Market Perspectives

October 11, 2013

U.S. GRAINS COUNCIL

Developing Markets • Enabling Trade • Improving Lives

CONTENTS

CHICAGO BOARD OF TRADE MARKET NEWS

Week in Review: CME Corn December Contract					
$/Bu	**Monday 7 October**	**Tuesday 8 October**	**Wednesday 9 October**	**Thursday 10 October**	**Friday 11 October**
Change	0.0600	-0.0750	0.0175	-0.0525	-0.0500
Closing Price	4.4925	4.4175	4.4350	4.3825	4.3325
Factors Affecting the Market	Corn contracts closed higher after a weekend of storms and snow in the Northern Plains. Harvest in the western Corn Belt was delayed for several days.	Weather forecasts for dryer and warmer conditions reduced concerns about harvest delays and prices worked toward recent lows.	The December corn contract remaind in a rather tight consolidation pattern as the lack of USDA data gives market participants few insights.	Rumors that EPA would reduce the amount of mandated ethanol production were enough to embolden bearish traders to increase selling.	The market continued to decline under the influence of negative rumors, but after it closed an EPA spokes-person discounted those rumors.

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.

The U.S. Grains Council is a private, non-profit partnership of producers and agribusinesses committed to building and expanding international markets for U.S. barley, corn, grain sorghum and their products. The Council is headquartered in Washington, D.C., and has nine international offices that oversee programs in more than 50 countries. Financial support from our private industry members, including state checkoffs, agribusinesses, state entities and others, triggers federal matching funds from the USDA resulting in a combined program value of more than $26 million.

Outlook: USDA's Crop Production and WASDE reports were not published today due to the government shutdown. The lack of data from USDA and the substantial short positions in corn futures by large speculators are creating a buying opportunity for global feed-grain buyers. Normally, USDA immediately announces any large grain sale to the public, but the present lack of USDA data means that global buyers can make large purchases without attracting much attention. Domestic end-users of feed grains are also extending their coverage in the present market. This pool of buying is being conveniently offset by sizable fund selling.

Speculative fund managers are confidently selling corn futures because they recognize that the United States could produce a record corn crop. Their expectation seems to be that burdensome corn stocks will force corn futures to eventually plateau at lower levels in order to buy back global market share and to encourage increased consumption. Market talk of favorable yields and potentially reduced ethanol production is causing them to sell without concern about price levels. However, people in the grain industry recognize that once grain is sold it applies little weight on the spot market. Both domestic and international buyers are seeking ownership at current price levels and will gladly utilize storage capacity. Additionally, U.S. farmers are financially secure and are placing a large amount of corn in storage because of the present pricing structure of futures contracts that encourages marketing of soybeans first and corn later in the season.

USDA's most recent WASDE report had already presented conservative demand estimates. The estimated corn export level of 1.225 billion bushels for the 2013/14 season was not made in anticipation of an enormous rebound in exports. Note that before the droughts of the two prior seasons, U.S. corn exports for the previous five years averaged over 2 billion bushels. Similarly, USDA's most recent forecast for domestic consumption is realistic and has been surpassed in prior seasons. Recall that corn exports were strong before USDA stopped reporting, and the present U.S. corn basis is still above the historical norm and is not indicative of a burdensome harvest that is priced too high.

Market participants recognize that U.S. corn acreage is not going to remain at present levels next season and indications are that South American corn planting could also decline below expectations due to recent dry soils, economic conditions and the ratio between soybean and corn prices. Both experienced farmers and feed grain buyers recognize that speculators who are presently selling corn contracts will eventually reach a point where they desire to buy back their positions after they have shoved down prices – and it could well be at a level where no one else has interest in assuming the short side. So in the interim, end-users will continue to take advantage of the present low futures prices and the majority of corn producers seem to recognize that while corn prices have fallen, the sky has not.

