Market Perspectives

U.S. GRAINS COUNCIL

October 12, 2017

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For more information on the contents of this newsletter or the U.S. Grains Council, its mission and programs, please contact Alvaro Cordero at (202) 789-0789.

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 ten 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.

CHICAGO BOARD OF TRADE MARKET NEWS

Week in Review: CME Corn December Contract					
$/Bu	**Friday October 6**	**Monday October 9**	**Tuesday October 10**	**Wednesday October 11**	**Thursday October 12**
Change	0.500	-0.500	-0.250	-3.250	3.0000
Closing Price	350.00	349.50	349.25	346.00	349.00
Factors Affecting the Market	The week ended with dull trading and a 1/2 cent higher close. The trade is waiting for better harvest results and the October WASDE. Outside markets were lower with the dollar down 12 points and crude oil down $1.50.	Corn finished down 1/2 cents (giving up all of Friday's gains) in uninspired trading. December corn is in a downtrend but seems to have already made its seasonal low. Outside markets were mixed with the dollar flat.	More light trading following USDA's delayed Export Inspections report showing 20.6 million bushels were exported last week. Midwest weather isn't great for harvesting, and harvest progress is delayed accordingly.	December corn moved lower in anticipation of a bearish WASDE. The contract is just barely above its life-of-contract-low. The dollar is on a four-day losing streak which should support exports. U.S. equities were higher.	USDA increased the U.S. corn yield to 171.8 BPA but lowered carry-in stocks by 55 million bushels. Ending stocks were increased 5 million bushels to 2.34 billion. The report was neutral/bearish corn but soybeans pulled corn higher.

Outlook: Trading on the October WASDE's release day was interesting, to say the least. Traders were bracing for a bearish report – so much so that that December corn futures put in a new life-of-contract low before the report's release. Typically, the market does not make such technically or psychologically important moves until after USDA releases the report. Today, however, per-report expectations turned out to be more bearish than the report itself. After the report, the contract traded as much as 6 cents higher before ending with only half as much in gains.

The most anticipated number from today's report was the U.S. average corn yield. USDA initially predicted a large yield in the May WASDE which was promptly dismissed by the trade. With each successive WASDE, USDA increased its yield projections, only to be met by analyst's comments that it would surely be reduced in the October WASDE – which was not the case. USDA today pegged the 2017/18 corn yield at 171.8 bushels per acre, up almost 2 BPA from the September WASDE and above analysts' expectations. Today's figure makes this year's yield the 3rd largest in history.

USDA reduced harvested acres by 0.4 million to 83.1 million based on a slow start to the current harvest efforts. More notably, the agency reduced beginning stocks by 55 million bushels, a -2 percent change from the prior report. Between the beginning stocks reduction and 96 million bushels of additional production (totaling 14.28 billion bushels), total U.S. supplies increased 40 million bushels.

On the demand side, Feed and Residual use increased 25 million bushels while Food, Seed and Industrial use bumped up 10 million bushels. Ethanol use and exports were unchanged, leaving total use higher by 35 million bushels. The net of larger supplies and bigger demand left an extra 5 million bushels in ending stocks, compared to USDA's September forecast. The 2017/18 U.S. corn carry out figure currently stands at 2.34 billion bushels, nearly unchanged from last month but up 2 percent from 2016/17.

Traders are largely viewing the report as neutral to bearish the corn market. However, it's hard to be bullish when exports are down 49 percent YTD and ending stocks are growing. Spillover buying from the soybean pit helped pull corn futures higher today but eventually December corn will have to trade its own fundamentals. On the bullish side, U.S. exports should increase substantially as the marketing year progresses and the U.S. gains its seasonal advantage over South America.

From a technical perspective, December corn is still range bound but with important new features. Today's trade included a new life-of-contract low and a substantially higher close on a big volume of trade (320,000 contracts). Those factors may help establish that the market has reached its seasonal lows and that corn's seasonal grind higher may be underway.

