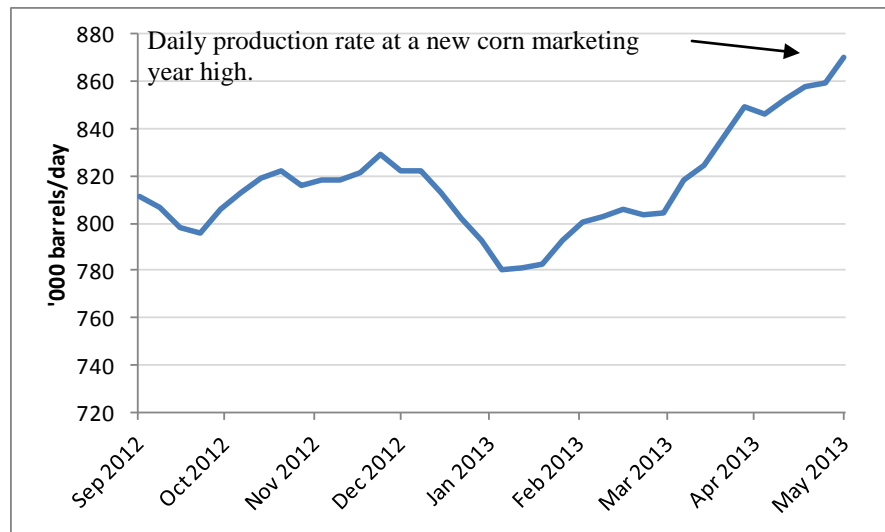
2012/13

Corn

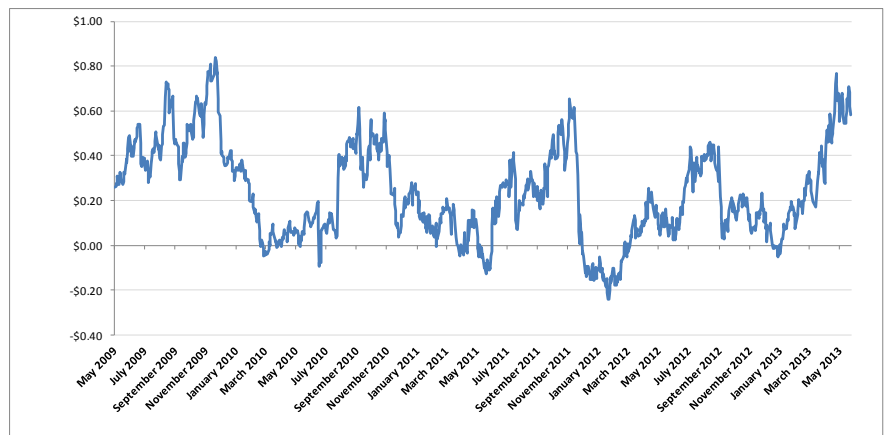
Ending stocks are estimated at 734 mb.

- The 4-week average of the daily ethanol production rate reached a new corn marketing year high this week at 870K barrels/day.
- An average production rate of 870K barrels/day over the remaining days of the corn marketing year would result in an estimated 4,661 mb in corn use, or 61 mb above the May USDA estimate of 4,600 mb.
- From a historical perspective, the clearest seasonal tendency in ethanol production has been September downtime. Otherwise, the multi-year expansion meant that summer ethanol production exceeded spring ethanol production every year until 2012 when there was a 4% drop-off.
- Ethanol production margins are starting the summer much higher than they were a year ago, making a drop off much less likely. We expect an increase of 50 mb to 4,650 mb on this report, or an average daily production rate of 862K for June-August.
- The U.S. is uncompetitive in export markets, which will make it difficult to hit the 750 mb USDA projection.
- The relationship of current export commitments to final Census export total shows that current commitments are 91% of the projected total. Last summer's virtual halt in the export program meant that commitments were already 97% of the final export total at this point in the year. While the average pace (current commitments average 92% of the final export total) suggests we are on track for 750 mb, it will be a struggle to hit that number. We expect to see a 25 mb reduction to 725 mb.
- No change is expected in the feed use category this month.

Ethanol Production: 4-week Average



Ethanol Production Estimated Gross Margin per Gallon



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Wheat

Ending stocks are estimated at 741 mb this month.

