

Agriculture Digest

The Next Shoe to Drop for Row Crops

- **CBOT corn flat price, new-crop levels and structure have all markedly weakened in the past ten days and are in line with our previously published [views](#).** Prices for December (Z3) corn have fallen below US\$500/bu to US\$480/bu and could ease another 10-20 cents from current levels albeit US\$450/bu should provide support. Favorable pollination weather materializing across most of Midwestern farm-belt would need to persist through early August and could then take corn another leg down. This is a contrast with small grains where we expect wheat price stability to hold and for the wheat-corn premium to grow to north of US\$200/bu in coming season (particularly if Chinese imports strengthen from North American origins). Weekly US corn crop ratings have been trending modestly lower to 63% Good/Excellent on 21st July versus 66% prior week and a T5Y average (ex-2012 drought) closer to 68%. But given size of 2013 sowing and fact adequate rainfall has come to fruition, prospect of yields remaining in high 150s (+28% y/y, +2% versus T3Y ex-2012) suggests record domestic harvest just shy of 14-bn bushels; allowing US stocks-to-use to double y/y to 14.1% during 2013/14. *Futures trading involves substantial risk of loss.*
- **We reiterate our short September (U3) – December (Z3) CBOT corn spread trade recommendation which has declined 10% since mid-July to US\$28/bu. We expect this calendar spread will expire near flat or modest carry per recent cycles.** While cash markets still need a strong bid to ration use this impetus can start fading harder in August. With ~550-mn bushels of early harvest maize available by 2012/13 carryout—a tight September market should muddle through as delivery logistics that month typically allow corn to get to the USGC only by early October and corn reaping should be progressing throughout the entire country by then. Reduced corn prices have led to a surge in ethanol margins but we expect output to remain at 860-880-k b/d in August. *Futures trading involves substantial risk of loss.*
- **November (X3) beans have outperformed its row crop brethren. Prices mostly unchanged since mid-month although in past few sessions back-end bean contracts have also begun easing as have spot markets.** As corn sell-off continues its grind lower and as silking progresses, new-crop soybeans might start declining next. We still forecast US\$100/bu downside for Nov beans from current levels to around US\$1140-1160/bu. Soybean pod setting and maturation will occur later than corn (around mid-August) and if that outlook appears favorable in affinity to what is happening for corn, new-crop soybean prices could fall quickly below US\$1200/bu. *Futures trading involves substantial risk of loss.*
- **Data from CFTC on trader commitments and conversations with market participants lead us to believe that a segment of investors are short December (Z3) corn but long November (X3) beans as a hedge.** The near-month soybean/corn ratio has averaged ~2.3x over the past five years but has blown out to 2.75x today. Interestingly, 2013 Nov beans/Dec corn ratio has also surged to all-time highs north of 2.6x. To be sure, old-crop beans do remain difficult to source and we have argued for strong inverses to persist. But we think bullish new-crop soybean structures are poised to unwind. With managed money community quite negative on corn and in greater control of soybeans (positioned with 1/3 of outstanding OI for beans versus 1/4 for corn) we expect the soybean shoe to possibly drop hard after August (Q) expiry. *Futures trading involves substantial risk of loss.*

- Commodities
- Agricultural Growth

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Figure 1. Row Crop Prices (2011 – Present)



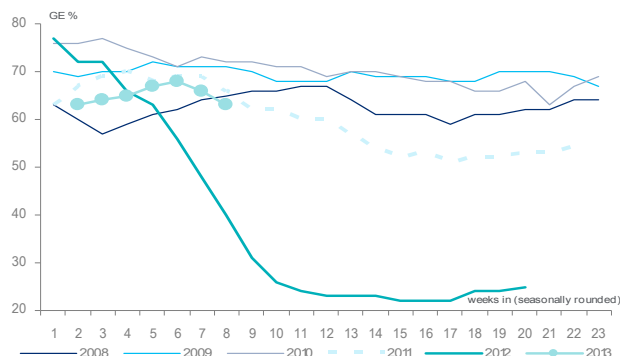
Source: Bloomberg, Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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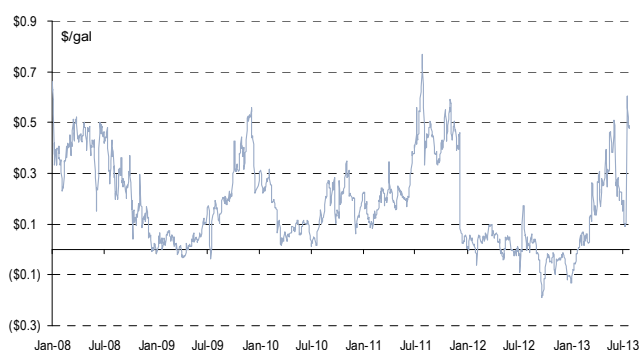
The Next Shoe to Drop for Row Crops