CBOT DECEMBER CORN FUTURES

Source: Prophet X

Current Market Values:

Futures Price Performance: Week Ending October 12, 2017			
Commodity	**12-Oct**	**6-Oct**	**Net Change**
Corn			
Dec 17	349.00	350.00	-1.00
Mar 18	362.75	363.25	-0.50
May 18	371.75	372.00	-0.25
Jul 18	379.25	379.75	-0.50
Soybeans			
Nov 17	992.00	972.25	19.75
Jan 18	1002.50	983.00	19.50
Mar 18	1012.00	992.25	19.75
May 18	1021.25	1001.25	20.00
Soymeal			
Oct 17	322.70	315.00	7.70
Dec 17	326.30	319.20	7.10
Jan 18	328.30	321.40	6.90
Mar 18	331.10	324.20	6.90
Soyoil			
Oct 17	33.07	32.71	0.36
Dec 17	33.28	32.95	0.33
Jan 18	33.45	33.12	0.33
Mar 18	33.68	33.35	0.33
SRW			
Dec 17	430.50	443.50	-13.00
Mar 18	449.50	462.75	-13.25
May 18	461.75	476.75	-15.00
Jul 18	475.25	490.50	-15.25
HRW			
Dec 17	426.25	436.75	-10.50
Mar 18	444.50	454.75	-10.25
May 18	458.75	468.75	-10.00
Jul 18	476.75	486.75	-10.00
MGEX (HRS)			
Dec 17	611.25	623.75	-12.50
Mar 18	625.00	636.75	-11.75
May 18	631.50	643.50	-12.00
Jul 18	635.50	647.25	-11.75

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

U.S. WEATHER/CROP PROGRESS

U.S. Drought Monitor Weather Forecast: During the upcoming 5-day period (October 12-16), a band of heavy rain (2-3 inches) is predicted from southeastern Iowa across Lower Michigan to extreme northern Maine, with similar totals anticipated over extreme southeastern Florida, and the Cascades of the Pacific Northwest. One to two inches of rain is forecast over portions of the mid-Atlantic region. This raises the possibility of drought relief next week from the Midwest into northern Maine.

During the 6- to 10-day period (October 17-21), odds for above-normal precipitation are elevated over the Pacific Northwest and northern Rockies, as well as over Florida. Odds for below-normal precipitation are enhanced across most of the Great Plains, the southern Rockies, eastern portions of the Southern Intermountain Region, from the Ohio Valley and central Great Lakes region to the New England coast.

Follow this link to view current U.S. and international weather patterns and future outlook: Weather and Crop Bulletin.

U.S. EXPORT STATISTICS

Due to the Monday, October 9 holiday, weekly U.S. export sales will be published on Friday, October 13. Updated U.S. export sales will be published in the October 19 edition of *Market Perspectives*.

U.S. Export Sales and Exports: Week Ending September 28, 2017					
Commodity	**Gross Sales (MT)**	**Exports (MT)**	**YTD Exports (000MT)**	**YTD Bookings (000MT)**	**% Change YTD Bookings**
Wheat	496,500	715,500	9,378.5	14,010.8	-3%
Corn	855,400	966,000	3,111.7	12,164.1	-41%
Sorghum	119,000	300	285.9	1,315.5	32%
Barley	400	400	10.0	37.4	175%

Source: USDA/FAS

Corn: Net sales of 814,100 MT for 2017/2018 were reported for Mexico (190,600 MT), South Korea (119,600 MT), Colombia (116,700 MT, including 95,000 MT switched from unknown destinations), unknown destinations (115,300 MT), China (76,100 MT, including 65,000 MT switched from unknown destinations), and Honduras (65,300 MT, including 12,300 MT switched from unknown destinations). Reductions were reported for the French West Indies (8,300 MT). Exports of 966,000 MT were primarily to Mexico (401,500 MT), Japan (154,600 MT), Colombia (137,100 MT), South Korea (72,300 MT), and Peru (69,400 MT).
Optional Origin Sales: For 2017/2018, the current optional origin outstanding balance is 168,000 MT, all unknown destinations.

Barley: Net sales of 400 MT for 2017/2018 were reported for Taiwan. Exports of 400 MT were reported to South Korea (300 MT) and Japan (100 MT).

