

September 3, 2013

MERCHANDISING MEETING NOTES

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FALL OUTLOOK MEETING

Please see the attached flyer for venue change and meeting details.

WISCONSIN PRE HARVEST FALL PLANNING OUTLOOK MEETING

- Where: Drugan's Castle Mound Golf Course in Holmen, WI.
- When: September 18th, 2013
- Time: 9:30AM to 1:00PM
- Lunch and 9 holes of golf following the meeting
- Please RSVP to your broker

CORN

- The fundamentals have limited changes from a week ago. Conditions slipped 3%, which was expected by the trade. Our research group took their crop estimate down another ½ to 1 bushel. Using 157.2 today.
- We continue to hear talk in the trade about temps vs. moisture. It was one of the driest J/A on record for the three "I" states. Temps were not excessive so the crop was not stressed and the yield loss looks to be minimal.
- Early yield data across the southern production areas, Delta and SE have been impressive. In some areas it could be a record crop by 15-30%! Our current estimate of the southern states crop is 1.232 bu, up from 914 last year. So far, 36% of that crop has been harvested vs. 64% last year.
- Spot Ethanol margins have been good. Fall margins are decent too. JFM margins are around breakeven.
- U/Z spread is hard to define. Stay classic. If you still have longs to manage in the Sept be sure to talk to your broker about your plan. It will likely continue to be choppy.
- Some thoughts on the Z/H. We have talked about this spread A LOT and will continue to do so as it is a spread that impacts many in the trade. It is currently around 12 ½ - 13 cents carry. Full carry is around 17 cents. One reason this spread has not narrowed could be the larger than normal southern harvest. Much of that area has limited space and therefore a lot of that grain needs to move. Some has moved north. However, that northern move should be coming to an end. A boat loaded today would not arrive in the area that needs it until the end of the month or Oct 1 - too late to meet the needs. That corn is used locally or goes to the export market and therefore weighing on the spread.



- The challenge today is many elevators don't own much corn, so locking in carry becomes more of an art than a science. How much would you like to own on Dec 1st? We would suggest you lock in carry on up to ¾ of that number. Risk in locking in carry? The spreads relax further and we get near full carry. However full carry is the maximum risk. Full carry should imply farmer selling and weaker basis. This could be a year that we see a good harvest and limited carry as space chases bushels. In summary, the Z/H today is a bird in the hand.
- Could look to get some hedges in the May – however if we are wrong and the spread widens further, having your hedges in the March will offer more opportunity to the May. Maybe look at doing more March.
- The Z/H spread works well for end users too that have not bought all of their fall basis. Your risk is the basis firms up by the time you buy it. If the basis firms up, the spread narrows and your profit on the spread offsets the higher basis purchase.
- Milo crop is solid. This could impact space in the WCB – like KS. We have seen some working to the export market.
- DP chatter in market. In the east guys are trying to figure out what to charge for DP. It seems today, space is worth 5-6 cents a month to July. Some areas are trying to promote the use of DP over storage. This will allow for some merchandising flexibility.

SOYBEANS

- Conditions slipped 4% this week and the ATI Yield model also declined. They are now using a yield of 42.1 bpa.
- We currently have a record unshipped book on for soybeans and soybean meal.
- Our weather consultant, T-Storm, noted that August was the #1 driest since 1895 across IL, IN and IA. Third driest July/Aug. The mean US yield in the 4 driest J/A since 1960 was 3.6 bpa below trend (USDA trend is 44.5 bpa) ; standard dev 1.1 bpa.
- Crush margins are solid.
- We saw active cash movement last week when the market attempted to punch in new highs vs. the November. This week is lighter as it seems the “old” open orders have been filled.



- The commitment of traders has seen large increases in the commercial positions in the past couple weeks. Some have been US farmers with the recent test of contract highs, but a lot of it is South America. It is estimated that Brazilian farmers have sold 1/3 of their estimated crop for next spring.
- SX3/SF4 last week was a nickel inverse and today it is around a 2 cent inverse. The SX3/SH4 is around 26 cents and last week we saw a 40 cent inverse. Today soybeans are suggesting that you move all the ownership at harvest and even some DP. In the past we would look to use one of these spreads as a substitute sale. Particularly if the basis is below DVE. The key to bear spreading is timing. The spread and basis don't have to be in line until we approach delivery, which isn't for another 45-50 days. A lot can happen between now and then and those spreads can invert further – a lot further. It may make sense to stay patient on these spreads for a second.
- I mentioned bull spreading corn. Why I am mentioning it again, is if the soybeans are moving at harvest, there is potentially nothing to challenge corn for space and therefore corn spreads could firm... Just bringing it all together!
- For the grower – promoting GMP contracts. This gives you a chance to get the ownership to move the soybeans and the grower upside if we continue to see soybeans rally into the winter. A lot of pressure is on South America for a good soybean crop this winter/next spring. This could spell volatility. The prices are reasonable. Consider the May or even July. This gives them a chance to see South American production and maybe some US weather.

WHEAT

- Spring wheat harvest continues in the US. The USDA said as of Sunday we are 64% complete. The Canadian crop is big too. Despite the cool/wet spring, the summer weather has allowed the crop to mature under limited stress and result in a large crop.
- The EU crop is also decent. Estimate trade range of 139-13 MMT. Still below the record of around 145 MMT.
- Exports are at a marketing year high for all wheat. China and Brazil are the noted buyers. The exports should continue to be solid the first of the year, when the Australian crop will be in the market place.

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- Protein levels in spring wheat are lower than expected. If the mills are willing to switch to the lower 12 and 13% HRS vs. HRW, it could be friendly the MPLS/KC spread.
- Good quality SRW hedges should be in the December and March. If you are concerned about executing vs. the December look to be in the March. If you can execute, you can be patient. If you have poor quality wheat, you should look to get hedges out further, arguably to the new crop. The risk is the spreads narrowing and you get little or no carry. The merchandising opportunity in poor wheat will be in blending.
- KC and spring wheat hedges in the Dec and March.

Mark Talaski

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