

Summary:

Over the past month, the mood has undeniably been bearish on our grain and oilseed markets, especially as managed funds expect South American supplies to cap prices. Moreover, the latest USDA monthly report suggested a significant recovery in stocks, with corn and soybean stocks forecasted to recover to the highest level in five years (see each section forecast table). Nevertheless, there are many elements in wheat, corn and oilseeds that may provide a rally at some point.

In wheat, the global picture remains very mixed with some output risks in the US, Australia and the Black Sea. In corn, despite large South American supplies, the US planting season got off to a bad start. Finally, in soybean, South American supplies made their way onto the international market in much higher quantities than initially anticipated, but the US crop planting started very slowly. We review all these elements in much more details below.

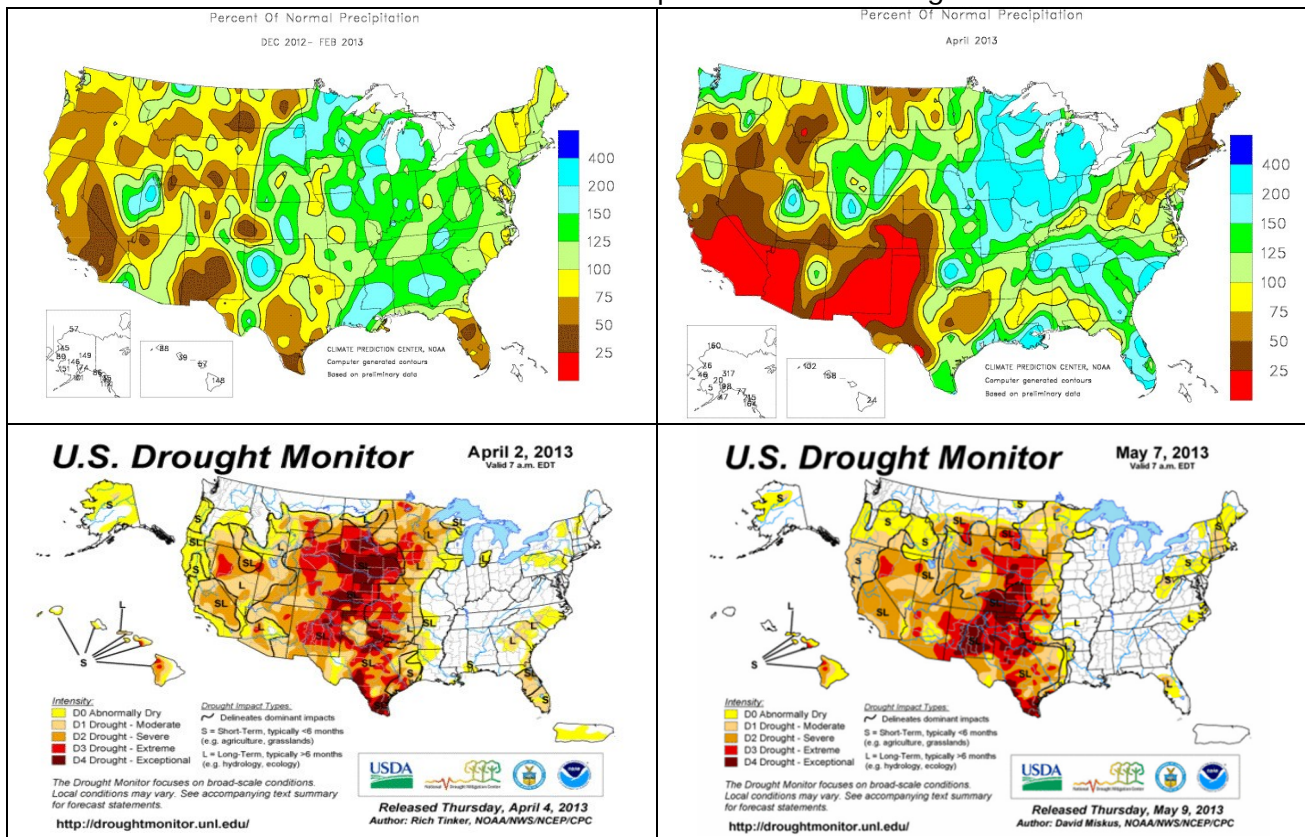
Corn:

