# March 2013
# Month End comments

USDA once again produced another shocking quarterly stocks report, this time reporting corn and soybean stocks well above market expectations. Coming into the report, corn movement had picked up and cash markets felt a bit too weak for the record tight stocks levels expected. However, soybean cash markets firmed significantly into month-end, giving the impression that the record-tight trade estimates would be verified. Thus, while the corn stocks had the bigger market reaction (partially because the trade missed by a record 8%), the soybean stocks report was the bigger surprise to me as cash markets appeared to be painting the picture for record tightness.

The forward picture has always looked quite bearish, and last Thursday's USDA report has trade willing to press prices lower on the idea that the tight old crop balance sheets are "solved." It does appear as if we can skate by until new crop for corn. World feed grains remain cheaper than US corn even following the significant price break. This should limit corn exports (and promote corn imports) for the balance of the marketing year. On the other hand, US domestic ethanol and feeding margins have improved on the price break, so there could still be a few bumps on the road to new crop. We'll have to keep a close eye on demand pace for the next several months.

The old crop soybean situation continues to look quite tight, but the market seems to be willing to address this issue through strong basis levels and resulting strong spreads as the delivery month approaches. Like corn, trade sees the light at the end of the tunnel. World demand has been softer than expected, and pipelines are being drawn down due to the significant inverses that have been in place for many months. While the deferred soybean balance sheet does look much tighter than the deferred corn balance, trade is worried about this softening demand and the potential impact on the new crop demand base.

Obviously, the market is transitioning to the bearish new crop outlook earlier than I had expected. This suggests nearby corn and especially soybean markets can still have their moments. Provided the crop goes into the ground in a timely fashion and there are no major early weather threats, new crop futures will probably grind lower into the summer (and beyond if weather cooperates). With this downward pull on futures prices, the tightness in old crop soybeans will probably be reflected through nearby spreads – and with futures not helping to keep bushels moving – these old crop spreads could trade to historically high levels.

Regards,
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