July 2013
Month End comments

July was one of the coolest July's in history across the US Midwest. It was also drier than normal (much drier than normal in some key areas), but the lack of heat combined with the excess soil moisture carried in from June allowed for excellent crop development. While the late planting problems undoubtedly reduced yield potential in some areas, favorable weather (specifically cool weather during pollination) has certainly increased US production ideas for corn. August weather is much more critical to soybean production, but cool forecasts with scattered showers across the driest areas are raising soybean production prospects as well.

National corn yield could reach 160-165 bpa and soybeans could reach 43.5-45.5 bpa. If realized, 2013/14 carryout levels will reach adequate to burdensome levels. Corn carryout would exceed 2.2 billion bushels and perhaps 2.5 billion bushels. Soybean carryout would approach 300 million and perhaps 400 million bushels. This is a huge fundamental shift from the tight markets we have dealt with not only over the past year but over much of the past 5 years. Perhaps even more importantly, South American soybean production ideas are increasing. The Brazilian Real is trading 2.3, the weakest since 2009 and compares to near 2.0 for much of the past year. This increases the amount of Brazilian currency farmers receive for their crops. Several privates are suggesting Brazilian production could reach 86-90 MMT in 2014. This compares to the current USDA projection of 85 MMT and the record 82 MMT produced in 2013. If realized, world soybean supplies would push to record levels by next summer. Even if one considers that China holds relatively high stocks of soybeans versus their historical norm, Western Hemisphere supplies would still push to record absolute levels and near-record as a % of annual use. With the plateau in US corn demand for ethanol finally being felt, world corn stocks would push to levels that would require reduced corn/feed grain production around the world for the first time in 6-7 years. While this is more likely to happen in Brazil and/or Europe/FSU first due to their higher cost of production and transportation, the US will likely need to cut back next year as well.

If world weather remains 'normal' through next spring, it appears quite likely that the function of the corn and soybean markets will be to reduce acreage and/or increase demand in coming years. Obviously, this is a major change from the 'expand production' markets experienced since 2007. I expect prices to grind progressively lower in this environment. Ultimately, prices probably need to push down towards or even below cost of production. Chinese restocking and producer resistance to lower prices likely provide some support along the way, but increasing world stocks over the next 12 months suggest that will not be enough to stop the lower trend.

Regards,
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