Market Perspectives

August 22, 2014

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 18 August**	**Tuesday 19 August**	**Wednesday 20 August**	**Thursday 21 August**	**Friday 22 August**
Change	-0.0575	0.0075	-0.0425	0.0150	0.0250
Closing Price	3.7150	3.7225	3.6750	3.6900	3.7150
Factors Affecting the Market	After working higher last week, the December corn contract traded momentarily above $3.80 per bushel before selling off for the rest of the day.	Corn contracts held steady as pressure from favorable crop conditions was largely offset by increased commercial buying .	December corn closed slightly lower again as few traders wanted to buy the contract above $3.75 or sell it below $3.65 per bushel.	A repetitive pattern of positive and negatives closes occurred as traders waited on some future catalyst to develop.	Corn prices are maintaining a trading range despite a lot of market discussion about potentially sizable yields.

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: The outlook is that multiple factors could heighten volatility in corn basis this fall across much of the Midwest. Pressure on cash prices is initially expected as producers and local elevators deal with the storage of an abundant harvest, resulting in a weak basis. Such a development may not be overly concerning for U.S. producers who have the ability to carry their corn stock further into the future than competing corn growers in other global regions. That competition from regions such as South America and the Black Sea is anticipated to cap basis at U.S. ports through the first quarter of the crop year (September-November). Domestic cash prices during that same time period may also be weakened by factors such as reduced gasoline consumption and a decline in the ratio of DDGS prices to corn, and encourage many ethanol plants to limit their extended coverage. The domestic feeding industry may also purchase in a hand-to-mouth manner as meat and livestock prices become more erratic.

Pork exports that were rejected by China are expected to seek a home in the domestic U.S. market. Cattle prices recently escalated to such lofty levels as to slow beef consumption. Reduced cattle on feed placements may cause another attempted rally in beef prices, but pork and growing poultry supplies will be ready to act as substitutes. Competition from meat cuts can be reflected into more volatile livestock prices, which is the reason that domestic feed purchases are likely to remain more short-term than one would initially expect when corn prices are so low.

The development of full carry in futures contracts may also encourage corn end-users to purchase in a hand to mouth manner. After all, no one will want to buy a more distant contract and then ride it down as it becomes the nearby month. Such a perspective could well continue right through the calendar year. However, there it will become increasingly evident through time that the downside is limited in corn prices and the upside has enormous potential if negative developments should evolve in the next growing season. At that point, speculators will attempt to buy on a limited scale, but few will be willing to take the short side of the contract. Commercials will see this development and recognize that they need to extend coverage, and basis is then likely to strengthen beyond expectations. Pronounced swings in basis could occur in a relatively short six month time period.

