June 2013
Month End comments

Old crop soybeans continue to tighten. USDA reported June 1 soybean stocks at 434.5 million bushels, only 13.5% of initial supplies, well below the previous low of 15.5% in 2004. This implied a higher than normal 3rd Quarter residual use and suggests that the March 1 stocks figure of 998 million (which was heavily questioned as being too high at the time), was indeed overstated. Typically, 4th Quarter residual use is significantly negative for a number of reasons, primarily due to early soybean harvest in August (i.e., exporters and crushers use soybeans that have not technically hit the balance sheet production yet) and 'find-back' of stocks that were in-transit on June 1. This year, slower soybean planting suggests a later harvest (fewer early bushels) and the June export program was near record small (suggesting small June 1 transit stocks). This implies that the 4th Quarter residual could be less negative than normal. The combination of lower than expected June 1 stocks, less early harvest anticipated, and small June 1 transit stocks have raised my annual residual forecast from 5 million to 15 million bushels. Strong cash markets also suggest tighter stocks/higher residual.

Although total US soybean stocks are the tightest on record, on-farm stocks are actually similar to last year at 171.1 million (vs. 179 million last year). On-farm stocks are down 4% from last year while off-farm stocks are down 46% from last year. On-farm stocks make up 39% of total June 1 stocks vs. only 27% in both 2004 and last year. Stocks in commercial hands were mostly for use in June/early July with some still in storage (in commercial storage but owned by the farmer thus unavailable for use until sold by the farmer). It is also worth noting that soybean stocks are well below year-ago levels in IL (down 47%), IN (down 40%) and NE (down 55%), well below in IA (down 29%) and OH (down 29%), but near to above last year in ND (up 2%) and SD (down 3%). Stocks are displaced and certainly not in the general vicinity of the eastern crusher, the export market, or perhaps most importantly the delivery market.

My old crop soybean carryout projection has dropped to 105 million bushels, 20 million below USDA with higher crush and residual more than offsetting my lower export and higher import projections. Crush margins remain strong. I am projecting June-August crush at 359 million bushels. It is tough to ration a market with strong margins. It appears as if old crop futures and old/new spreads have more work to do to get the on-farm stocks moving and/or slow demand.

As for new crop, USDA projected US soybean acreage at 77.7 million acres, in-line with expectations. They are projecting 10% of this acreage to be double-cropped vs. 7% last year, 6% in 2011, 3% in 2010, and 6% in 2009. The combination of more double crop acreage and later planting across much of the Midwest due to cool and wet spring conditions slightly lowers my mid-point yield. There will certainly be some yield drag on soybeans planted in July in Iowa and the larger than normal double crop percentage across the East and South. Using slightly lower yields for the later-planted states, my national yield estimate is 43.0 bpa. Final yield will obviously depend highly upon weather (particularly

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August weather), but this is the mid-point for now. Acreage could go either way from the June report. For the time being, I'll stick with USDA soybean acreage with a lower lean.

I am projecting new crop crush at 1675 million (20 million below USDA) and exports at 1440 million (10 below USDA), for a carryout of 195 million (70 below USDA). Higher South American stocks have some talking about much lower demand, but the US is clearly in the market for soybean exports mid-September forward. Brazilian stocks have been drawn down more than anticipated due to strong shipments to China (they are still quite adequate but reduced). Argentina stocks appear more burdensome on paper, but they are in tight farmer hands and are not willing to compete against US beans mid-September forward (the back end of a big inverse) for the time being.

USDA reported June 1 corn stocks at 2764 million bushels. This lower than expected stock estimate combined with the anticipated late corn harvest boosts my annual feed/residual estimate to 4500 million bushels and reduces my old crop carryout estimate to 679 million bushels, 100 million below USDA.

The big surprise from Friday's USDA reports was the higher than expected corn acreage at 97.4 million acres, nearly identical to their March estimate vs. expectations of down 2 million acres. They did reduce their harvested acreage percentage, reducing their harvested acreage estimate to 89.1 million bushels. The crop got off to a very slow start due to delayed planting, but USDA reported most of this 97.4 million acres had already been planted as of their survey date. Growing season weather has been nearly ideal thus far. If not for the slow start, the market would be talking about above trend yields. I'm willing to raise my corn yield estimate to 160 bpa, still below trend but above the latest USDA estimate, due to excellent growing weather. Corn historically yields best when weather is cool and moist. My new crop corn carryout estimate is 2,185 million bushels, nearly 250 million above USDA and due almost entirely to my larger yield projection.

With corn carryout poised to be over 2 billion bushels and soybean carryout somewhere around 200 million bushels, the SX/CZ ratio should continue to gain. SX/CZ should approach the 2.7-2.8 level. If the weather stays good, this probably happens by CZ dropping another 50 cents to $1 and SX sitting here or following reluctantly lower. If weather takes a turn for the worse, CZ could sit here while SX gains.

Regards,
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