Corn	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014 Estimate
World Output (M t)	819.35	832.49	882.96	857.12	965.94
World Stocks (M t)	144.11	128.19	132.22	125.43	154.63
US Output (mio bus)	13092	12447	12360	10780	14140
US Harvested Area (M ha)	79.5	81.4	84.0	87.4	89.5
US Yields (bpa)	164.7	152.8	147.2	123.4	158.0
US Exports (mio bus)	1980	1834	1543	750	1300
US Stocks (mio bus)	1708	1128	989	759	2004

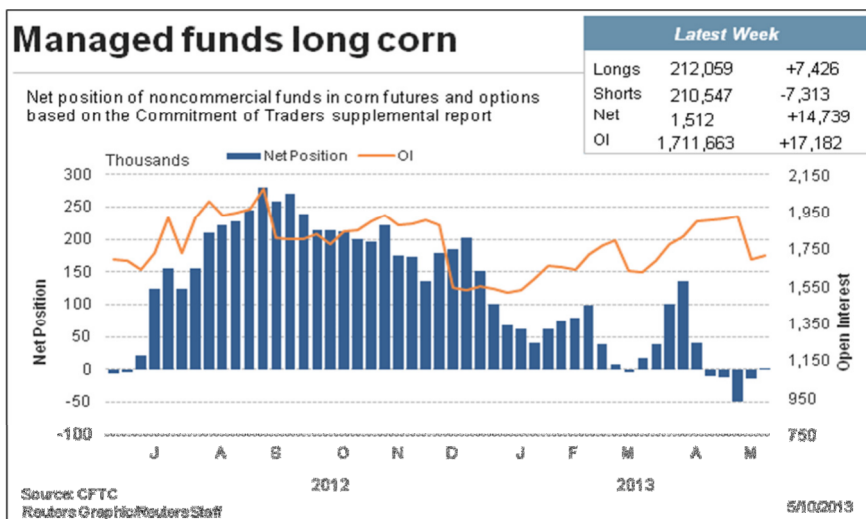
(USDA May figures)

Opinions in corn have been mixed and are likely to remain unsettled as a weather market continues to develop in the US (see maps below). Indeed, the US has so far experienced the slowest planting pace on record due to cold and excessive rains, reaching 28% of the overall estimated planting by May 13th, below estimates of 29%, well below last year's pace of 85% and behind the five year average of 65%. But US farmers remain very confident that they will plant the entire area on time, as they proved in previous years. Nevertheless, planting progress will be closely monitored as our clients are likely to show additional concern if planting has not reached 45-50% by the third week of May. Due to the current "snail pace" planting, funds have moved from a light short position to a small long (see below graph), but a position reversal is possible if planting recovers. Moreover, South America's corn crop estimates remain large (24.8 to 26.5 M t for Argentina and 74 to 78.5 M t for Brazil), especially as the Brazilian second corn crop is forecast to exceed last year's 39 M t record thanks to good weather conditions.

US Percent Of Normal Precipitation and US Drought Monitor.



Note: the above maps show that the recent rains provided some relief from drought, but at the cost of new crop planting progress. The US Drought Monitor maps cover the week prior to the date indicated.



Longer term, should farmers indeed manage to plant corn on time in the US, our clients are likely to go short corn again due to expectations of an output, export and stock recovery for next season, as well as plentiful supplies from South America. The latest USDA monthly report projected the 13/14 world corn crop at 965.94 M t, up from 857.12 year on year, with the US crop potentially rising to 359.17 M t (compared to 273.83 M t the previous season), the EU corn crop being estimated at 63.8 M t (up from 56.65 year on year), and China's output being viewed at 212 M t (up from 208 M t year on year). World exports in 13/14 may reach 104.62 M t, up from 89.03 in the previous season, with US exports potentially reaching 33.02 M t (up from 19.05 year on year). Finally, world stocks for 13/14 are estimated at 154.63 M t, up from 125.43 for the previous season, with US stocks potentially booming to 50.91 M t, up from 19.29 M t currently. On top of this, Ukraine's corn crop is expected to recover too, with current estimates at 22 M t, up from 19.3 M t year on year, with exports seen at 14 M t, up 13% from the previous season. Some even believe that the Ukraine may perform even better in

corn as slow spring planting in wheat and barley may result in an area shift to corn.

