**February 19, 2013** **#1310**

# LOOKING FORWARD WITH A BACKWARD GLANCE

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**Grain Recommendation:** No sales. John Deere low comes to us again.

**Changing Weather:** We go from above normal temperatures to normal to below normal. Is the weather changing? It is difficult to stay above normal consistently. Also, weather changes at this time of year usually do not dictate spring and summer weather conditions. We hate to say it, but patience still applies when it comes to what will occur within the U.S. borders this year. Our next storm front begins working in on Wednesday with most of the snow falling here on Thursday. This will hit a good portion of the Midwest with some areas picking up over a foot of snow. This event has come to us thanks to the instability of the SOI. Over the last few months, it has sharply spiked to El Nino conditions for a week or so at a time, revitalizing our southern jet stream. When this is combined with the stronger push of colder air from the north, something we really never experienced last year, we get much more unsettled weather. But this does not change anything for our summer weather. Drought conditions in the western corn belt are 2 drought categories stronger than last year. Many areas are experiencing 12 inch water shortages. Our SW plains are experiencing very similar conditions. Given current moisture conditions, with “non-extreme” weather this summer, our U.S. corn should yield around 152 bpa. Add any additional stress and yield would fall below 150 bpa. Based on current trends, 145 bpa would be a fair yield projection for 2013. We will refine that projection in April.

Extremes in weather have been on the plate for most countries for several years. We know from experience, crops don’t do well under extreme weather conditions. Central India suffered from a significant rain and hail event last week, damaging their small grain crops. Guesstimates are running from 10% to 30%. France’s wheat crop was rated 82% good/excellent. This year it is now down to 66%. Their crop has suffered major deterioration over the winter.

**Gas Prices:** Refineries continue to close for maintenance as well as switching over for summer blends. It is unusual for this rally to come this early and this sharply. Some are trying to blame high oil prices. But crude has moved little compared to RBOB. In fact, last week when crude was trading down $1.70/barrel, RBOB was up .01/gal. Do we need to be scared of the future? The normal timeframe for the largest part of our normal spring time rally still lies ahead. If normal hits us from April through May, we will need to plan on gasoline prices, at the pump, to easily clear $4.00/gal. This will put pressure on approving the Keystone Pipeline. Have you checked diesel fuel prices? When we said check fuel prices last month, as a producer, we don’t use gasoline. We use diesel. We certainly hope we don’t have to specify diesel when we say fuel. While heating oil has risen just 25 cents on the board, RBOB rallied 30 cents. RBOB broke higher out of a consolidation formation last Thursday, forecasting another 30 cent wave higher. Heating oil has not followed RBOB’s latest move higher. Look for gasoline prices to move to $3.90, at the pump over the next month, based on technical considerations.

**Tidbits and Short Notes:** Meal exports of 1.11 mts have been running well above projections; most likely caused by the reduction of DDG’s. NOPA’s crush for January was at 158.2 million. That projects an increase over last year of 10% while the USDA has it forecasted to drop by 5.2%. They are always behind the curve in an increasing demand market. NOPA soymeal exports for January were 2nd only to the record set in December 2009 rate at 1,117,561 short tons. The NOPA crush rate the first 5 months of this marketing year is 748.7 mb, which exceeds the pace needed to reach USDA’s projected crush rate by 77 mb. As of last week, soybean export sales pace exceeds USDA’s target by 162 mb. Our carryover is just 125 mb. You do the math. Exports must slow to a crawl immediately. This next month will be critical. USDA’s March projections will be very interesting if exports stay strong through February. Abares, Australia’s reporting agency, says their wheat crop is unscathed by this year’s floods and fires. They increased their crop yield forecast from 22 mmts to 22.1 mmts! In China for January, their soybean crush margins are close to record highs. Our price is now nearly back down to the same price we had the first week in January. Goldman Sachs didn’t care for the February break, so they cut their price forecasts for corn, soybeans and wheat by $1.00 to $2.25/bu. The herd mentality gets lost on us. Good or bad, that is the way it is. Ag Masters does not go along to get along.

**Argentina Woes:** It's only two months until Argentina's soybean harvest, but their farmers are not selling. With Argentina's economy slipping ever deeper into crisis, producers don't want to give up the one asset they know will maintain value. Argentina farmers have only committed 10% to 12% of the coming soybean crop, with normal being around 50%. They're also not selling what is left of the old crop, holding 3 mmt in stocks, according to the government. Argentina's economy has been unstable for the last few years, mainly due to the government's unwillingness to take tough measures to control inflation. With prices estimated rising at more than 20% per year since 2009, farmers have made a habit of holding on to some soybeans as a dollar-linked insurance policy. But as the economy deteriorated over the last six months, farmers now wanted to hold on to as much as possible. The problem for farmers is that soybean exports are forcibly converted into pesos at the official rate rather than the open market rate. In effect, there is a 33% discount on the soybean price paid to farmers, on top of the existing 35% soybean export tax. *(And we think we have it bad*!) The farmers' retention strategy has dire consequences for the immediate balance of payments situation and government finances. It is rumored that the government will announce an increase in the soybean export tax later in the year to force nearby selling. Another rumor is that it could restrict the sale of silo bags, the ubiquitous low-cost storage solution farmers use to store grain for up to a year. A third rumor is that the government plans to create a grain board, which will oversee the sale of all soybeans, corn and wheat. These rumors gain more credibility when the Argentine Tax Authority announced it would conduct a survey of on-farm soybean stocks and is now knocking on farmhouse doors! Every day that passes, the economic situation worsens, with the population speculating when a new economic plan, and maybe a new currency, might be introduced. Farmers will try to stock beans for as long as the crisis lasts, preferring to sell corn when necessary. But with credit at a premium, farmers can only hold out for so long. Their delays in selling only pushes more sales to the U.S.; sales which will only create tighter supplies here and higher prices.