November 2012
Month End comments

The soybean complex retreated further in November, responding to yet another increase in production from USDA. It is my view that futures have likely now fully reflected the lower US production while partially ignoring better demand prospects. The short South American crop is really showing now. South American soybean shipments have essentially shut down for the season. More importantly, South American crush rates slowed significantly in October, presumably due to tight supplies. This is supporting US soy product demand. I believe USDA is significantly underestimating annual US crush demand and thus overestimating September 2013 supplies.

This tightening balance sheet suggests that US soybean supplies are likely to run very thin in March through August of 2013. Demand is strong enough and meal exports are large enough that US crush could approach 1675-1700 million bushels if the beans were available. However, I feel soybean supplies will effectively run out and this will force crush to be rationed down to about 1625 million. This is still 65 million bushels above USDA. It just appears as if the US will crush soybeans until supplies run out. This should support cash values, spreads, and flat price levels.....and should eventually weigh on crush margins in the back half of the marketing year as the lack of supplies support bean prices relative to products.

US cash markets have firmed significantly over the past few weeks. Domestic markets are strong, but the gulf market has really exploded. River issues are likely to cut off origination north of Cairo from mid-Dec onwards, perhaps through mid-Feb. However, it is important to note that gulf basis levels are very firm and sharply inverted today, even ahead of the river problems. This suggests much of the cash strength is simply that the industry needs more origination, yet ironically futures and spread markets are confused and thus not responding like they normally would. Flat price levels seem content to trade favorable South American weather for the time being, but this pipeline need is potentially very friendly to spreads (at least SH forward) as well as flat price levels.

The bottom line is that South American crush slowing earlier than anticipated implies the US soybean balance sheet is tightening further. The market anticipates a further increase in US production in the January report, but it appears as if higher production will be necessary. Without that, about 100 million bushels of soybean demand probably still needs to be rationed over the next 9 months. South American weather is favorable enough today that the market still forecasts near trend yields there, but that can change too. I view soybean complex futures and spreads turning fundamentally more bullish over the next several months.

The corn balance sheet remains intriguing, but I view corn as somewhat overpriced relative to soybeans at this time. Corn and wheat markets are still in a trading range but likely to find support at the bottom of the range with considerable upside potential in 2013 as the world has to turn increasingly to US grains.

Regards,

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