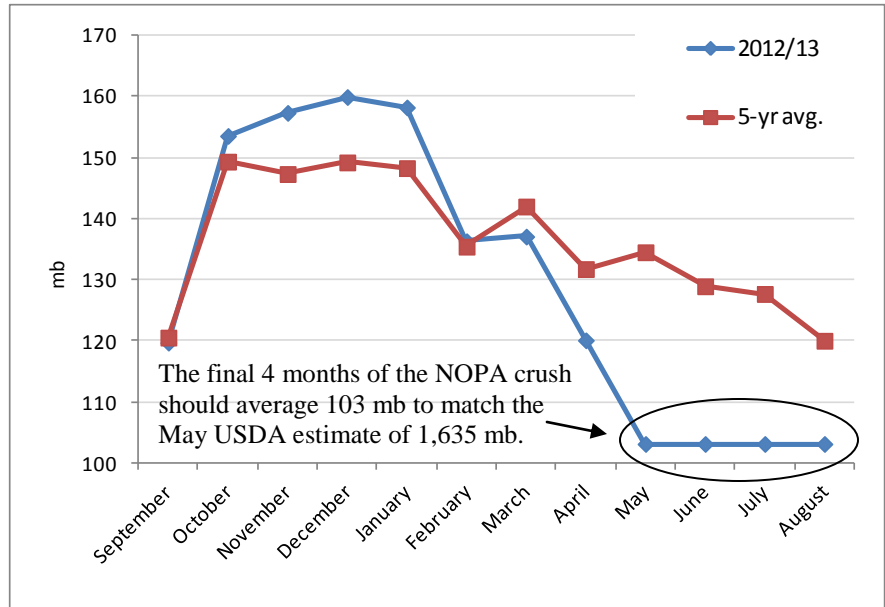
- Preliminary calculations indicate exports will come up a little short of the 1,025 mb May USDA estimate.
- Official wheat and flour exports through the first 3 quarters were 696 mb. For the final quarter, Census wheat exports in March and April were 211 mb, and May exports are estimated at 102 mb based on weekly inspections. Add in another 6 mb for flour, and the total comes to 1,015 mb.

Soybeans

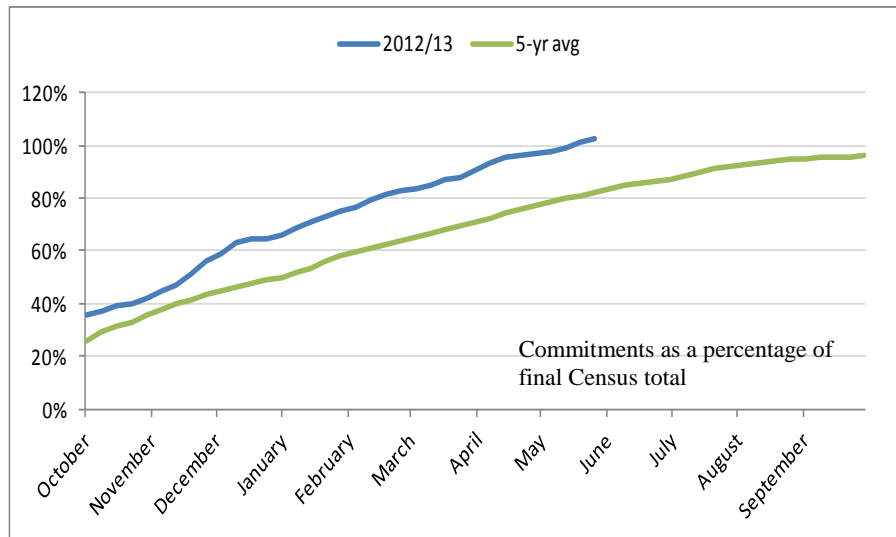
Ending stocks are estimated at 125 mb.

