



2013 Grain Outlook

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“My idea of the modern Stoic sage is someone who transforms fear into prudence, pain into information, mistakes into initiation and desire into undertaking”

Nassim Nicholas Taleb

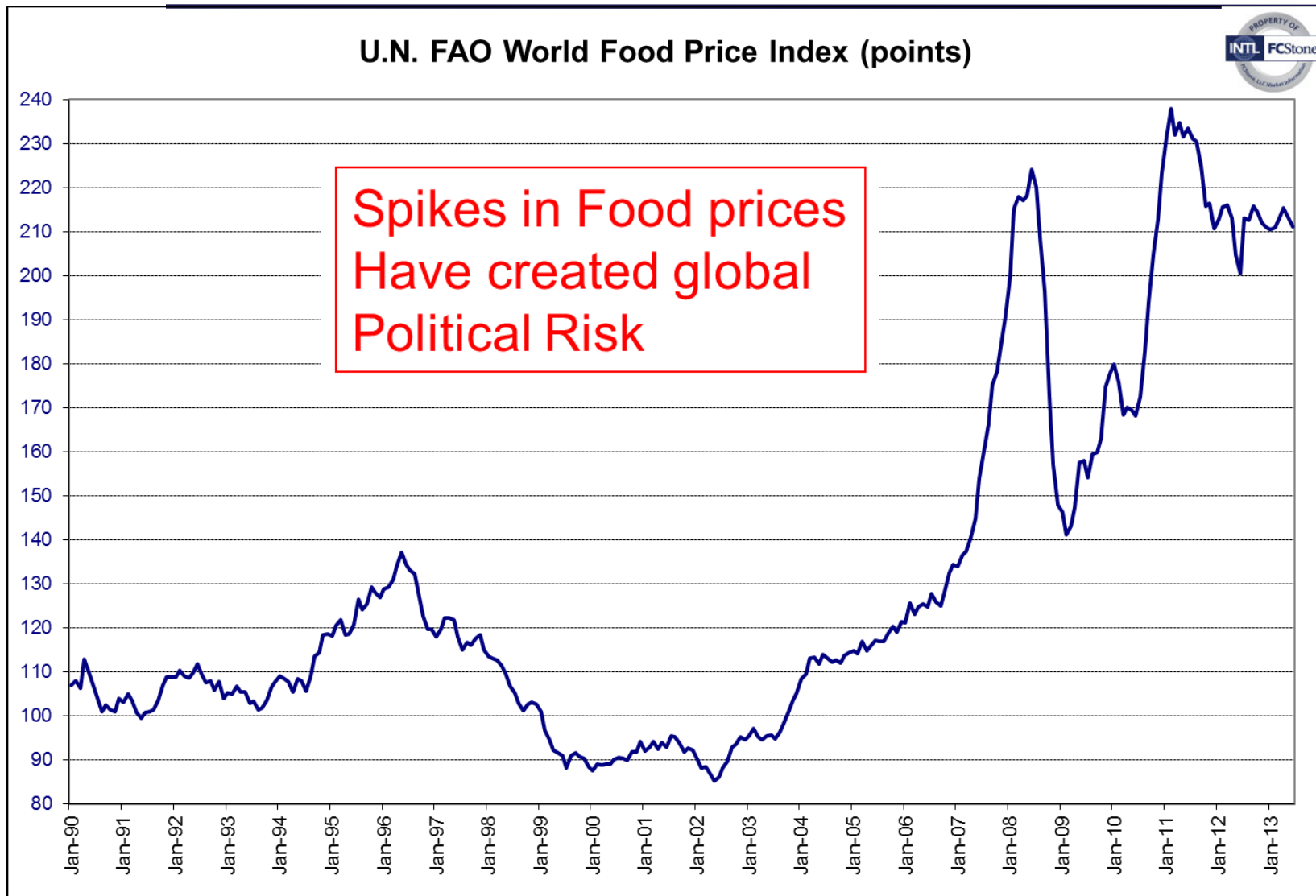
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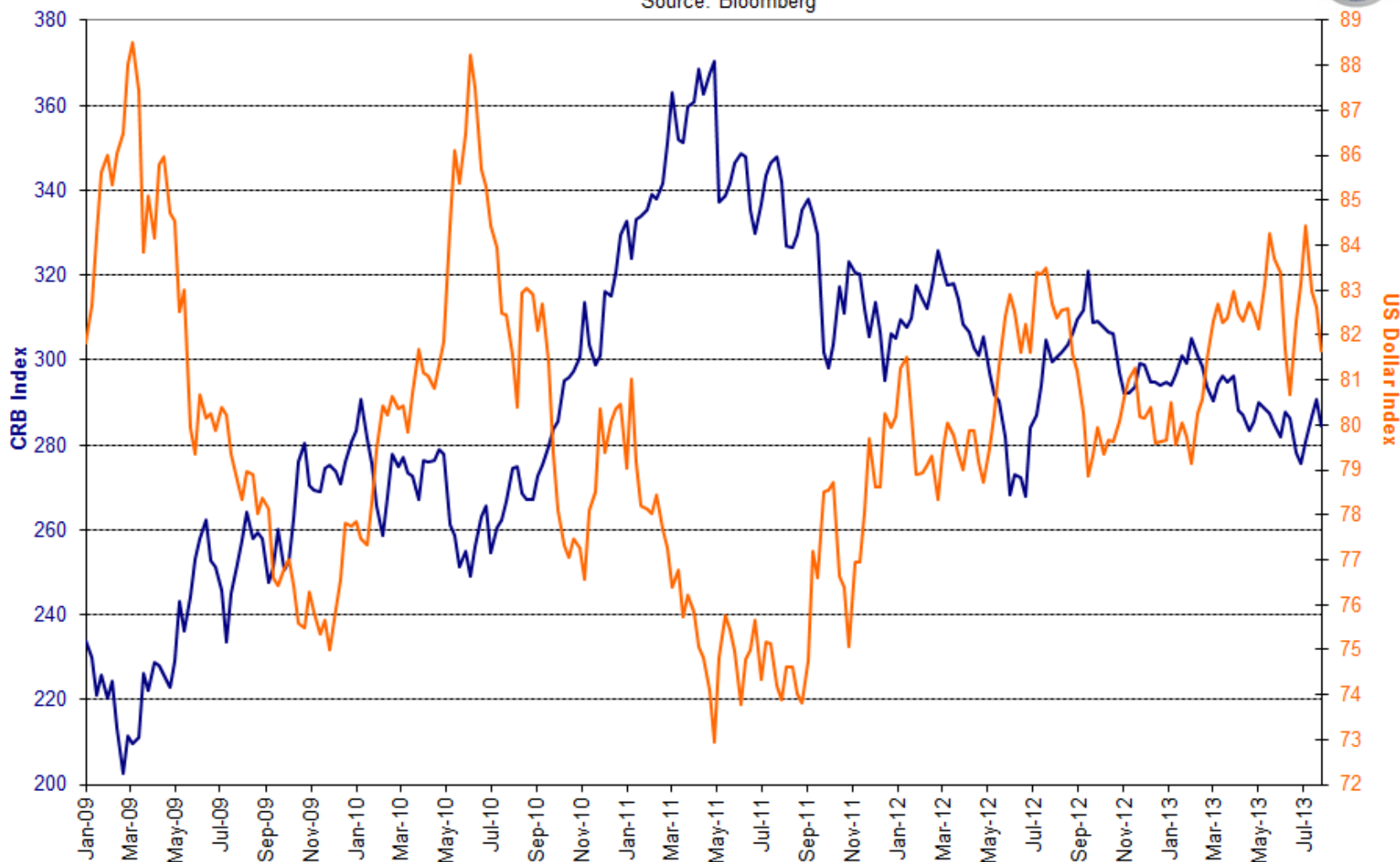
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- **Price Discovery – Is it art, science or voodoo ?**
 - Supply and Demand Grains = Weather Risk & Lower Price Risk.
 - World Economy – slow economic growth biggest risk.
 - Global currency wars – US QE program debase USD.
 - Global Energy supplies - growth of Nat Gas production in US.
- **Money flow out of commodities Risk on or Risk Off ?**
 - Money is moving into the equity markets.
 - HFT and market disruption.
 - QE and commodities – unwind of QE can be a major issue.
- **Geopolitical Risk = Black Swans**
 - Middle East = Potential conflict spreads effecting crude prices.
 - EU – While more stable now, slow growth/banking issues.
 - China/India/Japan – Trade and regional issues.

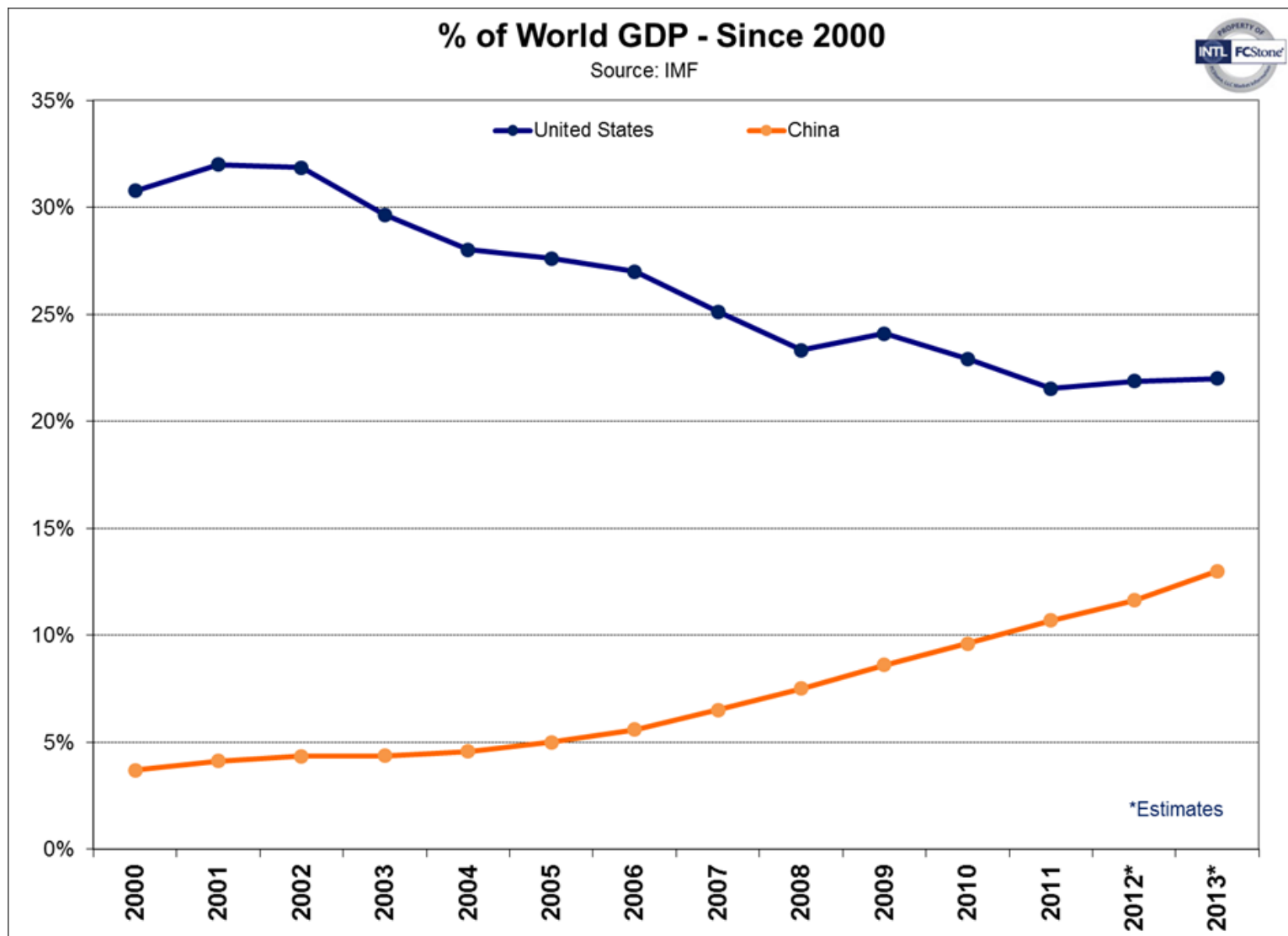


CRB vs Dollar Index (points)

Source: Bloomberg



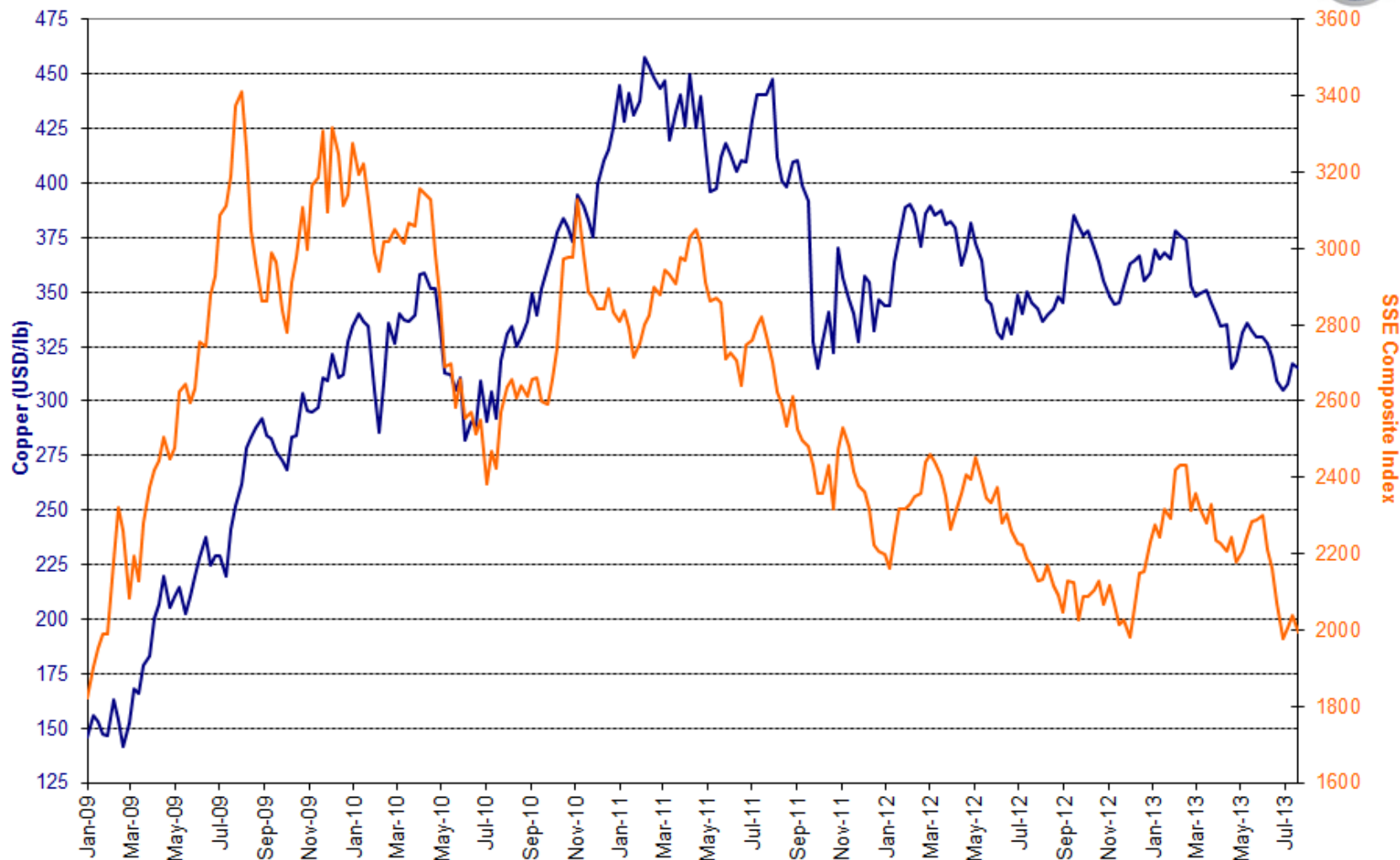
China – What's Happening?



- Population becoming more urban
- Rising disposable incomes
- Per capita food spending
 - US = \$2,010 China = \$530
- COFCO estimated Chinese consumption changes to 2020
 - Rice -5%
 - Flour -5%
 - Meat +35%
 - Cooking oil +35%
 - Sugar +52%
 - Dairy +116%

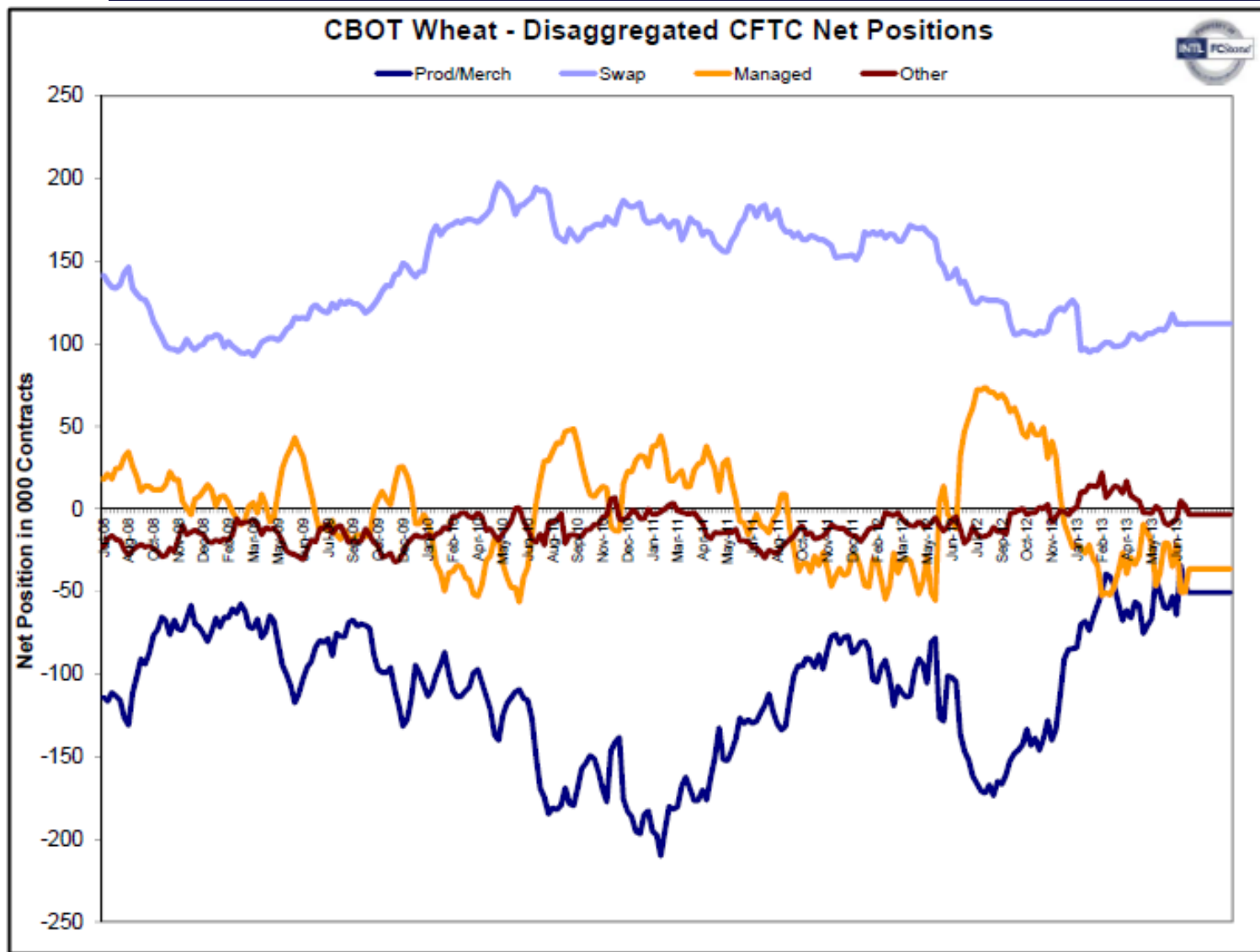
Comex Copper (USD/lb) vs SSE Composite (points)

