Market Perspectives

October 4, 2013

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CHICAGO BOARD OF TRADE MARKET NEWS

Week in Review: CME Corn December Contract					
$/Bu	**Monday 30 September**	**Tuesday 1 October**	**Wednesday 2 October**	**Thursday 3 October**	**Friday 4 October**
Change	-0.1250	-0.0250	0.0000	0.0025	0.0400
Closing Price	4.4150	4.3900	4.3900	4.3925	4.4325
Factors Affecting the Market	USDA's Grain Stocks report was considered bearish and the December contract was able to punch through the Aug 13 low of $4.55 per bushel.	Speculative selling was met by increased commercial buying as the December contract traded around $4.40 per bushel.	The December contract closed unchanged as commercial traders continued acquiring corn at attractive price levels.	Buying and selling forces were evenly balanced and for the moment that kept the December corn contract within a very narrow range.	Less-than-favorable weather moving into the western Corn Belt this weekend allowed corn futures to modestly strengthen.

For more information on the contents of this newsletter or the U.S. Grains Council, its mission and programs, please contact Kevin Roepke or Alvaro Cordero at (202) 326-0637.

Outlook: USDA's quarterly Grain Stocks report was released Monday September 30 and the data was considered bearish for corn because the September 1 snapshot of corn stocks at 824 million bushels was larger than the average estimate of 688 million bushels. As well, the stocks estimate for soybeans was greater than market expectations and was also considered bearish. It was noted in last week's commentary that if these two events happened then the December corn contract would make a new low, and this scenario did occur. It was also noted in last week's commentary that such a new low would present an opportunity for end-users of corn to lock-in increasingly profitable margins, and additional buying has occurred as the December contract traded around $4.40 per bushel. As a result, the December 2013 corn contract has remained in a narrow trading range this week as buying and selling forces seem evenly matched.

Experienced end-users of corn have interest in extending their coverage because they recognize that prices of the nearby contract that are below $4.40 per bushel are not too far above the cost of production. Thus, acquiring at present price levels, and paying for the cost of storage in more distant contracts, is more than a fair compromise for the opportunity to have coverage though the uncertainty of next spring and summer. Those end-users also seem to recognize that this opportunity is not indefinite.

Speculators with short positions in corn were emboldened by the data in Monday's Stocks report and they are hoping for some sort of corn yield increase in next Friday's WASDE report. The price weakness in soybeans also did nothing to counteract the assumption by some of these traders that the bull market in row-crops had run its course. However, much of this week's selling in soybeans simply occurred because the nearby contract expires in November and when no bullish news was presented within Monday's stocks report, then those speculators were forced to reduce their sizable long position in soybeans. Well, those same speculators have a similar large short position in corn, whose nearby contract expires a month later. Commercial traders are well aware of this fact, and that is the reason that many are presently securing their needs before something like an adverse weekend snow storm and/or an insufficiently bearish WASDE report causes speculators to uniformly reduce their substantial short position in the December 2013 corn contract.

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CBOT DECEMBER CORN FUTURES

Source: Prophet X

Current Market Values:

Futures Price Performance: Week Ending October 4, 2013			
Commodity	**October 4**	**27-September**	**Net Change**
Corn			
Dec	443.25	454.00	-10.75
Mar	456.00	466.50	-10.50
May	464.50	474.50	-10.00
July	471.75	481.00	-9.25
Soybeans			
Nov	1295.00	1319.75	-24.75
Jan	1295.00	1321.50	-26.50
Mar	1279.25	1298.50	-19.25
May	1257.75	1273.25	-15.50
Soymeal			
Oct	431.30	419.90	11.40
Dec	418.40	418.30	0.10
Jan	413.70	416.20	-2.50

Mar	405.50	406.20	-0.70
Soyoil			
Oct	39.99	41.51	-1.52
Dec	40.24	41.81	-1.57
Jan	40.56	42.11	-1.55
Mar	40.92	42.41	-1.49
CBOT Wheat			
Dec	687.00	683.00	4.00
Mar	696.25	691.50	4.75
May	701.75	694.25	7.50
July	693.75	684.25	9.50
KCBOT Wheat			
Dec	750.25	731.75	18.50
Mar	749.50	733.00	16.50
May	748.75	733.75	15.00
July	733.00	716.50	16.50
MGE Wheat			
Dec	746.25	731.50	14.75
Mar	752.75	740.75	12.00
May	757.00	744.25	12.75
July	759.75	745.50	14.25

**Price unit: Cents and quarter-cents/bu (5,000 bu)*

U.S. WEATHER/CROP PROGRESS

U.S. Crop Condition: September 29, 2012					
	Very Poor	**Poor**	**Fair**	**Good**	**Excellent**
Corn	5%	11%	29%	41%	14%
Sorghum	4%	11%	31%	44%	10%