- Soybean crush slowed in April, but needs to slow more based on available supply. The April NOPA crush was 120 mb, 9% less than April 2012.
- Over the remaining 4 months of the soybean marketing year, crush needs to run about 23% below the previous year to hit the May USDA estimate of 1,635 mb.
- Our estimate of 103 mb/month over the remainder of the marketing year (including May which has not been reported yet) is a slightly smaller monthly total than the same calculation made last month. Board crush margin (nearly contracts) is near its 2013 low.
- The nearby meal contract made a new 2013 high in early June. Spot broiler production margins are at a multi-year high, supporting domestic meal demand.
- Meal export commitments are over 100% of the total projected by the USDA in May. The 5-year average at this point is 83%, and the highest % in recent history was 86%. If current commitments are even 85% of the final total, the final total would be 10,698 tmt, or 1,717 tmt more than the USDA May estimate. To get an additional 1,717 tmt of meal, about 79 mb of beans would need to be crushed.
- Given the constraint of maintaining ending stocks at 125 mb, the most likely source of additional beans to crush is reducing current marketing year exports to China, whether that's directly from the U.S. or rerouted from Brazil. Moderate to weak crush margins in China may allow for additional availability in the U.S.
- Current export commitments are essentially at 100% of the May estimate of 1,635 mb, but we also saw export commitments reach 100% at this point in 2010/11. That means its not unprecedented for cancellations near the end of the year that put the final total near the level reached three months earlier.

NOPA Soybean Crush



Meal Export Commitment Pace



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2013/14

Corn

Ending stocks are estimated at 1,761 mb.

- There have been 6 years in the last 20 when the USDA made yield or acreage changes on the June WASDE. In two years only yield was adjusted, in two years only acreage was adjusted, and in two years both yield and acreage were adjusted.
- The adjustments have all been in response to late planting and excessive moisture. 2013 clearly fits the mold as shown on the bottom chart with only 46% planted nationally as of May 15. No adjustment was made in 1993, but methodology was different then.
- In May, the USDA reduced its yield estimate by 5.6 bpa from its calculated trend, implying it was estimating around 60% of the crop would be planted as of May 15 in the region it uses for its model. That appears to be a pretty close guess after deriving planting progress stats as of May 15 that were published on May 20. We don't expect to see a significant yield change on the June report.
- Acreage has been adjusted lower 4 times in the last 20 years, most recently in 2011. However, large reductions when the final numbers come in from the March intentions have been somewhat limited even in late planting years over the last decade. For example, in 2011 after the June WASDE report had trimmed 1.5 million acres from planted acreage, the June survey showed a small *increase* in plantings, and the final showed only a 300K acre reduction relative to the March intentions.
- The final corn acreage number is still weather dependent in states like Iowa, Wisconsin, and Minnesota; nearly 9 million acres putatively remained unplanted as of June 2. In North Dakota, intentions were for a 500K acre increase to 4.1 million acres from the 2012 final total, which itself set a record by more than a million acres. Its easy to see how 0.5 to 1.5 million acres are at risk from that state. On the other hand, planting progress was ahead of average in eastern states led by Ohio, which can lead to increased planting.
- In addition to anticipating an adjustment of 1 million acres on the planted total, we expect to see a reduction in the harvested percentage based on the assumption that more of the late planted corn will go for silage. The fact that the state with the slowest planting is Wisconsin also has plenty of livestock makes it easier to think that much of the later planting will be intended for silage. We are using 91.5% harvested for grain, similar to the 91.4% harvested in 2011. The May USDA estimate was 92%.
- On the demand side, no changes are anticipated this month. Offsetting demand changes have been made on the June report when there are significant supply changes, but with an ending stocks number above 2 billion bushels last month and a modest production loss expected, there is no compelling reason to adjust demand lower.