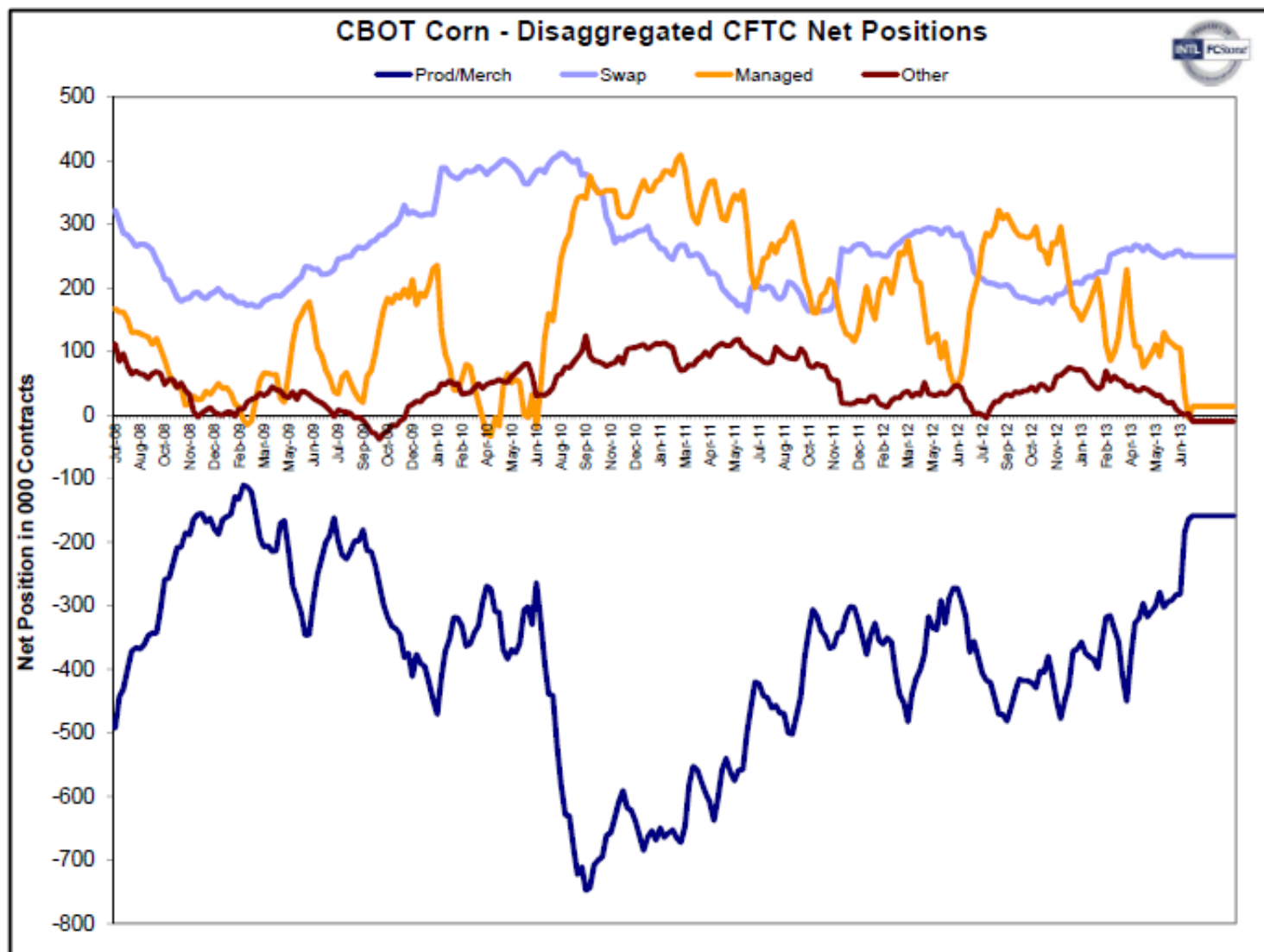
Source: Bloomberg



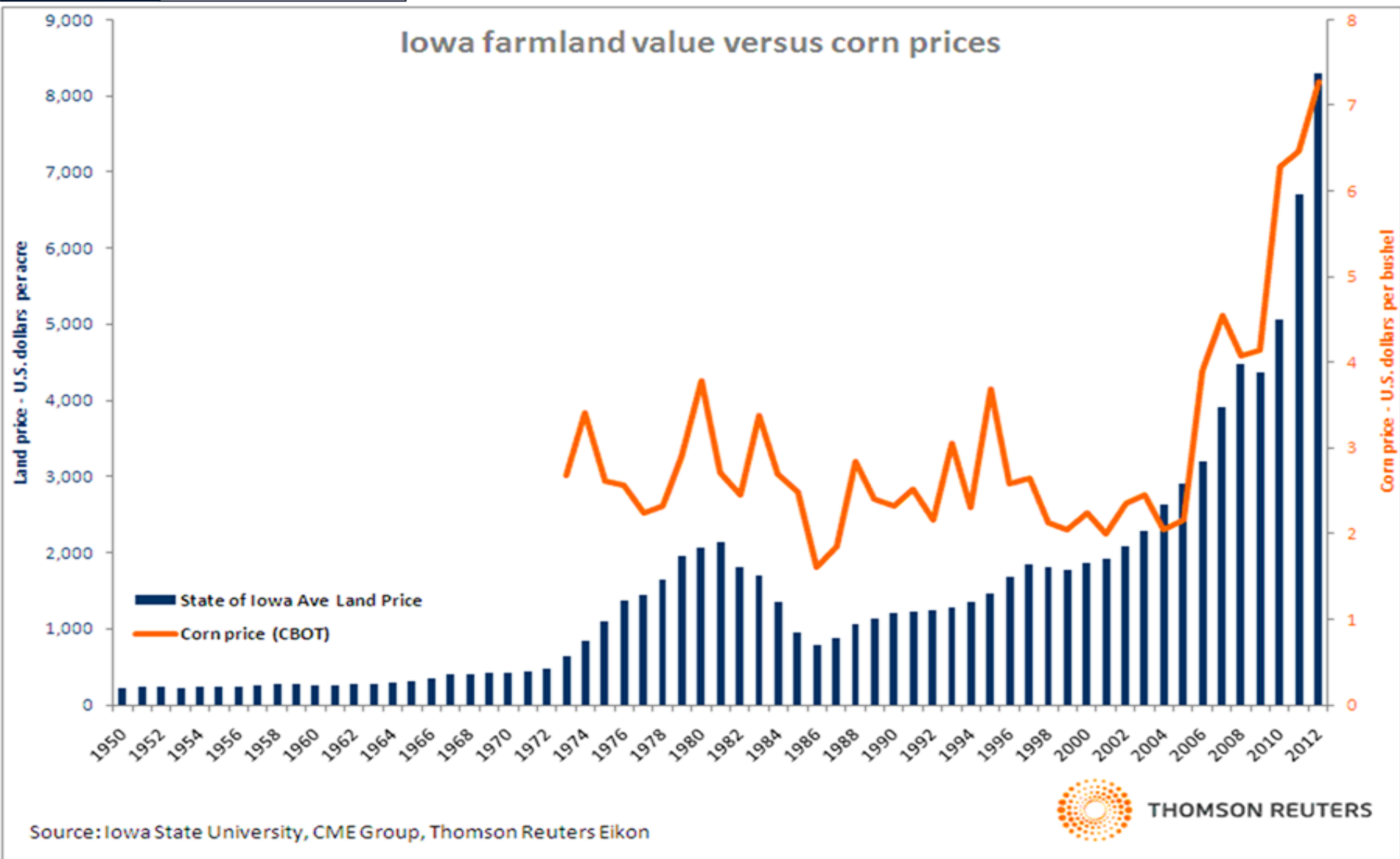
Who are trading these markets now?

- Hedgers
 - Grain handlers, consumers and traders.
- Speculators
 - HFT – High Frequency Traders
 - Black box – SP/Crude/Currencies – moved into AG.
 - Disruptive forcing traders to the sidelines, increase in volatility.
 - Index funds creating liquidity issues once again.
- Rally in Equities has seen an outflow of money.
- QE and commodities
 - Low rates of return in sector shifting assets to other classes.
 - QE unwind timing will be closely watched by the bond trade.





Next “Bubble” Farmland ?

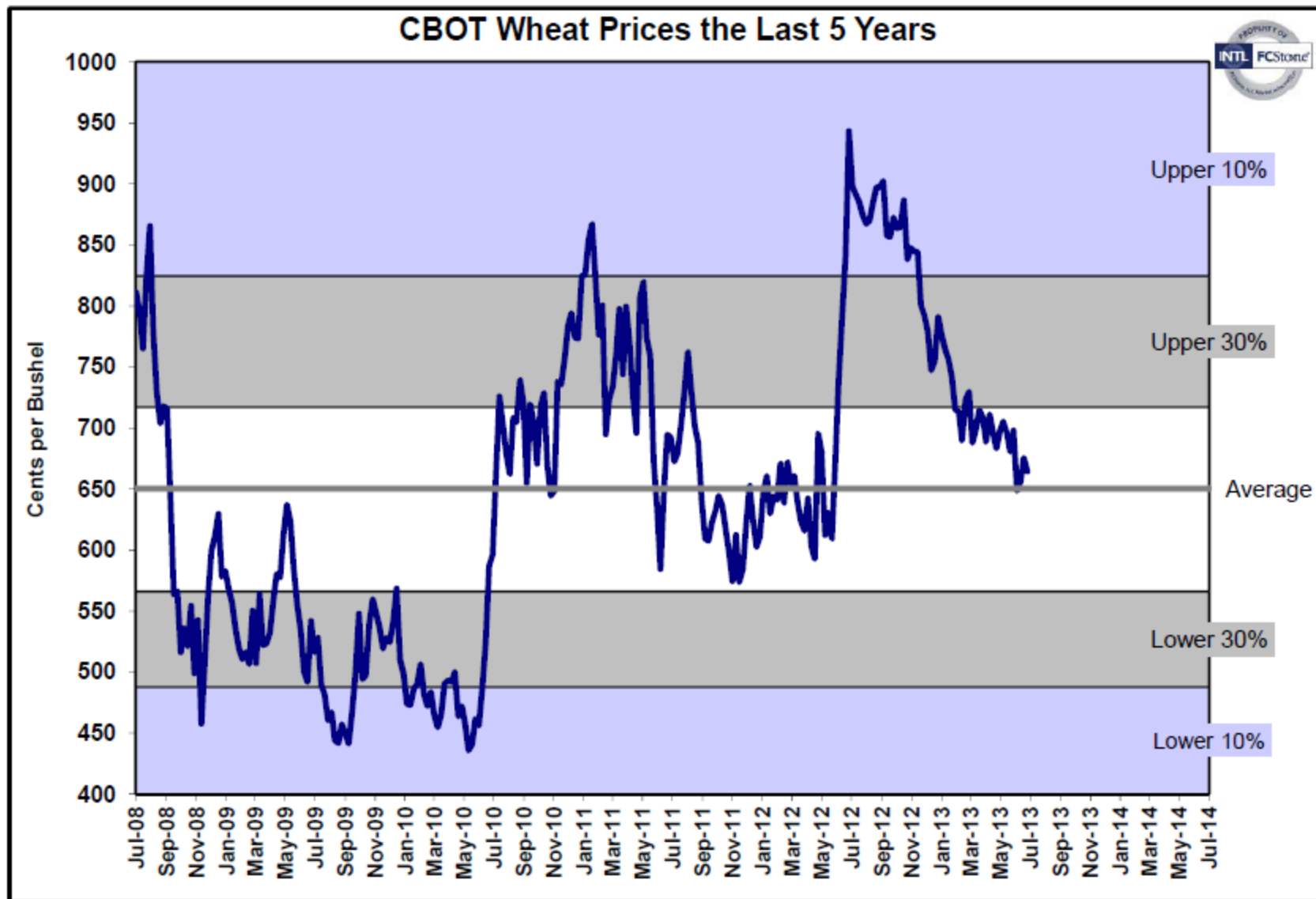




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Wheat

World Supply and Demand
Information



WORLD WHEAT SITUATION

General Wheat Planting & Harvesting

	Planting		Harvest									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. Winter						Harvest	Harvest		Planting	Planting		
U.S. Spring				Planting	Planting			Harvest	Harvest			
Canada				Planting	Planting			Harvest	Harvest	Harvest		
Australia	Harvest				Planting	Planting	Planting			Harvest	Harvest	Harvest
Russia Winter							Harvest	Harvest	Planting	Planting		
Russia Spring				Planting	Planting			Harvest	Harvest			
Argentina	Harvest				Planting	Planting	Planting			Harvest	Harvest	Harvest
France							Harvest	Harvest		Planting	Planting	
Germany							Harvest	Harvest	Harvest	Planting	Planting	
United Kingdom							Harvest	Harvest	Harvest	Planting	Planting	
Ukraine						Harvest	Harvest	Planting	Planting			
Turkey						Harvest	Harvest	Harvest	Planting	Planting	Planting	
Egypt				Harvest	Harvest	Harvest			Planting	Planting		
Kazakhstan							Harvest	Harvest	Planting	Planting		
India			Harvest	Harvest	Harvest					Planting	Planting	Planting
Pakistan			Harvest	Harvest						Planting	Planting	Planting
Iran				Harvest	Harvest	Harvest			Planting	Planting		
China					Harvest	Harvest			Planting	Planting		
Brazil	Harvest			Planting	Planting	Planting			Harvest	Harvest	Harvest	Harvest



Wheat

Europe: Winter Wheat harvest progressing into Central Europe

Production estimates:

LY	USDA	% World	Private	FCS
133.1	138.6	20%	141.6	140.3

Recent developments: Market concerned with protein and quality aspect of French wheat at this time.

What to look out for: Increase in barley production is adding coarse grains to the market and causing storage issues, more cash wheat will hit the market

Recent fob offers: French 11% \$256 German 12% 269

Ukraine: Winter wheat harvest underway.

Production estimates:

LY	USDA	% World	Private	FCS
15.7	19.5	2%	20.5	21.0

Recent developments: Harvest remains 50% complete, yields on average 12% better than last year. Feed Quality has increased this year. Exports 8.5 mmt.

What to look out for: Flat price levels over the next few weeks, exporters will want to get sales on the books

Recent MW fob offers: \$245 12.5% pro

Russia: Winter wheat harvest underway

Production estimates:

LY	USDA	% World	Private	FCS
37.6	54.0	8%	50.0	52.0

Recent developments: Recent dryness in Volga region has private forecasters reducing crop but spring areas see good rains.

What to look out for: Fall precipitation, winter snow cover, Export situation

Recent fob offers: Novo MW: \$250

Kazakhstan: Winter wheat harvest underway

Production estimates:

LY	USDA	% World	Private	FCS
9.8	16.5	1.5%	14.5	14.6

Recent developments: Spring wheat areas have received excellent rains.

What to look out for: Price levels and the fact that Kazakhstan remains reliant on Russia to ship supplies
Recent DNF Russia 3rd class FOB offers: \$250

China: Harvest continues to make progress

Production estimates:

LY	USDA	% World	Private	FCS
121.0	121.0	17%	115.6	115.0

Recent developments: Price has been supported and reached high levels from local government and large flour mill purchases at the beginning of harvest. Quality issues are being noted with the harvest this year.

What to look out for: China has imported near 4 mmt, whether can arrive USDA's estimate 8.5MM or more, we have to watch the corn/wheat spread for import supply direction.

Recent Local Price: Shandong: \$390-\$406 Hebei: \$394-\$403

Australia: Tight old crop supplies/firm bids and flat price

Production estimates:

LY	USDA	% World	Private	FCS
22.8	25.4	3%	24.5	24.5

Recent developments: Rain improved west coast prospects. SE crop in good shape. Nth NSW and Sth Q land patchy.

What to look out for: Spring is key, rain Aug/Sep

Recent fob offers: East coast: \$308 (Dec APW min 10.5pro) West coast: \$317 (Dec APW min 10.5pro)

India: Completing harvest/initiating planting

Production estimates:

LY	USDA	% World	Private	FCS
94.8	92.0	13%	90	88.5

Recent developments: Harvest reports indicate smaller yields and some quality issues.

What to look out for: Government will try to export wheat but values currently below subsidy price look for less exports, will play into world carryout numbers.

Recent fob offers: \$280 Standard milling wheat

Canada: Harvest close to getting started, increased planting by producers the main theme as the demise of the CWS as producer can now market grain when they want to.

Production estimates:

LY	USDA	% World	Private	FCS
27.2	29.0	4%	29.7	28.9

Recent developments: While the new crop production looks good, trade is concerned about the potential for a lower protein crop.

What to look out for: Aggressive posture regarding export offers

Recent fob offers: Thunder bay: \$306, CWRS, 13.5% Vancouver: \$308, CWRS, 13.5%

United States: Winter wheat harvest 67% complete but lagging average of 71%, Spring wheat condition showing 70% Good/Excellent average is 70%.

Production estimates:

LY	USDA	% World	Private	FCS
61.6	57.5	8%	57.5	57.3

Recent developments: Wheat feeding continues at a brisk pace due to the lack of corn supply, Gulf wheat basis is very firm as Brazil and China execute big HRW and SRW programs.

What to look out for: Export demand may shift from the US in Q2 and Q3 as new crop supplies come on line in the EU and Black Sea.

Recent fob offers: Great Lakes: HRW 14% \$343; Gulf: HRW 12% \$313; Gulf: SRW \$271; PNW: HRW 11.5% \$304; PNW: SRW \$277

Argentina: Export ban of wheat in Argentina until new crop.

Production estimates:

LY	USDA	% World	Private	FCS
10	13.0	2%	12.0	11.0

Recent developments: Planted area: 3.9 MHa, Est. harvested area: 97%, Est. yield: 2.7MT/ha

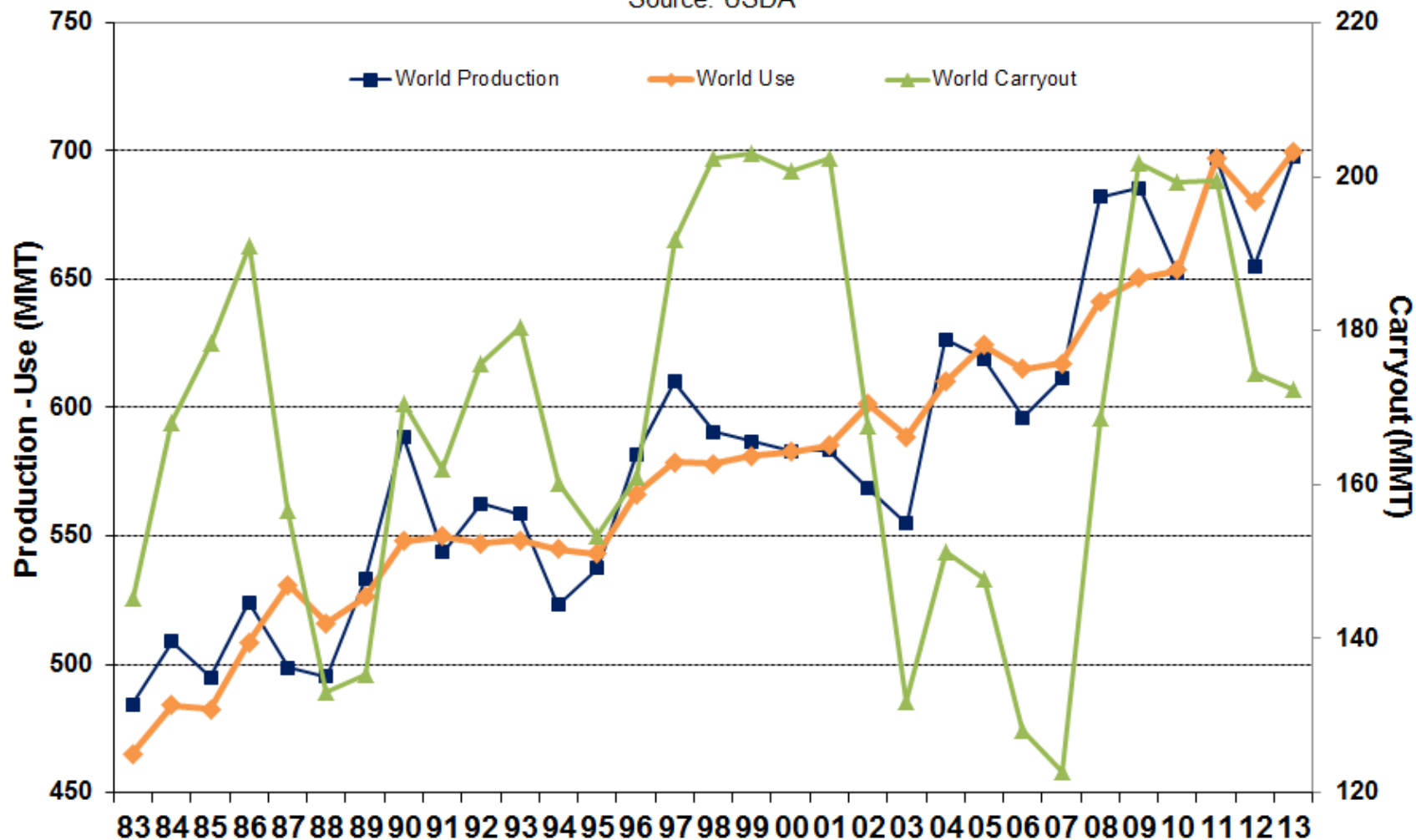
What to look out for: Rains in the past 7 days have delayed planting, rain has been concentrated in the southern planting areas 85-90% of planting done.

Recent fob offers: Upriver new crop: 12% \$270 vs \$264; Necochea: 11.5% \$268

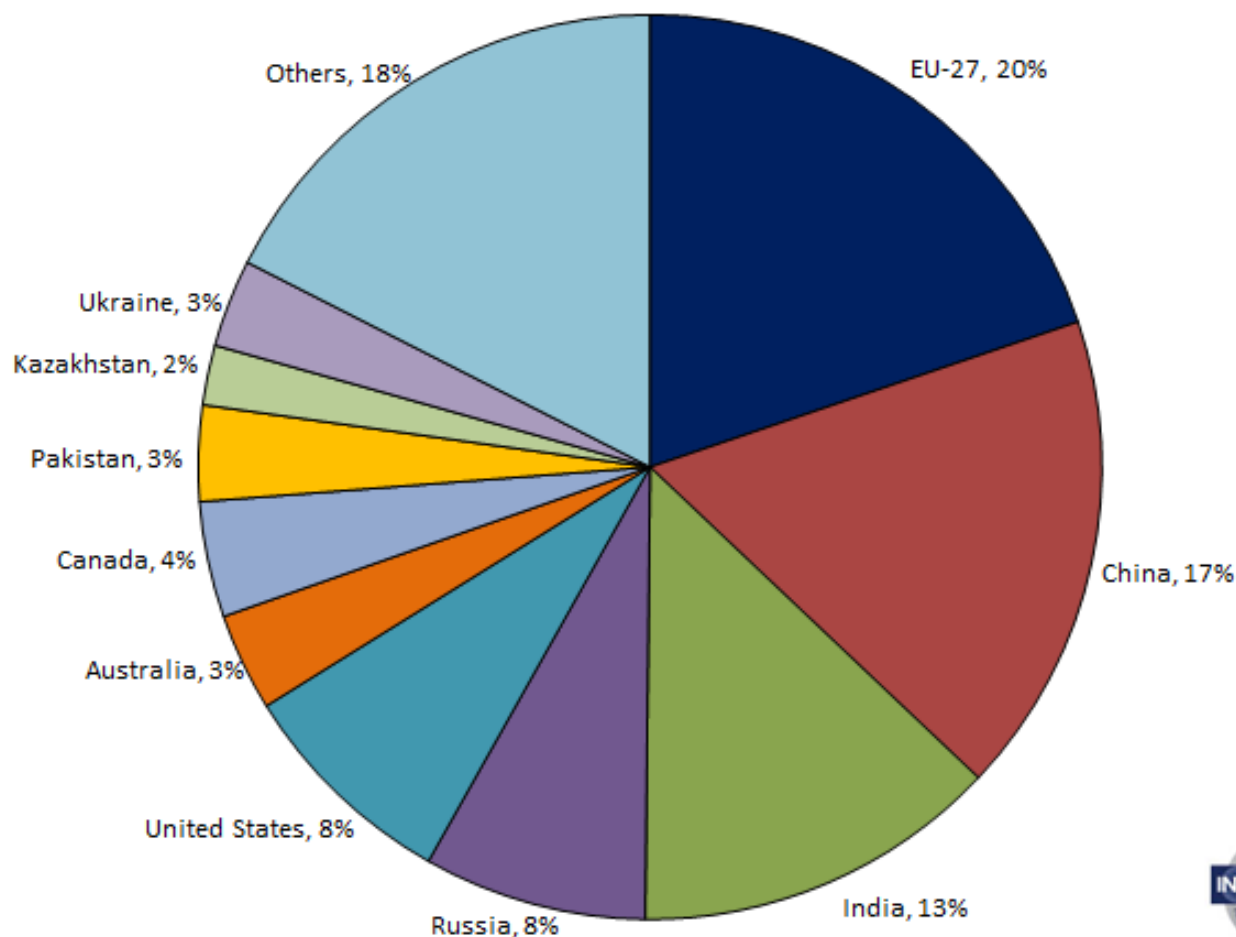


World Wheat Statistics (MMT)

