April 01, 2013 **#1318**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Grain Recommendation: USDA Report makes it easy! No sales. Be patient. End users should be getting coverage for their fall needs and 2014 feed needs. Cover at $5.35 or better basis December 2013 and July 2014 under $5.60.

MNU's: Frustrated works for this report, as does getting our MNU's out to everyone. This month Ag Masters switched over to another server so that the few problems we were having were corrected. We are now sending our Market News updates from agmasters@agmasters.net instead of agmasters@abbnebraska.com, more Subscribers are having difficulty in receiving their MNU's. Because of this change, your computer now MAY NOT recognize the new email address and your mail from Ag Masters may now be going into your junk mail or your spam filter may be blocking our mail to you. If that is the problem, please approve us on your mailing list. Also, contact Ag Masters IMMEDIATELY if you don't receive at least one email per week and no later than Sunday morning. Don't wait a month to tell us. PLEASE!!

USDA: Every question since last Thursday has been about the USDA's numbers. We would explain them, if we could. Consistency has not been their strong suit. All we can do is look at their numbers in wonderment. Ask us to explain the unexplainable. The best we can do is by restating this: **we understand the USDA's mission is to provide the world with cheap food.** If that is correct, than they continue to do their job very well. And remember our statement that fundamentals don't matter until they matter? It never mattered to corn last year until June 18. So as long as the USDA has the pen that all Funds follow, it won't matter until they (the Funds) believe supply is being threatened. The USDA will do its best to insure it does not. That threat to supply will have come from weather, as the USDA will not provide numbers which create any major rally. So let's look at market factors which do matter; at least, to us.

Basis: Everyone needs to pay close attention to their local basis. When you have time, drop us a note and let us know what your basis does later this week and into next week. We do not believe producers will be marketing grain with this break in futures. If end users become needy, basis will rise. For the last six months, we have said if the Funds don't want to dance, we will get our price out of the basis. The USDA is keeping Funds away from any dance. Basis levels are a true indication of supply and demand. Before this report, basis levels had been reaching record highs for this time of year, telling everyone supplies are tight. Yet, the USDA says the buyers in the market are clueless. Supplies are more than adequate. So who is right; the market or the USDA with their mighty pen? Can they "write in" that extra 400 mb so we can have it to feed or is it just a paper Bear used to push prices lower? Time and patience is what will be needed to see this game to its end. If supplies are not here like the basis has been telling us, basis will now rise faster than ever. Grain is in tighter hands than ever before. Producers get stubborn and with planting next on their agenda, bin doors will be very difficult to pry open in a few short weeks. The weak producers have already cashed in their chips. Now is when the rubber meets the road and the stare down begins. The producers took a big hit these last two days. If they take their grain and walk away for 2 months, we say the buyers jaw is the one which will hit the floor.

Price vs. Demand: So what happens when price drops? Yes, demand rises. And what we have seen, unlike decades before, demand rises very quickly when profit levels rise to the end users; relatively speaking. This may indirectly be from what we have termed "just in time" inventory. If everyone is just squeaking by on fumes and then you have a price break of about 14%, interest perks up quickly. Watch how much exports jump. That will be more bushels off our carryover; carryover we still believe is tighter than the USDA prefers us to know.

Interesting Questions: Where does the USDA come up with another 300+ mb of corn? That is the question all are trying to figure out. If we try to follow their numbers, we only get confused. Their Sept-Nov (first quarter) feed use was up about 13% from last year. Now this second quarter (Dec-Feb), our animals went on a low-protein diet *(while soybean crush was running at record pace)* dropping feed use by about 30% from last year *(that is a whopping 43% swing, a record move either way)*. How in the world can feed demand change so much quarter to quarter? It can't. This number cannot be real. We have more hogs, more turkeys and more chickens on feed. We can drop the amount of corn used for feed if we can find a replacement product. They have been talking about more wheat being fed, but they raised wheat stock showing nothing coming from wheat. Don't forget what they did just two years ago. The USDA found an unknown stash of about 300 mb of corn in a quarterly stocks report, but lost the same in the next. Knowing how this game is played and how this is most likely more of the same, one has to believe buyers are chomping at the bit to get back in.

Integrity is a word once used in our data reporting system. It holds no value today. The system is now geared to allowing Funds more room to dance. As new young guns come to the table trading OPM (other people's money) with no worry about how much they could lose (like our government), their game table has been expanded. It used to be 10 cent limits on corn and 20 on soybeans; now its 40 and 60, respectively. For them, fundamentals mean nothing. It's a game played on headlines, algorithm-based trading programs and high-frequency trading computer systems. Once their sells programs all kick in, nobody has the money to stand in their way.

We have asked everyone to watch the futures spreads in corn. You can see how the front month has been leading, with that lead expanding over the last months. This gives us a better view of the overall supply/demand situation. It has continued to point to the longer-term bullishness of the corn market. This strength in the lead month has been running true since December. When March futures went off the board, May continued to gain on July. This fact confirms what we stated before this report; that the stocks situation is tighter than what the USDA just reported and that our 2012 production was also smaller than USDA's says.