Figure 2. US Corn Crop Conditions



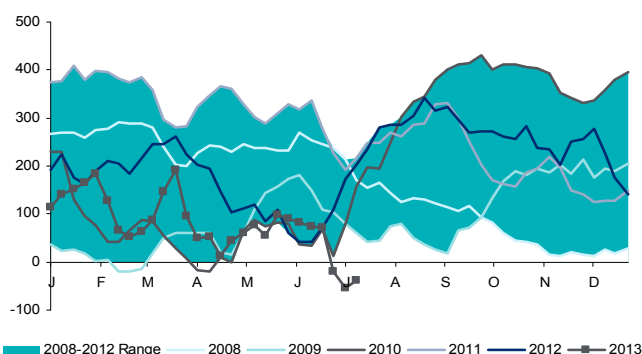
Source: USDA, Citi Research

Figure 3. Simple Dry Mill Ethanol Plant Margins



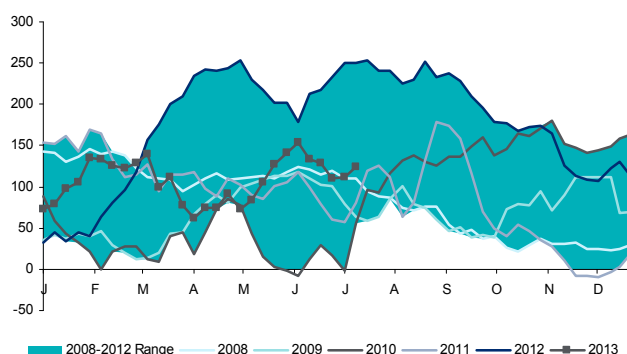
Source: CME, Citi Research

Figure 4. Money Manager Net Length (F&O, 000s lots): CBOT Corn



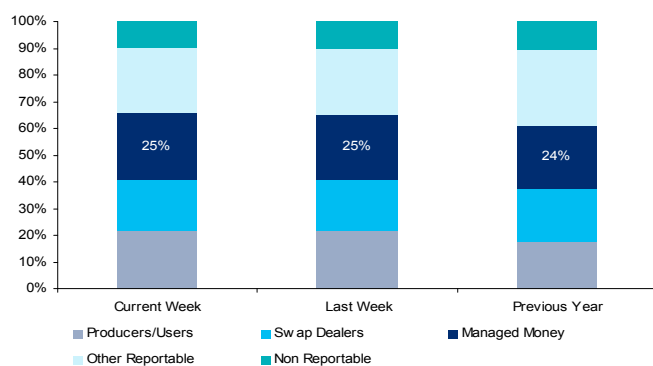
Source: CFTC, Citi Research

Figure 5. Money Manager Net Length (F&O, 000s lots): CBOT Soybean



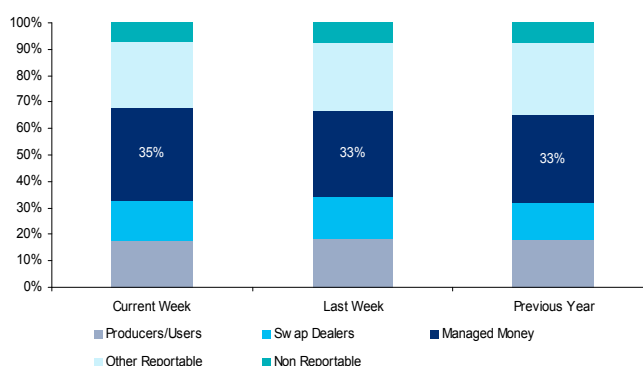
Source: CFTC, Citi Research

Figure 6. Open Interest by Category: CBOT Corn



Source: CFTC, Citi Research

Figure 7. Open Interest by Category: CBOT Soybean



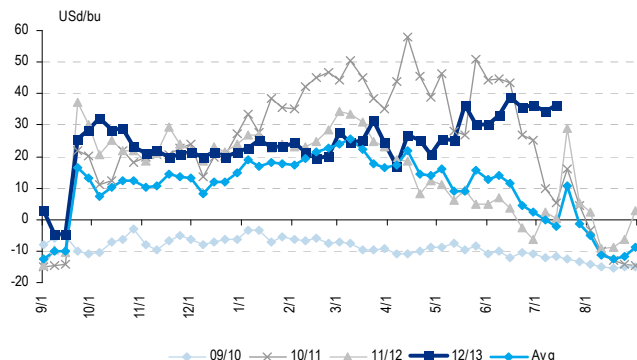
Source: CFTC, Citi Research

Figure 8. CBOT Grains Price Outlook

Jul-13	2010	2011	2012	0-3m	6-12m	1Q13	2Q13	3Q13f	4Q13f	2013f	1Q14f	2Q14f	3Q14f	4Q14f	2014f	11 vs. 10	12 vs. 11	13 vs. 12	14 vs. 13
Corn (USD/bu)	428	680	695	550	493	715	661	550	495	605	485	500	520	520	505	252	15	(90)	(100)
Wheat (USD/bu)	582	709	750	670	703	738	695	670	685	695	700	705	700	720	705	127	41	(55)	10
Soybeans (USD/bu)	1049	1317	1465	1300	1160	1448	1468	1300	1175	1350	1150	1170	1170	1140	1160	268	148	(115)	(190)

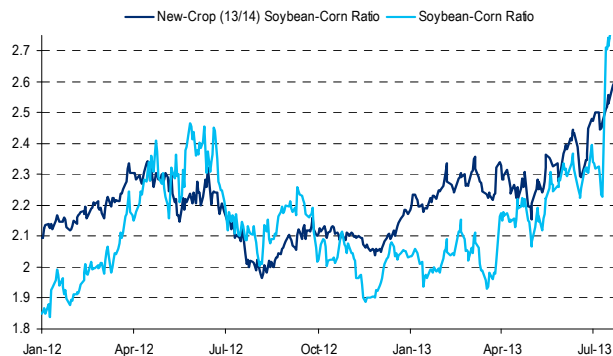
Source: Citi Research, *subject to revision; last updated 15 July 2013 (see: [Agriculture Commodities Easing](#)).