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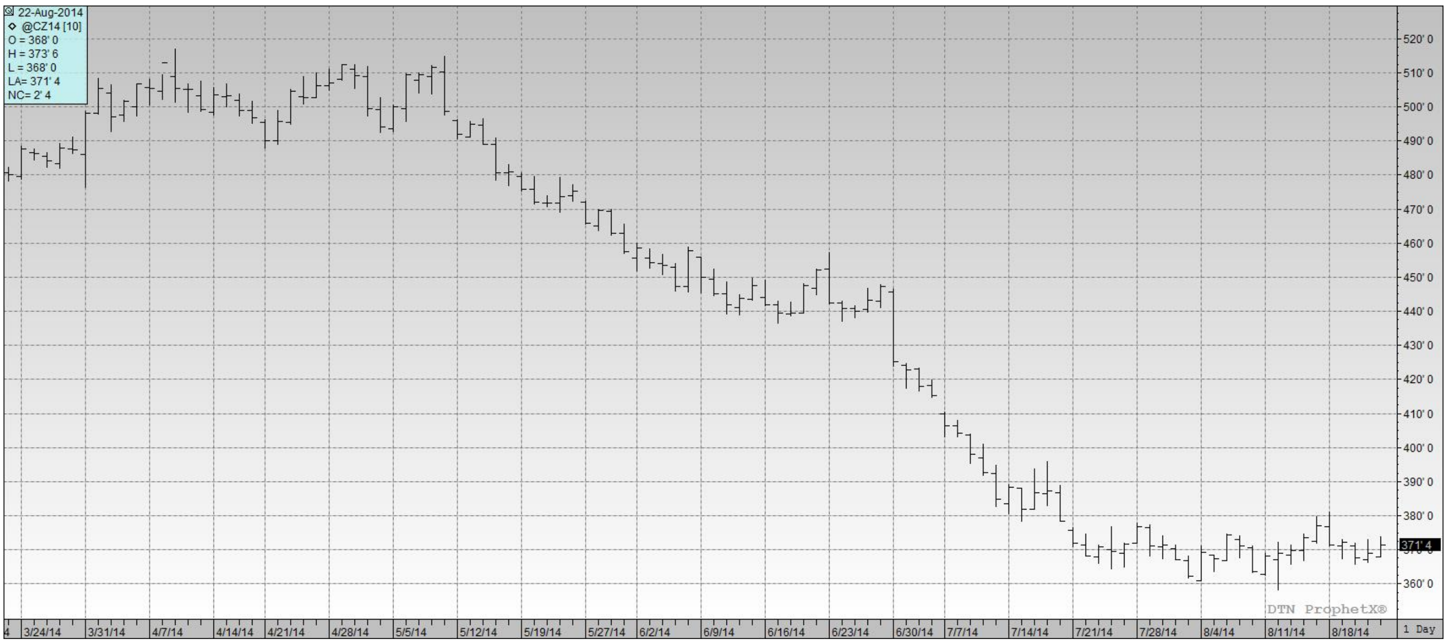
CBOT DECEMBER CORN FUTURES



Source: Prophet X

Current Market Values:

Futures Price Performance: Week Ending August 22 , 2014			
Commodity	**August 22**	**August 15**	**Net Change**
Corn			
Sep 14	365.50	365.75	-0.25
Dec 14	371.50	377.00	-5.50
Mar 15	384.25	390.25	-6.00
May 15	392.00	398.75	-6.75
Soybeans			
Sep 14	1166.00	1102.50	63.50
Nov 14	1042.00	1052.00	-10.00
Jan 15	1048.75	1061.00	-12.25
Mar 15	1055.00	1069.00	-14.00
Soymeal			
Sep 14	433.30	388.30	45.00
Oct 14	367.10	357.90	9.20
Dec 14	352.70	353.50	-0.80
Jan 15	349.60	351.70	-2.10
Soyoil			

Sep 14	32.36	32.87	-0.51
Oct 14	32.40	32.95	-0.55
Dec 14	32.60	33.21	-0.61
Jan 15	32.89	33.50	-0.61
SRW			
Sep 14	552.00	551.25	0.75
Dec 14	562.25	563.50	-1.25
Mar 15	580.25	583.50	-3.25
May 15	589.25	595.25	-6.00
HRW			
Sep 14	633.50	619.75	13.75
Dec 14	644.00	634.25	9.75
Mar 15	652.00	643.75	8.25
May 15	654.25	648.25	6.00
MGEX (HRS)			
Sep 14	626.75	612.00	14.75
Dec 14	634.50	623.25	11.25
Mar 15	644.50	637.00	7.50
May 15	653.25	646.25	7.00

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

U.S. WEATHER/CROP PROGRESS

U.S. Crop Condition: August 17, 2014					
	Very Poor	**Poor**	**Fair**	**Good**	**Excellent**
Corn	2%	6%	20%	51%	21%
Sorghum	2%	8%	31%	48%	11%
Barley	2%	6%	30%	52%	10%

U.S. Drought Monitor Weather Forecast: During August 22-25, a swath of moderate-to-heavy rain is forecast from the northern Intermountain West eastward through the northern half of the Plains, the Great Lakes Region, the central Appalachians and the mid-Atlantic. Between 2-5 inches is anticipated across much of Montana, western and southeastern parts of the Dakotas, southwestern and northeastern Minnesota, the southern Great Lakes, the central Appalachians and the mid-Atlantic from central Pennsylvania southward through Maryland and eastern Virginia west of the Chesapeake Bay.

