



October 2012 Performance Summary

October saw the smallest ranges we have seen in quite some time with prices eroding further in beans and wheat. Corn ended the month nearly unchanged, with wheat down 15-40 cents, and soybeans down roughly 55 cents. The USDA confirmed a bigger soybean yield and a slightly lower corn yield as well as tightening world wheat supplies. However, given that markets are historically high-priced and funds remain long, rally attempts could not be sustained.

The soybean market is grappling with larger than expected US supplies vs. potentially larger than expected demand and also the likelihood of record large South American crops. Most in the trade are expecting a further slight increase in the national average yield (up .5 to 1.0 bu/a) in the November crop report. At the same time, crush and exports are running at a pace well over the USDA forecasts of 1540 and 1265 milbus respectively. The high end for crush is 1640 and the high end for exports is 1400 milbus. If the current demand pace continues (even with a further 30-80 milbus increase in the crop – up .3 to 1.0 bu/a), we will be on pace to run out of beans. Thus, even with record South American crops, record use in the US (crush and exports) during December-February will require rationing (imports?) during March-August. Given record demand is expected September-February, usage during March-August will have to decline by 30-40% from the most recent 5 year average in order to end the crop year with minimal pipeline supplies. Currently the trade is forecasting record South American crops (not sure ideas can get much bigger) and there cannot be any major crop threats. In addition, their execution of record exports will need to be seamless (typically not seamless in a normal year). Downside appears to be fairly limited unless the crush and export pace drops substantially in the near term. Considerably higher prices may be needed later in the crop year (even with record South American crops) to ensure adequate supplies are maintained.

Corn chopped around and remains torn between an extremely tight US situation while rationing is already taking place in all sectors and prices remain historically high. The market is expecting a further slight yield reduction in the November crop report. EU import ideas are increasing with most in the trade centered around 10 mmt. Fitting this into the world matrix is not an easy task given tight US supplies. South American and even Ukraine offers are thinning past December and the spread to US is narrowing, suggesting US export demand will likely pick up considerably December forward. At the same time, however, ethanol producers are not making any money (and the forward margins are even worse) and animal numbers are weak. It will be a delicate balance going forward where rationing will need to continue in the US until the market feels comfortable with next summer's crop prospects. The market will also be very sensitive to any weather issues in South America with flooding in Argentina already getting some attention.

Wheat has remained in a tight range for roughly four months. The situation is too tight for it to break much (major exporter stocks tighter than 07/08 while US stocks ample) but US business has not picked up enough to sustain upside. Black Sea offers have continued longer than previously thought and the US has yet to do any business with Egypt. India's presence on the export market has been larger than expected and they are even offering to North African countries despite previous ideas that they would primarily supply Southeast Asian countries. However, Southern Hemisphere crop ideas continue to get smaller both in Australia and Argentina with the latter also facing serious quality concerns. Northern Hemisphere winter wheat crops are not off to the best start given dryness and emergence issues for US HRW and EU soft wheat seeding well behind their normal pace. Given that both Black Sea and major exporter 12/13 ending stocks are very tight, any crop issues going forward could result in very tight 13/14 situation.

Regards,
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