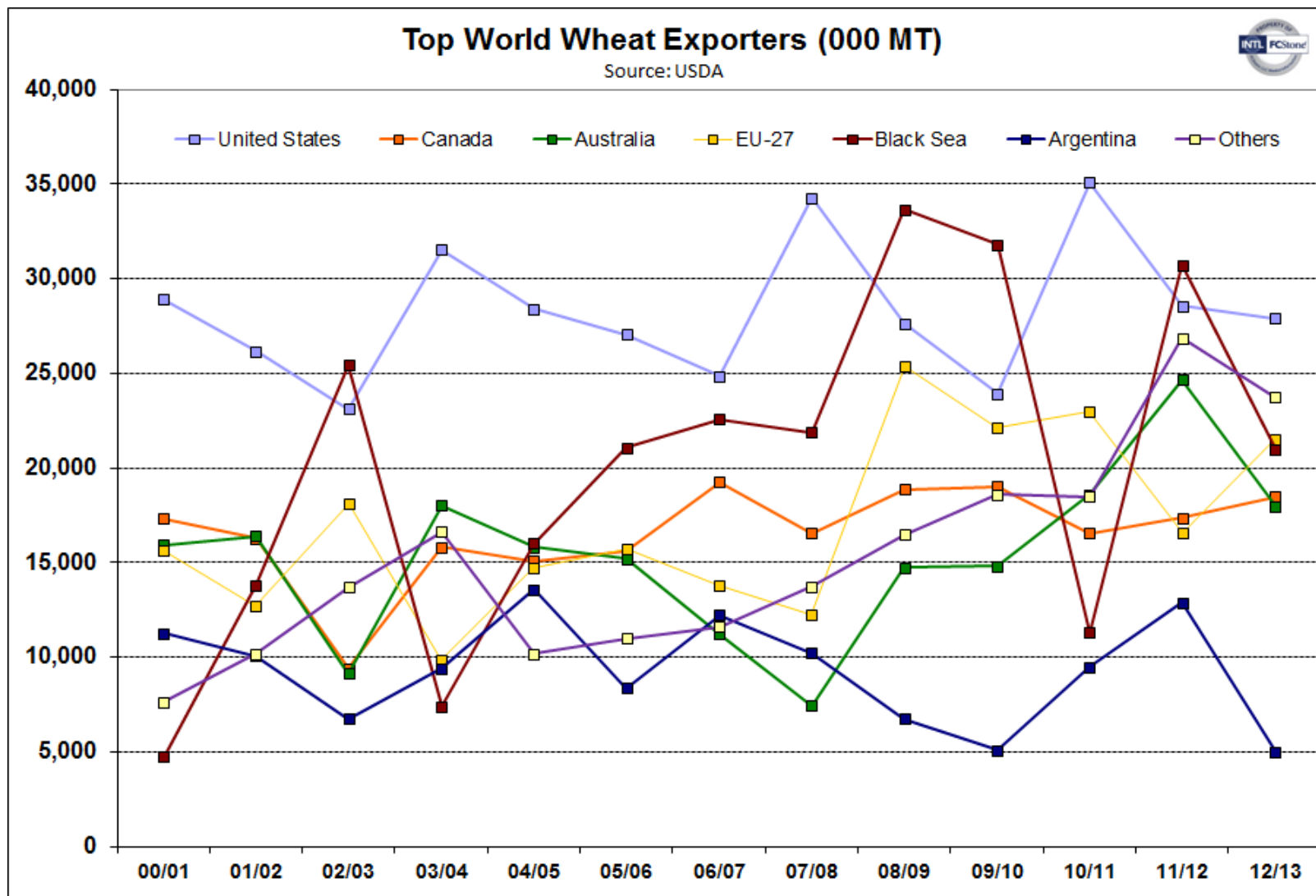
Source: USDA



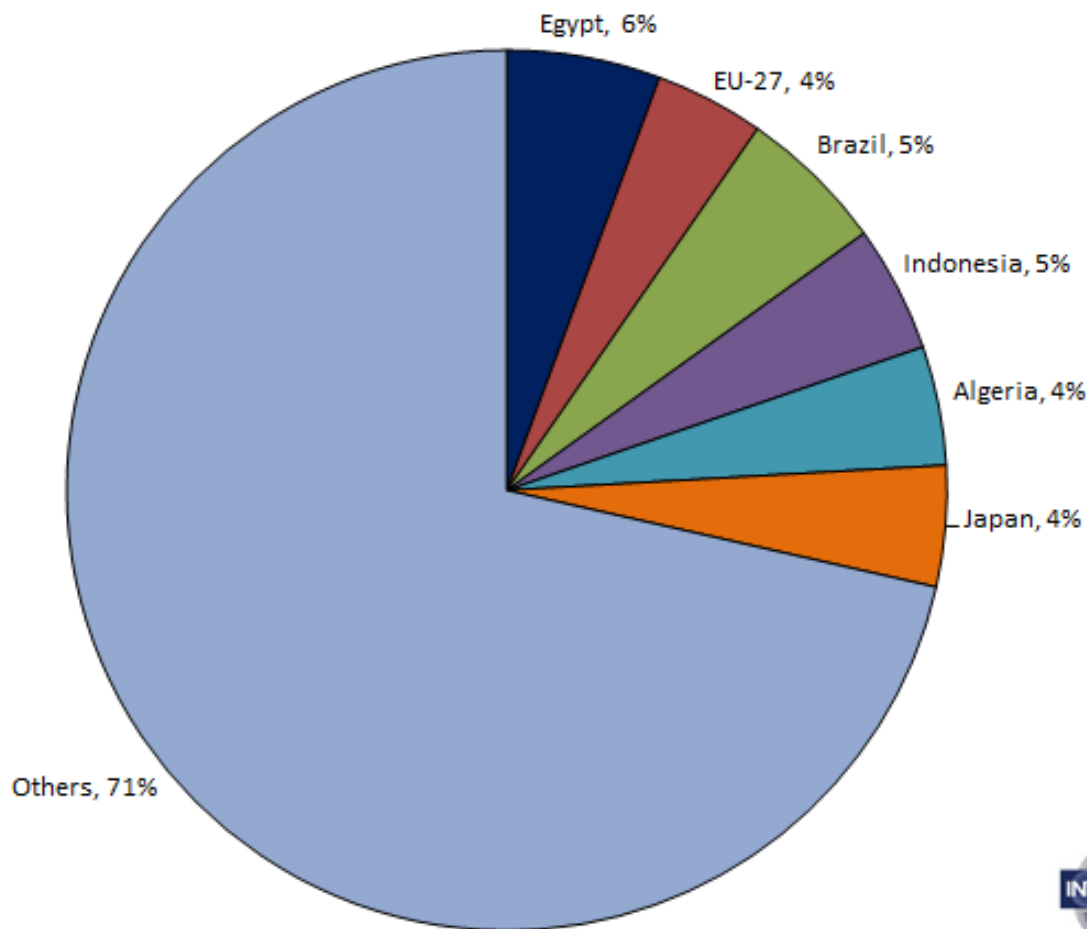
World Wheat Production - 2013/14



Source: USDA



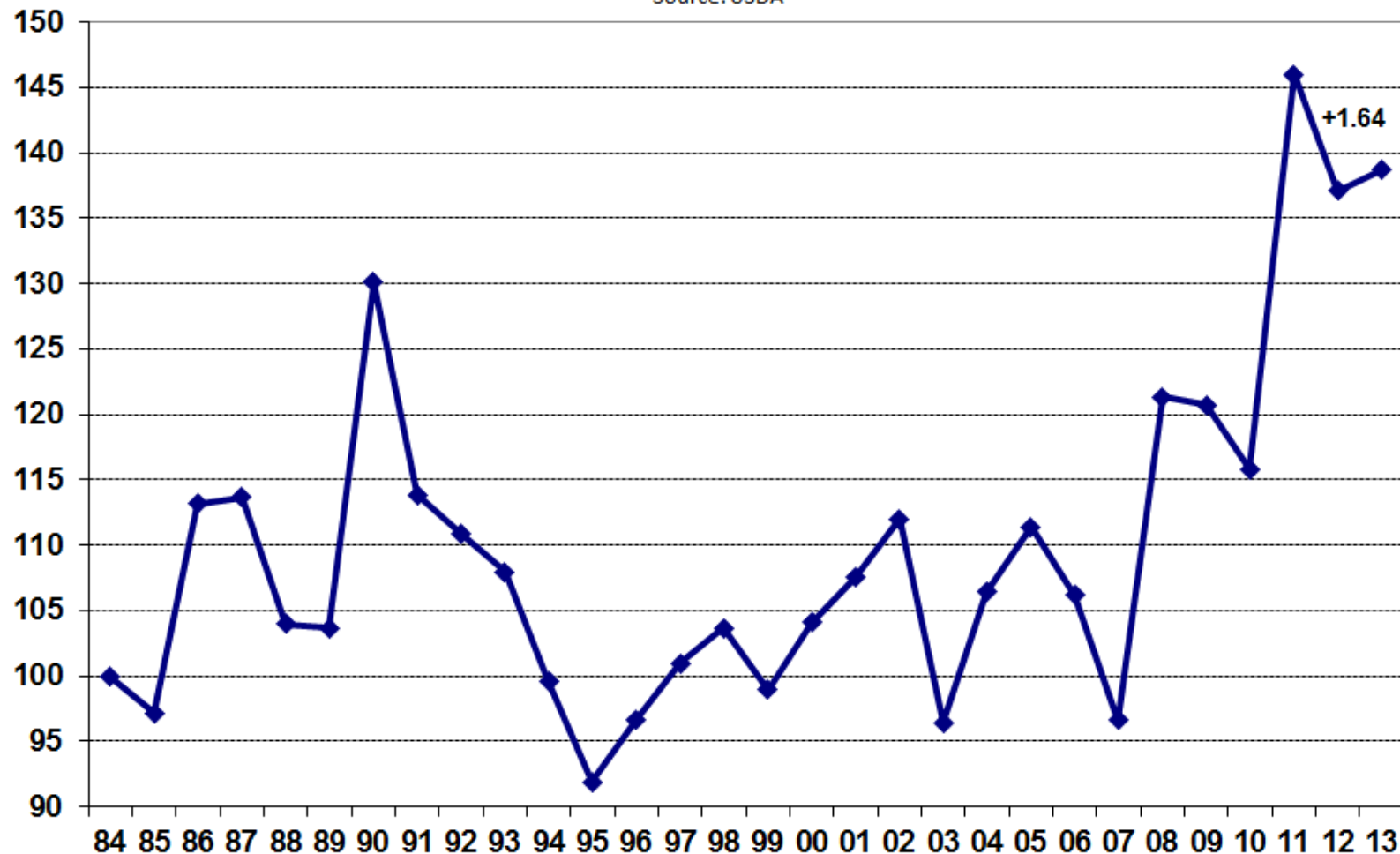
World Wheat Importers - 2013/14



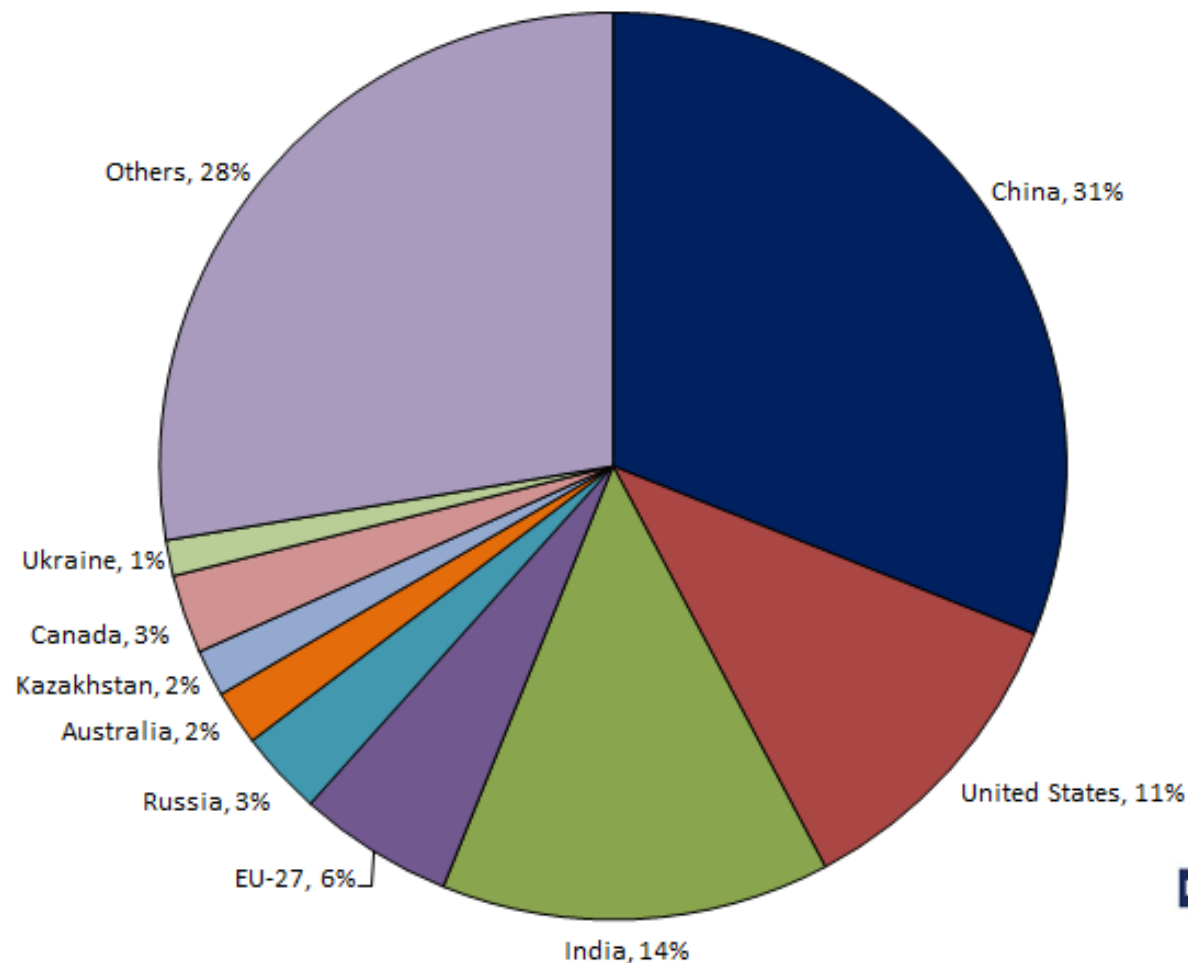
Source: USDA

World Wheat Feed Use (mmt)

