The View From The Starship Enterprise

By Diana Klemme

"We can't buy corn for anything these days," Mark said to his scale operator, Larry. *"If it's tough in June, what will it be like by August? Is there any corn left out there?"*

Merchandisers and managers across large parts of the country are struggling to buy old-crop corn and soybeans, despite record high basis values. Accumulating a train-load quantity seems a distant memory for many managers, and a few soybean crush plants are already shutting down until harvest due to tight soybean supplies and poor crush margins. But ethanol (futures) crush margins are at 17-month highs, and high enough to offset a corn basis of +70¢ or even higher. Buyers are ratcheting up corn basis to attract corn - but it's still tough going. What lies ahead?

The March 1 Quarterly Grain Stocks report showed *on-farm* corn stocks of 2.7 billion bushels, down from 3.2 B last year. *On-farm* soybean stocks were 457M bushels versus 555M last year. There are stocks to be bought but farmers seem to be holding onto their remaining corn and soybeans as a safety net until the 2013 crops are planted.

Sooner or later farmer selling will increase, but even then there will be significant regional dislocations this summer. USDA said on May 10 that ending corn stocks will be 759M bushels, and pegged soybean stocks at 125M bushels. Both are barely at pipeline minimums, and this year there will be little new-crop corn available before September 1 to bridge the inventory gap. Near record-late corn planting in 2013 means it's critical for traders to not only look at summer stocks, but to look at the distribution. Only two major states had more total corn on hand March 1 than a year ago (MN and ND), while key parts of the Western Corn Belt barely hold more corn than back in 1996!

The next challenge is to project what the ending Sept 1 corn stocks might be in various states. Ethanol plants now consume over 4.5B bushels of corn; that category was so small it wasn't even a statistic back in 1996.

Table 1 also shows the approximate volume of corn needed per crop year if a state's ethanol plants are all running at capacity, and assuming they produce 2.85 gallons per bushel of corn. The corn needed for March 1 through August is about 50% of the amount shown, or approximately 674M bushels for Iowa, or 230M bushels for Illinois. Iowa, South Dakota and Nebraska stand out as three problem areas for corn supplies: *60% or more of their March 1 stocks will be needed just for ethanol before Sept 1, 2013, with Kansas not far behind.* And that doesn't account for the corn needed for feed or other processing, as well as the pipeline inventory processing plants and feedmills/feedlots each need. In Nebraska, for example,

Table 1: March 1 Total Corn Stocks (Million bu.)

	3/1996	3/2008	3/2010	3/2011	3/2012	3/2013	Approx. Corn for Ethanol*
IA	998	1442	1498	1269	1289	1050	1300
IL	700	1307	1434	1117	1008	787	500
IN	240	443	481	404	391	314	400
MN	501	748	899	840	668	809	400
MO	139	164	201	124	118	102	100
ND	18*	115	134	108	104	156	150
NE	632	767	906	766	687	590	700
SD	179	292	446	330	321	275	400
US TTL	**3799**	**6859**	**7694**	**6523**	**6023**	**5399**	**5300**

Source: USDA Quarterly Grain Stocks; Renewable Fuels Assn capacity statistics.

"Corn for Ethanol": Using annual nameplate ethanol capacity for all plants, assuming 2.85 gallons per bushel of corn. The number is the approximate corn needed per year.

* N. Dakota corn acres expanded rapidly in the last ten years.

Diana Klemme is a longtime contributor to Feed & Grain. Contact her at Grain Service Corporation, Atlanta, GA, by calling (800) 845-7103 or email at diana@grainservice.com.

ethanol plants would need to hold around 15M bushels of corn to cover 7 days' grind; in Iowa that jumps to 26M bushels.

Iowa, Nebraska, Illinois, South Dakota and Wisconsin could see their lowest Sept 1 corn stocks since 1996 – a year when total usage was below 9 billion bushels!