Figure 9. Sept (U) – Dec (Z) Spread: CBOT Corn



Source: Bloomberg, Citi Research

Figure 10. CBOT Soybean/Corn Ratio (Prompt and New-Crop)



Source: Bloomberg, Citi Research

Figure 11. US Corn Balances*

Millions of Acres Millions of Bushels	USDA Estimates				Citi Estimates		
	09/10	10/11	11/12	12/13	13/14	12/13	13/14
Area Planted	86.5	88.2	91.9	97.2	97.4	97.2	96.5
Area Harvested	79.6	81.4	84.0	87.4	89.1	87.4	88.2
Percent Harvested	92%	92%	91%	90%	92%	90%	91%
Yield per Harvested Acre	164.9	152.8	147.2	123.5	156.5	123.4	158.0
Beginning Stocks	1,673	1,707	1,127	988	729	989	769
Production	13,131	12,447	12,360	10,780	13,950	10,780	13,936
Imports	10	28	29	160	30	120	10
Total Supply	14,814	14,182	13,516	11,929	14,709	11,889	14,715
Feed and Residual	5,550	4,795	4,545	4,450	5,150	4,350	5,225
Ethanol Usage	4,591	5,019	5,011	4,650	4,900	4,660	4,875
Food, Seed and Industrial	5,565	6,426	6,439	6,050	6,350	6,030	6,325
Total Domestic Usage	11,115	11,220	10,985	10,500	11,500	10,380	11,550
Exports	1,900	1,834	1,542	700	1,250	740	1,350
Total Demand	13,015	13,054	12,527	11,200	12,750	11,120	12,900
Ending Stocks	1,799	1,128	989	729	1,959	769	1,815
Stocks to Usage	13.8%	8.6%	7.9%	6.5%	15.4%	6.9%	14.1%

Source: USDA, Citi Research, *subject to revision

Appendix A-1

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