DITSCH TRADING

February 2013
Month End comments

February was a choppy month as futures focused increasing attention on deferred bearish factors. In the meantime, nearby futures simply have not done enough to slow soybean and corn demand, suggesting significant upside potential in old crop futures and old/new spreads in coming months.

We now have data on US export inspections for the first six months of the marketing year. Soybean export inspections Sept – Feb were 1147.3 million bushels. Census is running very close to inspections this year, so this is a very good proxy for Census exports. It is interesting to note that over the past 20 years, it was the 2003/04 marketing year in which we experienced the most dramatic slowdown from 1st half to 2nd half exports (as well as overall usage). In 2003/04, 1st half exports were 81.4% of annual exports. If we apply that dramatic slowdown to this year, annual exports would still reach 1410 million bushels! USDA is forecasting annual exports at 1345 million. We have raised our forecast to 1360 million simply because the business is not shutting off like it needs to. The shutdown in US exports needs to be considerably more severe than the 2003/04 marketing year to bring exports down to either the USDA estimate of 1345 million or even my estimate of 1360 million. While we're at it, if US crush were to follow the same dramatic slowdown as 2003/04, annual crush would approach 1690 million bushels, well above our 1650 estimate and even more considerably above the USDA estimate of 1615 million bushels. To summarize, a slowdown equal to 2003/04 would imply a negative carryout. Because the demand has not been shut off yet, the job gets bigger than 2003/04.

At the same time, Brazilian lineups are growing, government issues in Argentina could limit their flow of soybeans and meal to the export market this summer, and overall South American production ideas are declining. I estimate South American production 6 MMT below the February USDA estimate.

I estimate US March 1 soybean stocks at a record tight 28.8% of initial supplies or only 925 million bushels. While demand will slow considerably in March, it is not going to be fast enough and I project June 1 stocks at only 365 million bushels, only 11% of initial supplies. The tightness is unprecedented.

The 2013/14 soybean balance sheet is tightening somewhat due to the reduction in South American production. I also still view soybean oil as tightening considerably over the balance of this marketing year and then significantly more in the 13/14 marketing year if federal mandates are not changed. However, nearby soybean oil supplies are burdensome and world vegetable oils are plentiful so this is a very slow developing story.

The old crop corn situation is much like old crop soybeans. When old crop corn futures were up around $7.50, there were signs that demand was slowing down. Now, however, with CK back around $7 ethanol margins have improved and ethanol production has increased each of the past four weeks. The corn carryout is tightening while lower futures are encouraging consumption (and shutting off farmer

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sales). Basis levels are at historical highs and I suspect this will spill over to futures in coming months. The market seems to once again be paying too much attention to the slow exports. To demonstrate how important domestic corn use is relative to exports – in the DJF quarter, weekly exports averaged 12 mln bu/wk while feed use averaged near 109 mln bu/wk, ethanol near 87 mln bu/wk, and other domestic near 25 mln/wk. In other words, exports accounted for 5% of total demand. Domestic markets rule.

Unlike soybeans, the new crop corn balance sheet continues to look quite burdensome with anything near normal weather. I think SX can continue to gain relative to CZ.

Regards,
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