Source: USDA

U.S. Drought Monitor Weather Forecast: During the period of October 4-7, heavy precipitation (more than one and a half inches, locally to four inches) is expected from southern Montana and Wyoming eastward into the upper Great Lakes region, with a second swath of moderate rain (three quarters to two inches) from the central Gulf Coast northward into the lower Great Lakes region. Lighter totals (less than one inch) should also fall on the Pacific Northwest coast, southern Plains, and Appalachians. Mostly dry weather is forecast for the remainder of the West and along the East Coast. Temperatures should average below-normal in the West and above-normal in the East, with the largest negative departures in the north-central Rockies and High Plains and positive anomalies in the mid-Atlantic.

For the ensuing period of October 8-12, the odds favor above-normal precipitation for the Atlantic Coast States and the middle and upper Mississippi Valley. In contrast, the likelihood for subnormal precipitation is greatest in the Far West, Southwest, and Rio Grande Valley. Above-normal temperature probabilities are highest in the eastern third of the Nation and California, with the best subnormal temperature odds from the Rockies to the Great Plains. Follow this link to view current U.S. and international weather patterns and the future outlook: Weather and Crop Bulletin.

FOB

Yellow Corn (USD/MT FOB Vessel)				
YC FOB Vessel Max. 15.0% Moisture	GULF		PNW	
	Basis (#2 YC)	Flat Price (#2 YC)	Basis (#2 YC)	Flat Price (#2 YC)
FH October	-	-	+1.65 Z	$239.45
LH October	-	-	+1.65 Z	$239.45
FH November	-	-	+1.27 Z	$224.50
LH November	-	-	+1.27 Z	$224.50
FH December	+0.95 Z	$211.90	+1.22 Z	$222.53
LH December	+0.87 Z	$208.75	+1.22 Z	$222.53

#2 White Corn (U.S. $/MT FOB Vessel)			
Max. 15.0% Moisture	October	November	December
Gulf	$252	$252	$252

Sorghum (USD/MT FOB Vessel)				
#2 YGS FOB Vessel Max 14.0% Moisture	NOLA		TEXAS	
	Basis	Flat Price	Basis	Flat Price
October	+1.50 Z	$233.55	+1.50 Z	$233.55
November	+1.50 Z	$233.55	+1.50 Z	$233.55
December	-	-	+1.50 Z	$233.55

Barley: Feed Barley (FOB USD/MT)			
	October	November	December
FOB PNW	$250	$250	$250

Corn Gluten Feed Pellets (CGFP) (FOB Vessel U.S. $/MT)			
	November	December	January
New Orleans	$205	$205	$205
Quantity 5,000 MT			
Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)			

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Bulk 60% Pro.	November	December	January
New Orleans	$693	$693	$693
**5-10,000 MT Minimum*			

All prices are market estimates.

DDGS Price Table: October 4, 2013 (USD/MT) (Quantity, availability, payment and delivery terms vary)			
Delivery Point Quality Min. 35% Pro-fat combined	**Oct**	**Nov**	**Dec**
Barge CIF New Orleans	291	281	276
FOB Vessel GULF	295	287	277
Rail delivered PNW	281	276	271
Rail delivered California	286	282	279
Mid-Bridge Laredo, TX	293	285	282
40 ft. Containers to South Korea (Busan)	345	342	345
40 ft. Containers to Taiwan (Kaohsiung)	338	335	336
40 ft. Containers to Philippines (Manila)	353	350	353
40 ft. Containers to Indonesia (Jakarta)	352	349	352
40 ft. Containers to Malaysia (Port Kelang)	354	351	354
40 ft. Containers to Vietnam (HCMC)	352	349	352
40 ft. Containers to Japan (Yokohama)	344	341	344
40 ft. containers to Thailand (LCMB)	350	347	350
40 ft. Containers to Shanghai, China	339	335	336
KC & Elwood, IL Rail Yard (delivered Ramp)	279	269	266

*Source: WPI, *Prices are based on offer indications only; terms of delivery, payment and quality may vary from one supplier to another, impacting the actual value of the price.*

DISTILLERS DRIED GRAINS WITH SOLUBLES (DDGS)

DDGS Comments: The DDGS market is firm as corn futures seem to have run into buying interest with the December corn contract trading around $4.40 per bushel. As noted in the Outlook section of this report, end-users are more than willing to extend coverage at these price levels. Demand leadership in the DDGS market is still coming from Asian buyers, particularly China. A primary reason for this strong demand is the fast growth in the Chinese dairy industry.