Sorghum: Net sales of 116,000 MT for 2017/2018 were reported for unknown destinations (66,000 MT) and China (50,000 MT). Exports of 300 MT were reported to Mexico.

U.S. Export Inspections: Week Ending October 5, 2017					
Commodity (MT)	**Export Inspections**		**Current Market YTD**	**Previous YTD**	**YTD as Percent of Previous**
	Current Week	**Previous Week**			
Barley	392	0	14,514	24,258	60%
Corn	524,168	853,700	3,523,774	6,936,370	51%
Sorghum	117,431	1,713	368,265	460,716	80%
Soybeans	1,484,650	897,017	5,458,049	5,264,300	104%
Wheat	350,632	718,520	10,299,486	10,577,018	97%

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

USDA Grain Inspections for Export Report: Week Ending October 5, 2017						
Region	**YC**	**% of Total**	**WC**	**% of Total**	**Sorghum**	**% of Total**
Lakes	0	0%	0	0%	0	0%
Atlantic	4,630	1%	0	0%	0	0%
Gulf	346,842	66%	0	0%	115,157	98%
PNW	220	0%	122	100%	0	0%
Interior Export Rail	172,354	33%	0	0%	2,274	2%
Total (Metric Tons)	524,046	100%	122	100%	117,431	100%
White Corn Shipments by Country (MT)			122	to South Korea		
Total White Corn (MT)			122			
Sorghum Shipments by Country (MT)					115,500	to China
					1,319	to Mexico
					612	to Philippines
Total Sorghum (MT)					117,431	

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)**
LH October	0.57+Z	$159.83	0.82+Z	$169.68
FH November	0.53+Z	$158.26	0.80+Z	$168.89
LH November	0.54+Z	$158.65	0.80+Z	$168.89
December	0.57+Z	$159.83	0.80+Z	$168.89

Note on the White Corn export market: industry contacts report that the export market for White Corn is still undefined, but expect that values will start to solidify as the U.S. harvest season progresses.

Sorghum (USD/MT FOB Vessel)				
#2 YGS FOB Vessel Max 14.0% Moisture	**NOLA**		**TEXAS**	
	Basis	**Flat Price**	**Basis**	**Flat Price**
November	1.40+Z	$192.51	1.25+Z	$186.60
December	1.40+Z	$192.51	1.25+H	$192.02

Corn Gluten Feed Pellets (CGFP) (FOB Vessel U.S. $/MT)			
	October	**November**	**December**
New Orleans	$140	$140	$140
Quantity 5,000 MT			
Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)			
Bulk 60% Pro.	**October**	**November**	**December**
New Orleans	$568	$568	$568
**5-10,000 MT Minimum*			
Corn Gluten Meal (CGM) (Offers, Rail and Truck Delivered U.S. $/ST)			
	October	**November**	**December**
Rail Delvd. Chicago	$485	$485	$485
Rail Delvd. Savannah	$508	-	-
Truck Delvd. Chicago	$505	$505	$505

DDGS Price Table: October 12, 2017 (USD/MT) (Quantity, availability, payment and delivery terms vary)			
Delivery Point Quality Min. 35% Pro-fat combined	**October**	**November**	**December**
Barge CIF New Orleans	163	163	164
FOB Vessel GULF	179	176	175
Rail delivered PNW	188	196	198
Rail delivered California	195	200	200
Mid-Bridge Laredo, TX	191	191	193
FOB Lethbridge, Alberta	163	165	166
40 ft. Containers to South Korea (Busan)	198	198	199
40 ft. Containers to Taiwan (Kaohsiung)	199	198	199
40 ft. Containers to Philippines (Manila)	206	205	206
40 ft. Containers to Indonesia (Jakarta)	199	198	200
40 ft. Containers to Malaysia (Port Kelang)	198	197	198
40 ft. Containers to Vietnam (HCMC)	203	202	204
40 ft. Containers to Japan (Yokohama)	203	202	203
40 ft. containers to Thailand (LCMB)	200	199	200
40 ft. Containers to China (Shanghai)	207	204	207
40 ft. Containers to Bangladesh (Chittagong)	221	219	221
40 ft. Containers to Myanmar (Yangon)	225	223	225
KC & Elwood, IL Rail Yard (delivered Ramp)	159	159	161