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CBOT DECEMBER CORN FUTURES

Source: Prophet X

Current Market Values:

Futures Price Performance: Week Ending October 11, 2013			
Commodity	**October 11**	**October 4**	**Net Change**
Corn			
Dec	433.25	443.25	-10.00
Mar	446.25	456.00	-9.75
May	454.50	464.50	-10.00
July	462.00	471.75	-9.75
Soybeans			
Nov	1266.75	1295.00	-28.25
Jan	1266.25	1295.00	-28.75
Mar	1254.00	1279.25	-25.25
May	1239.50	1257.75	-18.25
Soymeal			
Oct	422.00	431.30	-9.30
Dec	403.40	418.40	-15.00
Jan	400.90	413.70	-12.80
Mar	394.20	405.50	-11.30
Soyoil			

Oct	40.11	39.99	0.12
Dec	40.28	40.24	0.04
Jan	40.61	40.56	0.05
Mar	41.01	40.92	0.09
CBOT Wheat			
Dec	692.25	687.00	5.25
Mar	701.00	696.25	4.75
May	702.75	701.75	1.00
July	692.50	693.75	-1.25
KCBOT Wheat			
Dec	760.25	750.25	10.00
Mar	759.00	749.50	9.50
May	756.00	748.75	7.25
July	737.00	733.00	4.00
MGE Wheat			
Dec	754.75	746.25	8.50
Mar	764.00	752.75	11.25
May	766.25	757.00	9.25
July	768.50	759.75	8.75

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

U.S. WEATHER/CROP PROGRESS

U.S. Drought Monitor Weather Forecast: During the period of October 11-13, a slowly-moving coastal storm is expected to drop heavy rain on much of the mid-Atlantic and lower Northeast. More than 1.5 inches is expected from extreme southeastern New York and northeastern Pennsylvania southward through northern and eastern Virginia and northeastern North Carolina, with amounts approaching four inches along the immediate East Coast. Farther west, another round of heavy precipitation could be in store for the western Dakotas and adjacent areas, wher one- to- two inches are anticipated. Similar amounts are expected in central and northeast Texas. Generally moderate precipitation of at least half an inch is forecast for the central Rockies and in northwestern and southeastern portions of the Plains, including the western lower Mississippi Valley. Across other areas from the Rockies westward, only a few tenths of an inch of precipitation is expected, with little or none forecast along the extreme southern tier and in the central Pacific Coast.

For the period of October 14-18, the odds favor above-normal precipitation across a large swath from Wyoming and South Dakota southward through the High Plains and eastward to the Atlantic Seaboard, except in Florida and the adjacent Southeast. The likelihood of above-normal precipitation is highest across the central and southern Plains. In contrast, below-normal amounts are favored in the northern Intermountain West and along the northern half of the Far West. 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	$235.52
LH October	-	-	+1.65 Z	$235.52
FH November	-	-	+1.30 Z	$221.74
LH November	-	-	+1.30 Z	$221.74
FH December	+0.94 Z	$207.57	+1.25 Z	$219.77
LH December	+0.90 Z	$207.57	+1.25 Z	$219.77

#2 White Corn (U.S. $/MT FOB Vessel)			
Max. 15.0% Moisture	October	November	December
Gulf	$250	$250	$250

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	$229.61	+1.50 Z	$229.61
November	+1.50 Z	$229.61	+1.50 Z	$229.61
December	-	-	+1.50 Z	$229.61

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	$215	$215	$215
Quantity 5,000 MT			
Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)			
Bulk 60% Pro.	November	December	January
New Orleans	$692	$692	$692
**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	**Nov**	**Dec**	**Jan**
Barge CIF New Orleans	280	280	275
FOB Vessel GULF	-	-	-
Rail delivered PNW	280	280	275
Rail delivered California	285	285	280
Mid-Bridge Laredo, TX	290	290	285
40 ft. Containers to South Korea (Busan)	342	345	353
40 ft. Containers to Taiwan (Kaohsiung)	335	336	341
40 ft. Containers to Philippines (Manila)	350	353	351
40 ft. Containers to Indonesia (Jakarta)	349	352	349
40 ft. Containers to Malaysia (Port Kelang)	351	354	353
40 ft. Containers to Vietnam (HCMC)	349	352	355
40 ft. Containers to Japan (Yokohama)	341	344	350
40 ft. containers to Thailand (LCMB)	347	350	348
40 ft. Containers to Shanghai, China	336	339	343
KC & Elwood, IL Rail Yard (delivered Ramp)	275	275	270

*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: There are increasing inquires about pricing DDGS into the January/February/March period, but selling slowed as both buyers and sellers watched corn futures decline and filtered through various rumors about a potential limited reduction in U.S. ethanol production. If the growth of ethanol production plateaued it would have little effect on the available supplies of DDGS, but it may cause DDGS prices to remain firmer than would occur if ethanol production continued increasing into next season.

