



June 2014 Month End Comments

Markets did not do a whole lot for most of the month until the stocks and acreage report on the last trading day of the month/quarter. It was easy to get chopped around, and I did. I was having a hard time staying with any positions or ideas. New crop beans wouldn't break and old crop wouldn't grab – there was spread unwinding and it was rather frustrating. The USDA found all the acres the trade was expecting in March and bean acreage was a whopper sending markets sharply lower. Corn stocks were bigger than expected and no acreage was lost due to wet weather. The surprise in wheat was the stocks breakdown (USDA hasn't given official numbers) but my HRW stocks estimate was much higher than expected – giving more of a cushion for the low 14/15 HRW crop. For the month, corn was down 33 cents, Chicago wheat 62, Kansas City 31, and Minneapolis 38. Old crop beans were down 95 cents with SX down 78. Oilshare had a big move with meal down \$37-43 and oil up 37 points. It will likely move to more historical levels near 38%.

Corn felt like it was basing for much of the month – crop ratings were among the best ever but June ended up the wettest since records began in 1895 raising some concerns. My old crop S&D was below 1100 milbus at one point, making me think new crop didn't have enough risk premium. Ratings have held up despite the excessive rain in some areas. In 2010, the early rains became an issue but July was also hot. So far, the first half of July is shaping up to be on the cool side which should be favorable for yields. Plant populations may be very high and could push the crop to the high end of trade ideas. So far, the weather looks quite favorable through much of pollination and futures should continue to grind lower as long as the weather remains favorable. Funds still have modest length and will likely go short before the month is out.

There are no major concerns in any growing areas, and the one issue we had – small HRW crop – is now likely watered down by larger than expected HRW carry-in stocks. Australia is on the radar with northeast areas and WA dry but it still may not be the difference that makes the difference. Russian and Kazakhstan spring wheat weather has been warm and dry but no one seems that concerned; Russian/Ukraine winter yields have been favorable so far. The world and major exporter balance sheets should be more comfortable in 14/15 than last year, and world values likely continue to grind lower with wheat narrowing its premium to corn.

Old crop beans felt like they finally may grab and have a blow off rally but it was rather short-lived before liquidation set in despite sharply higher Brazilian basis, firming US cash markets, and a still tight-fisted Argentine producer. Imports remain less than the 90 milbus the USDA is forecasting and crush and exports remain higher. However, I am using a negative residual (which will eventually be a larger crop) and can “solve” the balance sheet on paper – ending with roughly 125 milbus stocks. Given this and the much larger than expected new crop bean acres, can see the light at the end of the tunnel.

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Weather has been mostly favorable – rain excessive in some areas – but crop ratings are some of the highest ever. Obviously beans are “made” in August, but expect futures to continue to erode risk premium as the weather is non-threatening. The whole dynamic in beans seems to be shifting— especially if conditions remain favorable. We have had multiple years of tight bean stocks. After years of needing corn acres to feed the growing ethanol mandate/demand, and needing to incentivize South America to plant more bean acres, this may be coming to an end. Bean acres are up 8.3 mil year over year. Given my yield forecast or USDA’s (both slightly north of 45 bu/a) and with record use, 14/15 ending stocks can build to nearly 500 milbus. Even if the weather turns and we end up with a 43 yield, stocks can still build to 300 milbus. If yield is anything materially above 45 bu/a, we’ll be swimming in beans. The market isn’t used to talking about 9.00 beans but it may be where we are headed.

Regards,
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