# Market Perspectives

**October 18, 2013**

***Developing Markets • Enabling Trade • Improving Lives***

**CONTENTS**



## CHICAGO BOARD OF TRADE MARKET NEWS

| Week in Review: CME Corn December Contract | | | | | |
|---|---|---|---|---|---|
| **$/Bu** | **Monday 14 October** | **Tuesday 15 October** | **Wednesday 16 October** | **Thursday 17 October** | **Friday 18 October** |
| **Change** | 0.0375 | 0.0650 | -0.0075 | 0.0025 | -0.0150 |
| **Closing Price** | 4.3700 | 4.4375 | 4.4275 | 4.4300 | 4.4150 |
| **Factors Affecting the Market** | Corn futures continued to be bought by commercial end-users as the December contract traded below $4.40 per bushel. | Speculative traders with short positions were determined to hold prices below key technical resistance, but that was a struggle. | The December contract closed basically unchanged as harvest progress was offset by rumors of large exports. | The lack of fundamental data and no dominant technical chart pattern caused corn futures to remain stagnant as the week progressed. | The nearby December corn contract spent the entire week trading within a narrow 5.75 cent range. New insights will be given next week. |

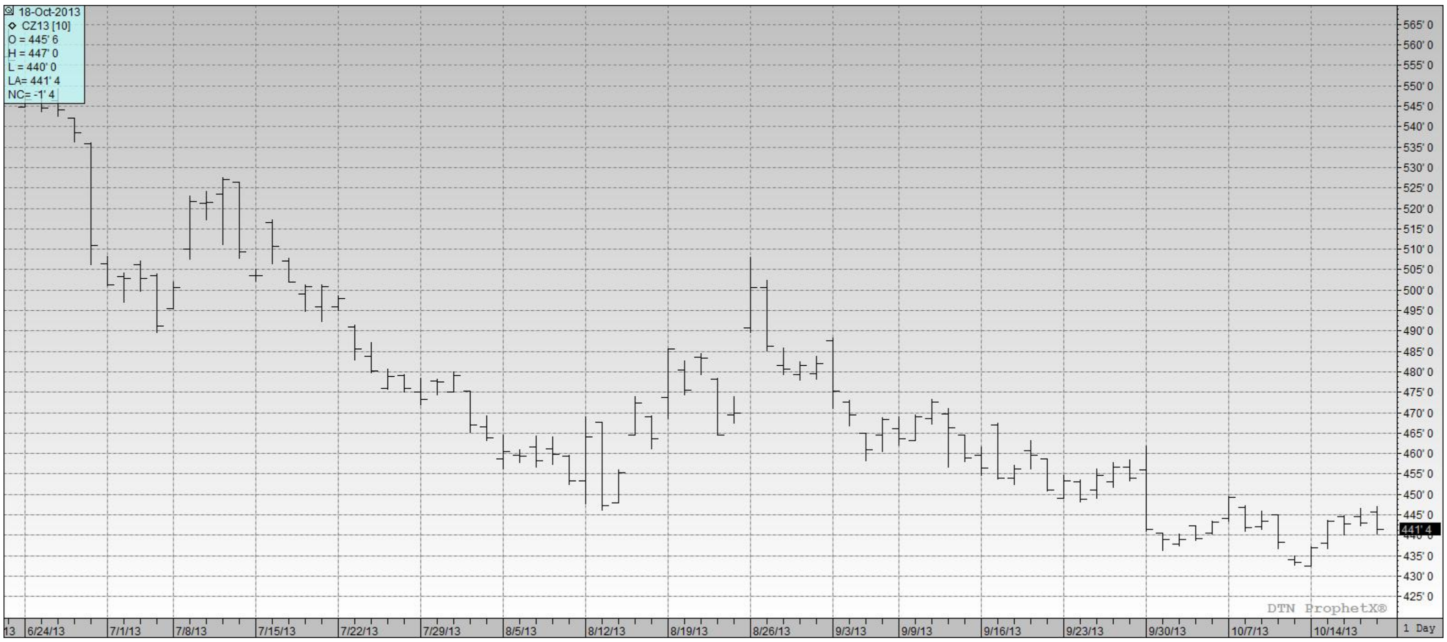
***For more information on the contents of this newsletter or the U.S. Grains Council, its mission and programs, please contact Kevin Roepke or Alvaro Cordero at (202) 326-0637.***

**Outlook:** October 2013 will be the first month since 1866 that USDA will not publish a monthly update. USDA employees are returning to work after the U.S. government shutdown and market data will become increasingly available. The release of data could heighten price volatility as adjustments are made to enourmous offsetting positions in corn futures between short speculators and long commercial traders.