*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.*

DISTILLER'S DRIED GRAINS WITH SOLUBLES (DDGS)

DDGS Comments: DDGS prices were steady in very quiet trade before today's WASDE report. Merchandisers are reporting prices jumped $2-3/MT after the report was released (and corn futures gained 3-6 cents), but it is yet unclear whether buyers will pay these new prices. Barge CIF NOLA prices were heard at $162.50/MT this week, down $2/MT from last week while FOB U.S. Gulf prices were heard from the mid-$170s to $180s. The average FOB Gulf price reported from merchandisers/traders was $178/MT.

DDGS are competitive as a feedstuff but buyers have little reason to buy sooner than necessary with ample feed supplied around the world. DDGS FOB ethanol plant prices are at 106 percent of cash corn values and 37 percent of KS soybean meal. The per-protein unit cost of DDGs is $1.86 less than that of soybean meal, keeping the ethanol co-product very competitive in feed rations.

On the international side, U.S. exporters are reporting a very quiet market. Some have received inquiries from Vietnam, Malaysia, and the Philippines but no sales have been made yet. Most buyers are just returning from last week's holiday and have covered their needs for at least the next few weeks. Exporters note that ocean freight is still a concern with $150 GRI's reported on the table to begin in late October. The GRI is keeping some pressure on international sales.

On average, CNF Southeast Asia prices were $2/MT higher at just over $200/MT. Prices for October shipments of 40-foot containers to Southeast Asia were higher for all routes and those destined for Myanmar led the way, gaining $6/MT this week. Prices for November shipment were steady/higher with smaller gains noted.

COUNTRY NEWS

Brazil: A USDA/GAIN report details investment in Brazil's grain handling infrastructure as it tries to move 98.5 MMT of 2017/18 corn production. Sixty percent of production moves by roads that are still partially unpaved. Private sector investment in infrastructure has increased over the past five years, particularly in the north where lower cost floating terminals could become more common. (World Grain)

China: China will suspend sales of state grain reserve corn at the end of this month because of the availability of the new crop being harvested. (Bloomberg; Reuters)

China State Grain Reserve Corn Sales (MMT)						
Date	**Crop Year**	**Amount Offered**	**Amount Sold**	**Percent Sold**	**Price Yuan**	**Price USD**
Oct. 12, 2017	2012	136,654	2,331	1.7	1,300	197.28
	2013	75,159	75,159	100	1,372	208.21
	2014	910,064	660,618	72.6	1,436	217.92

Source: Bloomberg/National Grain Trade Center

European Union: The variable import duty on corn and barley was automatically triggered lower to €5.61/MT because of the drop in the U.S. dollar. The tariff had been €10.95/MT. The duty is based on the relationship between a European reference price and the price of U.S. corn. (World Grain)

Kenya: Excess rain and armyworms have resulted in a corn harvest that is a quarter short of needs. The government is paying $377/MT for imported maize and then subsidizing its cost to millers to make flour affordable to consumers. Kenyan farmers are demanding the same kind of pay scheme. The government has offered to supply driers to farmers. (The East African)

Ukraine: Rains have slowed harvesting and damaged some corn, causing the price to rise to $160/MT for quality corn after hitting a three-year-low just a few weeks ago. This has made Ukrainian corn uncompetitive against Latin American suppliers in the traditional Middle East market except where smaller volumes (≤25 KMT) and/or proximity are important. Barley exports are down 10.5 percent overall but exports to China are up 87 percent (566 KMT) and sales to the EU are up 18 percent (220 KMT). (Platts; SyndiGate Media)

Zimbabwe: The government is claiming success from its Command Agriculture program whereby it has targeted increases in production area, including 400,000 hectares of maize. The result is a reported 1.1 MMT exportable surplus instead of the imports that were common in the past. The import substitution scheme will continue to advance production area in the future. (The Chronicle)