Source: USDA

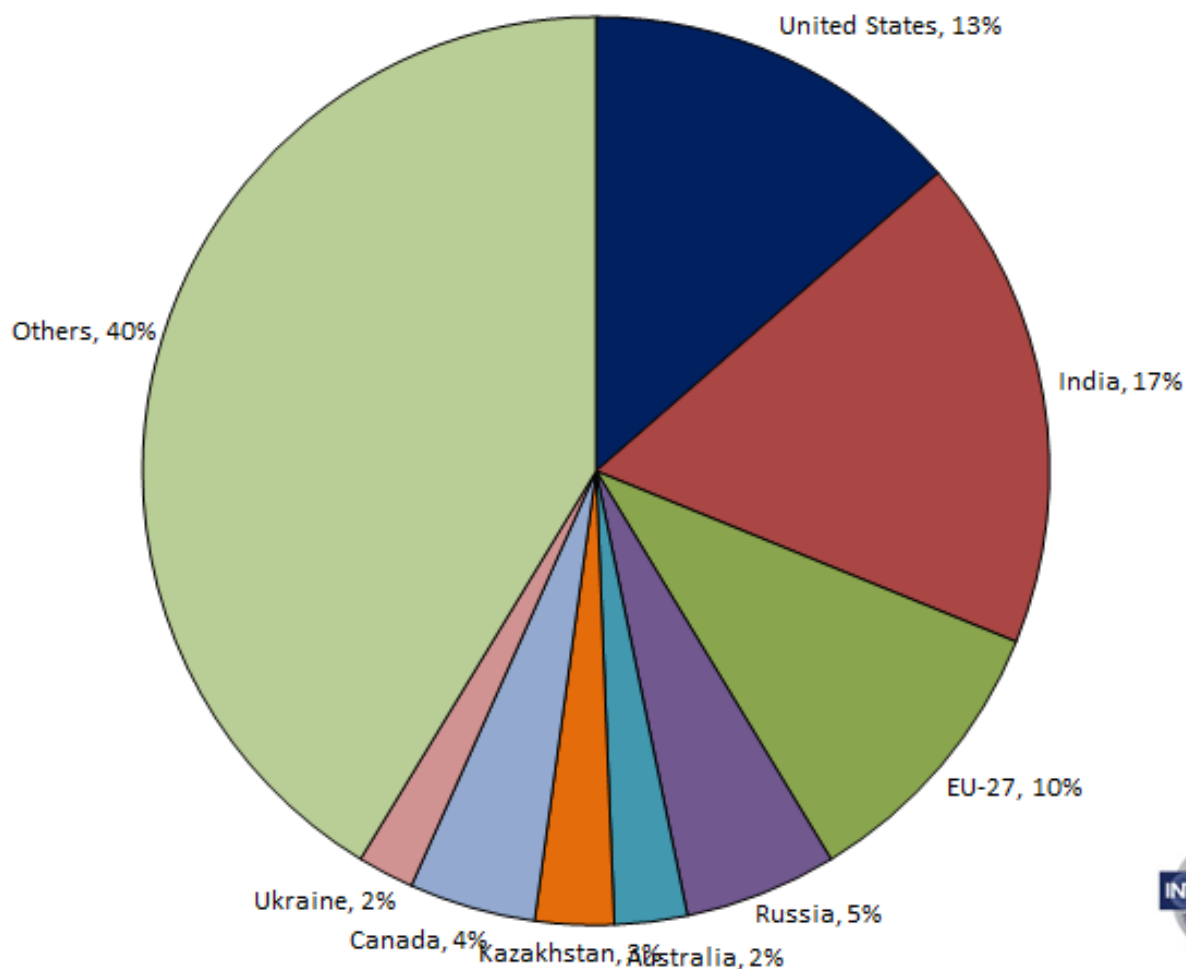


World Wheat Ending Stocks - 2013/14



Source: USDA

World Wheat Ending Stocks (minus China) - 2013/14

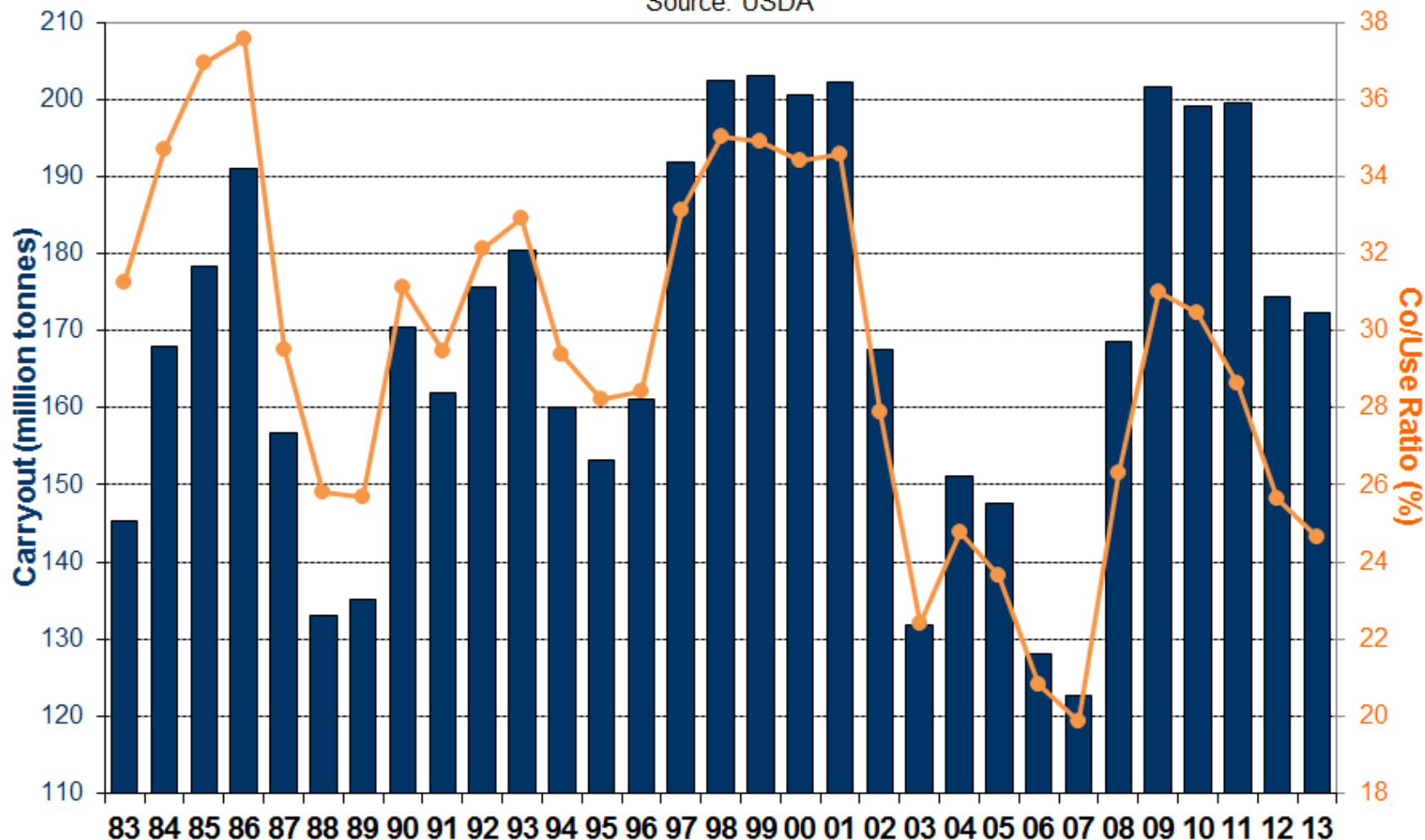


Source: USDA

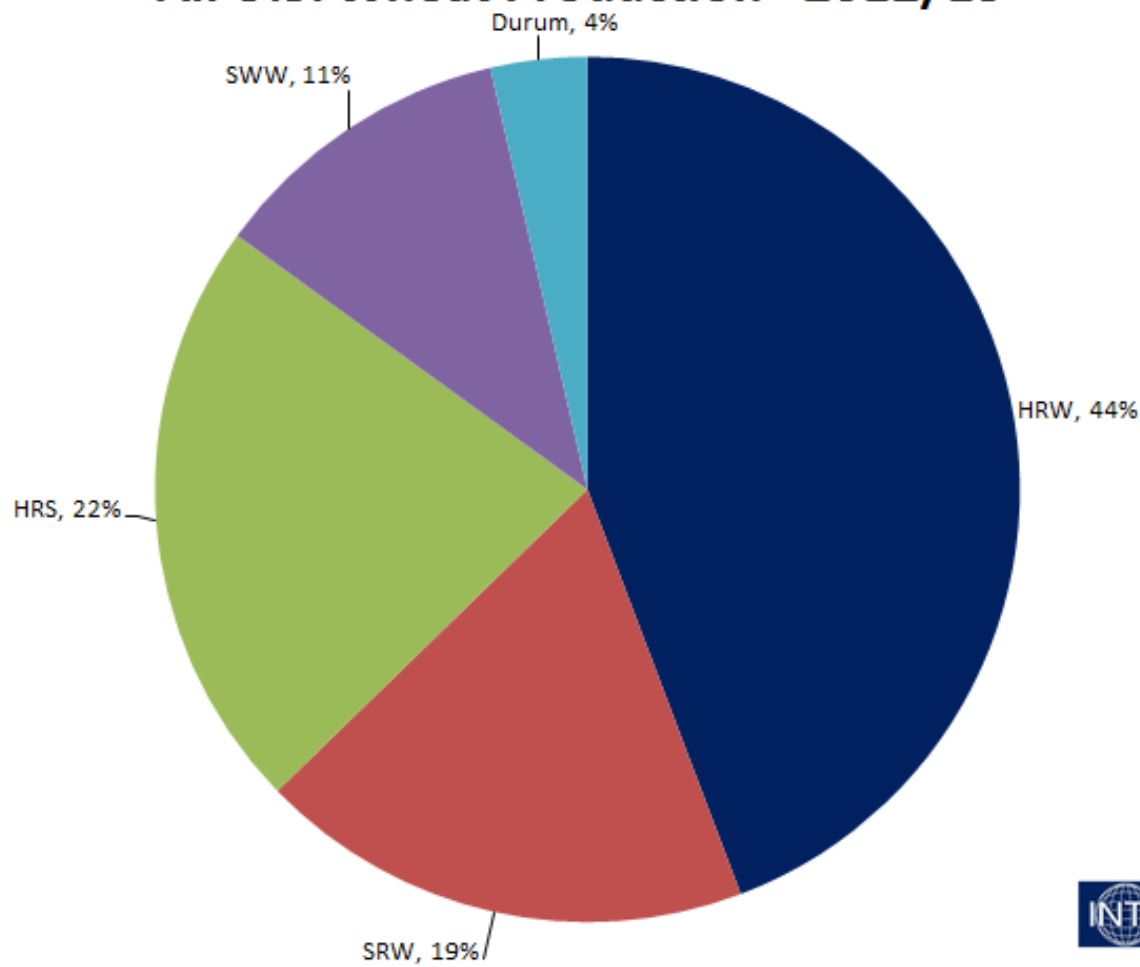
Carryout is at a 89 day supply

World Wheat Carryout and CO/Use

Source: USDA



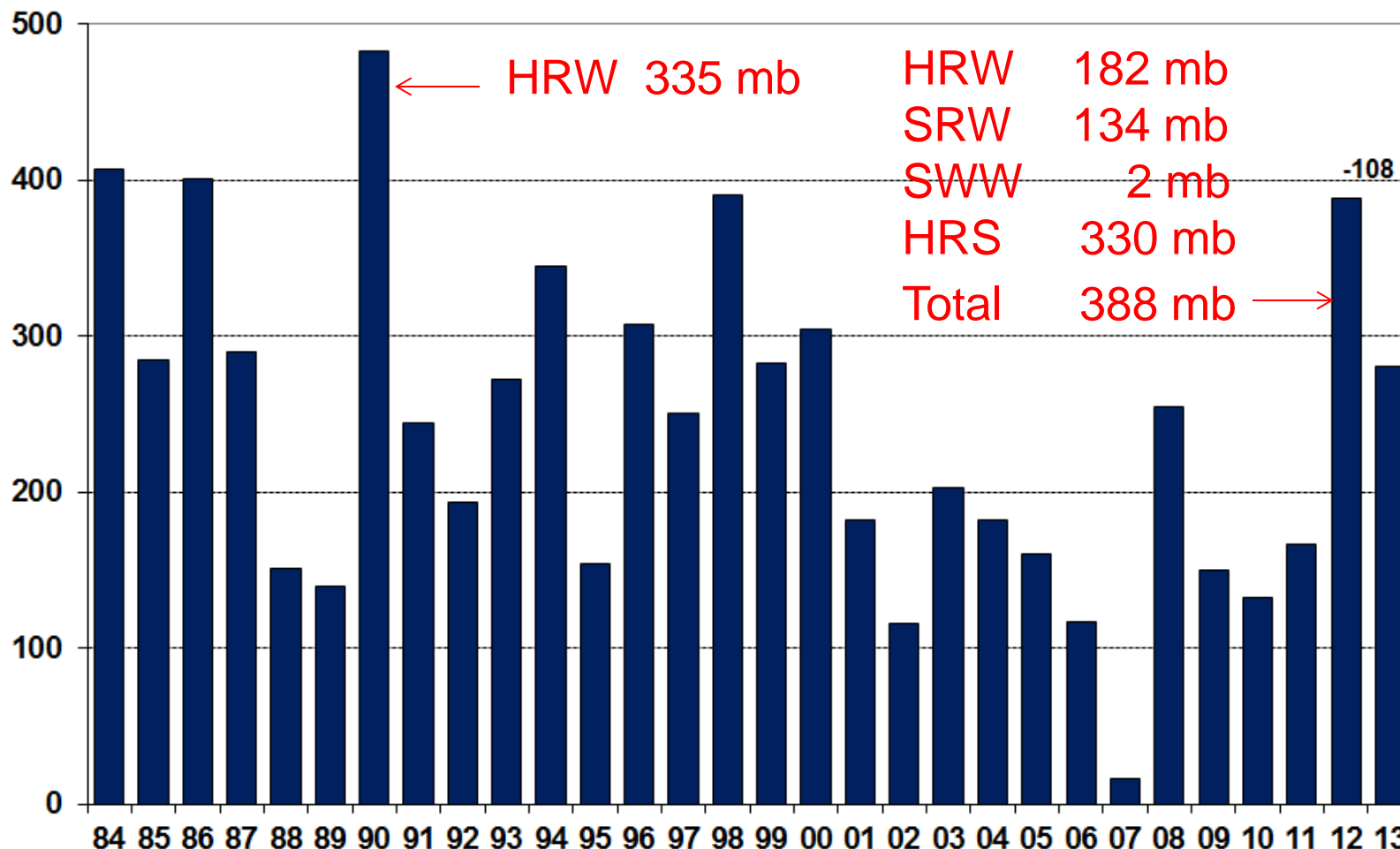
All U.S. Wheat Production - 2012/13



Source: USDA.

US Wheat Feed/Ind Use (million bushel)

Source: USDA





Source: FCStone Research.

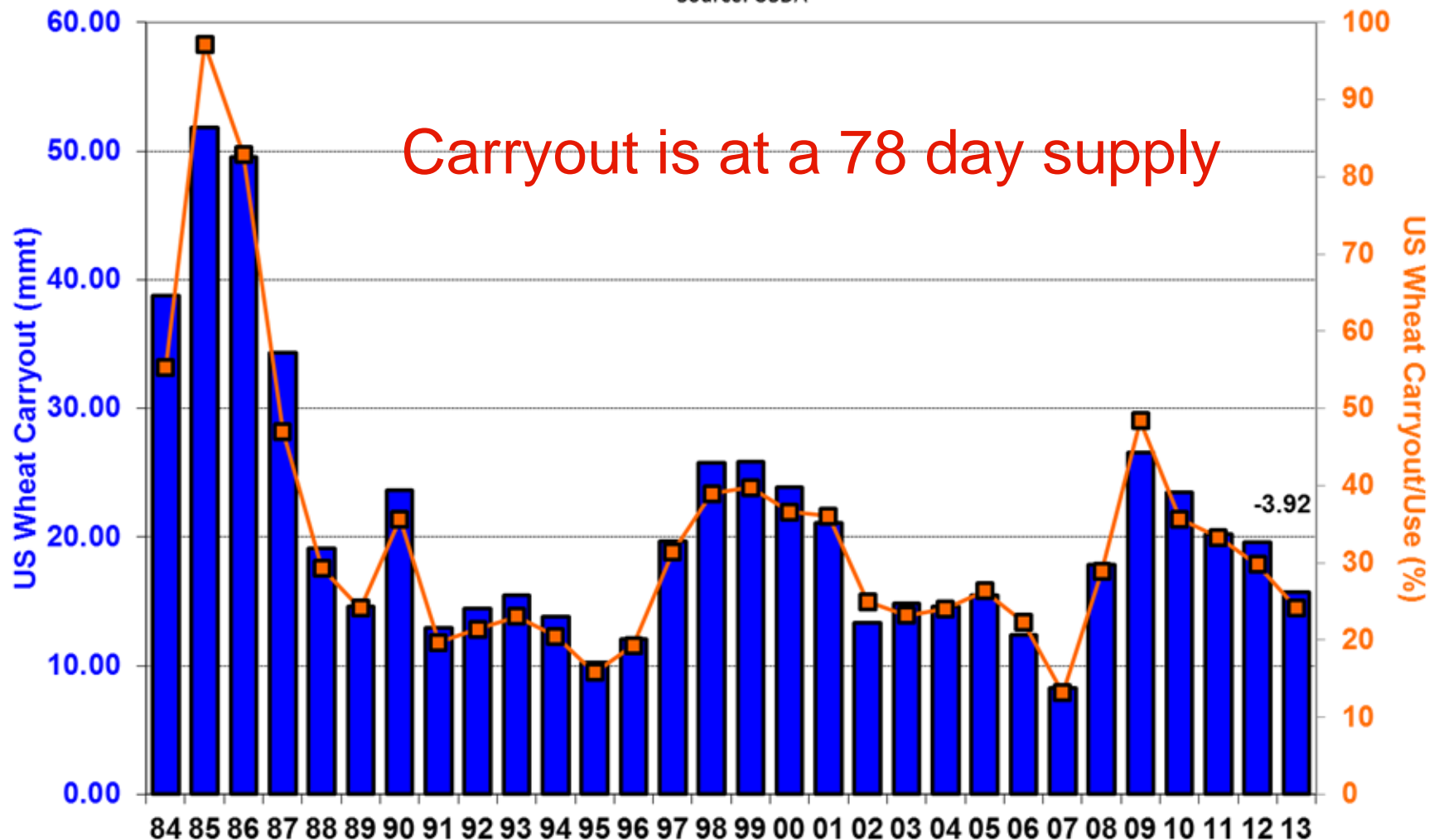


Noise or Signal ?

DTN ProphetX®

US Wheat Carryout (mmt)

Source: USDA



– Russia:

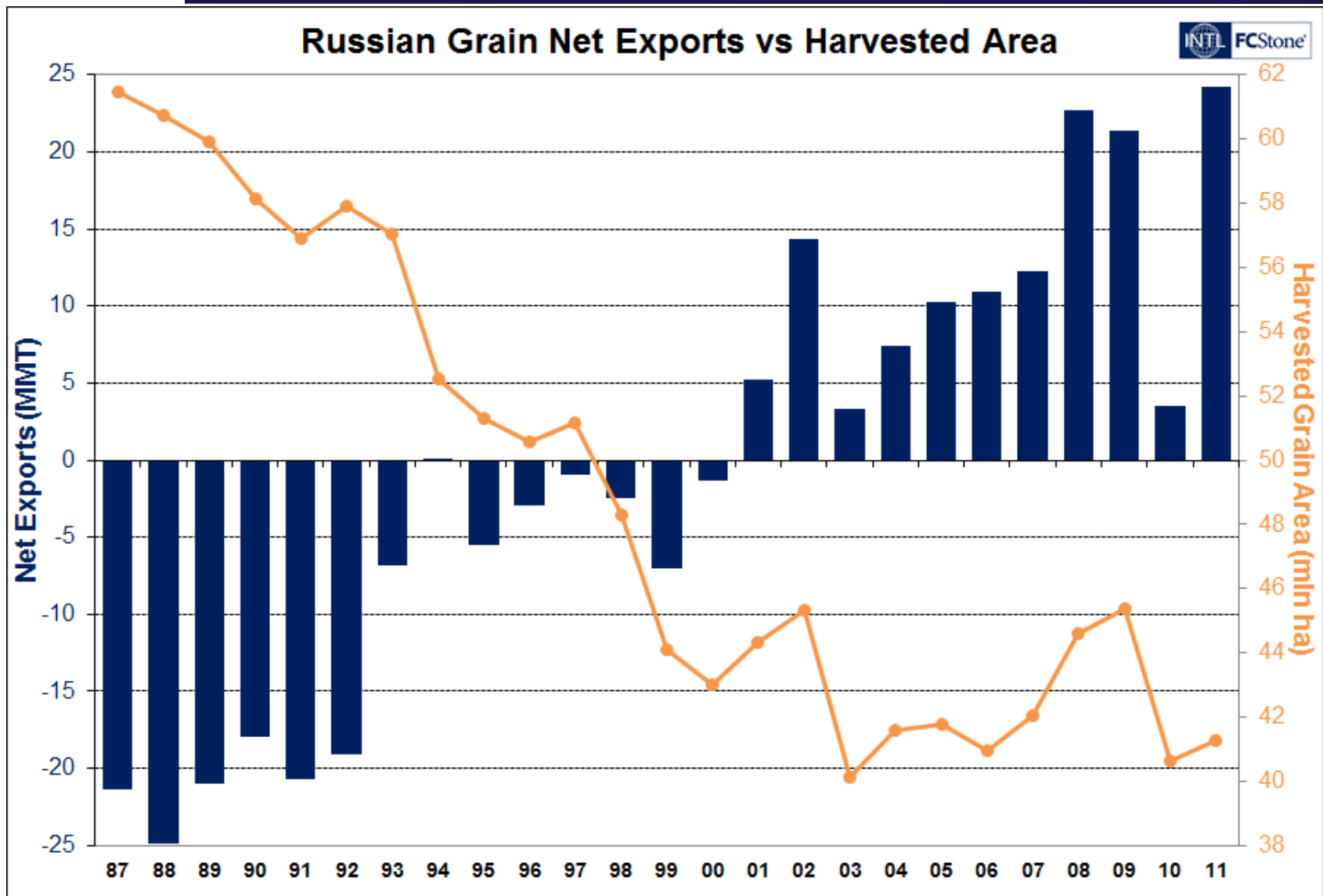
- **Production estimates at 52 mmt.**
- Dryness in Volga reduced yield, more 11.5s than 12.5 pro, commercial short will support prices in short term.
- **Smaller crop and government intervention purchases will see exports at 12 to 14 mmt vs USDA at 17 mmt this may limit exports past Feb.**
- Recent FOB offers \$250ish

• Ukraine:

- Production estimate at 21 mmt.
- **Harvest seeing better yields than last year but more feed quality than milling, we see exports at 8.5 mmt vs USDA at 8.0**
- Recent FOB offers 12.5s at \$245ish

• Kazakhstan:

- Production estimates at 14.6 mmt.
- **Recent rains improving spring wheat potential**
- Lower prices due to reliance on Russia to ship supplies.



– EU

- **Production looks to bigger than USDA estimates**
 - German crop excellent, French big but may have quality issues
 - Southeast EU looks to have a big crop this will come to the market..
- **Look for the EU S/D balance sheets to build carryout.**
 - Big Barley crop will limit the need for feed wheat imports.
- **France will need Egypt business**

– Canada

- **USDA has Production Estimate at 29 mmt up 7% from 2012**
 - FCStone Estimate at 28.8 mmt
- Exports at 18.5 mmt unchanged from 2012
- **Crop looks to be planted late quality needs to determined.**
- **Break up of Canadian Wheat Board:**
 - Increase in Production as Producer is not locked into the Single Desk.
 - More bushels of Spring wheat/durum will move to the US Mill Market
 - Producer becomes a marketer instead of a grower quality vs. yield.

– Australia

- USDA has Production at 25.5 MMT and exports of 19 MMT.
 - FCStone production estimate is at 23.5 MMT at this time
- Early dryness was concern for the crop but both W/A and Eastern Australia have seen beneficial rains.
- China looks to be a good buyer of new crop wheat.

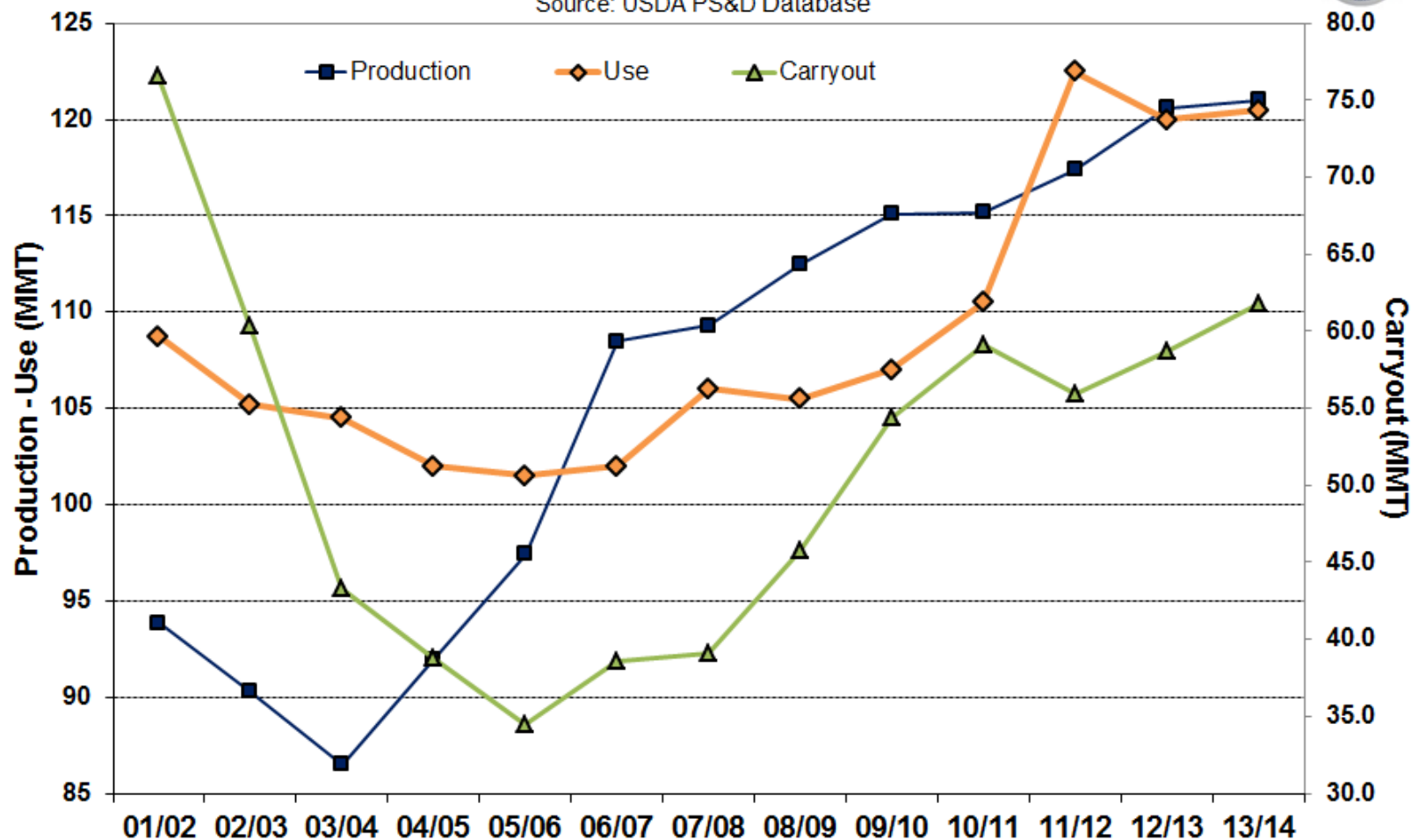
– Argentina

—————→ **Noise to pay attention to**

- USDA has Production at 13 MMT and exports of 7 MMT.
 - FCStone production estimate is at 11 MMT at this time
- Dry conditions limited planting in northern areas, harvest will be late.
- Social conditions and government policy need to be watched if there are any “perceived” production issues.
- Ban of Argentine exports has forced Brazil and other Latina American countries to buy US HRW, Russian wheat needs to compete.

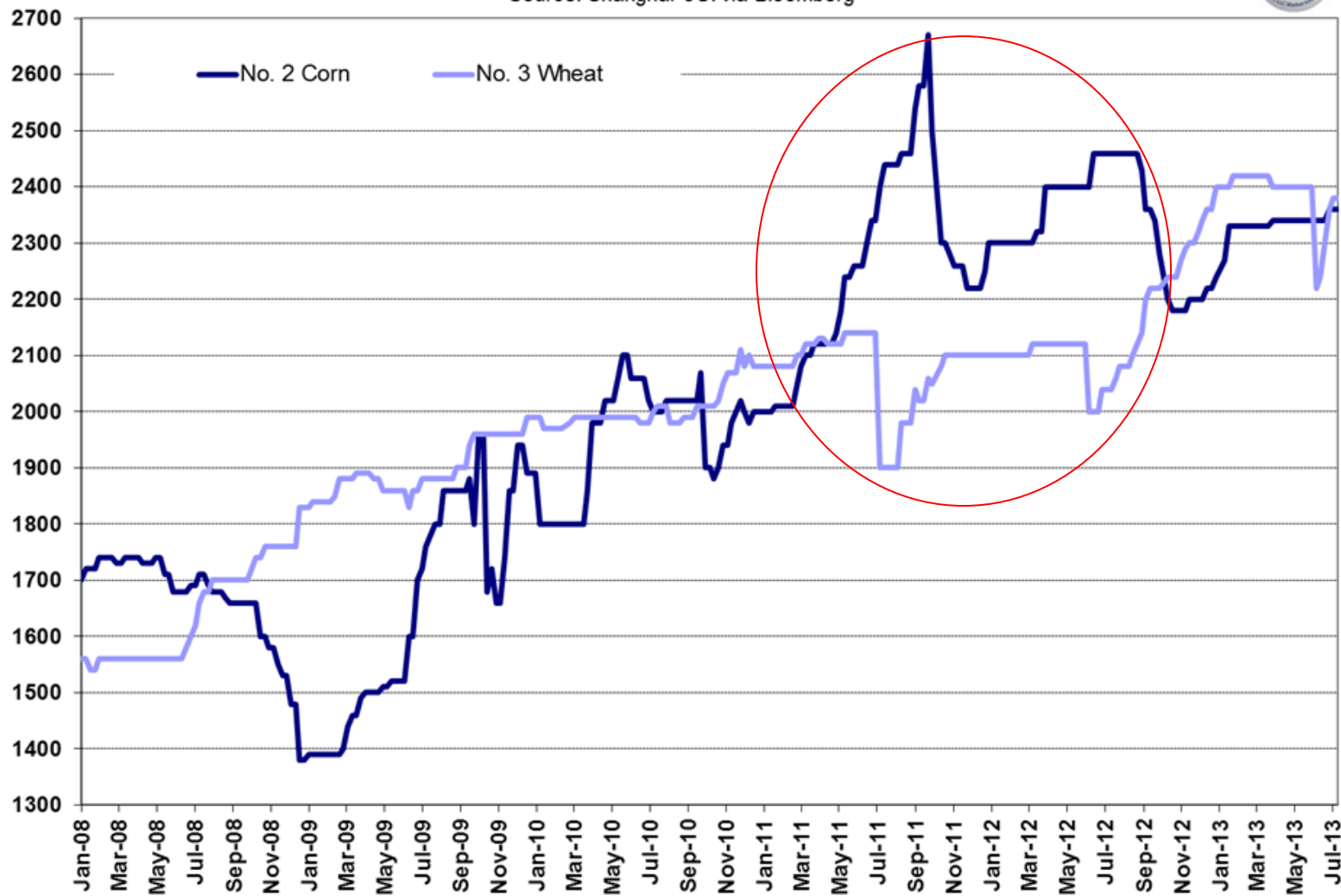
China Wheat Production, Use, Carryout (MMT)