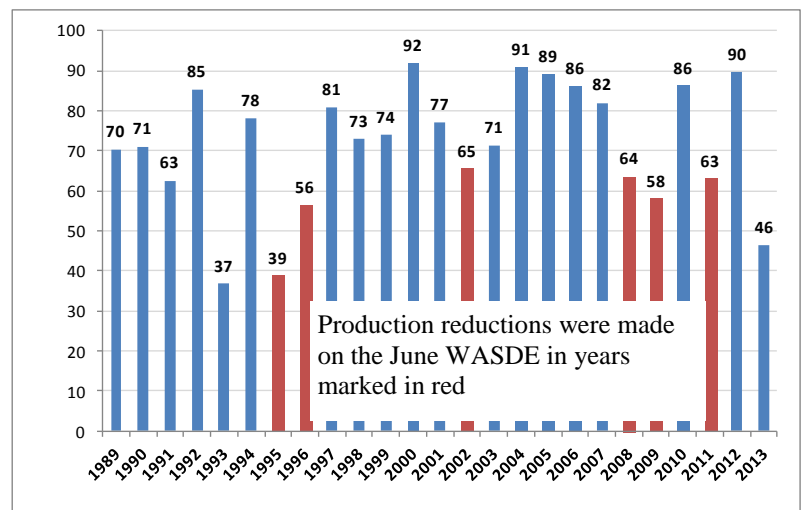
Adjustments on the June WASDE Report

	Yield Change	Planted Change	Harvested Change
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	Yield Change	Planted Change	Harvested Change
1993			
1994			
1995	(5.90)	(2.00)	(2.50)
1996		(2.00)	(2.00)
1997			
1998			
1999			
2000			
2001			
2002	(2.10)	(1.00)	(1.00)
2003			
2004			
2005			
2006			
2007			
2008	(5.00)		
2009	(2.00)		
2010			
2011		(1.50)	(1.90)
2012			

Note: no change in blank years
Changes in bushels per acre,
million acres

National Planting Progress on May 15



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Soybeans

Ending stocks are estimated at 262 mb.

- The USDA has made fewer production changes on the June WASDE report in soybeans. Looking at the corn and soybean changes side-by-side, acreage or yield changes in soybeans have always been made in conjunction with changes in corn.
- Looking beyond the June WASDE report, there is limited statistical relationship between corn and soybean acreage changes on the June acreage survey that suggests that for every 1 acre change in corn, bean acreage changes by about 0.5 acre. That is essentially the pattern the USDA has followed in those few years that it adjusted bean acreage on the June WASDE report. Planting is the slowest since 1996, when the USDA increased soybean acreage 1.5 million acres on the June WASDE, and ultimately saw the final total 1.7 million acres higher than the March intentions.
- The USDA yield model does not include any variables based on planting progress. We do not expect any change in yield on this report.
- The expected higher domestic crush in the current marketing year should shift some export demand into new crop, leading to our expectation of a higher export total for 2013/14.

Adjustments on the June WASDE Report

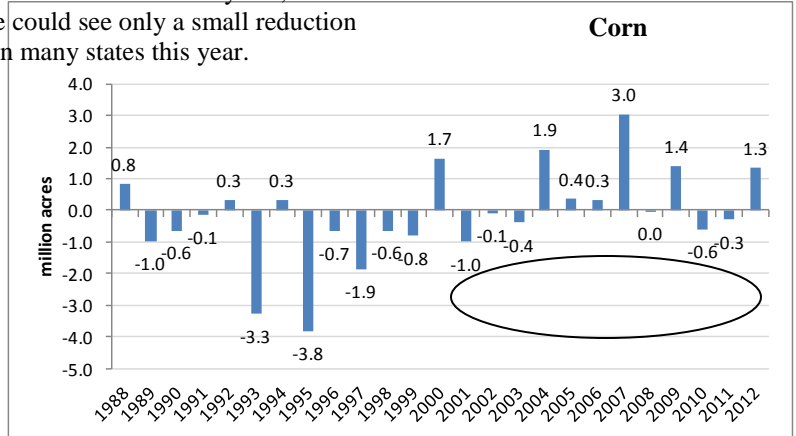
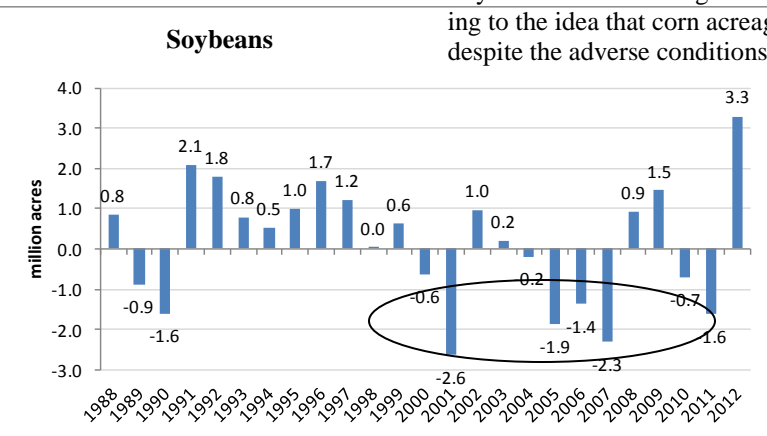
Yield Change Planted Change Harvested Change