Light to locally moderate rain is forecast for most other parts of the central and southern Rockies, the Southeast and areas immediately adjacent to the primary precipitation swath.

Little-or no-precipitation is expected along the West Coast, in the lower half of the Mississippi Valley and across the southeastern Plains. Mild temperatures are expected from the Rockies and northern Plains westward to the coast. Montana and western North Dakota are expecting daily high temperatures 6-15 degrees Fahrenheit below normal. Hot weather is anticipated from the Southeast and central Appalachians westward through the southeastern half of the Plains, with daily highs averaging 9 degrees or more above normal from the Tennessee and lower Ohio Valleys northwestward through Illinois.

For the period of August 26 – 30, odds at least slightly favor above-normal rainfall for a large swath of the country from the Southwest and the Rockies eastward through the Northeast, the central Appalachians, the central and eastern Gulf Coast region and the Southeast as far east as Georgia and Florida. Enhanced chances for below-normal precipitation are restricted to the Northwest and southern Texas. Follow this link to view current U.S. and international weather patterns and the future outlook: Weather and Crop Bulletin.

U.S. EXPORT STATISTICS

Export Sales and Exports: Week Ending August 14, 2014					
Commodity	Gross Sales (MT)	Exports (MT)	YTD Exports (000MT)	YTD Bookings (000MT)	% Change YTD Bookings
Wheat	351,800	532,000	5,006.7	10,870.7	-26%
Corn	131,700	1,144,300	44,872.0	48,718.6	155%
Sorghum	11,900	161,200	4,255.3	5,017.4	210%
Barley	0	300	17.5	37.2	-29%

Source: USDA, World Perspectives, Inc.

Corn: Net sales of 99,900 MT for 2013/14 were up noticeably from the previous week, but down 15 percent from the prior four-week average. Increases reported for Egypt (112,900 MT, including 60,000 MT switched from China and 40,000 MT switched from unknown destinations), South Korea (93,500 MT, including 63,000 MT switched from unknown destinations and 20,000 MT switched from Japan), Colombia (79,500 MT, including 70,000 MT switched from unknown destinations), Mexico (55,200 MT), Japan (47,600 MT, including 78,700 MT switched from unknown destinations and decreases of 11,100 MT) and Canada (24,900 MT), were partially offset by decreases for unknown destinations (250,500 MT), China (64,400 MT), El Salvador (9,500 MT) and Morocco (2,700 MT). Net sales of 719,300 MT for 2014/15 were reported primarily for Colombia (223,300 MT), Mexico (193,600 MT), unknown destinations (161,900 MT) and Peru (98,500 MT). Exports of 1,144,300 MT were up 59 percent from the previous week and 25 percent from the prior four-week average. The primary destinations were South Korea (315,600 MT), Mexico (253,900 MT), Japan (206,200 MT), Egypt (172,900 MT), Colombia (71,500 MT), Costa Rica (37,000 MT) and Morocco (27,300 MT). Optional Origin Sales: For 2013/14, outstanding optional origin sales total 55,000 MT, all South Korea.

Barley: There were no net sales reported during the week. Exports of 300 MT were reported to Taiwan.

Sorghum: Net sales of 7,900 MT for 2013/14 resulted as increases for China (61,900 MT, including 54,000 MT switched from unknown destinations and decreases of 4,000 MT), were partially offset by decreases for unknown destinations (54,000 MT). Net sales of 107,000 MT for 2014/15 were reported for China. Exports of 161,200 MT were reported to China.