The popularity of DDGS has grown as a unique feed protein with energy benefits that requires less bulk volume than standard coarse grains. Asian buyers are particularly interested in logistical cost savings and show a consistent willingness to outbid domestic U.S. buyers of DDGS. Some Asian customers have recently paid in the equivalent of more than 130 percent of corn value based on the December 2013 corn contract at CBOT. However, this week's additional setback in corn futures may give DDGS merchandisers a little more room to maneuver on price. As a result, domestic end-users of DDGS are likely to express increased interest. Asian buyers may continue to stand as stiff competitors.

Ethanol Comments: An EPA spokesperson is reported to have come out after the close on Friday October 11 and made the following comment in response to market rumors about reduced ethanol production:

'NO FINAL DECISION ON THE PROPOSED RENEWABLE FUEL STANDARDS FOR 2014'

The spokesperson went on to clarify that EPA at this point is only developing a draft proposal for 2014 RFS and no final decision will be made without giving ever stakeholder the full opportunity to make comments. The statement made no specific mention of any reported proposal to ease 2014 biofuel blending targets.

This information is important because there were active rumors that caused additional price weakness in corn this week. The rumor was that EPA would reduce the volume of corn-based ethanol in 2014 by about 800 million gallons, which would bring the total down from 13.8 billion gallons to 13 billion. This was below what many industry observers were expecting because the law had initially required 14.4 billion gallons for 2014. Supposedly, to justify getting the volume that low, the agency would utilize a waiver under the 2007 law that allows it to scale down required volumes under certain situations, such as a lack of available supply of the fuels or economic hardship. However, that would make absolutely no sense when the United States is in the process of harvesting a record corn crop.

COUNTRY NEWS

European Union: The EU is set to harvest 65.3 MMT of corn this year, according to Reuters. This total is a significant increase over the 57.3 MMT that were harvested last year. Despite this overall increase, the crop in several Western European countries is only predicted to increase by a fairly insignificant amount from 37.9 MMT in 2012 to 38 MMT in 2013. The largest increases are set to come from Eastern European member states, which will see a total of 25.3 MMT, which is up from the 17.7 MMT brought in last year. Croatia, the EU's newest member state, is predicted to harvest 2 MMT, which is an increase from 1.6 MMT in 2012.

France: Grain exports from the French port of Rouen have risen by 2.2 percent this week. 5,700 MT of feed barley was shipped to Morocco, reports Bloomberg News. This is a decline from the 76,394 MT of barley shipped last week because Peru and Saudi Arabia did not repeat cargoes that totaled some 66,092 MT.

Japan: The Ministry of Agriculture reports that it has received no bids for feed quality barley or wheat in its most recent buy and sell auction, reports Reuters. Japan was hoping to purchase 200,000 MT of feed barley and 180,000 MT of feed wheat. It will seek these same amounts in another tender to be held on October 16.

South Africa: Corn futures fell again as the rand gained against the dollar, which made imports a cheaper alternative, according to Bloomberg News. Yellow corn for December delivery declined by 2 percent to total some $217.04/MT.

Further on South Africa, Bloomberg News reports that the country's sorghum production will have to increase to five times its current levels in order to supply the grain necessary for the South African government's plan of using only locally sourced biofuels. Biofuels are required to comprise at least 5 percent of diesel fuel and between 2-10 percent of gasoline. An additional 620,000 MT of sorghum would be required to meet the 2 percent inclusion rate for a total of 771,000 MT of sorghum production annually.