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	$42.50	Up $1.00	Handymax at $43.00
55,000 U.S. PNW-Japan	$24.00	Up $1.00	Handymax at $24.50
65,000 U.S. Gulf-China PNW to China	$42.00 $23.75	Up $1.00 Up $1.00	North China
25,000 U.S. Gulf-Veracruz, Mexico	$16.50	Up $0.25	3,000 MT daily discharge rate
35-40,000 U.S. Gulf-Veracruz, Mexico	$14.00	Up $0.25	Deep draft and 6,000 MT/day discharge rate.
25/35,000 U.S. Gulf-East Coast Colombia From Argentina	$20.00 $30.00	Up $0.50 Up $0.50	West Coast Colombia at $28.00
40-45,000 U.S. Gulf-Guatemala	$28.25	Up $0.75	Acajutla/Quetzal-8,000 out
26-30,000 U.S. Gulf-Algeria	$29.50 $32.50	Up $0.75 Up $0.75	8,000 MT daily discharge 3,000 MT daily discharge
25-30,000 US Gulf-Morocco	$29.25	Up $1.25	5,000 discharge rate
55,000 U.S. Gulf-Egypt PNW to Egypt	$26.75 $25.75	Up $1.00 Up $0.75	55,000-60,000 MT St. Lawrence to Egypt $27.00
60-70,000 U.S. Gulf-Europe-Rotterdam	$17.00	Up $0.25	Handymax at +$1.50 more
Brazil, Santos-China Itacoatiara Port up River Amazonia North Brazil-China	$33.50 $32.50 $36.00	Up $0.50 Up $0.50 Up $0.50	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China	$40.00	Up $0.50	-

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: In a rather quiet trade, Dry-Bulk freight markets gained back what they lost last week. It is obvious that Dry-Bulk ocean freight markets bottomed out in 2016, and have since staged a recovery. The question today is, has the degree of recovery been fully justified – and is it sustainable? According to Clarkson Research, since February 2016 the Dry-Bulk sector recovery to date "is equivalent to moving 61 percent of the way back to historical averages." That's a big move. I do not argue the justification for the market turnaround, I'm just wondering if some in the market have not gotten a bit too optimistic too quickly. As we all know, nothing goes straight down or up forever and market players do tend to over-guess moves.

I do expect Dry-Bulk freight markets to be well supported with cargo demand through the fall harvest, and then I expect we are likely to witness a bit of a setback/adjustment going into the first quarter of 2018.

As you look at the growing U.S. grain port vessel line ups, it is obvious that we are getting deeper in the harvest. Russia thinks it might sell wheat to Mexico; if so, it would take freight of close to $38-$39.00.00/MT (e.g., $199 FOB Black Sea plus $38.00 freight would equate to $237.00/MT CIF West Coast Mexico?)

Argentina has announced a sale of 33,000 MT of FH December wheat to Mexico. I'm guessing the freight to be around $35.00/MT.

A note on Panamax Dry-Bulk ocean freight rates for corn or soybeans to HCMC Vietnam: The appropriate market spreads on this route are not necessarily a direct thing to rate. If you are going from the U.S. Gulf via the Cape of Good Hope the steaming time to Vietnam (versus Northern China) is shorter, so, that freight would be a little cheaper. However, routing via the Panama Canal the distance is longer and thus more expensive. So, on average maybe it is best to say that the rate from the U.S. Gulf to Vietnam is about the same as to Northern China (give or take $1.00/MT depending on routing). The freight spread between N. China versus S. China is generally a $1.00-1.50 difference. Close to 90 percent of the Panamax vessels going from the U.S. Gulf to China are currently going around the Cape rather than thru the Panama Canal. This is due to relatively cheap fuel prices and the desire to avoid paying Canal fees.

