December 2012 Month End Comments

Wheat was the downside leader in December, breaking out of the range that had been in place since July as it took too long for US wheat to become competitive and it became too late to tighten the 12/13 US balance sheet materially. We have come to the point, where we need US business to pick up in order to avoid a US carryout near 800 milbus. Wheat finished the month down 85 cents in Chicago, 82 cents in KC, and down 71 in Minneapolis. Corn followed suit on massive fund liquidation and continued non-existent export business. Old crop corn lost 54 cents in December with new crop down 36. Soy saw the smallest losses as beans rallied and gained on grains during the first half of the month. Old crop was down 23 cents with November down less than 2 cents. Meal lost $8.00 with oil down 53 points.

In corn, ethanol production margins continued under pressure, remaining in negative territory for both spot and forward. Export business continued to be non-existent. It is likely to pick up in the second half of the marketing year, but US corn may have lost its number one slot in the world export matrix for years to come. Despite extremely tight old crop stocks, rationing is taking place (at least in the export and ethanol sectors) and the market is focusing on the potential for record large US acreage in 13/14 and the implications of trend yields. The market could see a huge jump in supplies with record area and trend yields next year. After the January 11th report, the next big event will be the USDA outlook conference where they show their first new crop S&D's. The market may discount potentially huge stocks before the growing season even begins with old crop tightness being reflected through basis and spreads.

Wheat broke down in classic wheat fashion: finally get competitive and sell off. The problem is it is now too late to tighten the US balance – we needed to start doing better business about three months ago. And now we need to continue the better business in order to avoid a 750-800 milbus carryout. But the business should come as the Black Sea is done as is Argentina. HRW is now cheaper than both Argentine and German. SRW is the cheapest soft wheat in the world, even cheaper than Indian although India continues to do business. I still have a chunk of SRW business to both Egypt and the EU in my matrix, so this has to happen or exports will need to be lowered. US HRW crop conditions continue to deteriorate and there is no meaningful precipitation in the forecast. Most HRW crop estimates are centering around 850 milbus. Acreage is still unknown but carry-in stocks will be big and the real unknown may be demand for 13/14. US export demand in 13/14 will be very dependent on EU and Black Sea crop sizes in 13/14. There is, so far, no major concern regarding new crop production in the EU/FSU but much will depend on spring/early summer weather, and both the EU and Black Sea will be starting the year with very tight stocks.

Beans rallied early in the month on solid US and Chinese crush margins and China demand as well as concerns about flooding conditions in Arg. Nearby beans rallied to 1508 by mid-month but couldn't hold gains. A slew of Chinese cancellations along with increased rain in southern Braz/Paraguay caused beans to sell off into month- and year-end. The fact is that we are staring at an 82-83 mmt Brazilian bean crop and 50-55 mmt Argentine crop within a few months. China has already switched their focus to buying from South America, and the US export program is starting to wind down. It is hard to fathom how the market deals with record tightness in the US on March 1 but record South American supplies. What is value? The fact is that beans remain historically high priced with no big crop threats in South America and potential for record area in the US this spring. The supply distortions are historic and the US will have to ration supplies and slow crush for the second half of the crop year. The other factor is South American execution and whether they can handle record corn and bean export programs. As with corn, it appears that flat is too high priced and basis and spreads may have to deal with the tight old crop situation.

Regards,
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