Our statement the fundamentals don't matter until they matter is becoming truer every day. We must accept the fact that Fund money and money flow has created an important shift in market dynamics. Anyone who still believes that investment money will ultimately follow fundamentals is only fooling himself. Funds have become "the markets" and they do not have to be concerned with supply and demand when their computers are making them money by moving the markets in the other direction. Fundamentalists with shallow pockets who attempt to take on this freight train and/or don't have good money management skills will not have a chance against the new market fundamental. Money rules and big money rules, absolutely. If you are not sure about this, look at what happened to wheat and soybean prices. Their numbers were not bearish. In fact, they were neutral to bullish. Yet, the Fund Train ran them over. They were just in the way.

<u>What We Hear</u>: From all over we hear the same; the grain (corn) is not there. Subscribers tell us their neighbors grain bins are mostly empty. We heard this last year. We have heard it more this year than last year. The grain piles were not as big as last year, which was also a short crop year. The smaller grain piles got picked up sooner. The fear factor was in play again this year and moved many bushels, once again. And, of course, the basis has been higher than last year at a price level that is also much higher than last year. We continue to hear from elevators telling us the same. Some are saying their supplies will be gone by June. Others say theirs will be gone in July. Soybeans have the same issues. We are told soybean supplies could be used up by June or July. Just look at the numbers. The NASS report came up with about 1 bb for stocks, just 27% less than last year. That number is the 2nd lowest since 1988. Even though this is bullish, it was a number over 5% higher than the average trade guess. And we all know it's not about the number, it is how much different the number comes in from what the market's average guess is. Now look at that number again. It is the 2nd lowest supply number for the 2nd quarter. One would think that is bullish. We stand pat, arguing all exports must cease from here forward or price must rise to reduce demand *(based on USDA's own numbers).* That said, we will report Thursday's export numbers every week. Pay attention to the count. Based on the USDA's numbers from February 28th, we were at 106 mb carryover as of March 21. Last Thursday, we exported 2.4 mb old crop and 22.4 mb for 2013-2014. Our 106 mb is now down to 103.6 mb. *(Don't trust this number as we are using those provided by the USDA.)*

<u>Oil World</u>: We were amiss last week, forgetting to let you know Oil World reduced South America's soy production by 2.2 mmts. That is significant. Such an admission would move price. Will the USDA admit to this reduction? They chose not to in Thursday's report. We will see if they will on their next chance, which comes to us on April 10, when the USDA comes out with their next supply/demand report.

<u>Other Thoughts</u>: The USDA says we will import 125 mb of corn this marketing year. We hear of corn coming into the U.S. from Argentina & Canada. Why are we going to be importing corn when the USDA now reports a record drop in feeding and now, what should be on April 10, 2013, a record rise in old crop corn stocks? Which is true? Is it true that since every acre got planted in our northern states that they can now prevent plant corn and make a huge profit? We were just wondering, since they might get that chance. How about a bullish argument for increased 2013-14 corn demand? CME Light Sweet Crude Oil has been trading in the $89 per barrel price range or better for the time period equal to 2013-14 corn marketing year for (September 2013 through August 2014). Fuel blenders throughout the world should be aggressive buyers of ethanol when they net more from ethanol than crude. There is a **crude model (pun intended) which has a relationship, when backed into a corn price, that looks something like this: corn at $7.00 per bushel in ethanol blending <u>aggressively occurs</u> when crude is above $96 per barrel, $6.50; $90, $6.00; $85, $5.50; $80 and $5.00; $75**. The current crude future is around $90 per barrel for the 2012-2013 corn marketing year. This would indicate corn would have to roughly move above $6.50 per bushel in 2013-14 before aggressive purchases would end. The December 2013 CME corn future is around $5.50 per bushel. This would indicate aggressive ethanol purchases would occur until crude oil goes below $80 per barrel. An aggressive worldwide ethanol market could have US ethanol producers back using **<u>5.0 bb of corn</u>**. **This is 350 million bushels higher than USDA's early estimate for 2013-2014.** Non-USA Worldwide use of corn could grow just over 4% next year. *(This growth rate or better has occurred in 5 of the last 12 years.)* **In 2012-13, world corn use declined 2.7%**. The last prior decline occurred in 2008-09. That year corn consumption was down 2.6%. **The next year, 2009-10, <u>non-US World use increased 4.5%</u>**.) **If non-USA World** corn production comes in at 602 million metric tons *(4% larger than this year's 2012-13, record production of 580 million metric tons),* consumption is around trend line and ending stocks experiences a minimal drop, then US corn could find a home for 2 billion bushel outside the country. **<u>This projection is 500 million bushel over USDA's early estimate</u>**. **Using these projections, corn use for 2013-14 could be <u>13,860 million bushel</u>**. This is at the upper limits of US corn usage and **<u>850 million bushels higher than USDA's preliminary estimates</u>.** <u>USDA's first official look at 2013-14 will be in the May 2013 WASDE report</u>**.**