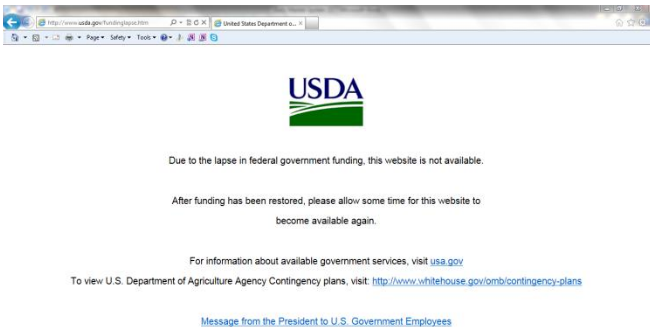
R&H HALL

Market Report
Thursday, 03 October 2013

Quote of the day: *"Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies."* – Groucho Marx

Proteins:



Yesterday was a very good example political risk in the market place at several levels but two in particular are standing out. Such is the nature of political risk, both were unlikely eventualities last week but are real price drivers this week. The first obvious one is in the US where the US government is shutting down most of its government agencies (including the USDA – website homepage right) due to the inability of the government to agree a budget there. This has a direct impact on the agriculture markets as it induces a serious loss of information for traders to define a view, the impact of this is quite uncertain especially when there is no clear indication as to when the impasse will end, will traders add to positions, close positions, when the information flow returns will the market find itself on the right or wrong side of what the information says should be the value of agriculture commodities? Will there be a WASDE report next week? The other big political move was in the biofuel world. The meat of the issue is summarised below:

- The EU consumes around 75% of the rapeseed produced to supply the biodiesel sector with oil
- The EU also imports a large volume of biodiesel from origins such as Asia and Argentina which is generally cheaper than EU produced biodiesel (roughly 90% of imports come from these origins)
- For this reason, the EU has employed anti-dumping countervailing duties on importers of "cheap" biodiesel from these origins. The EU is now proposing to increase these duties further to curtail further biodiesel imports
- This will increase demand for rapeseed by biodiesel producers within the EU and as such it is driving up rapeseed prices.
- It will also reduce biodiesel export demand for Argentine biodiesel producers who may not be willing/able to crush soybeans without a market for their biodiesel (around 1mmt of Argentine biodiesel is imported by the EU which equates to around 5mmt of soybeans and 4mmt of soymeal (rough numbers))
- At present, this is just a proposal but our sources in the biodiesel industry feel that is highly probably that these duties will come into effect and hence why the market is reacting now
- In theory, biodiesel crushers will be €100-200/tonne better more competitive today than they were yesterday which would imply being able to pay €20-40/tonne more for rapeseed as a feedstock but it could take time for this to be realised as current stocks of cheaper biodiesel get consumed
- While an exact price impact is difficult to identify we will continue to watch this but for now the market has taken a bullish view of the EU oilseed market that may extend to grains as ethanol demand may also rise as obligated blenders are forced to meet the demand through other biofuel sources to replace this imported biodiesel

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Aside from these two price influences, private analysts are increasing their yield estimates for US soybeans with most aggregating above the current USDA estimate, though the highly influential FCStone estimate was only modestly up on its previous estimate at 41.4bu/acre. Meal was particularly strong yesterday which may in part have been a reaction to the EU biodiesel story (potentially less Argentine soymeal supplies on lower crush) but probably the main influence was the spike in demand for US soymeal into the export market that left domestic consumers there short. While most agree that soymeal is expensive there seems to be no shortage of willing buyers at these levels either in a global context, are the rest of us missing something? Asia and Europe were strong buyers of US soymeal and with Dec. meal already having traded down to support at $400/ton the target of the bears had been reached and they quickly let the bulls take over and they continue to have the upper hand with overnights up another few $'s.

Grains:

The grains market was quite odd yesterday, matif wheat and corn showed independent strength while Chicago corn languished around 3 year lows and despite strength in grains and soybeans corn traders displayed little buying enthusiasm. Not even a sharp increase in ethanol production could spur the bulls into action. US wheat futures had three layers of price appreciation. Kansas wheat (the most bullish, mid-protein one) has blown through its 100 day moving average, Chicago wheat (the middle bullish, low protein one) has just managed a breach of its 100 day moving average while Minneapolis wheat contract (the least bullish, high protein one) is still knocking on the door of its 100 day moving average. Matif followed rapeseed for the most part. The Black sea has what are becoming more serious logistical and weather issues. The South-East Ukraine and South-West Russia which are closest to Black sea ports have been dogged by persistent rain and cold that creates two negative impacts on nearby and future grain supply. For the nearby, much of the corn remains in the fields awaiting to be harvest leaving shorts at the ports waiting to fill their ships. However, looking to next season, what winter wheat is planted (down around 20-30% on last year) is not getting a good run at the winter with temperatures around 5oC for the past few weeks. If support comes in the grain market this appears to be the biggest fundamental driver as the US market looks almost destined for $4/bu taken on its own fundamentals and the stream of high corn yields coming in and an almost inevitable 2bbu+ carryout for next season.

Closing remarks: *A mixed bag, politics, the Black sea weather and export demand strength in wheat and soymeal all adds a slightly more bullish tone to proceedings than we might have anticipated last week but traders seem resolute that $4 corn in the CBOT is nigh on a certainty. So how this plays out given the already discounted nature of corn against the rest of the complex is intriguing, perplexing, but intriguing nonetheless.*

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