Dairy producers in China are making good returns and they seem to have a strong appreciation for DDGS. Chinese distributors of DDGS expect to see continued growth in that industrial sector. There seems to be increased use of contractual agreements to bridge long-term relationships between DDGS producers and Asian buyers. Buyers from China, Korea, Japan and other Asian nations seem to appreciate the stability of extended pricing agreements and business partnerships. For example, China's Ministry of Commerce reported that the annual growth rate for the nation's overseas direct investment during 2011-2015 is round 17 percent according to World Perspectives. Domestic buyers of U.S. DDGS may want to also consider such arrangements because they could find themselves scrambling to secure needed product if an unforeseen event should develop such as unfavorable weather and/or less planted acres of corn next season.

Ethanol Comments: The U.S. Energy Information Administration (EIA) was able to publish their Weekly Petroleum Status Report before the government shut down. The data continues to be favorable in showing that while there was a slight increase in production to 875,000 barrels per day (bpd), which is up from the prior-week's level of 832,000 bpd, ethanol stocks still declined slightly from the prior-week's level of 15.6 million barrels to the current level of 15.5 million barrels. Imports also declined from the prior-week's daily average of 48,000 bpd to 14,000 bpd.

Additional positive news can be found in that ethanol producers are benefiting from the substantial decline in cash corn basis. The average price of corn in the Midwest was more than a dollar above the nearby futures contract at the end of August and it has now fallen back down to almost 10 cents below the nearby corn futures contract. The present basis levels are still high relative to the more historical basis (before last season), which was closer to 20-30 cents under the nearby contract during harvest. However, most ethanol producers are not complaining and many are willing to work with their clients to establish extended pricing of ethanol and DDGS.

COUNTRY NEWS

Argentina: The Buenos Aires Grain Exchange has stated that it expects farmers to plant 3.46 million hectares of corn in 2013/14, according to Reuters. This new prediction is a reduction from previous reports that had indicated an expected total of 3.56 million hectares. Dry weather in the Pampas region has forced the reduction.

France: Grain exports from the port of Rouen fell by 46 percent this week due to reduced shipments of barley and wheat. Total exports fell to 142,486 MT in the period fo September 26 to October 2, which is down from 266,300 MT the week before. Saudi Arabia remains the biggest destination for barley and 40,000 MT was shipped this week, which was a reduction from 45,000 MT the week prior.

South Africa: Yellow corn futures declined for the first time in three weeks, and yellow corn for December delivery dropped 0.4 percent to $215/MT, reports Bloomberg News.

Ukraine: Agriculture minister Mykola Prysyazhnyuk has stated that heavy rains in Ukraine have potential of cutting the total area of winter grain plantings by up to 1.5 million hectares, or 20 percent, according to Reuters. While a large reduction in its own right, this prediction is dwarfed by an earlier one made by the Ukrainian grain lobby that called for a 60 percent reduction. The minister indicated that winter barley could fall from the earlier prediction of 1.23 milltion hectares to a total of less than 500,000 hectares. Despite the weather, Ukraine is set to export the first shipments of corn in its $1.5 billion contract to China. As of September 30, Ukraine has exported 3.5 MMT of corn so far this year from 14 percent of the sown area.

OCEAN FREIGHT MARKETS AND SPREAD

Bulk Freight Indices for HSS — Heavy Grain, Sorghum and Soybeans*			
Route and Vessel Size	**Current Week (USD/MT)**	**Change from Previous Report**	**Remarks**
55,000 U.S. Gulf-Japan	$56.50	Down $1.50	Handymax at $56.00/MT
55,000 U.S. PNW- Japan	$34.00	Down $1.00	Handymax at $34.00/MT
55,000 U.S. Gulf – China PNW to China	$55.00 $32.00	Down $2.00 Down $1.50	North or South China
25,000 U.S. Gulf- Veracruz, México	$20.00	Unchanged	3,000 MT daily discharge rate
35-40,000 U.S. Gulf- Veracruz, México	$17.00	Unchanged	Deep draft and 8,000 MT per day discharge rate.
25/35,000 U.S. Gulf- East Coast Colombia, Argentina	$22.00 $32.00	Unchanged Down $1.00	West Coast Colombia at $31.00 West Coast Colombia from Argentina at $40.00
35,000 U.S. Gulf - Guatemala	$29.00	Unchanged	Acajutla/Quetzal - 8,000 out
25-30,000 U.S. Gulf – Algeria	$42.00 $44.00	Unchanged Unchanged	8,000 MT daily discharge 3,000 MT daily discharge
25,000 U.S. Gulf-Morocco	$42.00	Unchanged	5,000 discharge rate
55,000 U.S. Gulf – Egypt PNW to Egypt	$38.00 $44.00	Down $1.00 Down $1.00	55,000 -60,000 MT St. Lawrence to Egypt $38.00
60-70,000 U.S. Gulf – Europe – Rotterdam	$30.00	Down $2.00	Handymax at +$1.50 more
Brazil, Santos – China	$46.50 $45.00	Down $0.50 Down $2.50	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China Upriver with Top-Off	$52.00	Down $2.00	—