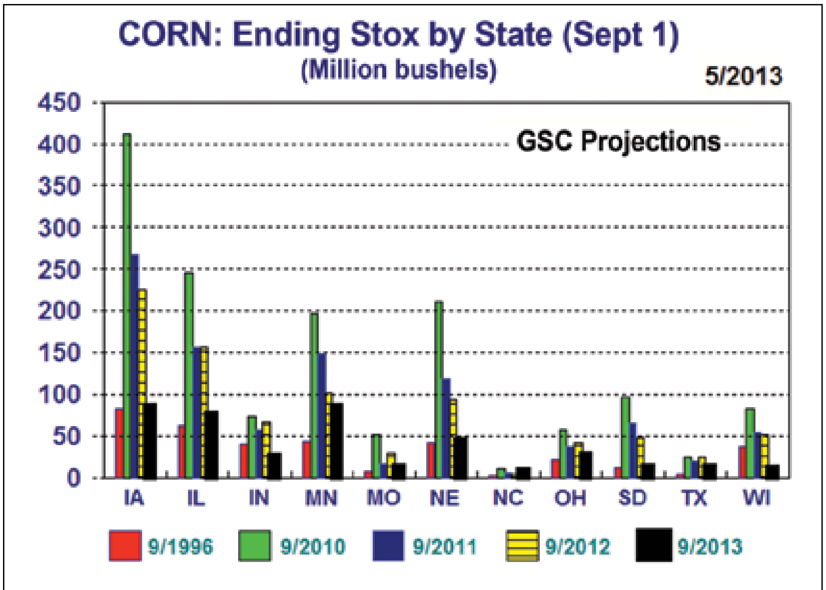
But Minnesota and North Dakota, along with several other states outside the Corn Belt are set to hold a *larger* than usual proportion of the carryover corn this year. Other states that will fare better include Pennsylvania, Maryland and Virginia, along with the Midsouth/Delta – areas where 2012 production was not as hard hit, few ethanol plants exist, or where corn imports are already underway to boost inventories.

The uneven distribution of corn stocks is turning summer merchandising programs topsy-turvy. Ten states typically hold 82 to 90% of the September 1 carryover corn stocks: IA, IL, IN, MN, MO, NE, OH, SD, TX and WI. This summer they may hold as little as 60% and still have barely enough to get by. Corn will need to move 'backwards' *into* the W. Corn Belt this summer to ensure minimal stocks and to help cover usage. The highest basis values on corn, with a few exceptions such as the Texas Panhandle or California, are already in Iowa and Nebraska because of the ethanol plants!

One factor will ease the strain on corn supplies this summer: US corn exports are the lowest in decades. August and September weekly US corn exports used to run 30-45M bushels, but inspections haven't even reached 30M bushels in a year. Cheap feed wheat along with the record US corn prices has made US corn uncompetitive into many world markets.

Early corn harvest in the Delta and Midsouth typically flows to the Gulf to be blended with dry, northern old-crop corn for export. But the late summer northern US corn will stay at home this year; there'll be a big Southern corn crop coming out with nowhere to go. And this season more than half of the record Brazil corn crop will be second-crop 'safrinha' corn, coming out in mid/later summer 2013 to reduce demands for US corn.

Extreme dislocations and overall tightness does not guarantee that domestic corn basis will set new highs in late summer. Farm selling will pick up eventually and some



2013: March 1 USDA stocks minus projected disappearance plus allowance for 'imports' from other states.

end users/buyers will have already covered their needs or just shut down until harvest. Sellers should liquidate all basis ownership of both corn and soybeans before July/August in the face of the huge inverses in basis and futures.

Country merchandisers can still fare well in times of extremely high summer basis. Shorting the basis and shipping your existing Delayed Price inventory is one strategy for your arsenal. The objective is to sell the extreme strength and buy the basis later when farm selling picks up and basis is (hopefully) cheaper. This differs from shorting the high basis and hoping you can find corn or soybeans somewhere to fill the sale. That could turn into an expensive mistake.

Soybeans aren't immune. Comparable problems exist in soybeans. Production fell the most in 2012 in IL, IA, KS, MO, and NE — also areas of high crush rates. Ending soybean stocks will be at rock-bottom levels in most states. End users of soymeal, especially in these Western areas, need to lock in their remaining physical meal needs for late summer now. Owning soymeal futures won't feed the cattle, and more crush plants will be taking prolonged downtime or running at less than capacity until harvest. The overall US soybean crush pace this summer has to slow by a record amount compared to the winter rates and that means much tighter soymeal supplies. The Southeast can import soybeans or even soymeal this summer, but the economics and logistics almost certainly make that unworkable for the Central and Western Corn Belt regions.

The transition to new-crop will be one for the record books as the US shifts from extreme shortages to potential record crops (Feed & Grain, April/May 2013). But first we have to get through the summer without the help of an early corn or soybean harvest. Atypical grain flows create opportunities as well as risk. Recall the Mission of the original Starship Enterprise: *"To explore strange new worlds; to boldly go where no man has gone before."* Perhaps Iowa qualifies as a strange new world.... .