U.S. Export Inspections: Week Ending August 14, 2014					
Commodity (MT)	Export Inspections		Current Market YTD	Previous YTD	YTD as Percent of Previous
	Current Week	Previous Week			
Corn	970,874	907,463	44,847,927	16,921,625	265%
Sorghum	163,102	318,114	4,737,387	1,728,418	274%
Soybeans	56,210	98,910	43,216,821	35,608,151	121%
Wheat	596,675	548,277	5,181,328	7,445,803	70%
Barley	0	0	33,119	6,985	474%

*Source: USDA/AMS. *Marketing Year is June 1-May 31 for wheat and barley and Sept. 1-Aug. 31 for corn, sorghum and soybeans. Week-to-week reports will vary due to exporter reported corrections and cancellations to previous week's reports.*

USDA Grain Inspections for Export Report: Week Ending August 14, 2014						
Last Week	**YC**	**% of Total**	**WC**	**% of Total**	**Sorghum**	**% of Total**
Gulf	515,099	55%	38,653	98%	159,799	98%
PNW	255,957	27%	0	0%	807	0%
Lakes	17,545	2%	0	0%	0	0%
Atlantic	31,905	3%	0	0%	0	0%
Interior Export Rail	110,816	12%	899	2%	2,496	2%
Total (Metric Tons)	931,322	100%	39,552	100%	163,102	100%
White Corn Shipments by Country (MT)			28,054	to Mexico		
			11,498	El Salvador		
Total White Corn (MT)			39,552			
Sorghum Shipments by Country (MT)					157,000	to China
					6030	to Somalia
					72	to Mexico
Total Sorghum (MT)					163,102	

Source: USDA, World Perspectives, Inc.

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)
September	+1.30 Z	$197.43	+1.55 Z	$207.27

October	+1.27 Z	$196.25	+1.55 Z	$207.27
November	+1.27 Z	$196.25	+1.55 Z	$207.27
December	+1.27 Z	$196.25	+1.53 Z	$206.48

Sorghum (USD/MT FOB Vessel)				
#2 YGS FOB Vessel Max 14.0% Moisture	NOLA		TEXAS	
	Basis	Flat Price	Basis	Flat Price
August	+1.95 Z	$223.02	+1.95 Z	$223.02
September	+1.95 Z	$223.02	+1.95 Z	$223.02
October	+1.95 Z	$223.02	+1.95 Z	$223.02

Barley: Feed Barley (FOB USD/MT)			
	September	October	November
FOB PNW	$265	$265	$265

Corn Gluten Feed Pellets (CGFP) (FOB Vessel U.S. $/MT)			
	September	October	November
New Orleans	$178	$178	$178
Quantity 5,000 MT			
Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)			
Bulk 60% Pro.	**September**	**October**	**November**
New Orleans	$680	$680	$680
**5-10,000 MT Minimum*			

All prices are market estimates.

DDGS Price Table: August 22, 2014 (USD/MT) (Quantity, availability, payment and delivery terms vary)			
Delivery Point Quality Min. 35% Pro-fat combined	Sep.	Oct.	Nov.
Barge CIF New Orleans	190	191	192
FOB Vessel GULF	200	202	205
Rail delivered PNW	194	196	198
Rail delivered California	198	200	201
Mid-Bridge Laredo, TX	190	192	192
40 ft. Containers to South Korea (Busan)	242	244	244
40 ft. Containers to Taiwan (Kaohsiung)	234	237	237
40 ft. Containers to Philippines (Manila)	257	253	253
40 ft. Containers to Indonesia (Jakarta)	256	249	249
40 ft. Containers to Malaysia (Port Kelang)	236	255	255
40 ft. Containers to Vietnam (HCMC)	264	259	259
40 ft. Containers to Japan (Yokohama)	260	250	250
40 ft containers to Thailand (LCMB)	257	254	254
40 ft Containers to Shanghai, China	242	240	240

KC & Elwood, IL Rail Yard (delivered Ramp)	175	177	177

*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: DDGS prices recently declined to 70 percent of the value of corn in some areas and end-users are suddenly buying very aggressively to take advantage of this opportunity. However, price quotes have not been significantly influenced. For example, rail rates to the Pacific Northwest and California are on average up about $5.00/MT and the FOB vessel rate at the Gulf was up only about $3.00/MT. However, the fact that CIF barge rates were up approximately $15 seems to indicate that bulk DDGS prices will be on the increase if there is no further decline in corn prices.