Baltic-Panamax Dry-Bulk Indices				
October 12, 2017	**This Week**	**Last Week**	**Difference**	**Percent Change**
Route				
P2A: Gulf/Atlantic – Japan	19,414	17,678	1,736	9.8%
P3A: PNW/Pacific– Japan	13,126	11,397	1,729	15.2%
S1C: U.S. Gulf-China-S. Japan	23,278	20,528	2,750	13.4%

Source: O'Neil Commodity Consulting

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

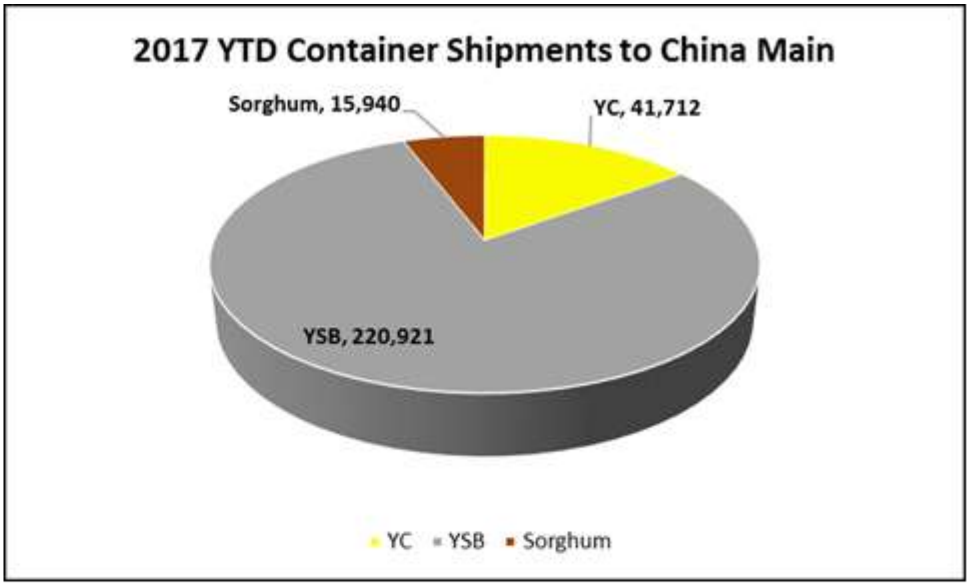
Week Ending October 12, 2017	
Four weeks ago:	$7.75 - 8.05
Three weeks ago:	$7.75 - 8.05
Two weeks ago:	$7.30 - 7.90
One week ago:	$7.40 - 8.25
This week	$7.95 - 8.25

Source: O'Neil Commodity Consulting

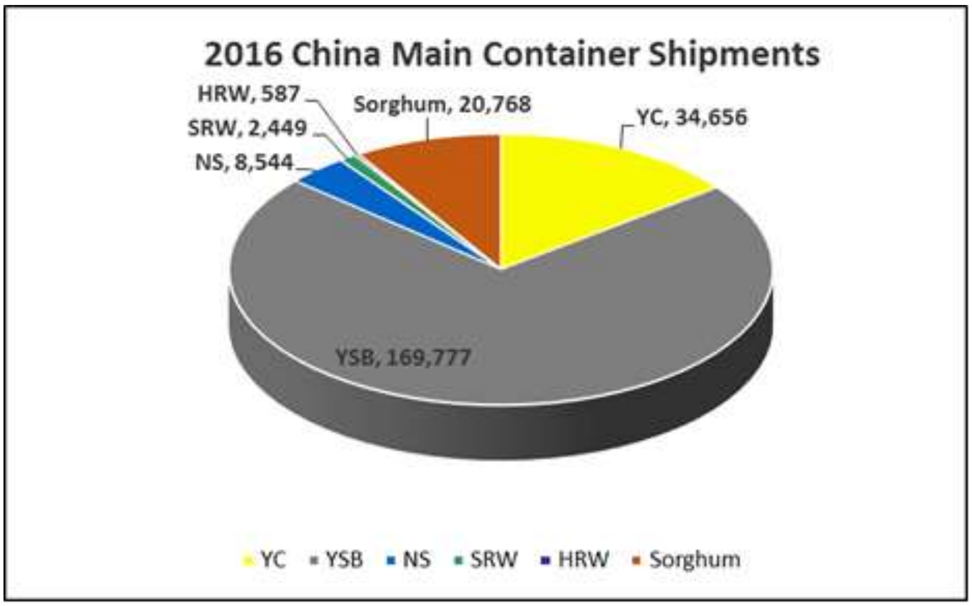
U.S.-Asia Market Spreads					
October 12, 2017	**PNW**	**Gulf**	**Bushel Spread**	**MT Spread**	**Advantage**
#2 Corn	0.70	0.52	0.18	$7.09	PNW
Soybeans	0.72	0.49	0.23	$9.05	PNW
Ocean Freight	$23.75	$42.00	0.48-0.50	$18.25	Nov.