CONCLUSION:

We will need to keep a close eye on US corn planting progress. This in turn will determine whether or not a corn recovery in the US can indeed occur, otherwise a shift from US corn acreage to soybean could take place. The Chicago soy/corn Z13/X13 one by two ratio arbitrage gave us little indication over the past week, ranging from 2.225 to 2.3. We will provide regular updates on the level of this arbitrage in the coming weeks.

Generally, we feel that there are potentially of lot of bears out there in corn, especially if farmers perform another planting miracle by the end of the month in the US. Finally, some of our clients believe that an economic slowdown in China may result in a deceleration in imports generally, thus potentially affecting corn demand too.

At this point in time, we feel neutral to bearish to corn, but a change to a bullish view is very likely to occur should US planting still lag by the end of May, thus causing yield and output forecasts to fall.

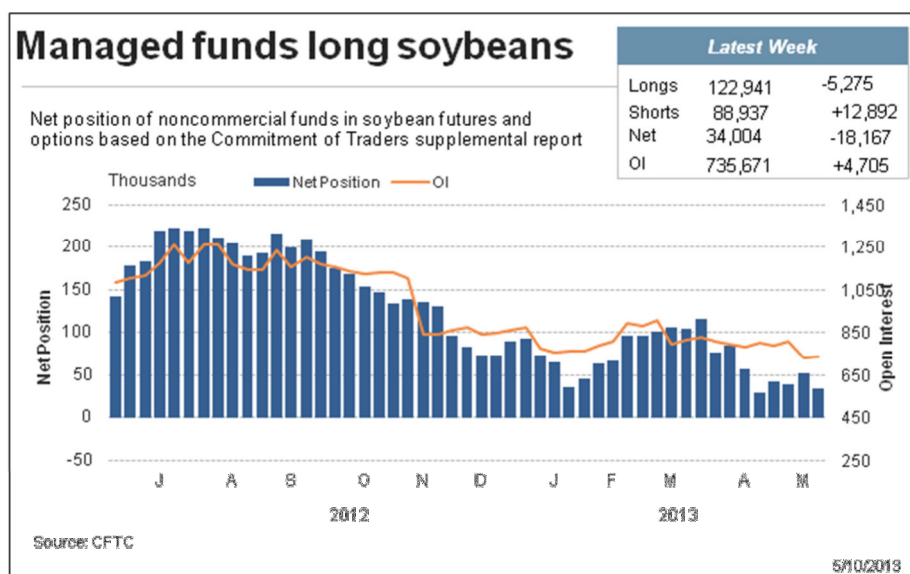
Oilseed complex:

Soy	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014 estimates
World Output (M t)	261.08	263.90	239.46	269.11	285.50
World Stocks (M t)	59.99	70.11	54.71	62.46	74.96
US Output (miobus)	3359	3329	3094	3015	3390
US Harvested Area (M acres)	76.4	76.6	73.8	76.1	76.2
US Yields (bpa)	44.0	43.5	41.9	39.6	44.5
US Exports (miobus)	1499	1501	1362	1350	1450
US Stocks (miobus)	151	215	169	125	265

(USDA May figures)

SOYBEAN:

Over the past couple of weeks, the bears have made their voice heard much more convincingly. As a direct result, we have noticed a much higher interest in Chicago soybean puts, while managed funds reduced their position (see below CFTC graph). The bearish mood has been reinforced by various factors, including improved world S&D figures, surprisingly high South American exports, and better soil moisture in the US.



The below USDA table clearly indicates that a soybean recovery is expected in term of output, exports and stocks.

(Figures in M t)	12/1	13/1
World output	269.11	285.50
US output	82.06	92.26
Argentina's output	51.00	54.50
Brazil's output	83.50	85.00
World exports	96.21	107.12
US exports	36.74	39.46
Argentine exports	9.10	12.00
Brazilian exports	36.35	41.50
World stocks	62.46	74.96
US stocks	3.40	7.22
Argentine stocks	23.15	25.97
Brazilian stocks	21.65	24.90