Year	Yield Change	Planted Change	Harvested Change
1993			
1994			
1995	(0.50)	1.20	1.20
1996	(0.30)	1.50	1.40
1997			
1998			
1999			
2000			
2001			
2002		0.50	0.50
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			

Note: no change in blank years
Changes in bushels per acre,
million acres

Acreage Changes from March Intentions to Final

Soybeans have seen larger shifts than corn in recent years, leading to the idea that corn acreage could see only a small reduction despite the adverse conditions in many states this year.



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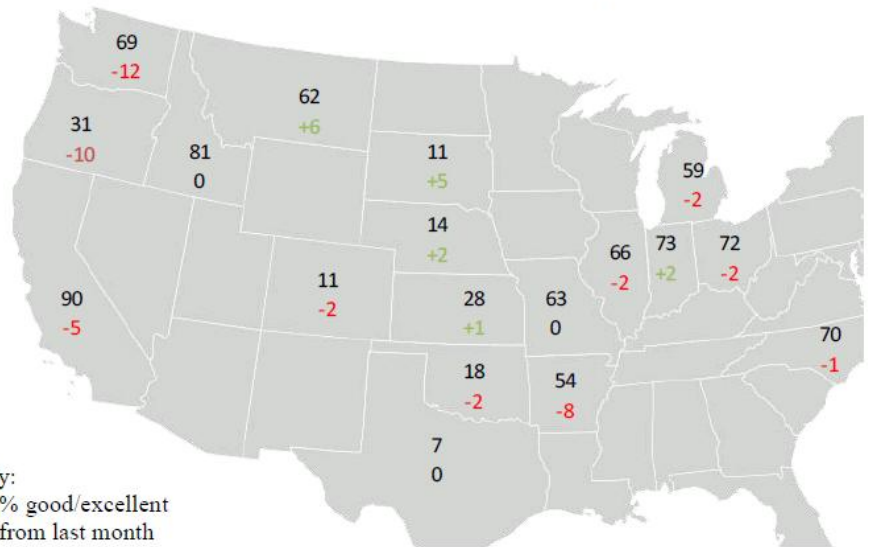


Wheat

Ending stocks are estimated at 643 mb.

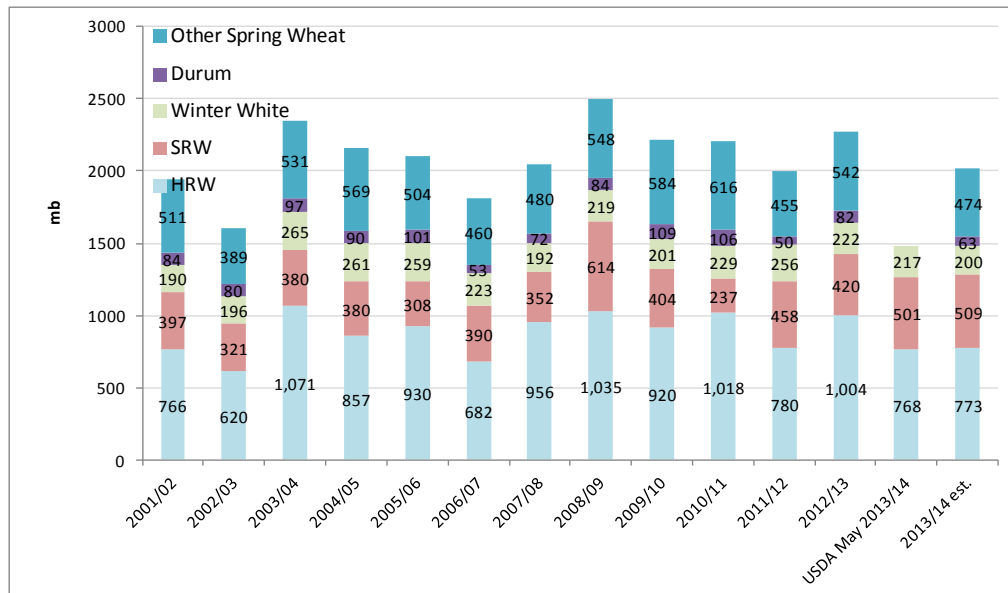
- Winter wheat production is estimated at 1,482 mb. HRW is estimated at 773 mb, SRW at 509 mb, winter white wheat at 200 mb, durum at 63 mb, and other spring wheat at 574 mb.
- Winter wheat conditions over the last month generally improved in key HRW states, declined in white wheat states, and were mixed to worse in SRW states.
- Spring wheat acreage is not reported directly on this report, but the total wheat production and acreage numbers imply the USDA's expectations. In 2011, the June production number was adjusted based 290K fewer spring wheat and durum acres. We expect other spring wheat acreage at 12 million acres in 2013, down from the March intentions number of 12.7 million.
- World wheat production is estimated at 695 mmt by the United Nations (FAO), 5 mmt higher than its previous estimate.
- The USDA attaché to Russia reports good conditions for winter wheat, but delayed planting on spring wheat. His wheat production estimate is 53 mmt, 3 mmt lower than the official May number.