Source: O'Neil Commodity Consulting
**Numbers for this table based on previous night's closing values.*

OCEAN FREIGHT COMMENTS

Transportation and Export Report: Jay O'Neil, O'Neil Commodity Consulting: A correction in ocean freight rates seems to be occurring, at least for the moment and in the Capesize market. So that may be a start to things? The Chinese are away on the Golden week holiday and vessel bookings have slowed accordingly.

The market normally takes a step back during this holiday and that makes freight traders wonder what will happen when the holiday ends. Will the rally take off again or have things truly topped out?

As normally happens, there was more than one cause for the recent market rally. There was a 15 percent slippage (cancellation rate) in Capesize new building orders, and therefore fewer deliveries than previously anticipated. The total fleet newbuild order book experienced a 30 percent slippage rate. China increased steel production at a time when domestic iron ore stockpiles were historically low, which lead to a mad dash for replacement stocks and the freight to deliver such. There were also the heavy rains in Western Australia that limited ore exports from that region and caused buyers to increase shipments from more distant ports in Brazil. Additionally, there were better exports of grain and coal from the US Gulf, so we've experienced a bit of a perfect storm of causes leading to the rapid freight market rally of the last seven weeks.

I don't think it is farfetched to predict that we will see a setback in rates over the next two months and lower rates in Q1 of 2014. However, Q3 and Q4 of 2014 will likely witness a turnaround for ocean freight markets and steadily rising rates going forward; provided, of course, that vessel owners don't go crazy with new building orders in their excitement. Last week, I stated that my vessel rate indications erred on the high side of things and that turned out to be the case. This week you will notice some corrections to the rate structure.

Baltic Panamax Dry-Bulk Indices				
October 3, 2013 Route	This Week	Last Week	Difference	Percent Change
P2A: Gulf/Atlantic – Japan	23,910	23,691	217	0.9%
P3A: PNW/Pacific – Japan	16,003	15,674	329	2.1%

Source: O'Neil Commodity Consulting

Below is a recent history of freight values for Capesize vessels of iron ore from Western Australia to China:

Week of October 3, 2013	
Four weeks ago	\$9.30-\$10.45
Three weeks ago	\$11.65-\$12.10
Two weeks ago	\$11.95-\$12.75
One week ago	\$13.10-\$13.85
This week	\$11.80-\$12.80

Source: O'Neil Commodity Consulting

U.S. – Asia Market Spreads					
October 3, 2013	PNW	Gulf	Bushel Spread	MT Spread	Advantage
# 2 Corn	1.65	0.90	0.75	\$29.53	GULF
Soybeans	2.10	1.45	0.65	\$23.88	GULF
Ocean Freight	\$32.00	\$55.00	0.58-0.63	(\$23.00)	Oct.

Source: O'Neil Commodity Consulting

International Freight Rates for Feed Grains – Select Routes Estimated Spot Price ($/MT)								
Commodity	**Origins**	**China**	**Japan**	**Korea**	**Colombia**	**Morocco**	**Egypt**	**Saudi Arabia**
Corn (Yellow)	**Argentina**	$48	$52	$48	$32.5	$32	$34	$45
	Brazil	$41	$43	$41	$31	$25	$26	$38
Corn (White)	**Argentina**	$48	$52	$48	$32.5	$32	$34	$45
	Brazil	$41	$43	$41	$31	$25	$26	$38
Barley	**Argentina**	$48	$52	$48	$32.5	$32	$34	$45
	Brazil	$41	$43	$41	$31	$25	$26	$38
Sorghum	**Argentina**	$48	$52	$48	$32.5	$32	$34	$45
	Brazil	$41	$43	$41	$31	$25	$26	$38

Note: Bid-ask spreads can vary in width and initial offers may be higher on less active routes.
Source: World Perspectives, Inc.

INTEREST RATES

Interest Rates (%): October 2, 2013			
	Current Week	**Last Week**	**Last Month**
U.S. Prime	3.25	3.25	3.25
LIBOR (6 month)	0.37	0.38	0.39
LIBOR (1 year)	0.63	0.64	0.67

Source: www.bankrate.com