But the USDA figures appear to only be a confirmation of the bearish mood. The main element leading to an increase in bearishness is definitely the fact that South America performed a lot better than initially anticipated on a few counts. Indeed, Argentina's output was expected to be revised lower by a few million tons about a month ago due to drought issues followed by excessive rain hampering the harvest. But, output has only been revised down by 500 K t over the past month, and more importantly, harvest progress has been excellent reaching 79.3% by May 10th, up 13.1% week on week, but more surprisingly up 5.9% year on year. The harvest progress is allowing exporters to prepare some exports, with talks of some 1.4 M t of soy ready for exports at ports for China. Nevertheless, we noted that farmers are reported to be unwilling to sell much at this stage of the season and stock their soy crop instead as a hedge against domestic inflation and fears of further currency depreciations. This provided the perfect opportunity for Brazil to take the lead. A month ago, everyone was only talking about the Brazilian logistical nightmare, with truck and port worker strike risk, landslides, waterway blockages, road and port congestion. Since then, Brazilian exporters have really gone an extra mile to honour their export contracts. As the main ports remain very congested (with talks for example of a 21 mile truck queue and an over 200 vessel queue in Santos), exporters loaded trucks and moved beans some 1600 Km in order to export from Southern Brazil, thus allowing the Brazilian April soy exports to reach a massive 7.15 M t, up from 3.54 M t month on month, and up from 4.43 M t year on year. On top of this, over the past month, Paraguay's congress voted against a proposal to tax soy exports. Finally, over the past week, we even noticed some South American exports to the US (some three cargoes of Brazilian and Paraguayan origin), as old crop US supplies remain tight.

In the US, soy exports have been pretty uneventful (the past five weeks' exports were within estimates on three occasions, once above and once below). Some participants expressed some concerns about the slow pace of planting progress, with the May 13th report showing only 6% of the overall area as planted, the slowest pace since 1984, below estimates of 10%, versus 43% at the same time last year, while being well below the five year average of 24% as well. The slow planting is due to excessive rain over the past few weeks (see above maps in the corn section), affecting corn planting primarily and soy planting consequently. But, funds don't appear to be overly worried, as previous seasons have shown the mechanical ability of farmers to catch up at an amazing pace. On the contrary, funds and banks view the recent rains as higher soil moisture, which will be beneficial to the soy crop once planting, is able to get under way. As a consequence, despite talks of a potential shift of corn area to soybean, the Chicago soy/corn X13/Z13 one by two ratio arbitrage moved very little over the past week, ranging from 2.225 to 2.3.

From a demand side, China disappointed, with the March soybean imports reaching

just 3.841 M t, down 20.4% year on year, as a bird flu outbreak hit domestic demand hard. Moreover, adverse economic figures bode badly for further imports in the short term (with the April manufacturing growth figures coming as a disappointment).

As a conclusion, the mood is without doubt bearish, but some of the bulls warn that a “herd” mentality may be enough to cause a bounce should planting in the US remain an issue, thus leading to potential short covering eventually.

RAPSEED/CANOLA:

In rapeseed, the overall picture remains uncertain. Initially, over the past month, various analysts were just focussing on the good news, with Oil World for example estimating that the world’s rapeseed and canola crops could potentially recover to 64.1 M t in 13/14, up from 62.5 M t the previous season. Meanwhile, China accepted more Canadian canola origins and bought some 50 K t of EU rapeseed oil, the first time in two years, thus providing some excitement. But, there are a few hiccups we need to highlight. Indeed, over the past few weeks, some reports got the trade increasingly worried, with talks of dryness issues possibly reducing the Australian 13/14 canola planting by as much as 20 to 30%; with the Canadian canola area being estimated at 19.1 M acres, down 11.1% year on year due to crop rotation. Finally, despite talks of better output in the EU, with the EU Commission estimating the EU rapeseed crop at 21 M t, and with Oil World estimating the same crop at 20.2 M t, both up from last year’s output of 19.24 M t, some issues in the UK and France have made the headlines. The UK crop had a bad start and output may be as much as 30% lower year on year. Consensus for UK rapeseed is about 1.8 M t, down from 2.56 M t last season. In France, output is expected to reach 5.2 M t, down from 5.48 M t year on year, with an area of 1.48 M ha, down from 1.52 M ha estimated the previous month, and below last year’s figure by 8%. The trade reported that some 25% of the overall French area encountered some issues, with some fields being ploughed over. But, it is only over the past few days that some funds and banks took notice. Nevertheless, not all is as disastrous in the rest of the EU. On the contrary, conditions have been good in other countries, with Germany’s output expected to recover to 5.5 M t, up from 4.82 M t year on year; with Poland’s crop expected to reach 2.2 M t, up from 1.9 M t last year; and with the Czech Republic’s crop estimated at 1.25 M t, up from 1.1 M t the previous season.