Winter Wheat Good/Excellent Condition Ratings by State



Map Key:
 Current % good/excellent
 Change from last month

U.S. Wheat Production



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U.S. Balance Sheet Estimates

Corn

	May 10 USDA 2012/13	May June 1 CHS Hedging est. 2012/13	May 10 USDA 2013/14	May June 1 CHS Hedging est. 2013/14
Planted Acres	97.2	97.2	97.3	96.3
Harvested Acres	87.4	87.4	89.5	88.1
Yield	123.4	123.4	158.0	158.0
Beginning Stocks	989	989	759	734
Production	10,780	10,780	14,140	13,922
Imports	125	125	25	25
Total Supply	11,894	11,894	14,924	14,681
Feed/Residual	4,400	4,400	5,325	5,325
F/S/I	5,985	6,035	6,295	6,295
Domestic Use	10,385	10,435	11,620	11,620
Ethanol for fuel	4,600	4,650	4,850	4,850
Exports	750	725	1,300	1,300
Total Usage	11,135	11,160	12,920	12,920
Ending Stocks	759	734	2,004	1,761
Stocks/Use Ratio	6.8%	6.6%	15.5%	13.6%

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Balance Sheet Estimates

Soybeans

	May 10 USDA 2012/13	June 1 CHS Hedging est. 2012/13	May 10 USDA 2013/14	June 1 CHS Hedging est. 2013/14
Planted Acres	77.2	77.2	77.1	77.6
Harvested Acres	76.1	76.1	76.2	76.7
Yield	39.6	39.6	44.5	44.5
Beginning Stocks	169	169	125	125
Production	3,015	3,015	3,390	3,412
Imports	20	25	15	15
Total Supply	3,204	3,209	3,530	3,551
Crush	1,635	1,660	1,695	1,695
Exports	1,350	1,330	1,450	1,475
Seed	90	89	87	87
Residual	5	5	33	33
Total Usage	3,080	3,085	3,265	3,290
Ending Stocks	125	125	265	262
Stocks/Use Ratio	4.1%	4.0%	8.1%	8.0%

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Balance Sheet Estimates

Wheat	May 10 USDA	June 1 CHS Hedging	May 10 USDA	June 1 CHS Hedging
	2012/13	2012/13	2013/14	2013/14
Planted Acres	55.7	55.7	56.4	55.7
Harvested Acres	49.0	49.0	46.7	45.6
Yield	46.3	46.3	44.1	44.3
Beginning Stocks	743	743	731	741
Production	2,269	2,269	2,057	2,019
Imports	125	125	130	130
Total Supply	3,137	3,137	2,917	2,890
Seed	76	76	74	74
Food	945	945	958	958
Feed & Residual	360	360	290	290
Domestic Use	1,381	1,381	1,322	1,322
Exports	1,025	1,015	925	925
Total Usage	2,406	2,396	2,247	2,247
Carry-out	731	741	670	643
Stocks/Use Ratio	30.4%	30.9%	29.8%	28.6%

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