Source: O'Neil Commodity Consulting

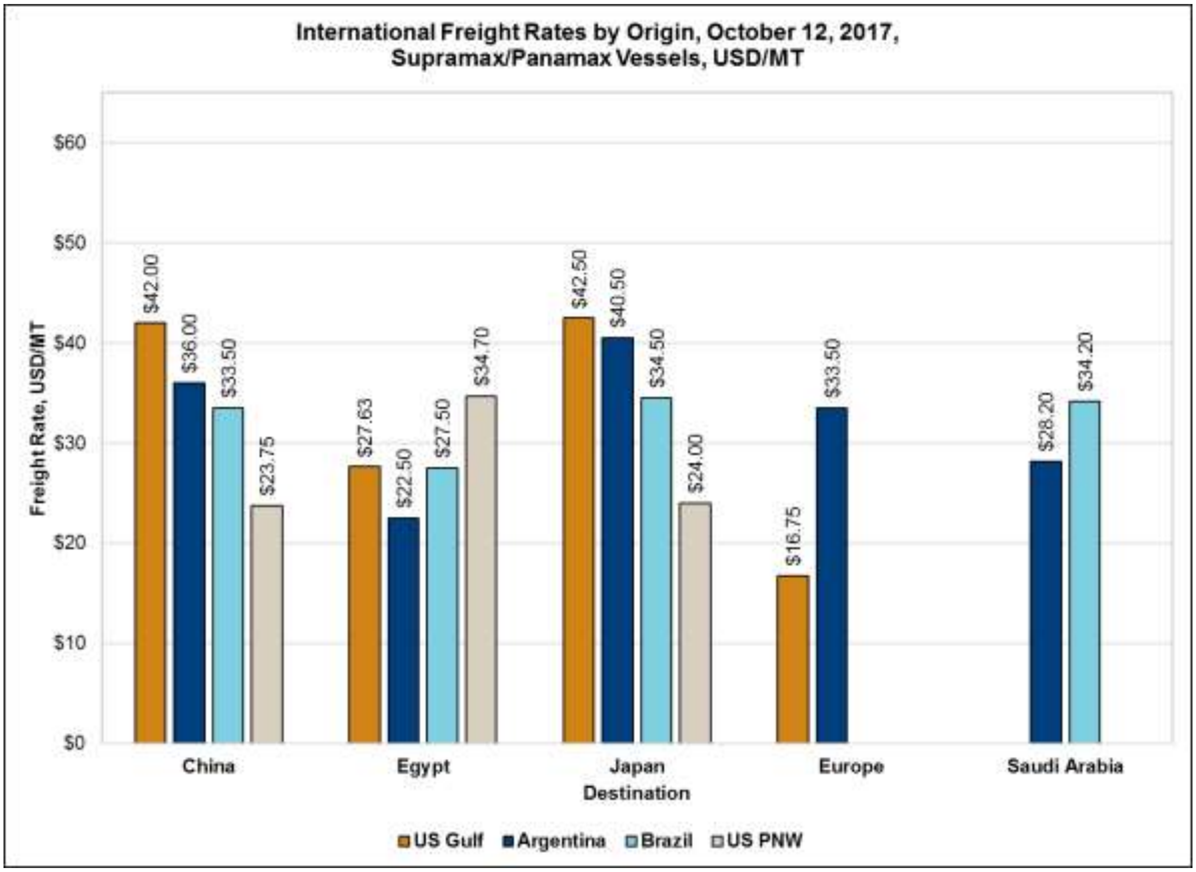
The charts below represent YTD 2017 versus 2016 annual totals for container shipments to China.