As a conclusion, the French trade appears to remain uneasy at it still fears that the EU and China will continue to compete for imports. Nevertheless, those fears may abate as neighbouring Ukraine’s rapeseed crop escaped winter damage and expects an output recovery to over 2 M t, up from 1.2 M t year on year.

CONCLUSION:

There appears to be a large number of bears out there in our oilseed complex. The USDA monthly report of last Friday provided some comfort to the bears, but there are still elements that could at some point provide a short covering risk, such as a potential continuation of planting issues in the US, further competition between the EU and China over rapeseed and canola, and finally expectation of much higher Chinese soy imports for the new season.

Overall, we feel more bearish soy than we do in corn for now, as the planting issues will continue to affect corn first in the short term.

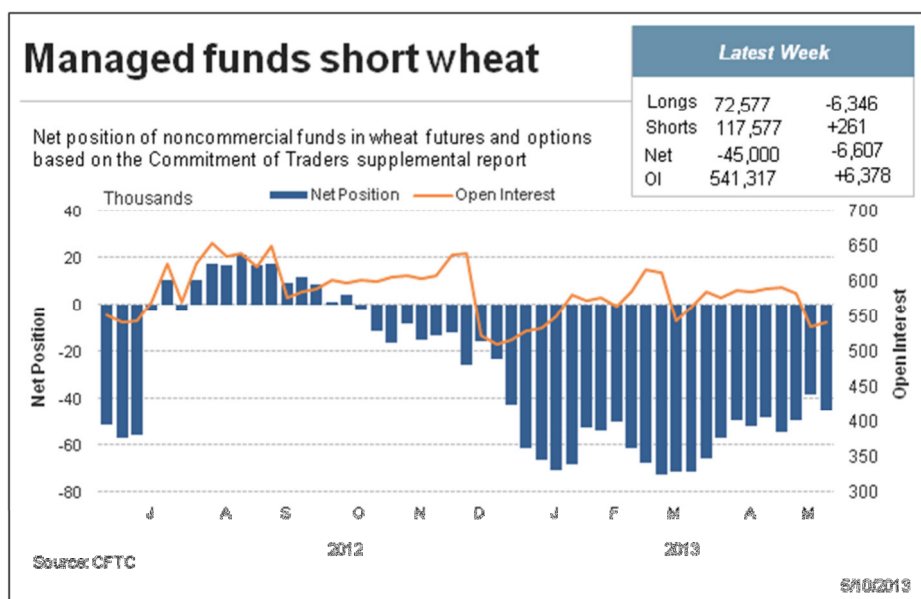
Wheat:

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
World Output (M t)	685.59	652.17	697.17	655.64	701.1
World Stocks (M t)	202.50	198.90	199.47	180.17	186.38
US Output (miobus)	2218	2207	1999	2269	2057
US Harvested Area (M)	49.9	47.6	45.7	49.0	46.7
US Yields (bpa)	44.4	46.3	43.7	46.3	44.1
US Exports (miobus)	879	1289	1050	1025	925
US Stocks (miobus)	976	862	743	731	670

(USDA May figures)

WHEAT OUTPUT:

Over the past month, the IGC, FAO and USDA have all estimated the 13/14 world's new wheat crop upwards compared to the previous season (IGC at 680 M t, FAO at 695 M t, USDA at 701.1 M t, versus 655.64 M t year on year), with the USDA raising the world ending stocks next season to 186.38 M t, up from 180.17 M t year on year. As a result, managed funds have remained short (please see below graph).



Nevertheless, we still believe that the world's wheat output picture remains very mixed and may provide many surprises.

