May 2013 Month End Comments

May was a wild and humbling month. The main features were the extraordinary strength in beans and meal and widening inverses along with continued wet/cool weather and delayed planting. SN was up 111 cents with SX up 81. For the month, corn was up 10-12 cents but rallied 61 cents from the mid-month low of 512 as the weather didn't let up. Wheat lost considerably to corn and SRW priced in to SW feedlots. KC couldn't hold April's gains vs. Chicago as China bought SRW and HRW was not competitive in the world market. Minneapolis gained on Chicago and KC as spring wheat seeding was delayed and producers remained tight holders.

The feature in corn was weather as a wet/cool pattern persisted. Mentality went from rain makes grain to uh oh…is this 1993 again. There is significant area in IA, IL, MO, MN, ND, and WI that has yet to be planted with producers facing tough decisions on prevent plan, switching to beans, etc. Many have taken acres down and are also considering yield reductions. Pollination is expected to be delayed until the third week in July and it is now more important that weather is optimal at this time. Ethanol production continued strong with very favorable production margins along with waning blend margins. Cash markets remain very firm. I have gone through a worst case scenario with planted and harvested acres being lowered considerably and taking the high end off yields. The corn balance is still rather unexciting, however, with carryout centering around 1700-1800 milbus. I am leaning short again, but will be nimble if weather suggests further yield reductions may be necessary.

I'm not sure the old crop bean tightness has been resolved. Beans have moved both in the US and South America on the rally, and bean exports have all but stopped in the US for old crop. The meal business continues to outperform expectations, and as a result crop year crush forecasts are increasing, which should keep bean supplies running thin until new crop is available. The SN-SX spread ran up to 298 in late May before setting back to 200. It has since bounced and I wouldn't be surprised to see more fireworks before it's all said and done. Argentina is only guaranteeing meal at 46.5% protein vs. 47 normally which may keep our export program going longer than expected. The new crop situation is muddled with the late planting pace and unsettled weather pattern. There are significant amounts of beans as of yet unplanted, and given the extreme old crop tightness and expectations for China restocking in 13/14, the market may maintain risk premium and try to entice bean acres at the expense of corn until acreage is better known. Most in the trade are expecting lower corn acres and an increase in beans. The risk is lower in both if the weather doesn't open up (forecasts are not that promising currently). However, the run up to 1330 SX may have discounted a lot of this – I can envision a 1250-1350 range in the near term as acreage ideas are sorted out. The range on 13/14 ending stocks ideas is huge – think 250-400 milbus and it's hard to dispute either at this point. This will likely keep trade volatile in the near term.

Wheat was the big loser in May, but my ideas are a bit friendlier of late. US new crop export commitments are the largest in recent history with most of this SRW to China. My SRW feed ideas have also increased as SRW has been competitive vs. corn and even worked in southwest feedlots. There are also a number of other items which have tightened things up recently. India's crop may have been overstated and they may not be much of a factor in the world export market. Russia basically needs a 50-56 mmt crop to increase exports even 3 mmt from last year given the government wants to restock after

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letting supplies dwindle last year. They still have dryness issues in a few areas and spring wheat seeding in the east is well behind normal. The EU has been extremely cool and wet with tonnage and quality ideas coming down. Egypt under-bought last year due to lack of financing and may need larger quantities this year. In addition, China demand has been present on breaks – they fed too much wheat last year and I feel their grain stocks drawdown may have been rather severe over the last couple years. Also, US spring wheat acreage ideas are declining. Adding all of this up, the major exporter balance is expected to tighten vs. last year and the severity will depend on final crop outcomes in major areas as well as demand out of Egypt and China. US SRW is cheaper than corn and most in the trade seem stuck in bear mode.

Regards,
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