



April 2013 Month End Comments

Grain and oilseed markets traded in a very choppy and volatile fashion during April. The same question marks surrounding old-crop supply/demand remain. In corn, domestic basis levels remain very firm as ethanol production margins have improved, and even some export demand has been found at these price levels. In soybeans, a low pace of bean and meal exports from Brazil and Argentina has supported US old crop demand longer than anticipated. In both crops, old-crop supply is tight following the drought last summer and this will continue to create a volatile trading environment for some time to come.

However, we were expecting markets to calm down slightly and become a bit more forward-looking with the advent of the summer growing season. Unfortunately, winter just doesn't seem interested in giving up this year. April 2013 was one of the coldest Aprils on record. Additionally, rainfall has been very heavy during the month. The state of Iowa is reporting a record April precipitation total with data spanning back more than 100 years.

The cold temperatures and rainy conditions have slowed corn planting progress to the lowest level in recent history. While there is a very poor correlation between planting date and final yield, the market is rightfully concerned about losing crop area in some parts of the country and a corn crop that might pollinate in a very narrow timeframe during what might be warm summer conditions.

This concern over acreage and potential pollination complications has the corn market quickly looking to add risk premium back into new crop values. Additionally, the late planting means less new crop supply will be available to offset demand on the old crop balance sheet (basically an accounting issue), and this has led to a resurgence in the old/new spreads.

The bottom line is, the trading environment is very tough right now with no clear direction going forward in the short term.

I remain bearish to new crop corn values. The delay in planting has done little to change my long-term perspective on corn prices. There is very little historical correlation between planting date and final yield; last year saw record-fast planting, and we know how that turned out. Although ethanol demand and export demand have improved marginally, with anything close to normal weather this summer the market will be extremely well-supplied. The excessive moisture is currently causing havoc in terms of planting progress, but I believe it to be a blessing in disguise as it quickly replenishes soil moisture after last year's very tough drought.

I remain bearish to wheat values as well. There is nothing to change here. Weather for SRW Wheat has been fairly strong all winter long, and conditions in HRW Wheat appear to be improving. There will be some losses due to freeze in extreme western portions of the Plains, but I believe recent improvement in moisture in central/eastern areas will offset those losses. Furthermore, US wheat values have priced themselves out of both the feed channel and exports, so demand will be lackluster at best. Wheat is usually a very choppy market, but I still believe prices are headed lower in the long run.

I have established a short position in new crop soybeans. With some loss in corn area likely, much of that will get planted to soybeans instead. That scenario combined with a longer "tail" on South American exports into the new



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crop marketing season makes for an increasingly negative situation for US soybean values. The old crop soybean situation is still very tenuous however, and we will have to pay very close attention to US crush and export sales going forward.

I remain negative to cattle prices in the long term. Weather conditions are going to slowly improve pasture conditions in the plains, and this will gradually lead to an eventual rebuilding process in the US cattle herd. This will clearly take several years, but the psychological impact on the futures market will be felt more immediately. The speculative fund interest in cattle futures will be lost and the market will drift slowly lower over the course of time.

Regards,
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