To start with, the US winter wheat crop got off to a bad start due to drought, followed by cold and frost, and then excessive rains and some localised flooding. As a result, the winter wheat conditions are the worst on record in seventeen years, with the crop just 32% good to excellent, down from 60% year on year; while being 39% poor to very poor, up from just 14% year on year. Some reports spoke of HRW abandonment reaching a worrying 25%. The recent wheat crop tour warned that the Oklahoma wheat crop may fall significantly year on year, with this year's crop estimated at 85.5 million bushels, down from 154.8 the previous season. In Kansas, output may overall be 18-22% down year on year, with 313.1 million bushels, down from 382.2 year on year. But some warned that many fields in Kansas have been a disaster, with yields ranging from 0 to 25.7 bushel per acre, down from a 39.9 average year on year.

The above worries were confirmed by the latest USDA report (please see below table). Thus, over the past two to three weeks the Kansas/Chicago arbitrage rallied significantly from about

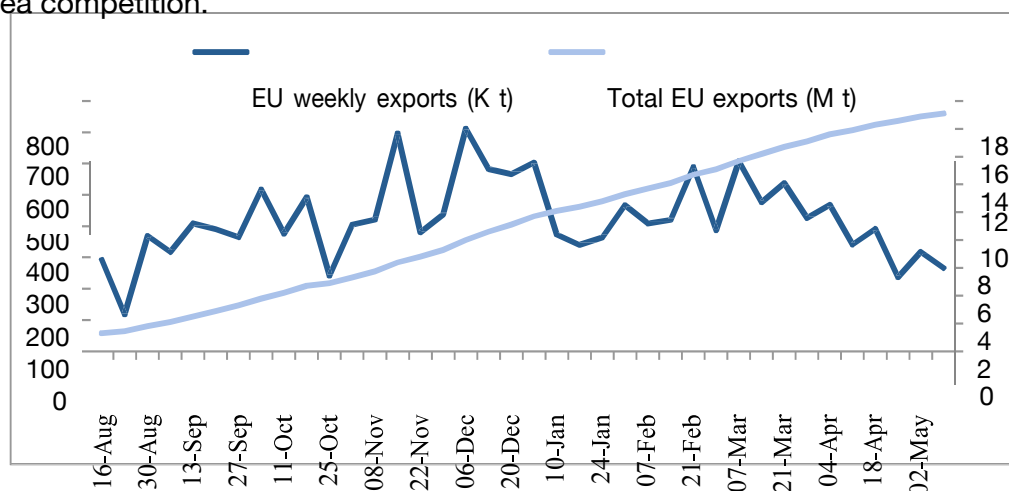
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	Latest USDA figure	Market consensus	Previous year
All winter wheat (biobus)	1.486	1.497	1.646
HRW (miobus / biobus)	768	776	1.004
SRW (miobus)	501	504	420

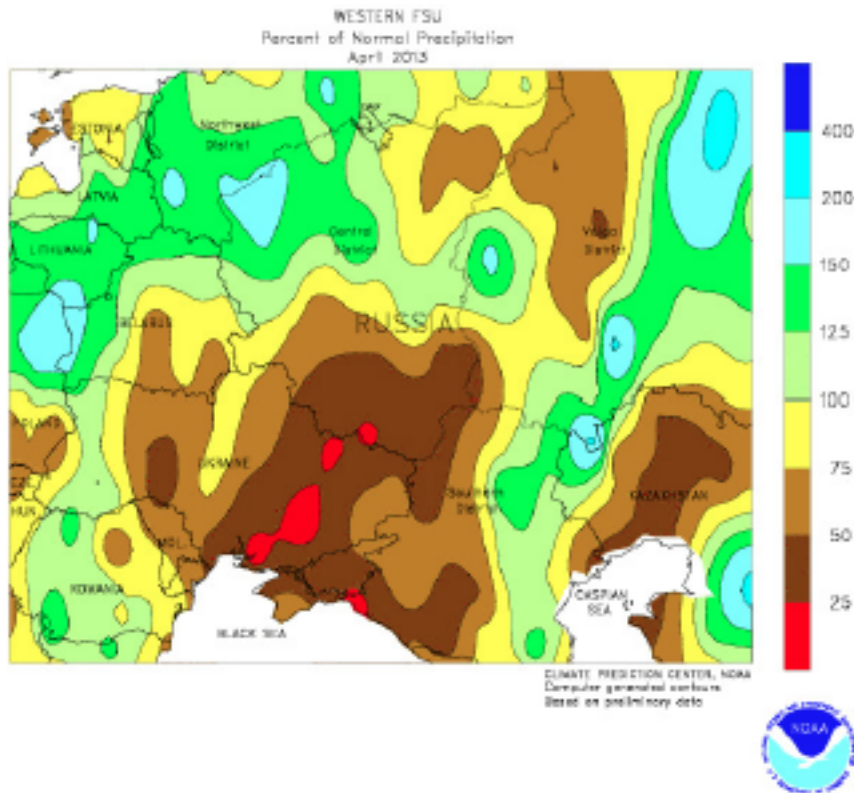
In the EU, the recent weather allowed conditions to improve in some parts, mainly Western Europe (France's wheat crop is rated 65% good to excellent for example), while some uncertainties remain for Northern and Central Europe. In the UK, planting delays are the main reason behind the poor crop forecasts. The trade tells us that the wheat root structures are not deep and may be subject to damage should there be any dryness later in the season. In short, UK wheat requires perfect conditions until the end of the season to somehow recover.