Short speculators have built their position in anticpation of the release of data showing favorable yields that indicate a record corn crop and allow for ending stocks to rebound above 2 billion bushels in the present 2013/14 season. Commercial traders too do not seem to be intimidated by such a carry-out, which was rather common in the past. Of course, corn prices were lower in those historical periods but so were the costs of production. As well, there was less storage space available in the past than there is presently.

Current basis levels in the Corn Belt, which are above the historcal norm for a bumper crop, imply that farmers are feeling no pressure to sell even as various global buyers are desiring to secure U.S. stocks of corn. The stability of the U.S. basis may be one reason that cash prices in competitive regions, such as the Ukraine, have stabilized. It is also becoming increasingly apparent to cash related market participants that Brazilian farmers are going to switch a substantial amount of their second crop corn into a double crop of soybeans. The large speculative traders appear less cognizant of such factors and have been more focused on maintaining negative chart patterns until the next WASDE is realeased on November 8, which they hope will then justify further selling into new lows. In the near term, as news is released of large export sales and stable basis, speculators may start to increasingly wonder if the size of any prospective sell-off really justifies the further building of their already large short position. Such second guessing could cause corn contracts to experience somewhat of a spike prior to the release of the November WASDE.

## CBOT DECEMBER CORN FUTURES




*Source: Prophet X*

**Current Market Values:**

| Futures Price Performance: Week Ending October 18, 2013 | | | |
|---|---|---|---|
| **Commodity** | **October 18** | **October 11** | **Net Change** |
| **Corn** | | | |
| Dec 13 | 441.50 | 433.25 | 8.25 |
| Mar 14 | 454.00 | 446.25 | 7.75 |
| May 14 | 462.25 | 454.50 | 7.75 |
| July 14 | 469.50 | 462.00 | 7.50 |
| **Soybeans** | | | |
| Nov 13 | 1291.25 | 1266.75 | 24.50 |
| Jan 14 | 1289.75 | 1266.25 | 23.50 |
| Mar 14 | 1272.75 | 1254.00 | 18.75 |
| May 14 | 1257.25 | 1239.50 | 17.75 |
| **Soymeal** | | | |
| Dec 13 | 410.10 | 403.40 | 6.70 |
| Jan 14 | 405.60 | 400.90 | 4.70 |
| Mar 14 | 394.90 | 394.20 | 0.70 |
| May 14 | 386.30 | 385.30 | 1.00 |
| **Soyoil** | | | |

| | | | |
|---|---|---|---|
| Dec 13 | 41.68 | 40.28 | 1.40 |
| Jan 14 | 41.99 | 40.61 | 1.38 |
| Mar 14 | 42.40 | 41.01 | 1.39 |
| May 14 | 42.78 | 41.34 | 1.44 |
| **CBOT Wheat** | | | |
| Dec 13 | 705.75 | 692.25 | 13.50 |
| Mar 14 | 714.50 | 701.00 | 13.50 |
| May 14 | 716.50 | 702.75 | 13.75 |
| Jul 14 | 702.75 | 692.50 | 10.25 |
| **KCBOT Wheat** | | | |
| Dec 13 | 768.75 | 760.25 | 8.50 |
| Mar 14 | 766.25 | 759.00 | 7.25 |
| May 14 | 763.25 | 756.00 | 7.25 |
| July 14 | 746.50 | 737.00 | 9.50 |
| **MGE Wheat** | | | |
| Dec 13 | 760.25 | 754.75 | 5.50 |
| Mar 14 | 770.00 | 764.00 | 6.00 |
| May 14 | 774.75 | 766.25 | 8.50 |
| July 14 | 773.00 | 768.50 | 4.50 |

**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 17-21, moderate- to- heavy precipitation is forecast in southeastern Texas and the adjacent lower Mississippi Valley, with totals approaching two inches along the coast near Galveston. Moderate amounts of one half- to- one and a half inches are anticipated along the central Carolinas Coast and from the interior Northeast westward through northern and eastern sections of the Great Lakes. Light amounts of a few tenths of an inch are expected in the northern Great Plains, the northern half of the High Plains, the southern half of the Plains, and the eastern tier of the northern Rockies. Light amounts at best are expected elsewhere.