Source: USDA PS&D Database



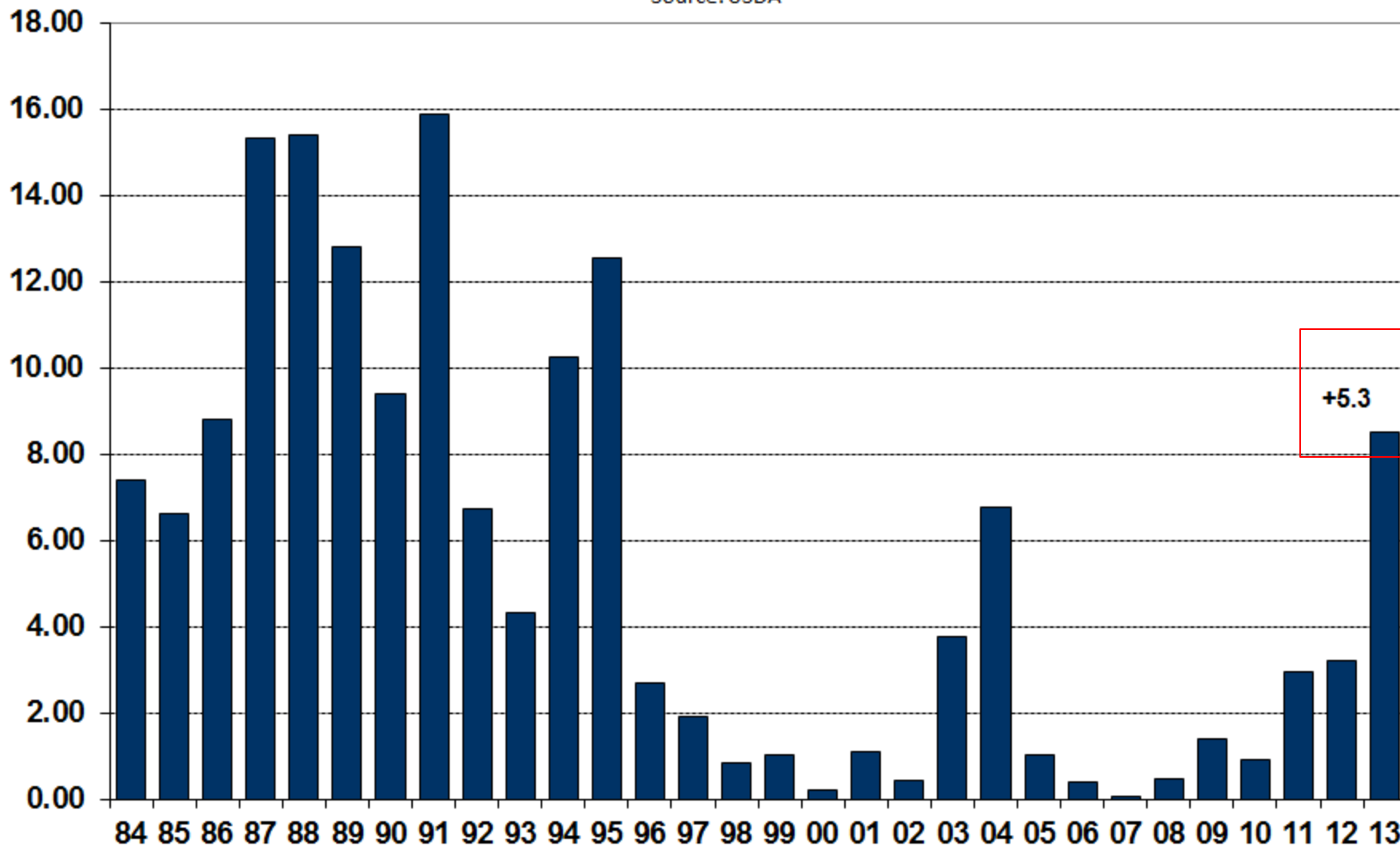
Chinese Corn vs Wheat Price - Henan (CNY/MT)

Source: Shanghai JCI via Bloomberg



Chinese Wheat Imports (mmt)

Source: USDA



– China

- USDA has Production at 121 MMT and imports at 8.5 mmt.
 - FCStone production estimate is significantly smaller imports a bit bigger.
- Quality of crop/reserves and high domestic prices leading to increase of import program but remember they are traders, significant arb opportunities.
- Import program looks to be very structured vs. price and seasonals.

– India

- USDA has Production at 92 MMT and exports of 7 MMT.
 - Trade and USDA attaché has production at 5 to 7 mmt lower.
- Smaller crop and structure of production subsidies will limit export program vs the USDA estimate.
- A downward move in prices and ongoing storage/infrastructure issues will eventually force government to review policy.

– Fundamentals:

- Short term – Northern Hemisphere harvest pressure will keep prices on the defensive.
- Long term – “Noise” can turn into a signal, Southern Hemisphere production and corn price direction will be main factor.
- Fund short position in CME wheat = “dead cat bounce”.

– Premiums:

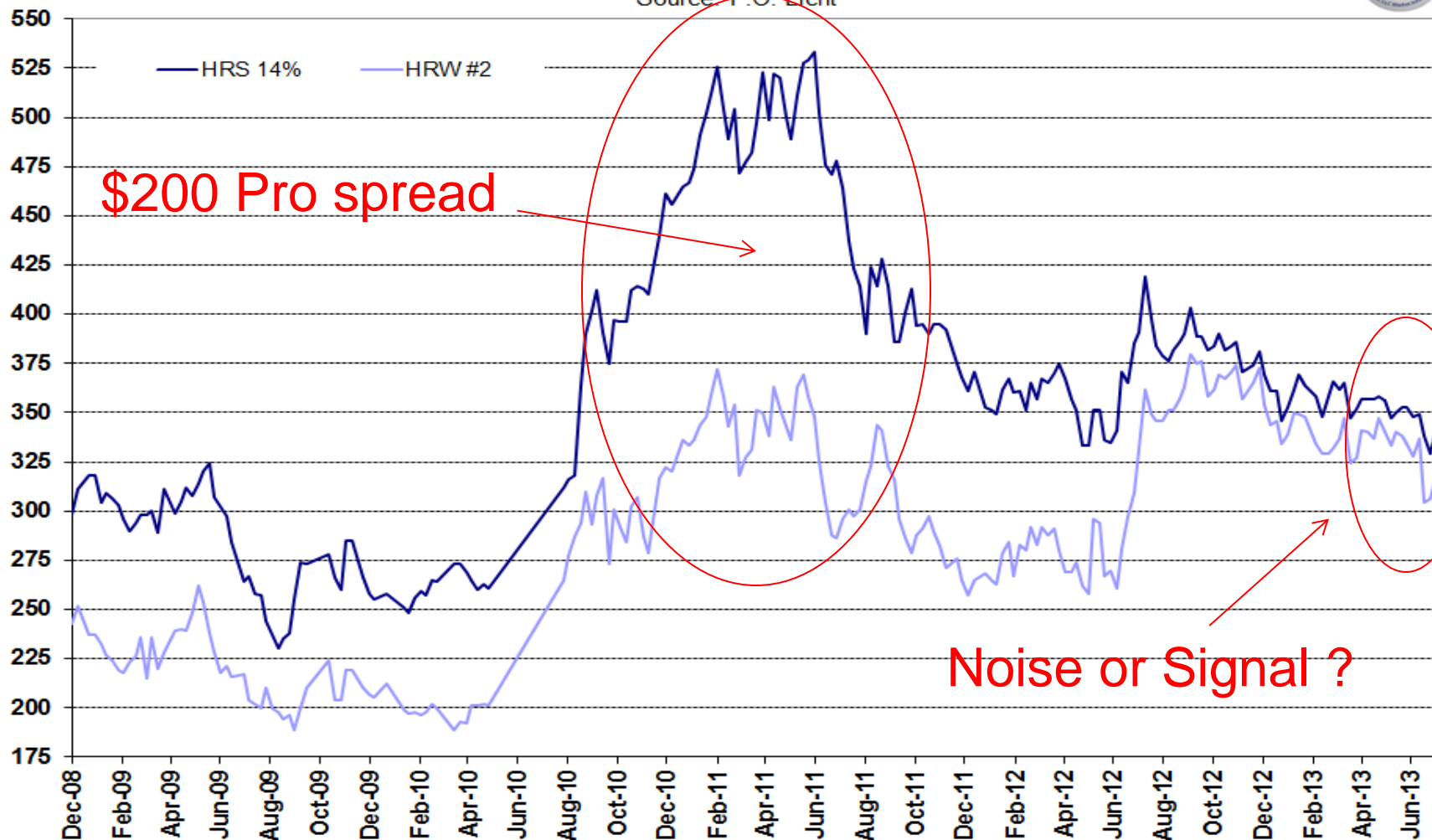
- Will be firm until new crop supplies are in the pipeline.
- Rebound of world coarse grain production is bearish basis.
- Demand for milling quality wheat can be a job for the basis and spreads.

– Over The Horizon

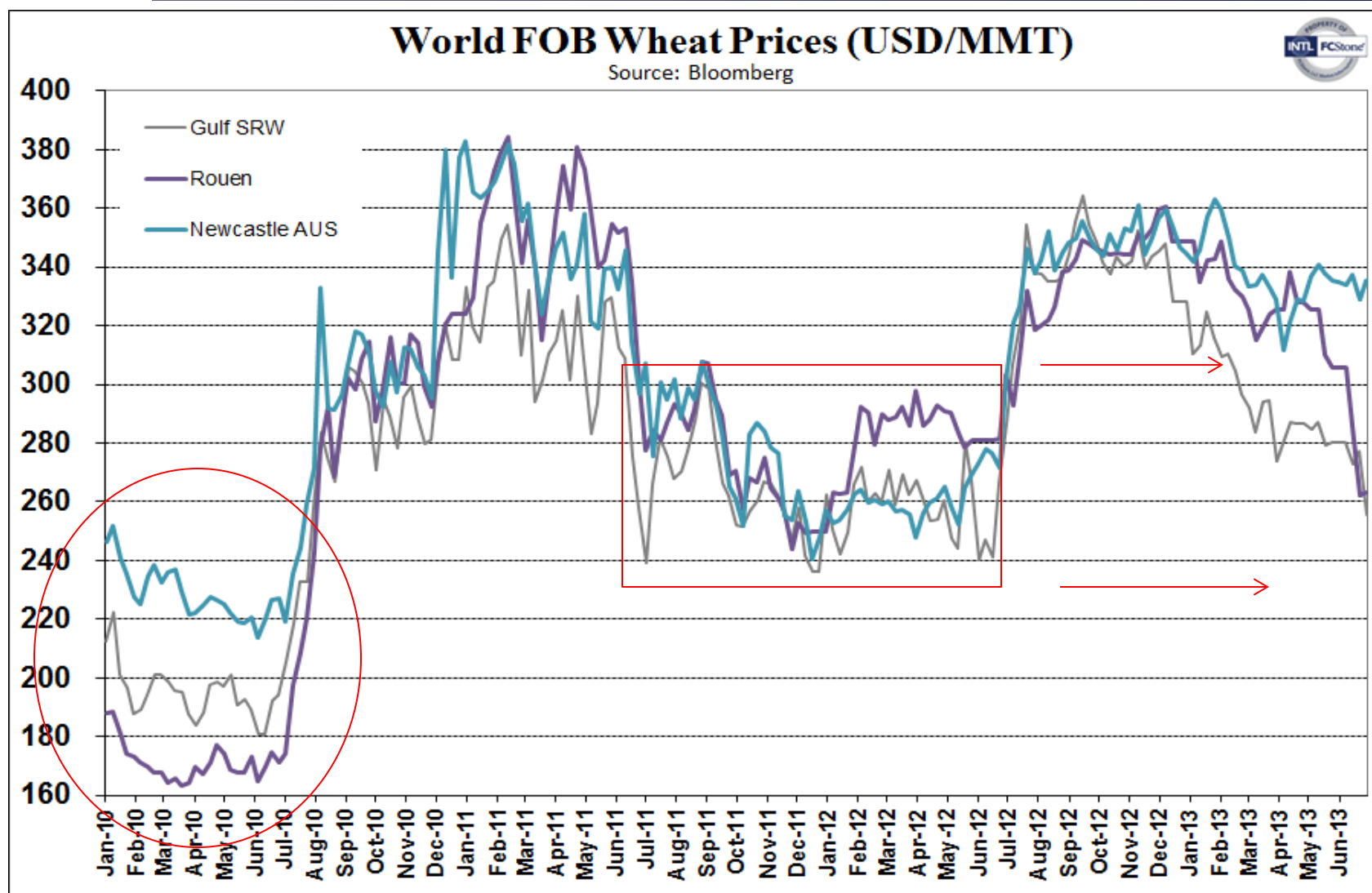
- World carryout is neutral wheat futures at this time but any production/demand related issues will change our price outlook.
- Egypt can quickly return to market to rebuild stocks but credit is issue.
- HFT/Index funds can cause liquidity issues and increase volatility.
- Politics and FX Policy can quickly reshape market perceptions.
- The GMO wheat issue is a reminder of the Random Acts of Volatility.

PNW Wheat Prices (USD/MT)

Source: F.O. Licht



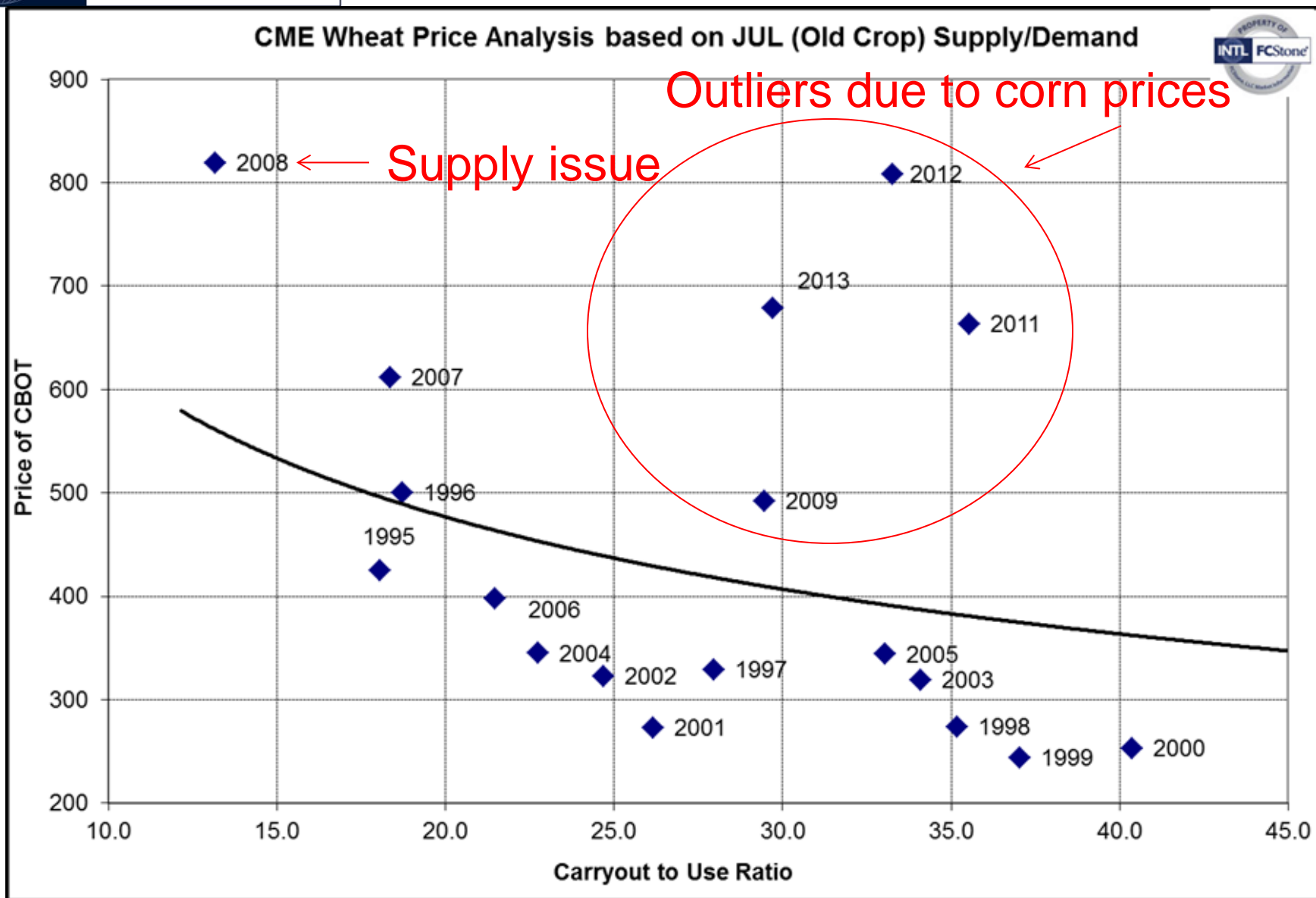
Wheat Fundamentals

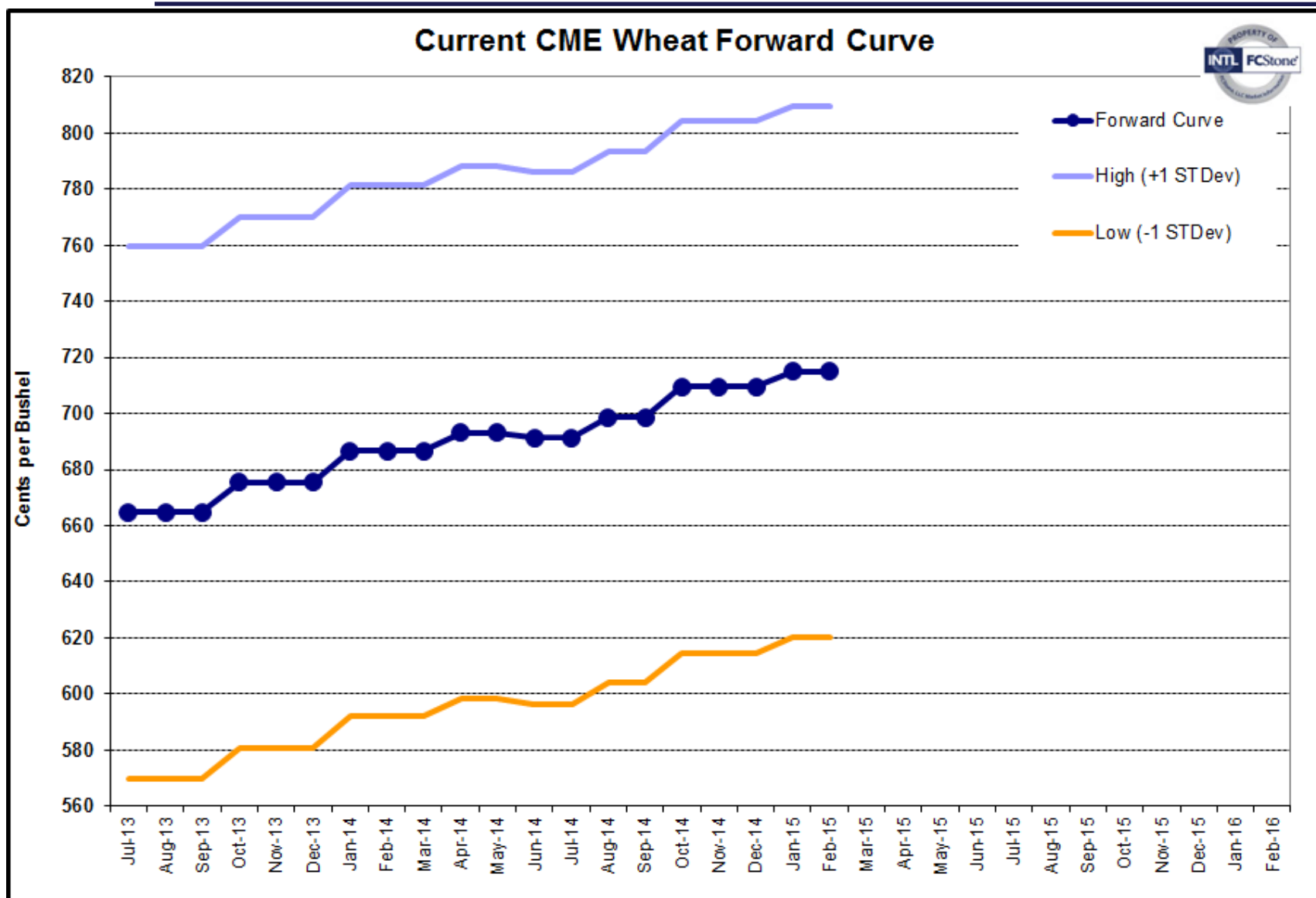


CME WEEKLY CONTINUOUS CHART



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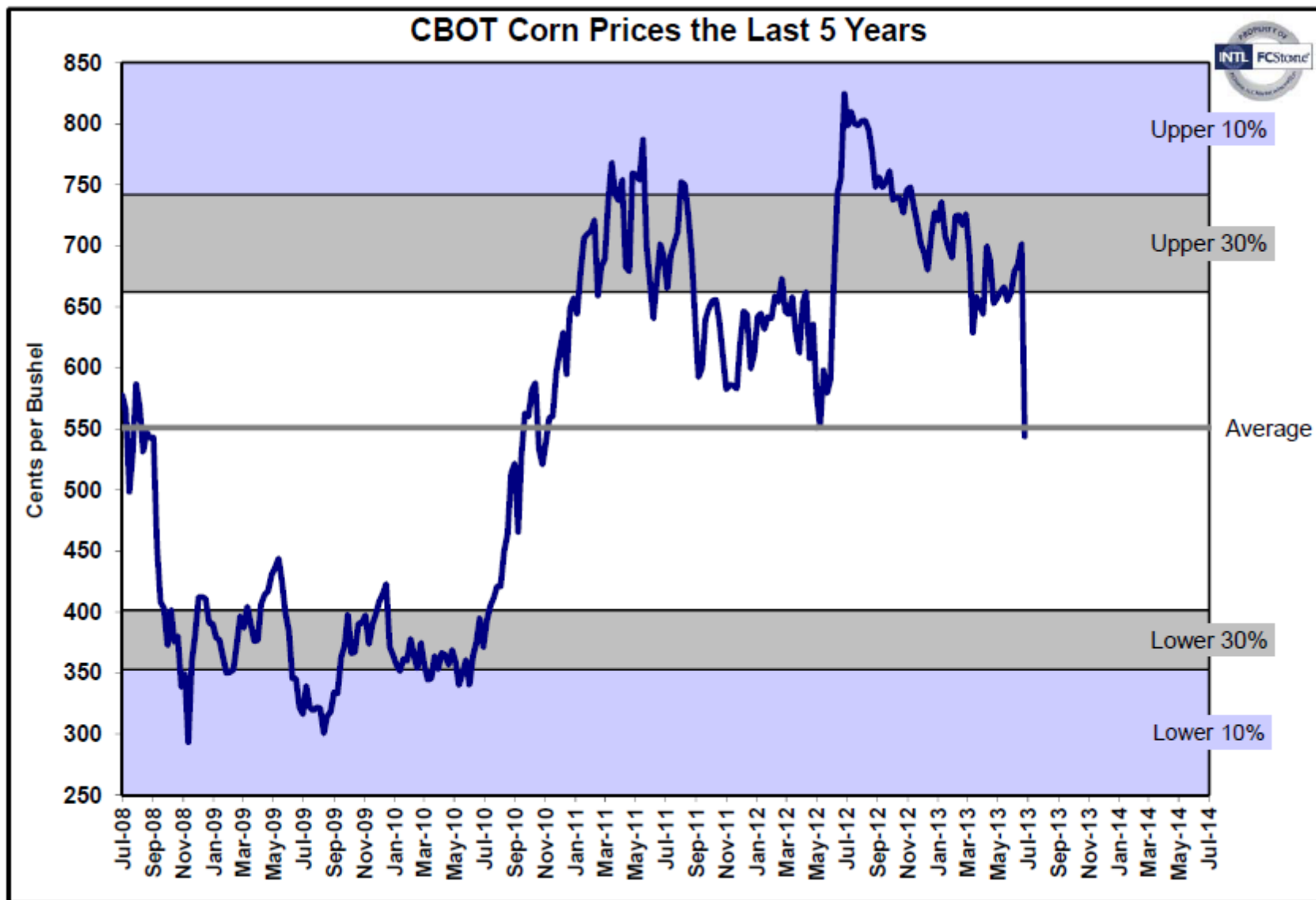


