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July 2013 Month End Comments

There were big moves in July with the feature early in the month the widening of inverses in corn, beans, and meal. The inverses did their job and then it was basically over – basis, spreads, and then futures broke fairly hard as grain moved. For the month, CZ was down 32 cents with Kansas City and Chicago up 5-8 cents. Minneapolis lost 30 cents in corrective action. SX was down 46 cents with SMZ down 9 dollars and BOZ down 242 points for the month. It is getting easier to see the light at the end of the tunnel (bigger supplies coming). Beans gained on corn with the ratio making a new high over 2.60 as beans are hanging on to some risk premium for key August weather. Meal gained on oil but oil has stabilized/gained of late. The weather is generally quite favorable. There are still a few areas, mainly in north central IA and southern MN, where rainfall has been quite limited. However, temperatures have been cool. Beans are still small/behind in some areas and the main hurdle may be avoiding an early frost.

Corn is a growing realization that big supplies are coming and may be here for a while. Weather has been generally quite favorable with very little heat followed by cool temperatures. We are likely looking at record yields in the Eastern Corn Belt, Delta, and Southeast. Harvest is also just around the corner in southern areas. Harvest will likely drag on from mid-Aug until Oct/Nov in central IA and MN. Most yield ideas range from 158-161 bu/a, which keeps supplies near 2000 milbus even with sizable increases in demand for 13/14. With ethanol use plateauing, it is difficult to see any tightness in the future without major crop failures going forward. China import demand is expected to increase, but we should be able to accommodate this. Futures are likely going to back to levels not seen since 2009 and 2010 – there may be a three in front of corn before all is said and done.

Wheat gained on corn as the US and major exporter balances got tighter and corn ideas got more relaxed. The big items are huge China demand – 9-10 mmt – and large needs out of Brazil that Argentina can't fill. Egypt has stepped up purchases and under bought last year. Their import needs could be higher than most are currently estimating. The USDA has a big job to do in the August and subsequent reports. They need to make adjustments to Argentina's crop and exports as well as Pakistan, Iran, and Syria's imports. Additionally, they need to lower Indian and Russian exports and raise the US, EU, Australia, and Canada. Basically, their major exporter balance is 5 mmt too low on exports and 5 mmt too high on stocks. This is a significant difference. My major exporter balance is slightly tighter than the extremely tight year of 07/08. That year was led by crop shortfalls while this year is tight due to large demand. Given the environment we're in – grain supplies overall getting bigger and corn prices likely headed a lot lower – I am not sure wheat can sustain rallies. EU and Black Sea markets are currently a drag. Russian crop size, exports, and government buying program are big wild cards. However, I think wheat can continue to gain on corn and that wheat spreads may narrow. Funds are still short.

The old crop tightness in beans is almost over and the focus has shifted to new crop. Direction over the next few weeks should depend on US yield ideas. Current published ideas have been in the 42.7-43.2 range. We need something bigger than this to build US supplies to more comfortable levels in 13/14, and there is still uncertainty about US bean acreage (which was resurveyed for the August 12 report). We may stabilize ahead of this report. I still think we need a decent yield in the US (above 43), but more and more are looking forward and projecting significant area increases in both Brazil and Argentina for beans (reductions for corn) and we are likely starting the transition to much more well-supplied markets. In addition, funds are still long beans. I will sell into rallies if we start to expect something closer to a 44 yield.

Regards,
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