For the period of October 22-27, the odds favor above-normal precipitation from the southern half of Texas eastward to the Carolinas Coast, and from northern New England and the Pennsylvania Appalachians westward through most of the northern half of the Plains and the northeastern Rockies. In contrast, enhanced chances for dryness exist in the central Plains, a swath across the upper southern High Plains and Rockies, most of the Intermountain West, and the West Coast. 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 November | - | - | +1.30 Z | $224.99 |
| LH November | - | - | +1.30 Z | $224.99 |
| FH December | +0.94 Z | $210.81 | +1.28 Z | $224.20 |
| LH December | +0.91 Z | $209.63 | +1.28 Z | $222.20 |
| January | +0.68 H | $205.50 | +1.15 H | $224.00 |

| #2 White Corn (U.S. $/MT FOB Vessel) | | | |
|---|---|---|---|
| **Max. 15.0% Moisture** | **October** | **November** | **December** |
| **Gulf** | - | $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 | $232.86 | +1.50 Z | $232.86 |
| November | +1.50 Z | $232.86 | +1.50 Z | $232.86 |
| December | - | - | +1.50 Z | $232.86 |

| 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** | $225 | $225 | $225 |
| *Quantity 5,000 MT* | | | |
| **Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)** | | | |
| **Bulk 60% Pro.** | **November** | **December** | **January** |
| **New Orleans** | $710 | $710 | $710 |
| **5-10,000 MT Minimum* | | | |

***All prices are market estimates.***

**DDGS Price Table: October 18, 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 | 286 | 281 | 279 |
| FOB Vessel GULF | 295 | 288 | 285 |
| Rail delivered PNW | 295 | 291 | 290 |
| Rail delivered California | 300 | 295 | 294 |
| Mid-Bridge Laredo, TX | 290 | 285 | 285 |
| 40 ft. Containers to South Korea (Busan) | 347 | 350 | 363 |
| 40 ft. Containers to Taiwan ( Kaohsiung ) | 340 | 341 | 351 |
| 40 ft. Containers to Philippines ( Manila ) | 355 | 358 | 361 |
| 40 ft. Containers to Indonesia ( Jakarta ) | 354 | 357 | 359 |
| 40 ft. Containers to Malaysia (Port Kelang) | 356 | 359 | 363 |
| 40 ft. Containers to Vietnam (HCMC) | 354 | 357 | 365 |
| 40 ft. Containers to Japan (Yokohama) | 346 | 349 | 360 |
| 40 ft. containers to Thailand (LCMB) | 352 | 355 | 358 |
| 40 ft. Containers to Shanghai, China | 341 | 344 | 353 |
| KC & Elwood, IL Rail Yard (delivered Ramp) | 293 | 293 | 288 |

*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:** Large speculators struggled this week to keep nearby corn contracts below levels where cross-over patterns will trigger some exiting of fellow short traders. Some of those speculators have been surprised by the amount of commercial buying that is meeting them as the December 2013 corn contract trades around the $4.40 per bushel region. However, DDGS merchandisers seem to be well aware of the amount of commercial interest at present price levels. One merchandiser noted that he just sold his last batch of “December shipments” this week, a total of 10,000 MT, and he has had record sales for the fourth quarter. The present fourth quarter sales are offsetting the slow sales in the first quarter (due to plant closures), and several merchandisers may have a record year in total DDGS sales volume. Sales volume was particularly strong for those merchandisers who have strong demand from Chinese customers.

Domestic Chinese demand for U.S. DDGS is expected to remain firm well into the future and is in direct competition with buyers from Japan, Vietnam and Korea. Asian buyers are considering multiple factors such as logistics, individual client demand, and present U.S. corn prices. Domestic U.S. buyers of DDGS cannot always justify directly competing against Asian buyers because their logistical costs are often less than their international counterparts. Consequently, they can find it more cost advantageous to pay for the transport of more bulky corn rather than more concentrated DDGS. However, both domestic and international buyers of DDGS seem to recognize that the substantial pool of speculators with short positions in corn futures will eventually be triggered out of their positions. As a result, DDGS merchandisers are receiving a lot of inquiries for pricing into the first and second quarter of 2014.