Overall, the EU 2013 soft wheat estimates range from 129.7 to 131.1 M t, up from 123.3 year on year. As a result, the Chicago/Paris wheat Z13/X13 arbitrage rallied over the past two to three weeks from \$/t -14 to almost parity. We are of the opinion that some clients will be tempted to sell the arbitrage around or above parity, but we feel that the arbitrage can for a short period of time surprise to the upside and rise to \$/t +5 to +10 as most issues seem to be US based rather than affecting the EU for now.

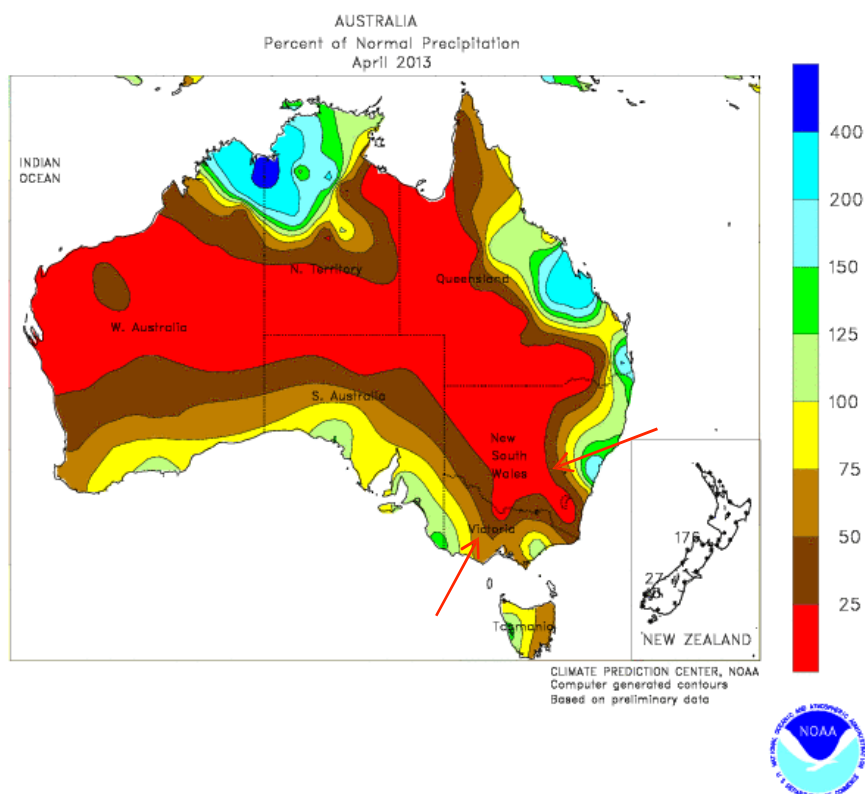
Finally, EU exports of old crop wheat have been fast and sustained (see export graph below). Nevertheless, the past couple of weeks' export figures slowed a touch on renewed Black Sea competition.