Domestic hog and poultry buyers have become particularly interested in securing more product from DDGS merchandisers because of the high price of soymeal. In comparison, DDGS appears to be the most cost effective protein source. It was reported that $135 traded in volume for truck delivery to Chicago in October.

U.S. pork and poultry buyers may soon find increasing competition from Mexican cattle and pork buyers in the northwestern states of Sinaloa and Sonora. This is a region of potential strong demand for bulk DDGS if cost effective logistics can be arranged. In the past, Mexican buyers have not been extremely well organized in purchasing DDGS in bulk or containerized form, but the recent setback in DDGS prices seems to have sparked increased interest.

Ethanol Comments: Declining gasoline consumption, the need to move DDGS inventory and increasing competition from Brazilian ethanol exports may combine and start applying pressure to ethanol producer margins. Justification for such a concern was not reflect in this week's differential between the price of corn and co-products, but stocks did have a significant rebound while production is at sizable levels in comparison to a year ago.

The last reported ethanol production was at an average daily rate of 937,000 barrels per day (bpd) for week ending August 15. This is an increase over the prior week's production level of 931,000 bpd and the year ago level of 844,000 bpd. Ethanol stocks increased to 18.3 million barrels, in comparison to the prior week's level of 17.8 million barrels.

The differential between the cost of corn and the co-products at ethanol facilities across the Corn-Belt is the following for week-ending Friday, August 22, 2014:

- Illinois differential is $3.55 per bushel in comparison to $3.55 the prior week and $2.40 a year ago.
- Iowa differential is $3.29 per bushel in comparison to $3.47 the prior week and $2.28 a year ago.
- Nebraska differential is $3.31 per bushel in comparison to $3.50 the prior week and $1.98 a year ago.
- South Dakota differential is $3.90 per bushel in comparison to $3.81 the prior week and $2.57 a year ago.

COUNTRY NEWS

Argentina: Argentine farmers are expected to plant less corn this year due to low global prices for the grain, according to WPI. As a reference point, corn prices two years ago were around $195/MT, $150/MT at this time last year and are currently resting around $138/MT, at which level farmers would be unable to cover their production costs.

China: China is increasing its checks on U.S. sorghum and barley in order to check for pesticide residues and heavy metals, reports Reuters. This comes as Chinese feed mills have increasingly turned to U.S. sorghum as a cheap substitute for domestic corn. It is believed that inspections will impact bookings made following the ruling, but sorghum shipments that have already been booked or are in transit may not face any additional scrutiny. Shanghai JC Intelligence Co. has cut its forecast for sorghum imports to 1.6 MMT in 2014/15, which is down from its earlier prediction of 3.9 MMT. China is the world's largest importer of U.S. sorghum.

EU: Europe's rain-damaged wheat harvest is expected to benefit Asian grain importers as the crop is now considered suitable only as animal feed, according to Reuters. Importers in South Korea, Thailand and the Philippines are expected to favor European wheat over corn imports. Feed wheat production in Europe and the Black Sea is expected to increase to 75 MMT, which is about 13 MMT more than what was brought in last year. It is expected that European feed millers will add 3 MMT of wheat to their rations in order to reduce their dependence on corn imports. USDA recently reduced its forecast for EU corn imports to 11 MMT through September 2015, which is down from the 13 MMT it predicted in July as well as the 15.5 MMT that were shipped in the 2013/14 season.

India: Monsoon rains will be following the pattern set by the past two weeks and continue to be weak into next week, according to Retuers. The outlook for India's corn crop is not likely to change despite the weak rains.