**Ethanol Comments:** A problem can develop when a lack of available data creates a vacuum that inflates the importance of market rumors. A prime example of this fact occurred last week when stories were circulated that EPA would alter the 2014 Renewable Fuels Standard (RFS) volume obligations and potentially increase corn ending stocks by as much as 500 million bushels for the 2013/14 season. Corn futures declined in reaction to that story. In reality, no official limitation was proposed or approved. Secondly, the RFS only is only related to minimum usage and places no limitation on production. Consequently, any adjustment to 2014 RFS policy is likely to have a limited impact on total corn consumption, which could easily be offset by increased exports and domestic feed demand due to current low price levels. Such facts should become increasingly evident with the return of actual market data.

A gap exists in the release of weekly data from the U.S. Energy Information Administration due to the recent government shutdown. Data relating to ethanol stocks will not become available until Monday, October 21, and there is also a gap in data from the USDA's Ag Market News Service. However, USDA staff should be credited for their ability to publish the weekly differential between ethanol corn and co-products processing values after just one day on the job. While there is no prior week data, there is a significant year-over-year difference in implied returns for the week ending October 18 that exhibits the industry's current financial stability:

- Illinois differential was $3.41 per bushel, in comparison to $1.46 for this same week a year ago.
- Iowa differential was $3.04 per bushel, in comparison to $1.34 for this same week a year ago.
- Nebraska differential was $2.93 per bushel, in comparison to $1.39 for this same week a year ago.
- South Dakota differential was $3.28 per bushel, in comparison to $1.54 for this same week a year ago.

## COUNTRY NEWS

**China:** Shanghai JC Intelligence Co. Ltd has reported that China purchased 1.2 MMT of corn from the U.S. in October, according to Reuters. Chinese buyers have increased their buying of U.S. corn as the commodity is being offered at the lowest prices in three years due to a bumper harvest.

**Japan:** The Ministry of Agriculture has stated that it again received no bids from exporters of feed wheat and barley in this week's buy and sell auction, according to Reuters. Japan had sought to purchase 180,000 MT of feed wheat and 200,000 MT of feed barley, and will again be seeking the same amounts in next week's tender to be held on October 23.

**South Africa:** Yellow corn for December delivery increased by 0.1 percent to $224.18/MT, reports Bloomberg News.

**Ukraine:** Louis Dreyfus Commodities has entered into a joint venture with Brooklyn Kiev LLC to develop and manage a multi-commodity terminal in Odessa, reports Reuters. The new teriminal will ship corn, wheat and barley to Europe, Africa and the Middle East. The facility is slated to be opened in August 2014 and will have a grain storage capacity of around 240,000 MT.

Further on Ukraine: Reuters reports that Agriculture Minister Mykola Prysyazhnyuk has stated that the country's October grain imports has been raised to 3 MMT from an earlier estimate ot 2.2-2.3 MMT. He indicated that exports in November will also likely total 3 MMT. October shipments consisted of a ratio of roughly 50 percent corn to wheat, while November shipments will be dominated by corn.

**United Kingdom:** The UK may see its largest barley harvest since 1997, according to Reuters. The Department for Environemt, Food, and Rural Affairs has adjusted its 2013 barley forecast and indicated that this year's harvest may total 7.1 MMT, which is a 29 percent increase over last year.