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Corn

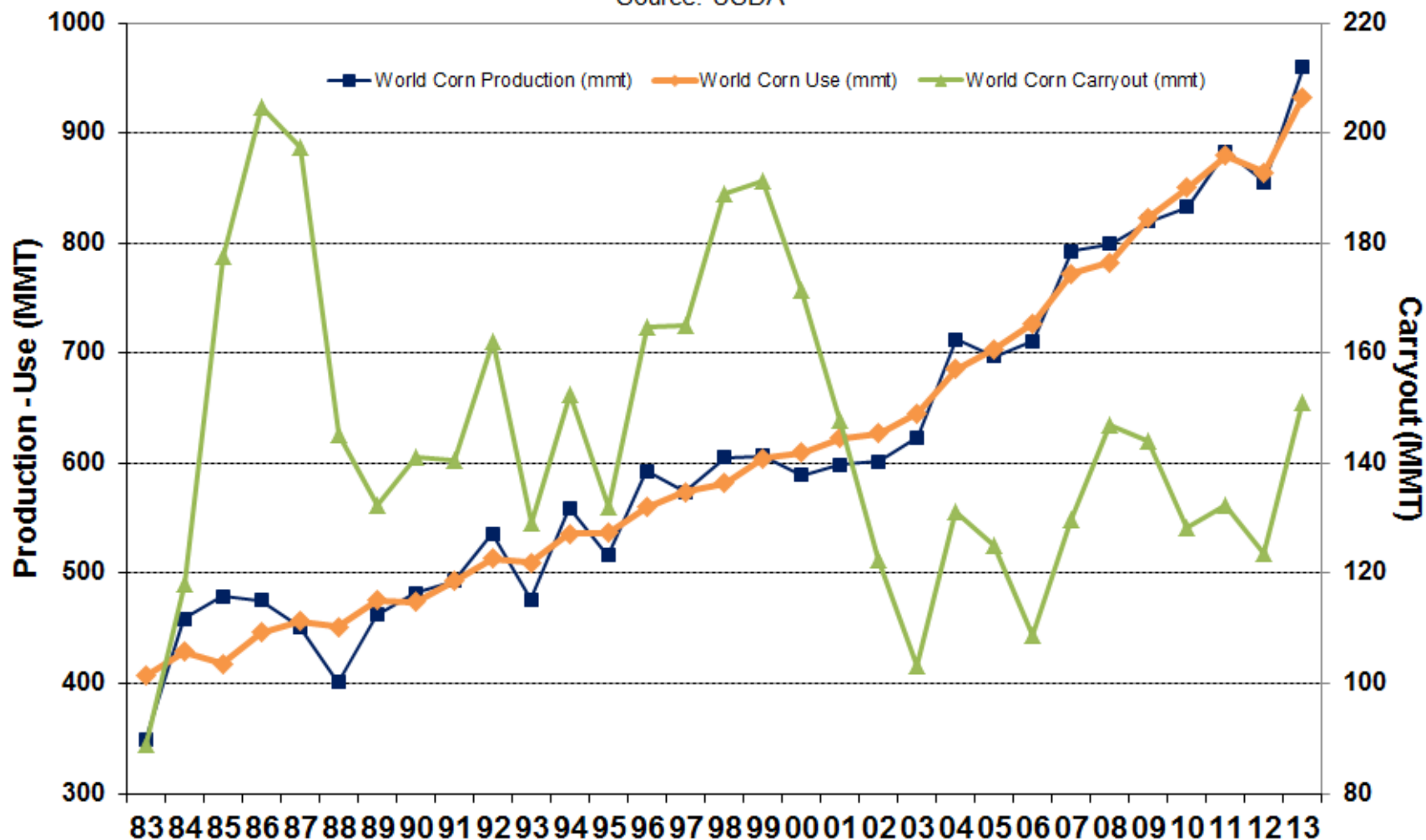
World Supply and Demand
Information

Corn Fundamentals

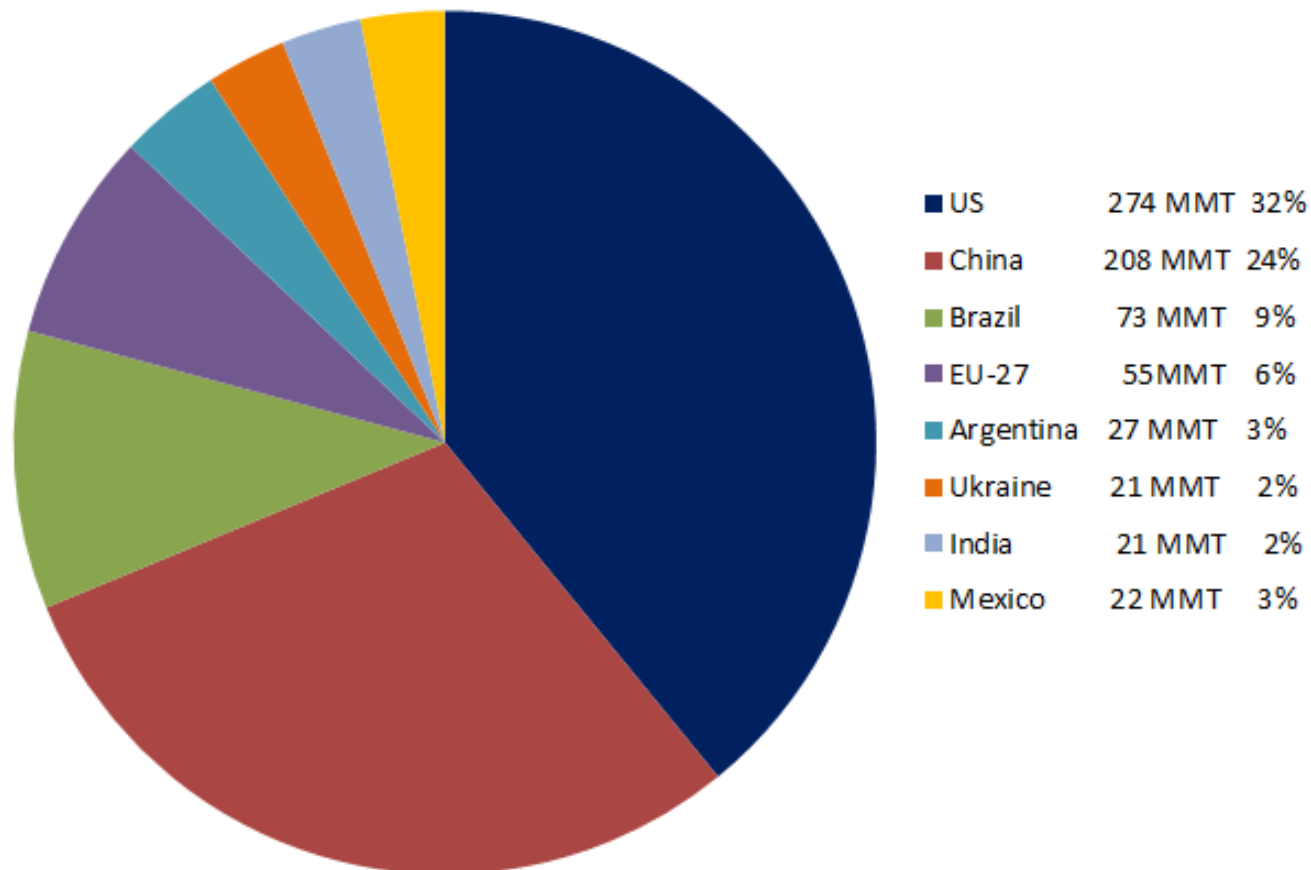


World Corn Statistics (MMT)

Source: USDA



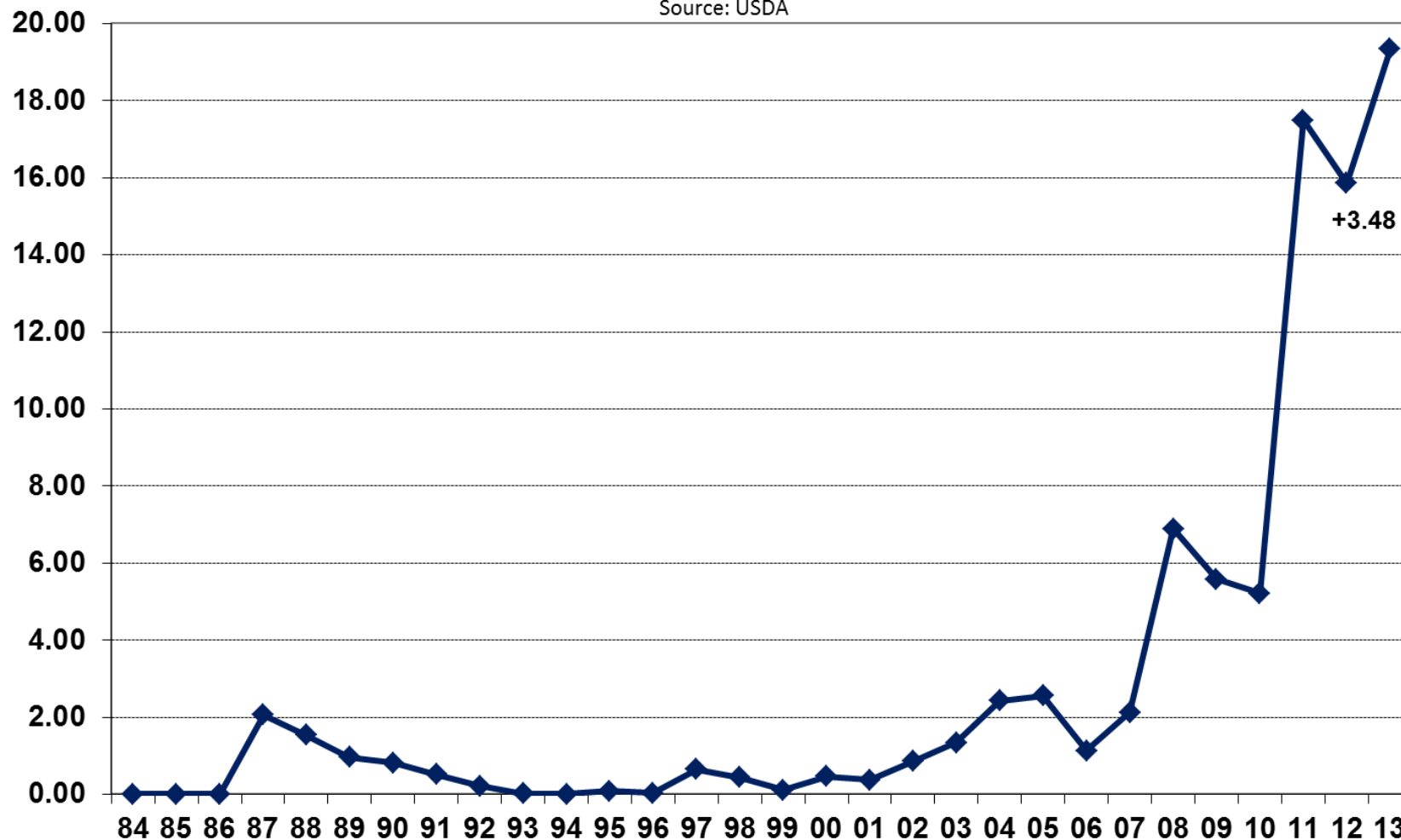
World Corn Production - 2012/13



FSU-12 Corn Exports (mmt)



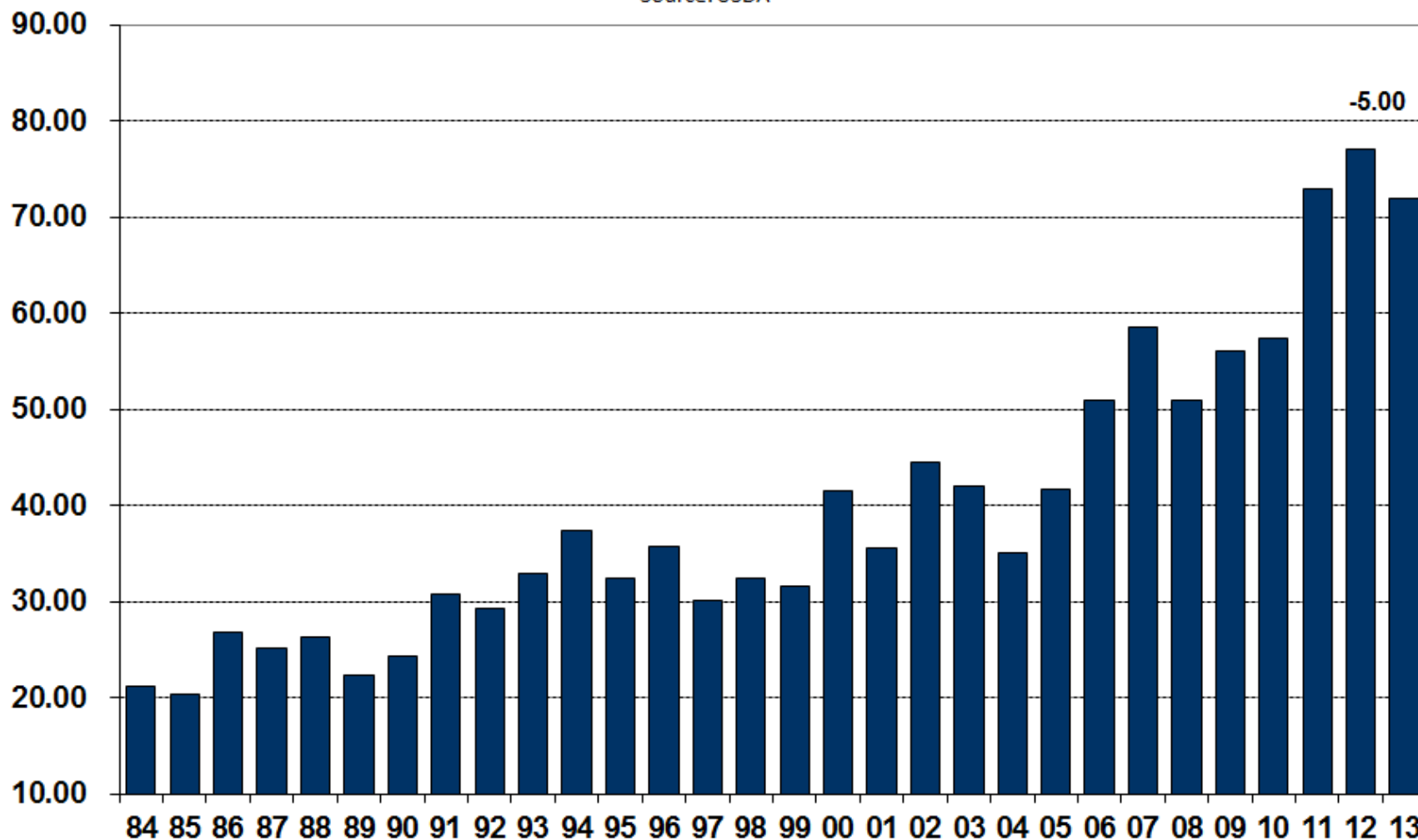
Source: USDA



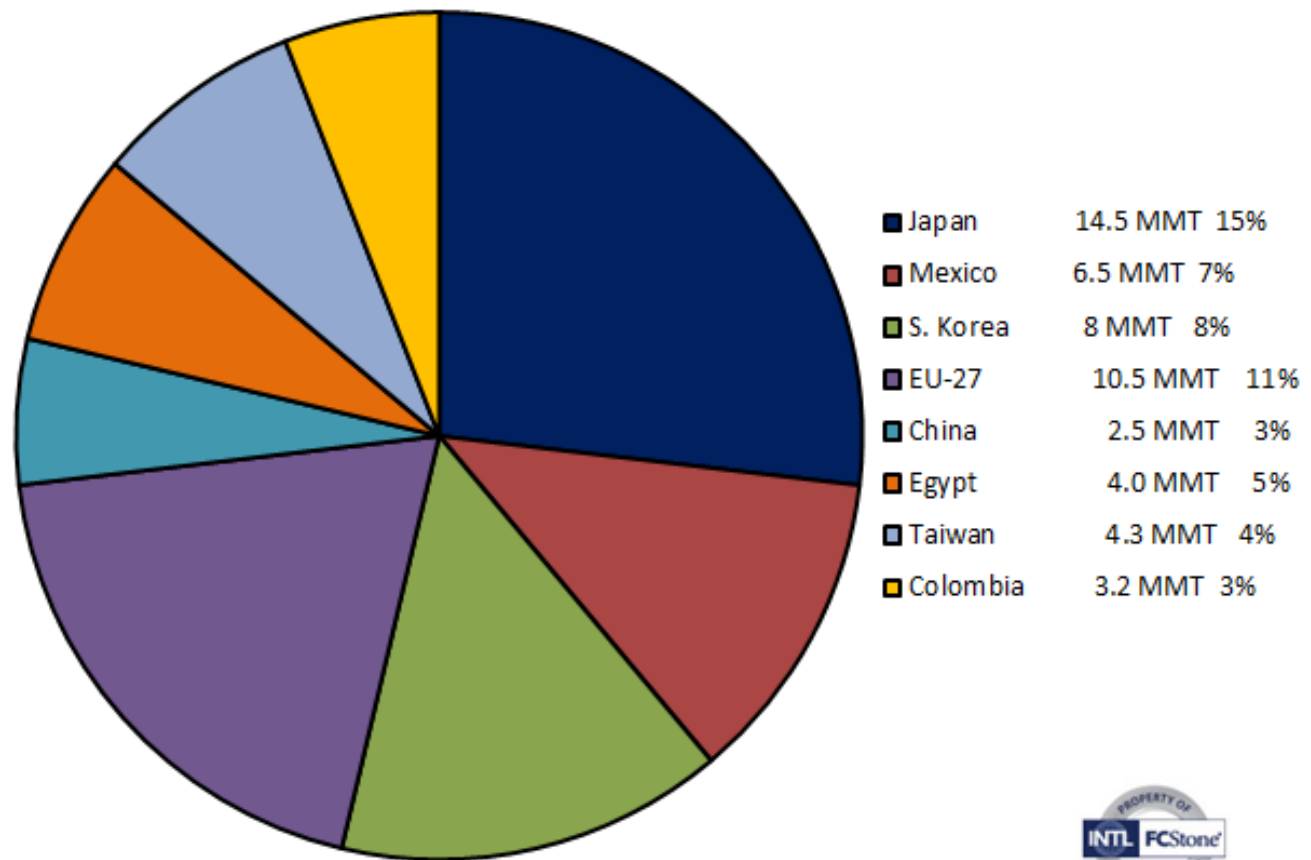
+3.48

Brazil Corn Production (mmt)