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	$44.00	Up $1.00	Handymax at $44.50/MT
55,000 U.S. PNW- Japan	$24.50	Up $0.50	Handymax at $25.00/MT
55,000 U.S. Gulf – China PNW to China	$43.50 $23.50	Up $1.50 Up $0.50	North China
25,000 U.S. Gulf- Veracruz, México	$15.00	Unchanged	3,000 MT daily discharge rate
35-40,000 U.S. Gulf- Veracruz, México	$12.50	Unchanged	Deep draft and 8,000 MT per day discharge rate.
25/35,000 U.S. Gulf- East Coast Colombia, Argentina	$19.50 $29.00	Unchanged Up $1.00	West Coast Colombia at $27.50

35,000 U.S. Gulf - Guatemala	$26.50	Unchanged	Acajutla/Quetzal - 8,000 out
25-30,000 U.S. Gulf – Algeria	$34.00 $36.00	Unchanged Unchanged	8,000 MT daily discharge 3,000 MT daily discharge
25,000 U.S. Gulf-Morocco	$34.00	Up $0.50	5,000 discharge rate
55,000 U.S. Gulf – Egypt PNW to Egypt	$32.00 $31.50	Up $1.00 Up $0.50	55,000 -60,000 MT St. Lawrence to Egypt $32.50
60-70,000 U.S. Gulf – Europe – Rotterdam	$19.50	Up $0.50	Handymax at +$1.50 more
Brazil, Santos – China	$35.00 $33.50	Up $3.25 Up $1.50	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China Upriver with Top-Off	$39.50	Up $1.50	—

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 firm-to-better tone stayed with world ocean freight markets most of the week and most rates moved slightly higher.

By Thursday the market strength seemed to be abating and things were topping out, at least for the moment. We are entering Q4 of the calendar year and vessel operators are still looking for signs of a true turnaround and recovery. It looks like they will have to wait just a bit longer.

We are only about one month from the true North American fall crop export season and the prospects for big crops and heavy export movements remain good. North American domestic rail logistics, although still problematic, appear to be improving and bids in the secondary rail car market are coming down.
Harvest logistics will be as important as harvest prices for end users of grains and oil seeds.

Baltic Panamax Dry-Bulk Indices				
August 22, 2014 Route	This Week	Last Week	Difference	Percent Change
P2A: Gulf/Atlantic – Japan	14,446	14,109	337	2.4%
P3A: PNW/Pacific – Japan	4,981	4,852	129	2.7%

Source: O'Neil Commodity Consulting

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

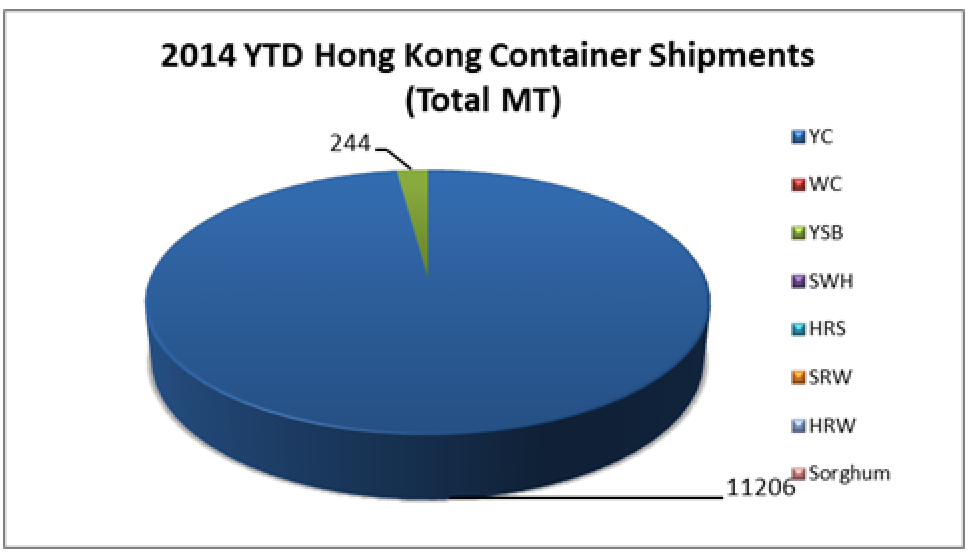
Week of August 22, 2014	
Four weeks ago	\$7.50-\$7.65
Three weeks ago:	\$7.50-\$8.00
Two weeks ago	\$7.70-\$8.00
One week ago:	\$7.40-\$8.85
This week	\$8.90-\$9.30