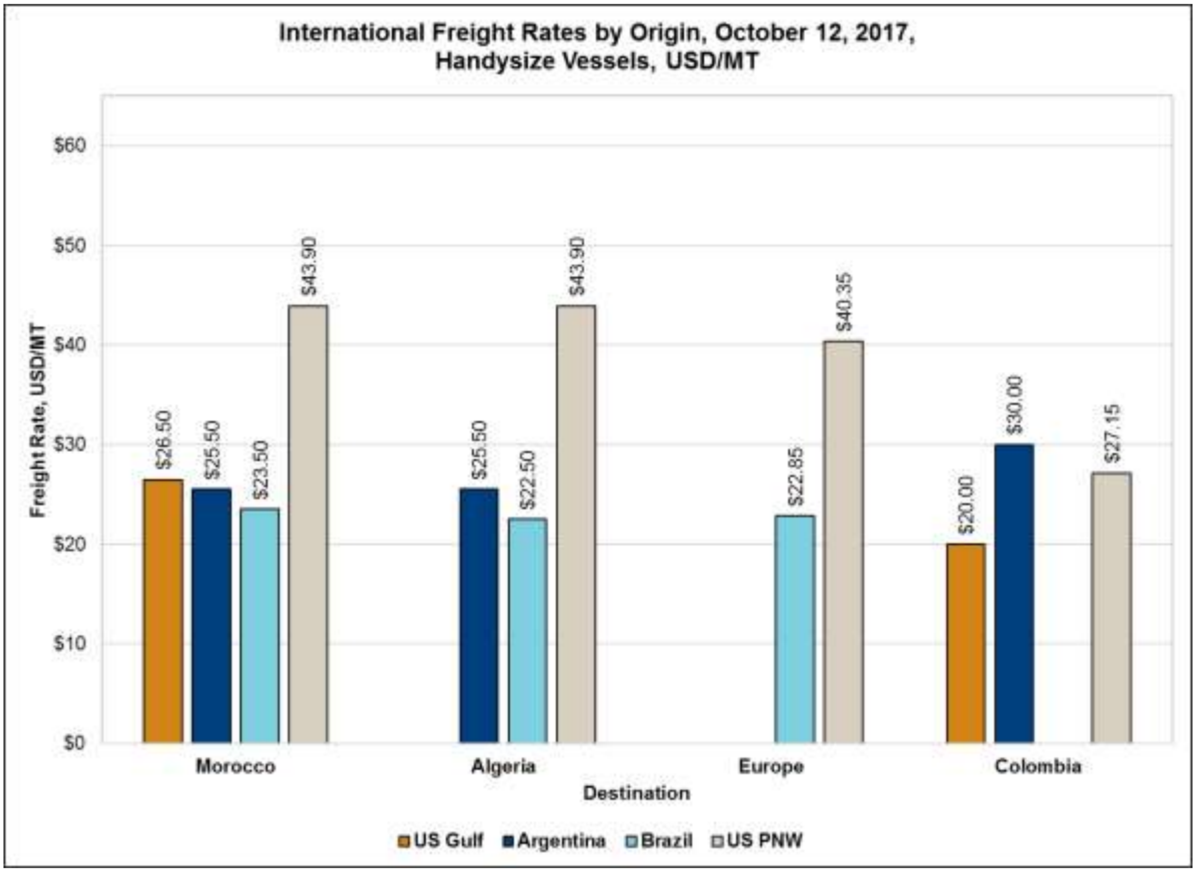
Source: O'Neil Commodity Consulting



Source: O'Neil Commodity Consulting



Source: DTN, O'Neil Commodity Consulting and World Perspectives, Inc.



Source: DTN, O'Neil Commodity Consulting and World Perspectives, Inc.

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INTEREST RATES

Interest Rates (%): October 12, 2017			
	Current Week	**Last Week**	**Last Month**
U.S. Prime	4.25	4.25	4.25
LIBOR (6 month)	1.52	1.51	1.45
LIBOR (1 year)	1.81	1.80	1.71

Source: www.bankrate.com