World Corn Supply and Demand

(million metric tons) December Report	09/10	10/11	11/12	12/13	USDA 13/14 Estimates November	December
Beginning Stocks	147.37	146.28	129.10	132.46	134.86	134.90
Production	825.45	834.21	885.99	862.88	962.83	964.28
Imports	89.63	92.31	99.92	98.17	106.43	107.87
Total Supply	1062.44	1070.90	1110.01	1093.51	1204.12	1207.05
Feed	491.43	502.82	507.15	516.61	565.24	566.84
Total Domestic	819.54	852.46	882.62	860.44	933.36	936.73
Exports	96.62	91.25	116.97	91.83	110.39	112.16
Total Demand	909.17	942.71	978.13	958.61	1039.79	1044.60
Ending Stocks	146.28	129.10	132.46	134.90	164.33	162.46
Stocks to Usage	16.86%	13.58%	15.29%	13.41%	16.18%	15.96%

USDA Estimates *calculated

The week started with eager anticipation over what news the USDA would provide in their crop and WASDE reports. The answer was, “very little,” and markets have shown a generally weaker tone subsequently. It must also be remembered that as we get closer to 31st December it is not only month end but also quarter and year end too, and monies are frequently withdrawn from the market to pay dividends, bonuses and the like, and this tends to be at the expense of new positions. It will most likely be January before we are seeing any new material risk appetite, and markets will probably drift listlessly into the holiday period.

That said, aside from the USDA, we saw Egypt return to the wheat market once again. Their 300,000 mt purchase was made up of 180,000 mt from Romania, which surprised us given the previous week’s fiasco and cancellation. In addition 120,000 mt was secured from France, and the interesting point was the $8.50/mt premium paid for this tonnage over the Romanian offers. This is a historically high premium, the likes of which we cannot recall in previous trades. Maybe it marks a turning point, and the lack of offers from Russia, Ukraine, despite additional load ports being included in the tender in an effort to “winkle out” offers, could well be the final confirmation that they are done for this season. The emphasis appears to be shifting away from Black Sea to EU. US wheat prices are competitive on an FOB basis but freight currently kills the deal right now, although no US offers were made this week.

India’s latest 210,000 mt sale was reportedly made at prices which are competitive in global terms, and still some way above their recently lowered floor price of $260/mt. It is expected that additional sales volumes, approaching 500,000 mt, could potentially be made before year-end.

The GM issue in US corn arriving in China, which we referred to last week, continues to rumble on. A further cargo has been blocked and three more could potentially be barred after further positive tests have detected MIR 162. The issue appears to be developing into a full-blown trade dispute rather than an approval/non-approval issue as it is suggested by some that there is a focus upon particular sellers, although it must be stressed that this is unconfirmed. Arriving vessels are said to be delaying discharge until tested and the cargo approved in order to reduce possible cost implications should rejection occur. It has been widely discussed this week by the trade that aggressive testing of US DDG shipments is underway and that it will only be a matter of time before positive results are found. News that China is anticipating a record corn crop and a surplus as a result of reduced consumption by the animal feed sector presumably have no bearing upon these issues!

Staying with China, Deutsche Bank has this week warned of an impending change in Chinese farm price support policy, which may have potentially significant global price implications. The policy change could see a reduction in agricultural commodity stockpiles created by the minimum state procurement values for the likes of corn, pork and wheat, which bear little relationship to international values and create market anomalies and their knock-on effects. The suggested policy change could well see a switch away from price setting to insurance incentives or direct payments to farmers. The change, if implemented, could see domestic prices move more in line with international levels and see a reduced incentive to import.

The weather in S America continues to provide extremely favourable conditions for the final throes of planting as well as crop development for majority of high production areas. There is some warmer, drier weather developing in parts of Argentina, but this is just the first step towards any type of problem we have seen this season. The conditions may shorten topsoil moisture levels but as long as more precipitation develops in a few weeks, there will not be any loss to production potential. On the back of the beneficial conditions, Brazil’s CONAB raised its 2013/14 soybean output forecast to a record breaking 90.03 million mt and at the same time increased corn output to 78.8 million mt. Their estimate for the wheat crop was also raised by 11% to 5.36 million mt. The growth in soybean output carries a strong degree of credibility with planned switching by growers away from corn and into soybeans for the second, or safrinha, crop. To keep output forecasts in perspective the USDA left Brazilian soybean and corn output unchanged Monday at 88 million mt and 70 million mt respectively, both estimates were below average trade estimates.

In the wake of positive news, it was reported than in the US a group of senators has proposed elimination of the ethanol mandate, which has not added any support to corn prices. They suggested that mandated ethanol inclusions both escalate food and feed prices as well as harming the environment. Clearly the proposal will face a significant battle to progress very far but is a cautionary flag, which should not be ignored totally. The CBOT corn market dipped sharply on the report, only to recover a substantial proportion of the losses within the same trading session.

EU wheat export licences, granted by Brussels, continue at a high level with this week’s volume reaching 814,151 mt. This brings the season total to 13.188 million mt, which is 3.763 million mt (39.9%) ahead of last year. At the same time corn (maize) imports have been stronger than anticipated, largely as a result of cheaper supplies from Ukraine’s abundant crop and the relative value from a feed perspective when compared with wheat. As Black Sea supplies dwindle and emphasis switches to EU it would not seem impossible for total year wheat exports to hit a figure in excess of 27 million mt.

In conclusion, we believe that in addition to fundamental weakness across the soybean complex and grains, we are seeing some very strong technical sell signals. As always, when the two signals (fundamental and technical) are in agreement, as is the case right now, we have greater faith in our outlook, which (in case readers are in any way unclear) remains unchanged, we look for lower prices.