



October 2012 Month End Comments

For the past two months, the soybean market has focused almost entirely on increasing US yield prospects. Last week, two well respected private analysts projected soybean production at 2959 and 2925 million bushels respectively. This is 65-99 million bushels above the October USDA estimate and 291-325 million bushels above the September USDA estimate. These were, however, in line with my impression that trade expects a 50-100 million bushel increase from October. At this time, I am forecasting a 74 million bushel increase with 38.8 yield.

These progressively higher production estimates have weighed on market sentiment for the past two months. The market has been fixated on the supply side. I continue to believe that the unrealistic demand projection in the Sept and to a lesser extent in the October USDA reports have lulled the market to sleep on the demand side of the equation. Export inspections through Oct 25 were 309 million bushels, above even my aggressive estimates. I have raised my annual export projection to 1350 million bushels due to the stronger than expected start, lower Chinese production (now seen in the 10-11 MMT range against USDA 12.6 MMT), more need for protein in world rations as corn displaces wheat, and my ongoing skepticism that the market is overestimating the ability for South America to nearly fully take over world soybean and meal demand by mid-February.

Strong crush margins, export meal demand, and not overwhelming but adequate farmer selling of soybeans at harvest should also result in strong US crush rates. It will be interesting to see the Oct NOPA crush number. My annual crush estimate is 1585 million bushels and remains severely rationed March forward. Thus, with a production estimate 74 million above USDA, my carryout projection is still an intolerably tight 75 million bushels, 55 million below USDA due primarily to a demand base at 3055 million bushels (135 million above USDA) which is still rationed. Even more importantly, my March 1 stocks estimate is only 836 million bushels, or only 26.7% of beginning supplies. This is the smallest in recent history, both in terms of absolute number and percent of supply. This means that approximately three-fourths of the crop needs to be in the pipeline by the end of January.

All of this should support soybean futures and spreads over time. However, in the short-term, Chinese soybean and meal supplies are heavy nearby. Their margins are under pressure. Substitute proteins have displaced soybean meal in Chinese rations over the past few months. The government has sold about 3 MMT out of government reserves. Moving forward, we expect these substitutes to be less available and government auctions to be less successful as they have probably already moved the tonnage they felt they needed to move and their selling ideas on further tonnage is higher.

The market continues to expect record South American production, but there is a bit more nervousness about achieving lower 80s MMT in Brazil and upper 50s MMT in Argentina. South American weather will be increasingly important over the next few months. This year, the ability for Brazil to export heavily early will be just as important as their final production. It should be interesting. All in all, I expect soybean futures and spreads to find support at the lower end of the range with considerable upside potential in 2013 as trade better understands the demand side of the equation.

My views on the corn and wheat markets are similar - 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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