Indeed, both the Ukraine and Russia managed to find some old crop supplies still available for exports, although quantities may not be much, some 200 to 400 K t. The Ukraine removed its export cap on old crop supplies, while domestic prices in Russia came back in line with export prices. But, once again, all is not as ideal as it may seem. In Russia, winter wheat conditions have been affected by adverse weather, while Southern Russia is still plagued by too much dryness, thus affecting spring planting. In previous reports, we mentioned fears that Russia's crop may barely be in a 40 to 50 M t range. Estimates have somehow improved a bit, with the USDA latest figure at 56 M t, but the real final figure will determine the amplitude of Russia's part in wheat exports on the international market. Meanwhile, in the Ukraine, winter wheat escaped winterkill, thus output estimates for the new crop range from 19.9 to 22.6 M t, up from 14 M t year on year. But spring planting is two to three weeks behind normal due to a late spring, cold temperatures and a lack of rain. Spring planting remains the main risk, with some reports alarmingly indicating that there is a 30% yield loss risk should no to little rain be received by May 20th (see below map).



To add to uncertainties, the Australian new wheat crop is experiencing issues of its own too. The East Coast has suffered too dry conditions for planting to take place. Significant rains are needed (see below map). Thus the consensus 25 M t wheat output target, up 13% year on year, is put into question by many. Nevertheless, we received some good news from Western Australia where the wheat output may reach up to 8 M t, up 16% year on year, despite some farmers struggling to secure credit to sow crops.



On the more hopeful side, Canada's heavy spring flooding did not occur as feared. On the contrary, a drier and warmer weather allowed planting to start in good conditions. Moreover, with canola planting falling due to crop rotation, wheat planting for the upcoming

season is expected to reach 26.6 M acres, up from 23.7 year on year.

In Argentina, the government is attempting to entice farmers to plant more wheat by talking about offering some tax breaks. As a result, the 13/14 wheat area is expected to grow to 3.9 M ha, up from 3.6 last year.

In India, the government still expects wheat exports to eventually reach 9.5 M t. To achieve this target, the wheat export price may be dropped to boost shipments. But, recent rains have slowed the harvest and procurement. The new wheat crop is expected to reach 93.62 M t, according to the agricultural ministry, down from 94.88 M t year on year. But, some private domestic analysts are a touch less optimistic with estimates ranging from 90 to 92 M t. More importantly, the past few years had all been geared towards production and stock building, especially as food security was a bid election subject. Thus, we are not too surprised to hear that exporters are not really ready to fulfill the government's 9.5 M t export target as they lack transportation means as well as financing.

In neighbouring Pakistan, procurement for domestic stocks has been slow. Therefore, the agricultural ministry was recently talking of a potential temporary ban on wheat exports. Pakistan has in the past exported 500 K t up to 2.5 M t per season. Thus, an export ban could take some 800 K t out of the international market in the short term, according to local sources.

WHEAT DEMAND:

Finally, on the demand side, the picture is mixed too. Brazil finally came to term with its real needs, with the agricultural ministry raising the non-Mercosur wheat import quota from 1 to 2 M t, as we had expected and mentioned in our previous report. The good news for Brazil is that the new wheat crop may recover to up to 5.14 M t, up from 4.3 M t year on year. Meanwhile, China has stated that it is willing to replenish reserves, thus we noticed some imports, mostly of US SRW. Last, but not least, North Africa's situation is varied as well. On the one hand, both Morocco and Algeria disappointed on the import market. Both countries indeed seem to be geared towards a crop recovery and consequently less import needs. On the other hand, Egypt's situation remains dire. Egypt has for many years been the world's number one wheat importer, but difficult economic times caused the government to cut subsidies on some fertilizers, while farmers are stating that planting has simply become unaffordable due to a severe lack of financing for seeds, planting, irrigation and so on. Old crop wheat stocks are dwindling and the government needs to find a solution. The agricultural ministry stated that it will consider other import sources, such as Kazakhstan or India, but the issue remains a lack of international currency reserves. The IMF loan is still pending, while talks with Russia have not yet resulted in securing a loan either. Thus, the government output target of up to 10 M t, with imports at just 4-5 M t, appear to be simply unrealistic, while many believe that the output and import targets may simply end up being reversed.

CONCLUSION:

Managed funds have generally remained bearish wheat, especially when considering improving world wheat output forecasts year on year. But, many elements remain very uncertain and we expect the global wheat picture to remain unclear for some time to come. The bulls will without doubt keep a close watch on US conditions and on any Black Sea or Australian issues, hoping to see some short covering on any output hiccups.

In our opinion, wheat will continue to suffer from the bearishness in corn and soy, but we are starting to become friendlier wheat, as some of the above-mentioned issues are likely to come to the forefront of news as the season develops.