Russia: Continued rains have delayed the completion of the harvest in Siberia, which has prompted some analysts to reduce their forecast for the 2013 grain crop, reports Reuters. The official predictions remain optimistic at some 85-90 MMT, which is a 27 percent improvement over last year's totals.

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	$57.50	Up $1.00	Handymax at $57.50/MT
55,000 U.S. PNW- Japan	$33.00	Down $1.00	Handymax at $33.00/MT
55,000 U.S. Gulf – China PNW to China	$55.00 $31.00	Unchanged Down $1.00	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	$21.00 $32.00	Down $1.00 Unchanged	West Coast Colombia at $30.00 West Coast Colombia from Argentina at $40.00
35,000 U.S. Gulf - Guatemala	$28.50	Down $0.50	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	$39.00 $44.00	Up $1.00 Unchanged	55,000 -60,000 MT St. Lawrence to Egypt $39.00
60-70,000 U.S. Gulf – Europe – Rotterdam	$30.00	Unchanged	Handymax at +$1.50 more
Brazil, Santos – China	$48.00 $47.00	Up $1.50 Up $2.00	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China Upriver with Top-Off	$53.00	Up $1.00	—

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: The Chinese holiday period is over and the ocean freight market picked up right where it left off. The Baltic indices continue to move higher and the Capesize market remains the leader. Last week it looked as though the Capesize market was getting tired and started to break back, but that is not the case this week. The Panamax market is now at a 24-month high. It was mid-October 2011 when we last saw things at this level And it was in September 2012 when the Baltic Panamax index sank to its lowest level in modern history of 418 as opposed 2024 today. So today it is almost five times the level of September 2012. Back in October 2011, crude oil futures were trading at $101.30/barrel and they are now about $112.00 now, so some of the added blame can be placed on fuel prices. The balance of the market rally rationale is a multitude of the issues outlined in last week's report. One factor that needs to be added however is the slow steaming effect on vessel logistics and capacity.

Though the Baltic Panamax indices are up this week I'm not seeing any physical charterers who want to follow the market up any further. I keep thinking and saying that this market is beginning to feel toppy, but I have been proven wrong over the last three weeks. I'm still suspicious about what is to happen once the Chinese "restocking" program is completed. I'm therefore still of the opinion that the rally will top out within the next 30 days and we will see lower rates in December-January. That, or maybe I'm just fighting the trend?

Baltic Panamax Dry-Bulk Indices				
October 11, 2013 Route	This Week	Last Week	Difference	Percent Change
P2A: Gulf/Atlantic – Japan	25,593	24,277	1,316	5.4%
P3A: PNW/Pacific – Japan	16,912	16,420	492	3.0%

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 11, 2013	
Four weeks ago	$11.65-$12.10
Three weeks ago	$11.95-$12.75
Two weeks ago	$13.10-$13.85
One week ago	$11.80-$12.80
This week	$12.50-$13.95

Source: O'Neil Commodity Consulting

U.S. – Asia Market Spreads					
October 11, 2013	PNW	Gulf	Bushel Spread	MT Spread	Advantage
# 2 Corn	1.30	0.85	0.45	$17.72	PNW
Soybeans	1.70	1.25	0.45	$16.53	PNW
Ocean Freight	$31.00	$55.00	0.61-0.65	($24.00)	Nov.

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**	$46.5	$50	$48	$32.5	$33	$34	$45
	Brazil	$42.5	$43	$41	$31	$25	$26	$38
Corn (White)	**Argentina**	$46.5	$50	$48	$32.5	$33	$34	$45
	Brazil	$42.5	$43	$41	$31	$25	$26	$38
Barley	**Argentina**	$46.5	$50	$48	$32.5	$33	$34	$45
	Brazil	$42.5	$43	$41	$31	$25	$26	$38
Sorghum	**Argentina**	$46.5	$50	$48	$32.5	$33	$34	$45
	Brazil	$42.5	$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 9, 2013			
	Current Week	**Last Week**	**Last Month**
U.S. Prime	3.25	3.25	3.25
LIBOR (6 month)	0.37	0.37	0.39
LIBOR (1 year)	0.62	0.63	0.67

Source: www.bankrate.com