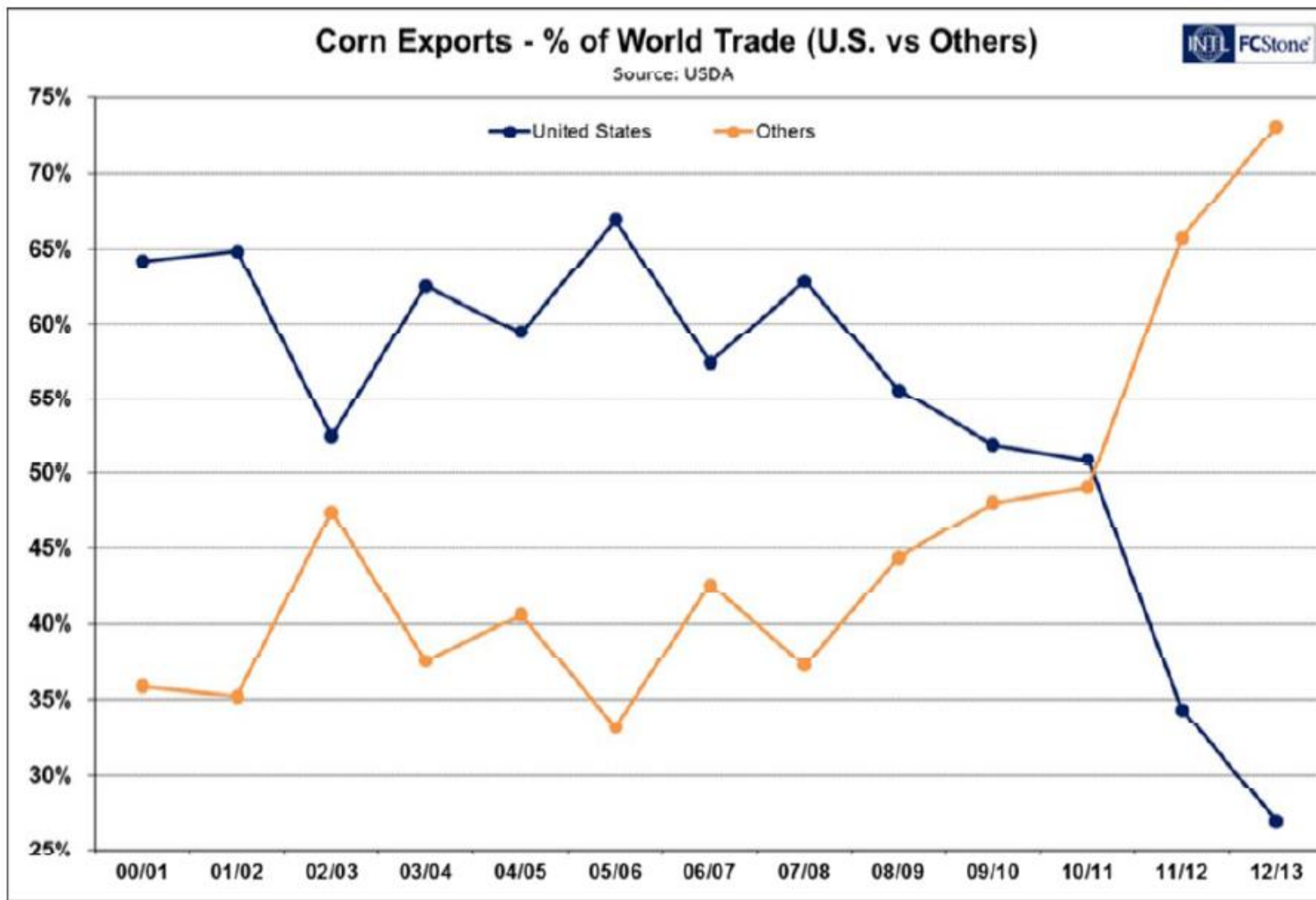
Source: USDA



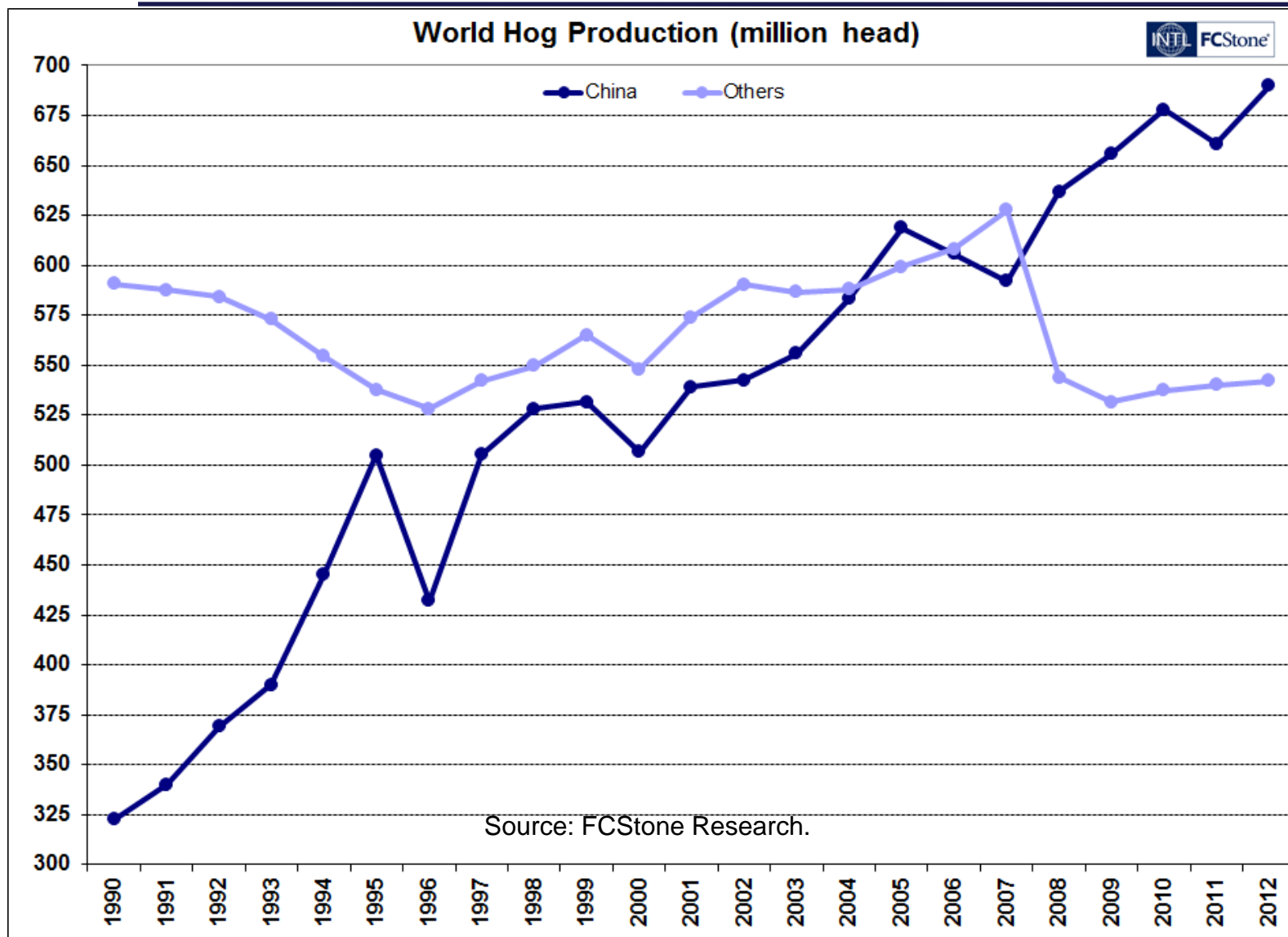
World Corn Importers - 2012/13



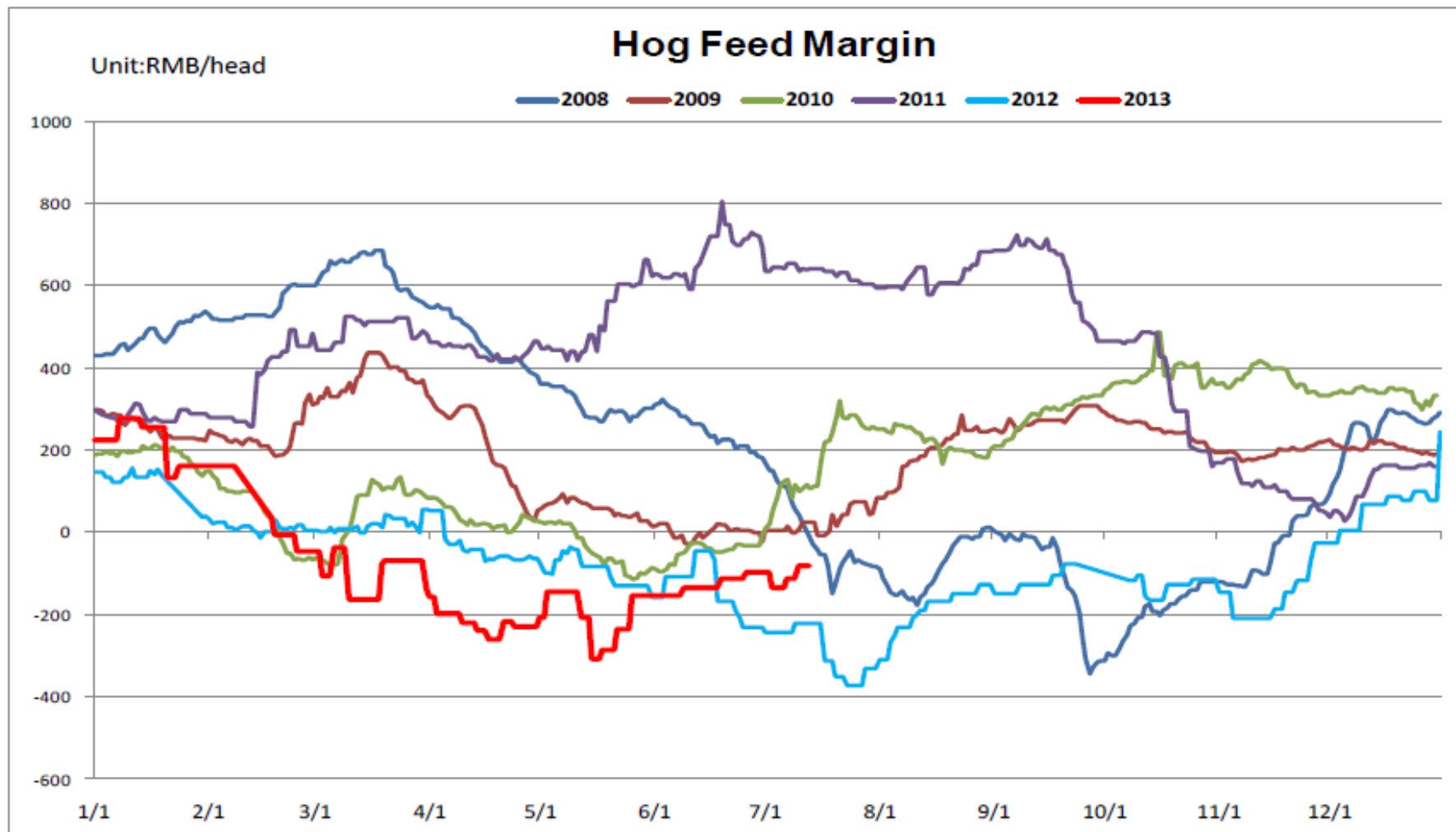
Source: USDA



China 49.6% of Hog Production



Corn Fundamentals

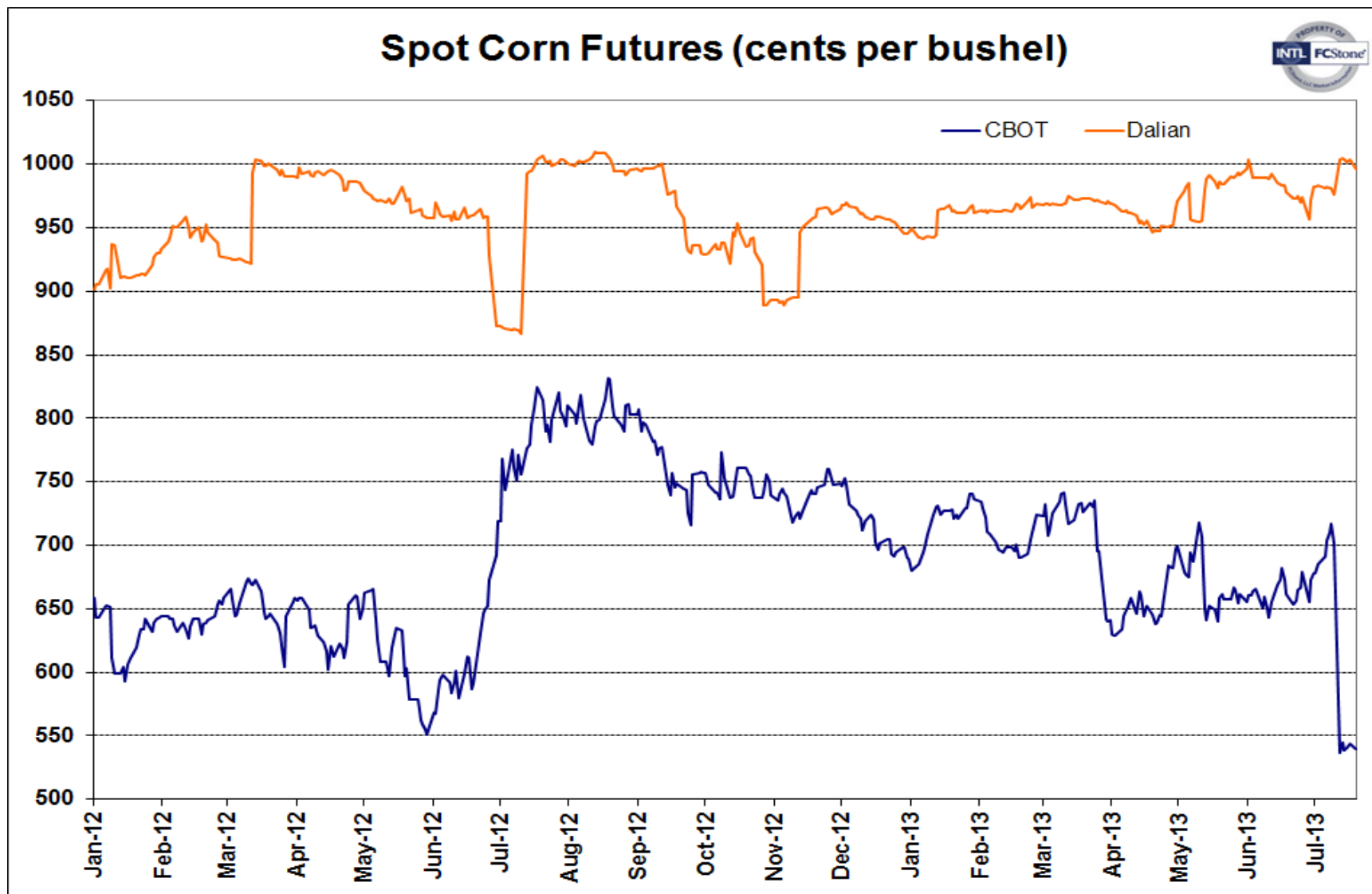


China Corn Calculations

CORN CALC:

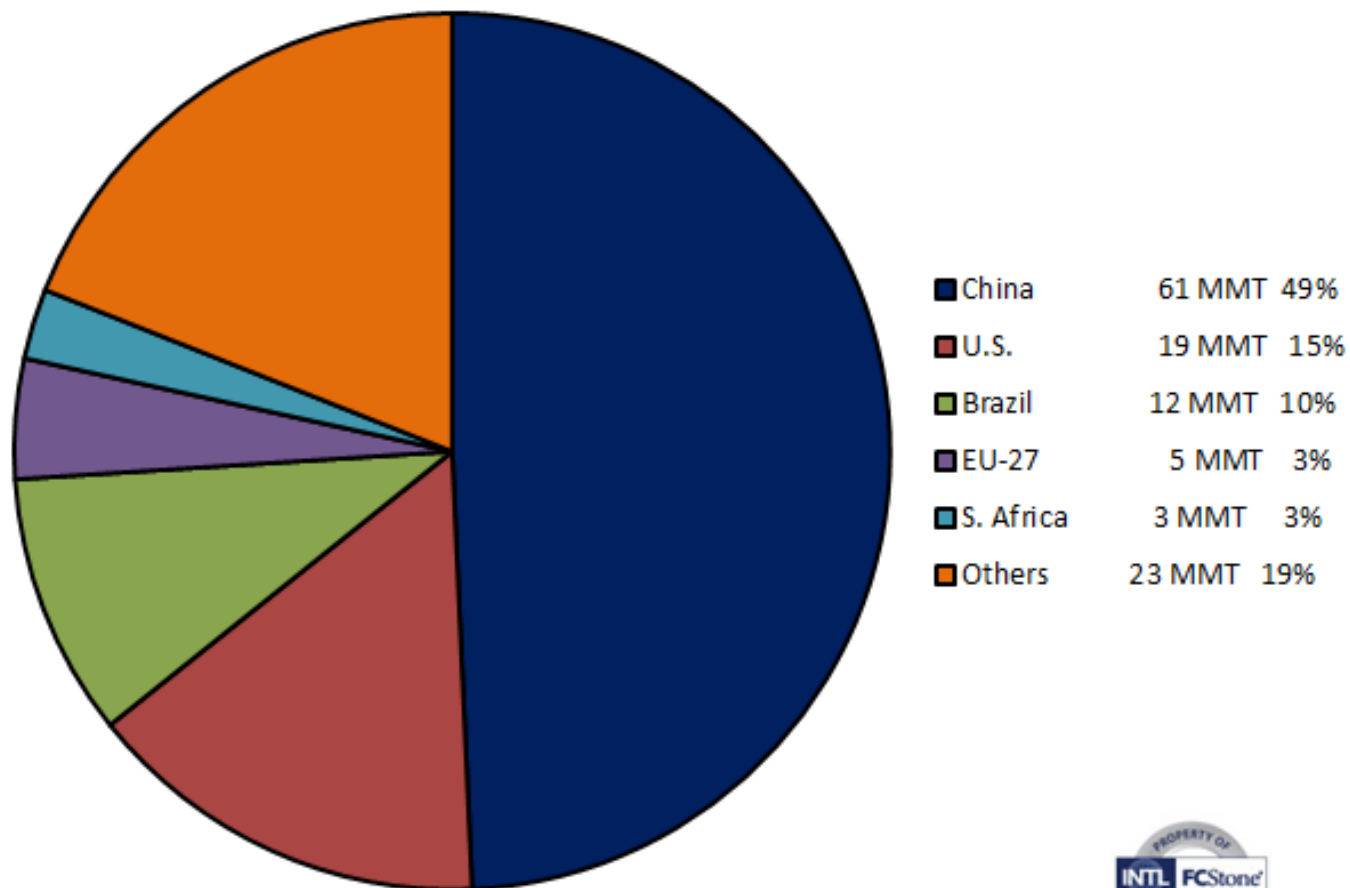
PROCUREMENT PRICE (GOV'T SUPPORT LEVEL)	\$2120 RMB/TONNE
EXCH RATE OF \$6.2 RMB/US DOLLAR	\$342 U.S. /TONNE
LESS 13% VAT TAX	\$297 CNF CHINA
DISCHARGE FEES	-\$10/TONNE
OCEAN FREIGHT	-\$42/TONNE
F.O.B US PORT	\$245/ TONNE
	OR \$6.22/ BU
FOB BASIS O/N	+0.80

CBOT FUTURES PRICE SUPPORTED BY CHINA = \$5.42 CZ



Corn Fundamentals

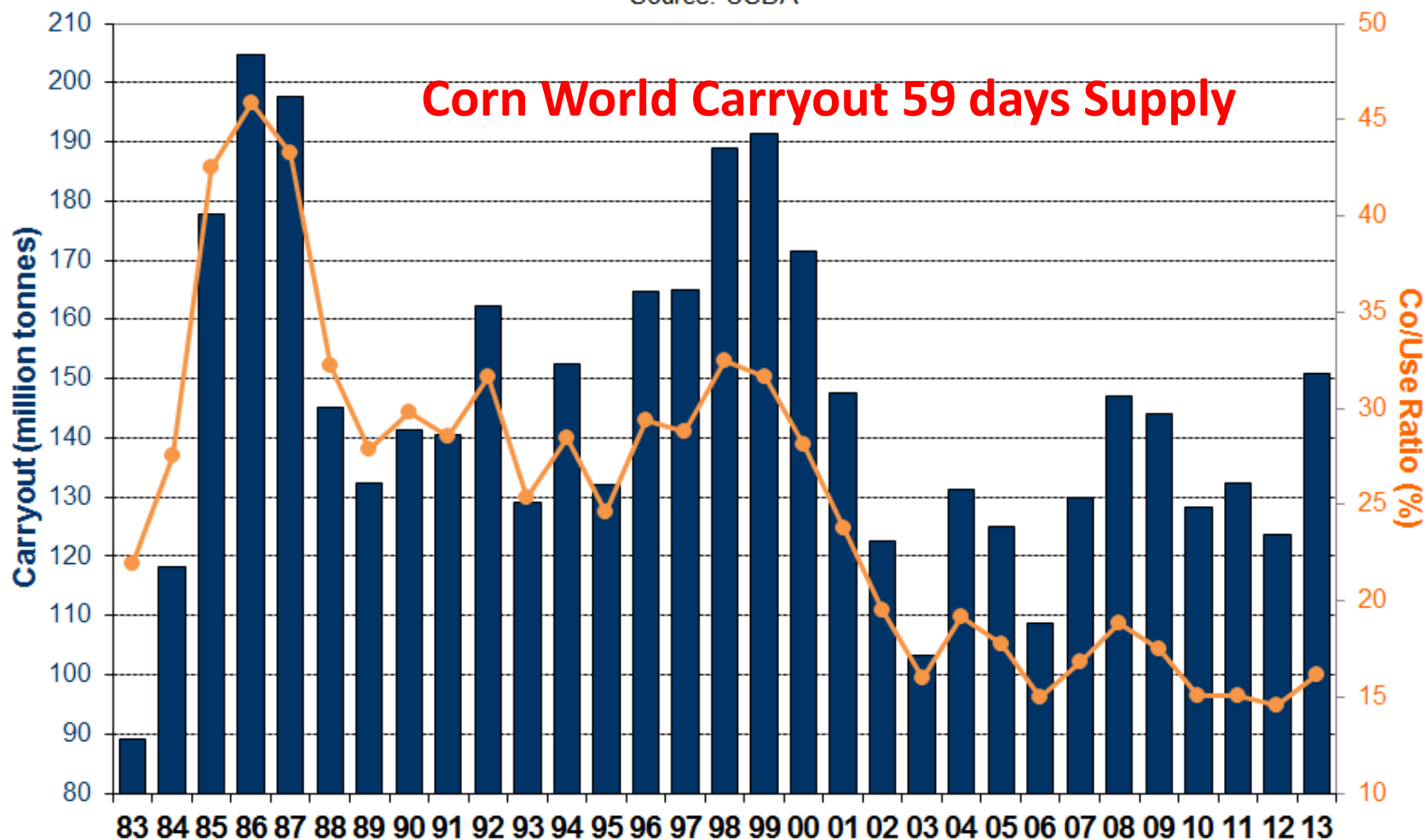
World Corn Ending Stocks - 2012/13



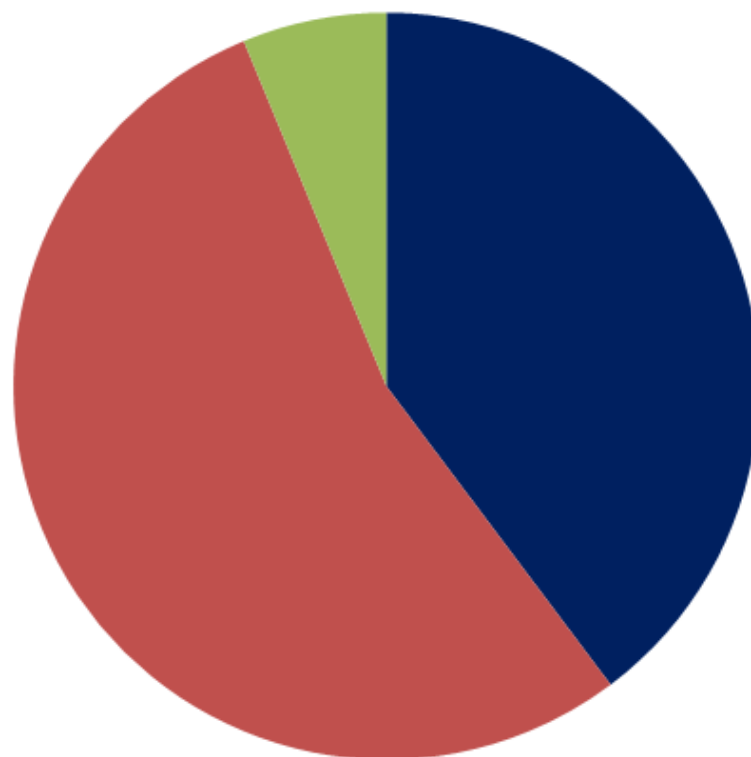
Source: USDA

World Corn Carryout and CO/Use

Source: USDA



2012/13 U.S. Corn Use (000 MT)



