August 2013 Month End Comments

This month beans were the feature as IA and IL stayed dry and beans added risk premium. August ended up as the driest month in IA/IL/IN combined since records started in 1895. July/August combined was the driest since 1931. November beans were up 151.25 cents for month with December meal up $58.50 and December oil up 159 points. Corn made new lows early in the month (below 450 CZ) as yield ideas were centering around 158-160 bu/a. Corn rallied reluctantly with beans and then gave much back last week with CZ finishing 3 cents higher for the month. Yield ideas have gotten smaller for corn too, but it is still hard to really tighten the corn balance without a significant reduction in area as well. Wheat was the clear loser. China buying of US wheat dried up (shifted to Australia) and unrest in the Middle East has forced me to rethink demand. For the month, Chicago was down 23 with Kansas City down 13.5 and Minneapolis down 21. Brazil buying of HRW has not let up which helped support Kansas City while bigger Canadian crop ideas pressured Minneapolis. The major exporter balance still looks tight to me, and I remain cautiously friendly.

Yield ideas for beans in early August centered around 43-44 bu/a. By last week my working estimate was 40.9 with downside to 39 bu/a. Further ratings declines are expected in the first couple weeks in September. There is also a question on area with some using 500-800 thousand acres less than the USDA. USDA's August estimate was 42.6 bu/a, which seemed low at the time. If they lower by 2 bu/a in the September report – they will be forced to lower use to keep ending stocks at 125 milbus. My current yield estimate would require 2.0 mmt be rationed whereas a 39 yield would require something closer to 6.0 mmt. The market is currently quite spooked and having flashbacks to last year when highs were made in early September and crop ideas got bigger and bigger into the final crop estimate. This year is actually the exact opposite as there are no crop saving rains on tap this year and the hot/dry finish will likely result in yield reductions in September, October, and final. This was the driest August on record in the major growing states. Larger China demand this year will put a lot of pressure on South America – both to produce and in their export program. They really struggled this year with larger exports. I wouldn't be surprised to see futures rally throughout harvest and am positioned as such.

Corn yield ideas have also decreased. The USDA surprised the trade with a low forecast in August at 154.4 which most in the trade ignored. However they may end up being right (for the wrong reasons). My yield estimate is in the low 150's vs 158-160 early in August. The dryness and late heat likely took some edge off yields. However early harvest results in southern areas are off the charts, and reports out of IA and IL suggest that corn held up relatively well. July and the first half of August were cool, which was a saving grace for corn. There is also a question of area with some in the trade considerably below the USDA. However it would be quite a stretch (and major surprise) not to at least double ending stocks in 13/14. Corn is expected to sit near current levels or grind lower while beans work higher. Expect the bean/corn ratio to go to 3 to 1 in the near term and possibly closer to 4 to 1 eventually.

Wheat has struggled as corn rallied. I had expected wheat to continue to gain on corn but I wasn't expecting the driest August on record and corn balance sheet ideas getting tighter. The China buying of SRW dried up, however year to date SRW commitments are larger than HRW. Brazil continues to buy HRW each week, and Argentine wheat production has been threatened by both dryness and frost/freezes. This is typically the time of year when moisture increases, so this needs to be monitored closely. Australian crop ideas are also getting smaller as northern WA and northeast NSW and Queensland have been dry with northeast areas experiencing freezing temperatures also. EU and Black Sea crop ideas have crept up, however, but these

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are offsetting. My major exporter balance is still tighter than 07/08 and Ukraine is running out of quality. A great deal of Black Sea wheat is feed quality this year. Egypt buying has been rather brisk lately – they under-bought last year and are trying to make up for it. I expect them to come for SRW later in the crop year. Syria needs at least 2 mmt but is having trouble using frozen assets in the middle of their unrest. I remain cautiously friendly wheat (in relation to corn) and wonder if September 1 stocks will be smaller than expected.

Regards,

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