Source: O'Neil Commodity Consulting

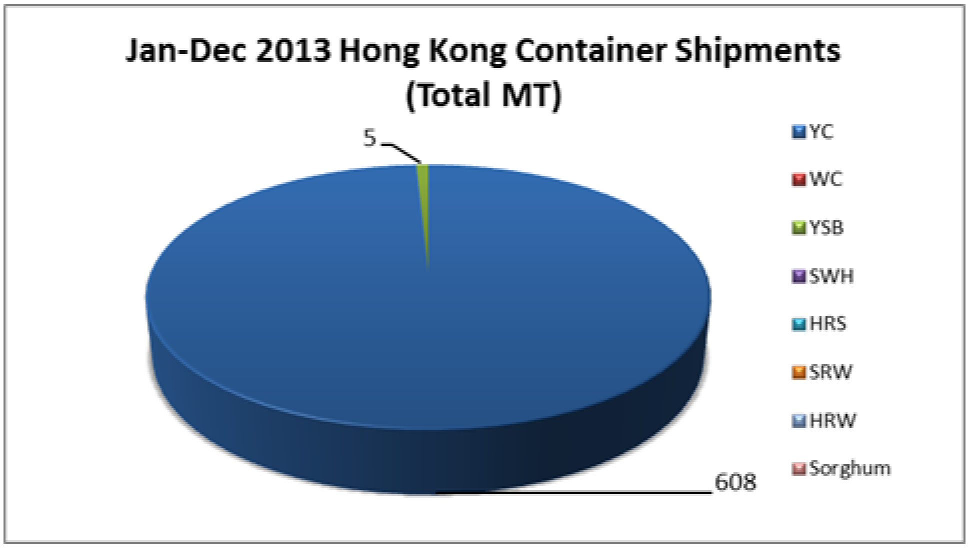
U.S. – Asia Market Spreads					
August 22, 2014	**PNW**	**Gulf**	**Bushel Spread**	**MT Spread**	**Advantage**
# 2 Corn	1.55	1.20	0.35	\$13.78	PNW
Soybeans	2.60	2.30	0.30	\$11.02	PNW
Ocean Freight	\$23.50	\$43.50	0.48-0.51	(\$20.00)	September

Source: O'Neil Commodity Consulting

The charts below represent January-December 2013 annual totals versus January-August 2014 container shipments for Hong Kong.



Source: O'Neil Commodity Consulting



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**	$55	$57	-	$31	$42	$42	$45
	Brazil	$47	$49	-	-	$32	$35	-
Corn (White)	**Argentina**	$55	$57	-	$31	$42	$42	$45
	Brazil	$47	$49	-	-	$32	$35	-
Barley	**Argentina**	$55	$57	-	$31	$42	$42	$45
	Brazil	$47	$49	-	-	$32	$35	-
Sorghum	**Argentina**	$55	$57	-	$31	$42	$42	$45
	Brazil	$47	$49	-	-	$32	$35	-

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 (%): August 20, 2014			
	Current Week	**Last Week**	**Last Month**
U.S. Prime	3.25	3.25	3.25
LIBOR (6 month)	0.33	0.33	0.33
LIBOR (1 year)	0.55	0.55	0.55

Source: www.bankrate.com