## 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 | $55.50 | Down $2.00 | Handymax at $55.50/MT |
| 55,000 U.S. PNW- Japan | $32.00 | Down $1.00 | Handymax at $33.00/MT |
| 55,000 U.S. Gulf – China<br>PNW to China | $53.50<br>$30.00 | Down $1.50<br>Down $1.00 | North or South China |
| 25,000 U.S. Gulf- Veracruz, México | $19.50 | Down $0.50 | 3,000 MT daily discharge rate |
| 35-40,000 U.S. Gulf- Veracruz, México | $16.50 | Down $0.50 | Deep draft and 8,000 MT per day discharge rate. |
| 25/35,000 U.S. Gulf- East Coast Colombia, Argentina | $21.00<br>$32.00 | Unchanged<br>Unchanged | West Coast Colombia at $30.00<br>West Coast Colombia from Argentina at $40.00 |
| 35,000 U.S. Gulf - Guatemala | $28.00 | Down $0.50 | Acajutla/Quetzal - 8,000 out |
| 25-30,000 U.S. Gulf – Algeria | $39.50<br>$42.00 | Down $2.50<br>Down $2.00 | 8,000 MT daily discharge<br>3,000 MT daily discharge |
| 25,000 U.S. Gulf-Morocco | $42.00 | Unchanged | 5,000 discharge rate |
| 55,000 U.S. Gulf – Egypt<br>PNW to Egypt | $37.00<br>$41.00 | Down $2.00<br>Down $3.00 | 55,000 -60,000 MT<br>St. Lawrence to Egypt $36.00 |
| 60-70,000 U.S. Gulf – Europe – Rotterdam | $27.00 | Down $3.00 | Handymax at +$1.50 more |
| Brazil, Santos – China | $45.00<br>$43.00 | Down $3.00<br>Down $4.00 | 54-58,000 Supramax-Panamax<br>60-66,000 Post Panamax |
| 56-60,000 Argentina-China Upriver with Top-Off | $50.50 | Down $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:** Is the market up or down? That's a tricky question this week. Overall ocean freight markets are feeling softer, but it all depends on which market you are examining. The overall Baltic Dry-Bulk index is lower. The Capesize market is definitely lower for the week, which will cut back on the amount of "splitting" that has been occurring down into the Panamax market. The Supramax and Handysize indexes are up a little and the Panamax market is lower in the Pacific but slightly higher in the U.S. Gulf/Atlantic. Of course, it was the Panamax Pacific market that went so crazy over the last few weeks so it stands to reason that it was due for a correction.

We have basically reached the point where the market is feeling like it is topping out. However, vessel owners have gotten optimistic and want to hold out for what they hope will be better markets, but buyers are not willing to continue to pay up. So, we've reached a bit of a Mexican standoff. My guess is that the next move will be to the down side.

| Baltic Panamax Dry-Bulk Indices | | | | |
|---|---|---|---|---|
| October 18, 2013<br>Route | This Week | Last Week | Difference | Percent Change |
| P2A: Gulf/Atlantic – Japan | 26,861 | 25,593 | 1,268 | 5.0% |
| P3A: PNW/Pacific – Japan | 15,453 | 16,912 | -1,459 | -8.6% |

*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 18, 2013 | |
|---|---|
| Four weeks ago | $11.95-$12.75 |
| Three weeks ago | $13.10-$13.85 |
| Two weeks ago | $11.80-$12.80 |
| One week ago | $12.50-$13.95 |
| This week | $10.75-$11.40 |

*Source: O'Neil Commodity Consulting*

| U.S. – Asia Market Spreads | | | | | |
|---|---|---|---|---|---|
| October 18, 2013 | PNW | Gulf | Bushel Spread | MT Spread | Advantage |
| # 2 Corn | 1.35 | 0.95 | 0.40 | $15.75 | PNW |
| Soybeans | 1.75 | 1.30 | 0.45 | $16.53 | PNW |
| Ocean Freight | $30.00 | $53.50 | 0.60-0.64 | ($23.50) | 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 | $31 | $35 | $38 | $50 |
| | **Brazil** | $42.5 | $43 | $41 | $32.5 | $27 | $30 | $42 |
| **Corn (White)** | **Argentina** | $46.5 | $50 | $48 | $31 | $35 | $38 | $50 |
| | **Brazil** | $42.5 | $43 | $41 | $32.5 | $27 | $30 | $42 |
| **Barley** | **Argentina** | $46.5 | $50 | $48 | $31 | $35 | $38 | $50 |
| | **Brazil** | $42.5 | $43 | $41 | $32.5 | $27 | $30 | $42 |
| **Sorghum** | **Argentina** | $46.5 | $50 | $48 | $31 | $35 | $38 | $50 |
| | **Brazil** | $42.5 | $43 | $41 | $32.5 | $27 | $30 | $42 |

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 15, 2013 | | | |
|---|---|---|---|
| | **Current Week** | **Last Week** | **Last Month** |
| **U.S. Prime** | 3.25 | 3.25 | 3.25 |
| **LIBOR (6 month)** | 0.36 | 0.37 | 0.38 |
| **LIBOR (1 year)** | 0.63 | 0.63 | 0.66 |

*Source: www.bankrate.com*