■ Feed & Residual- 113,034- 39.7%

■ Food, Seed, Industrial- 153,677- 54.0%

■ Exports- 17,781- 6.3%

Total: 284,492



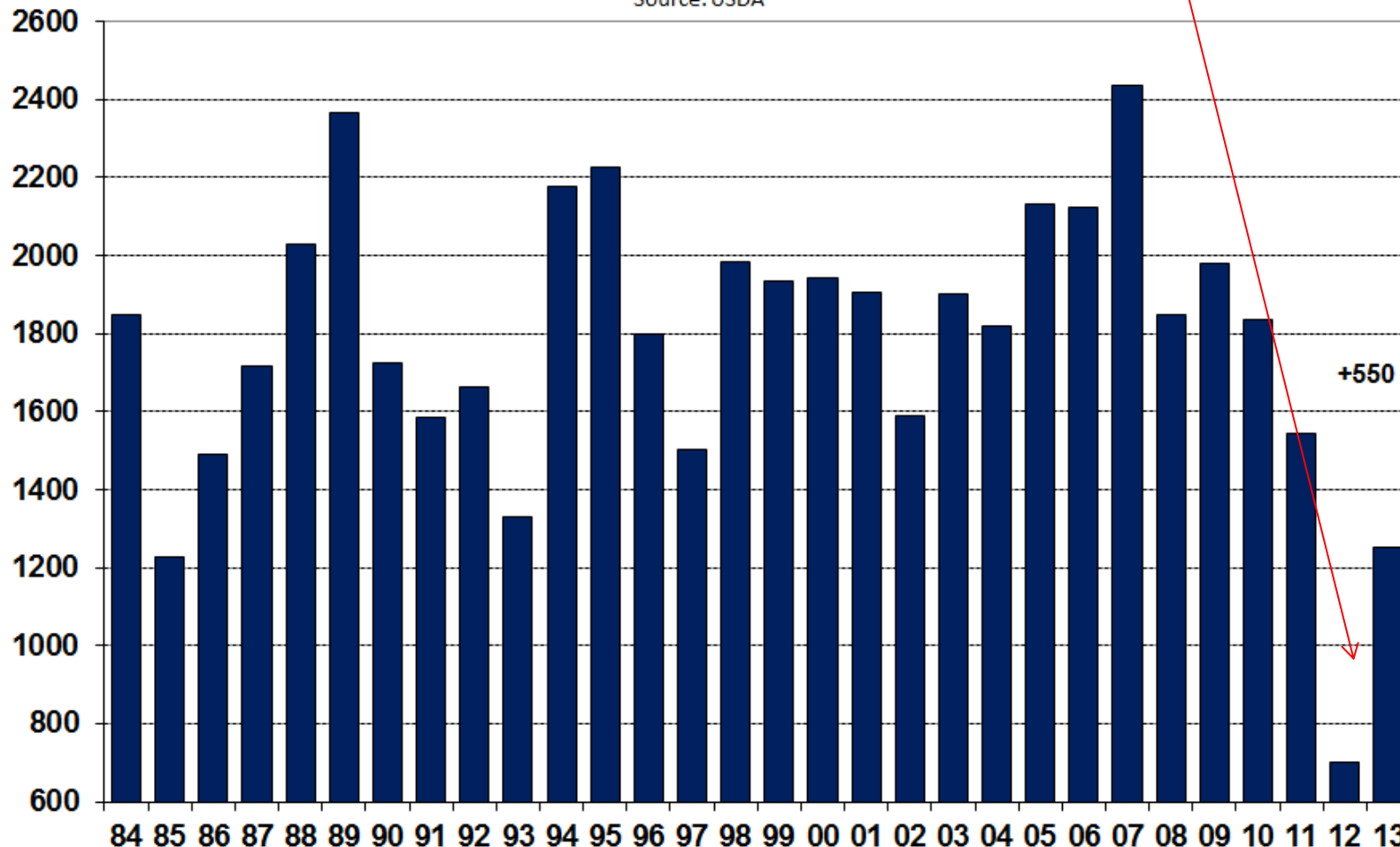
Source: USDA

Market was in rationing mode.



US Corn Exports (million bushel)

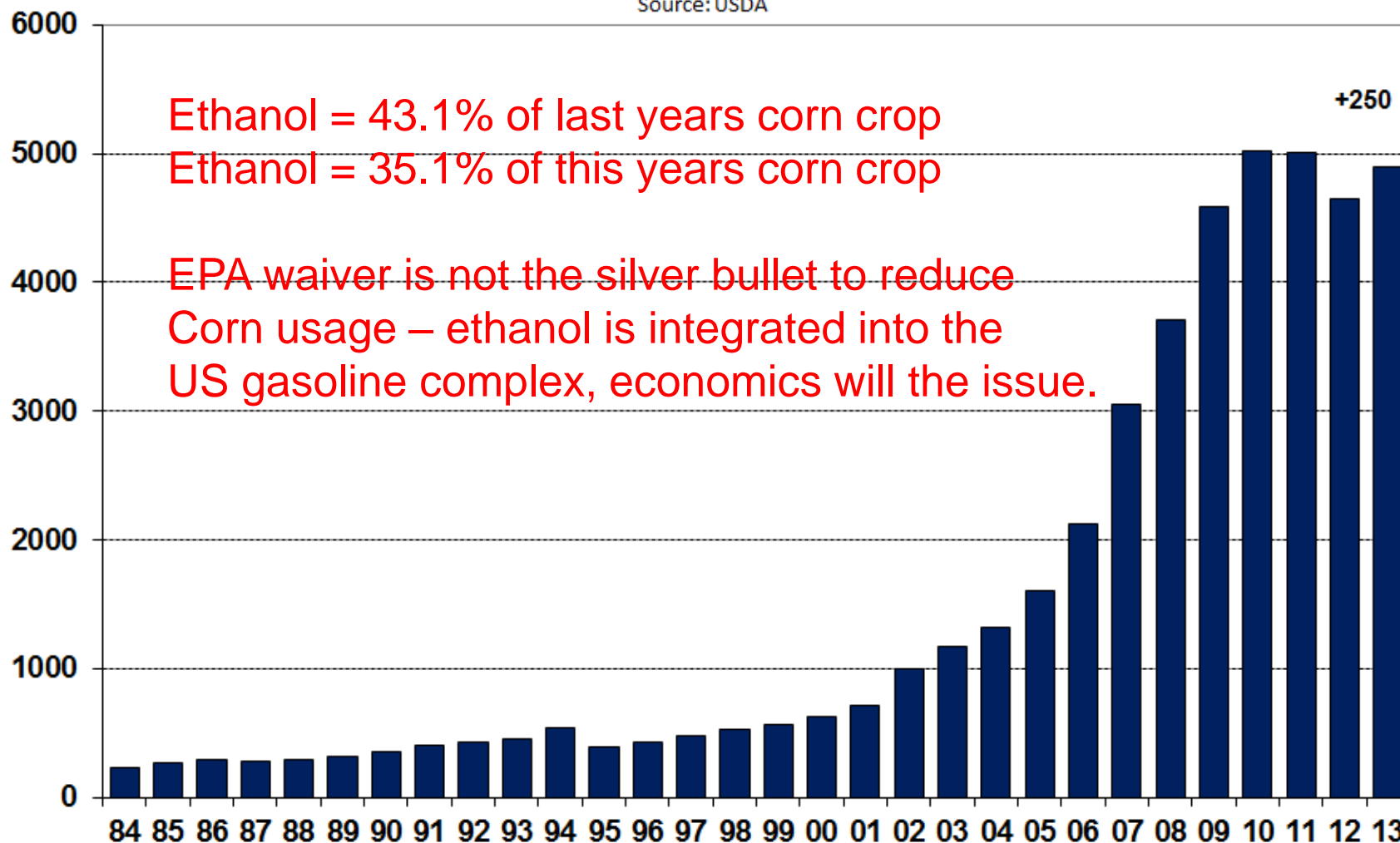
Source: USDA



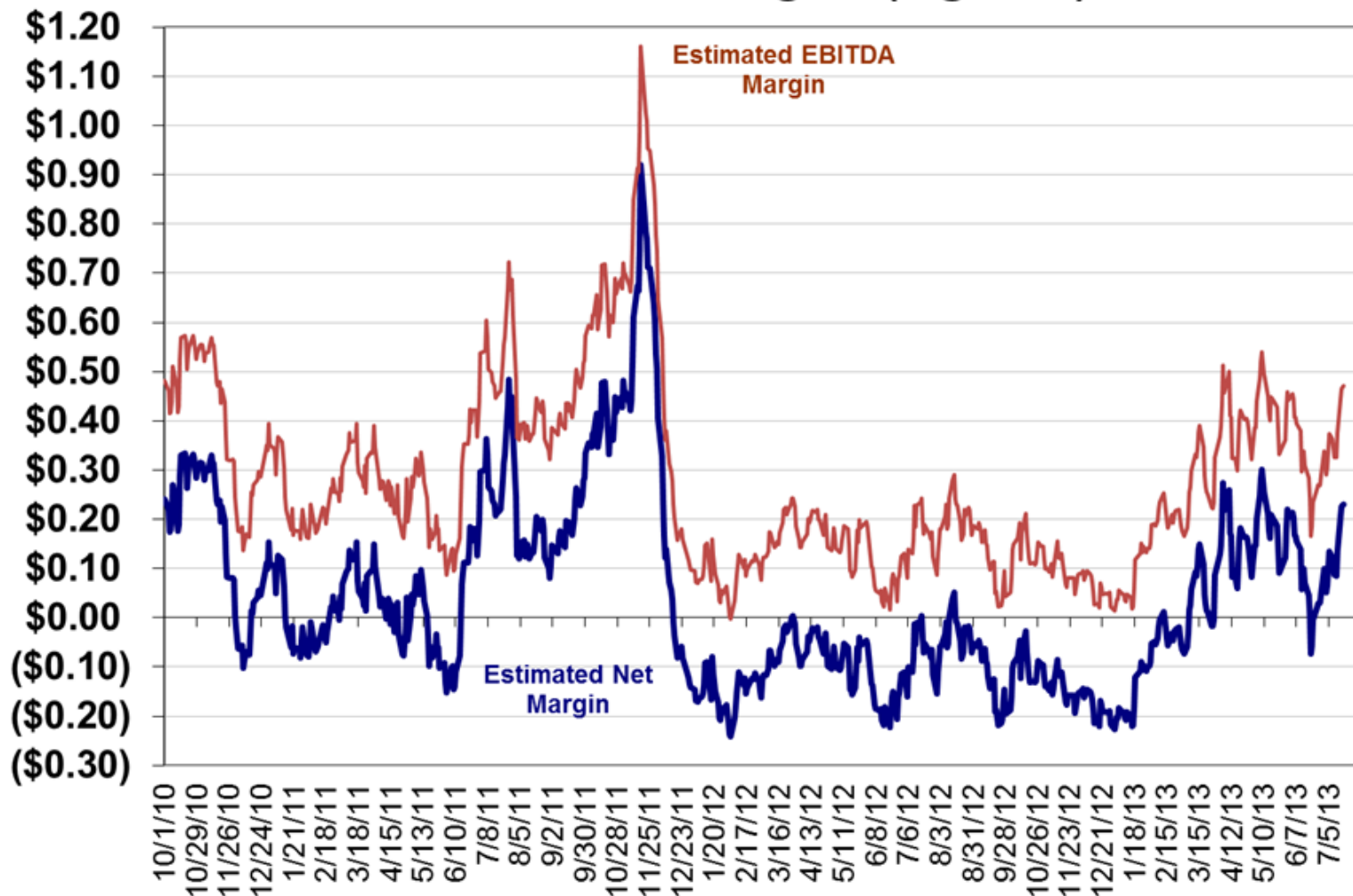
US Corn Use for Ethanol (million bushel)

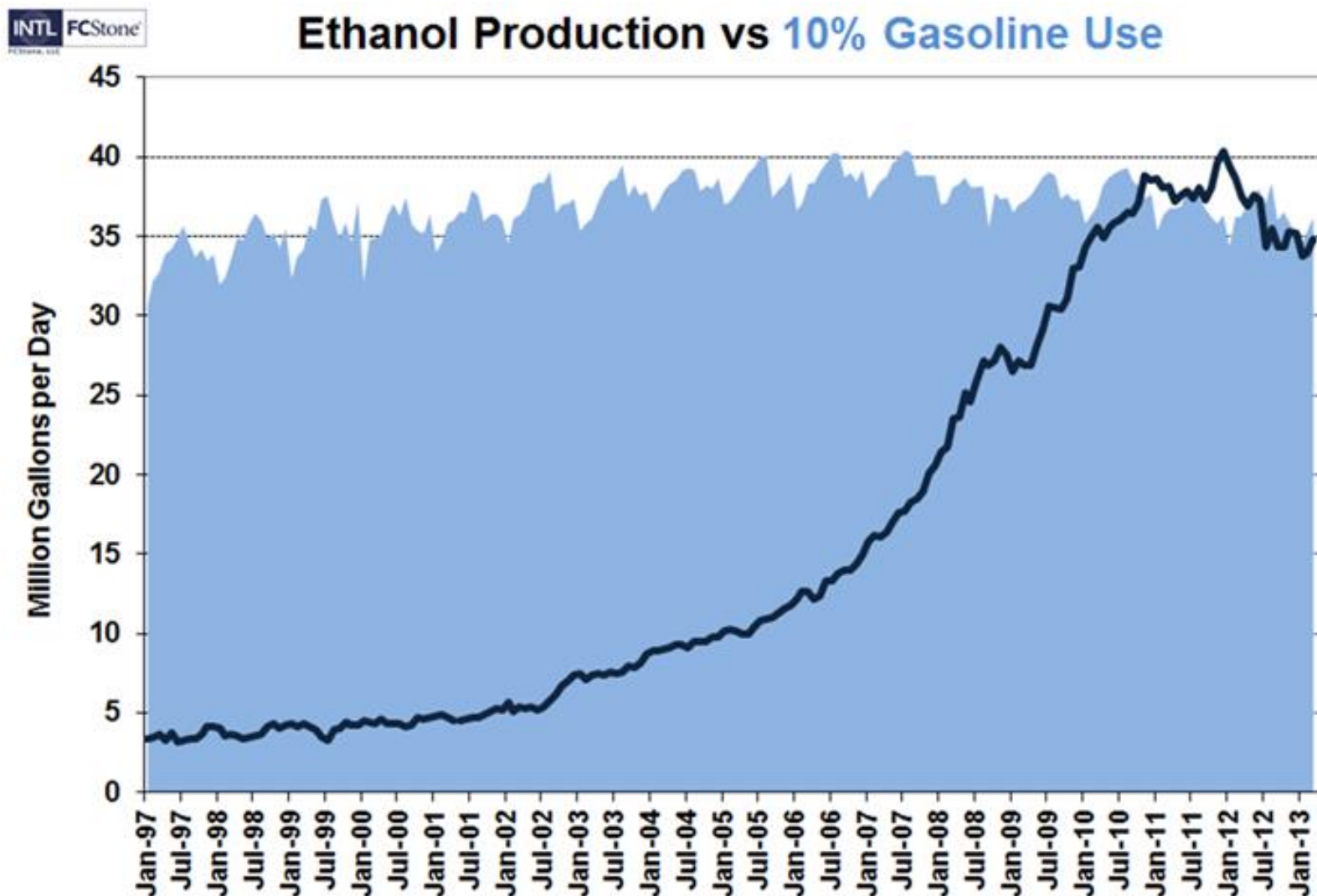


Source: USDA



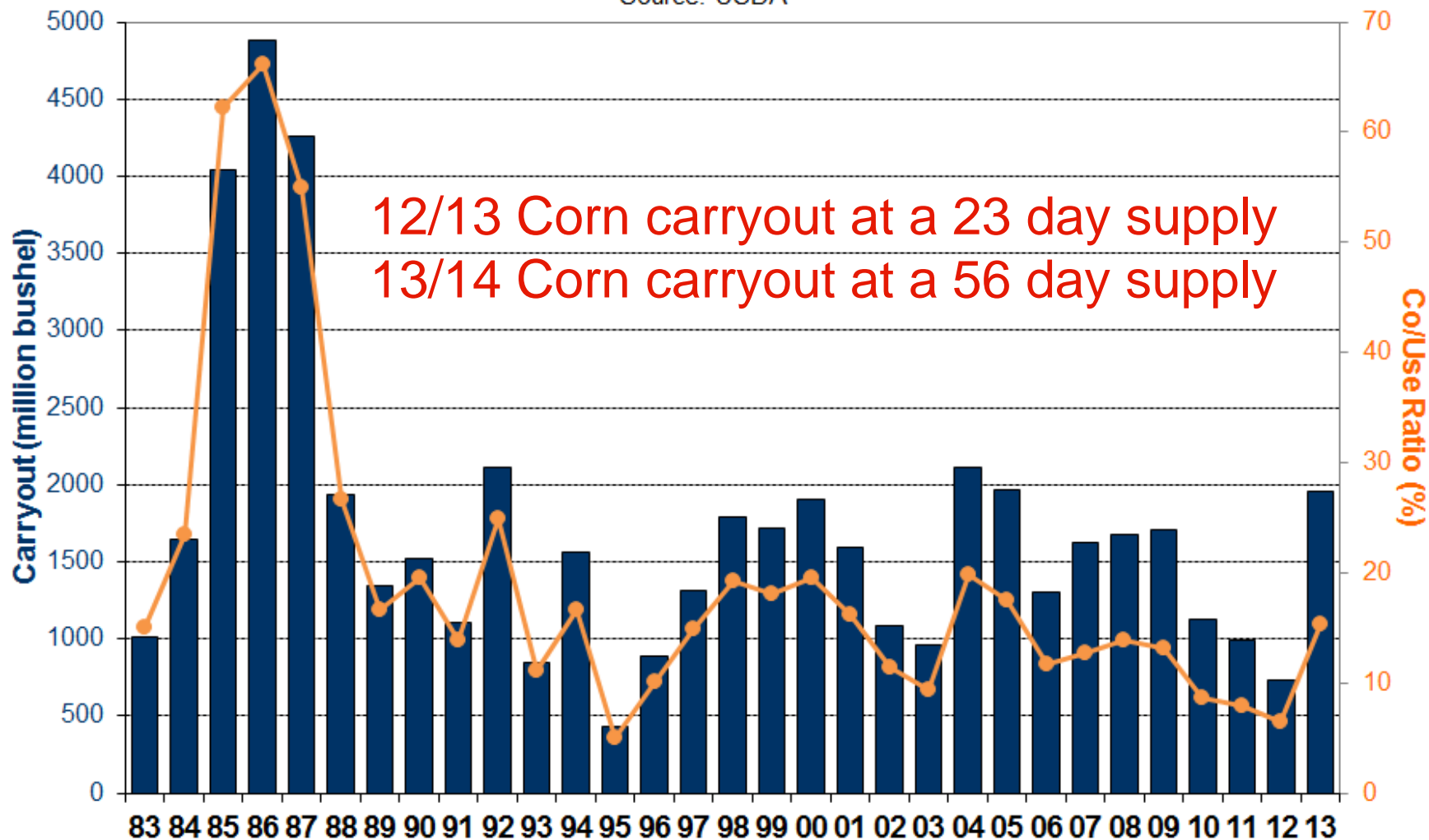
Estimated Crush Margins (\$/gallon)





US Corn Carryout and CO/Use

Source: USDA

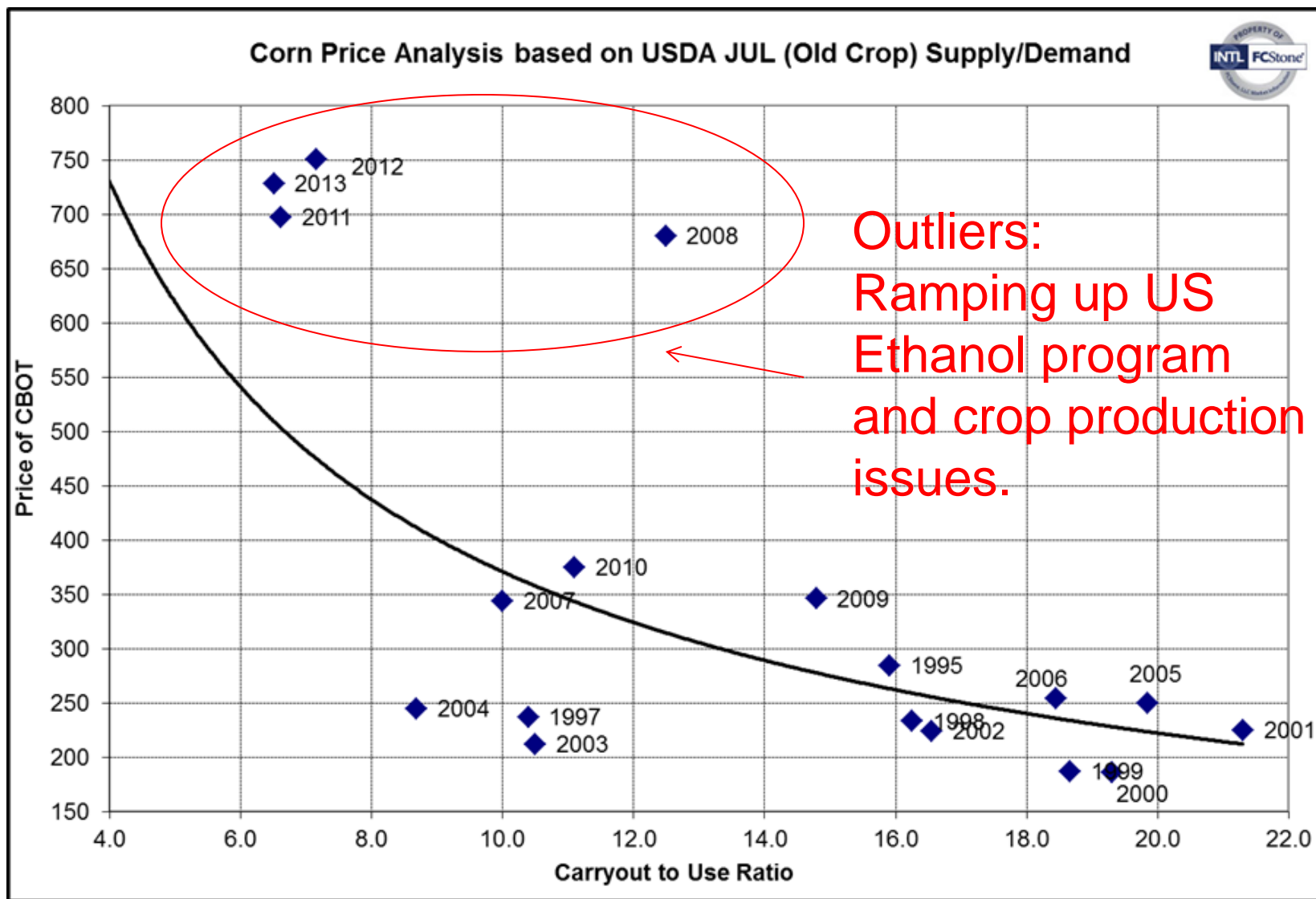


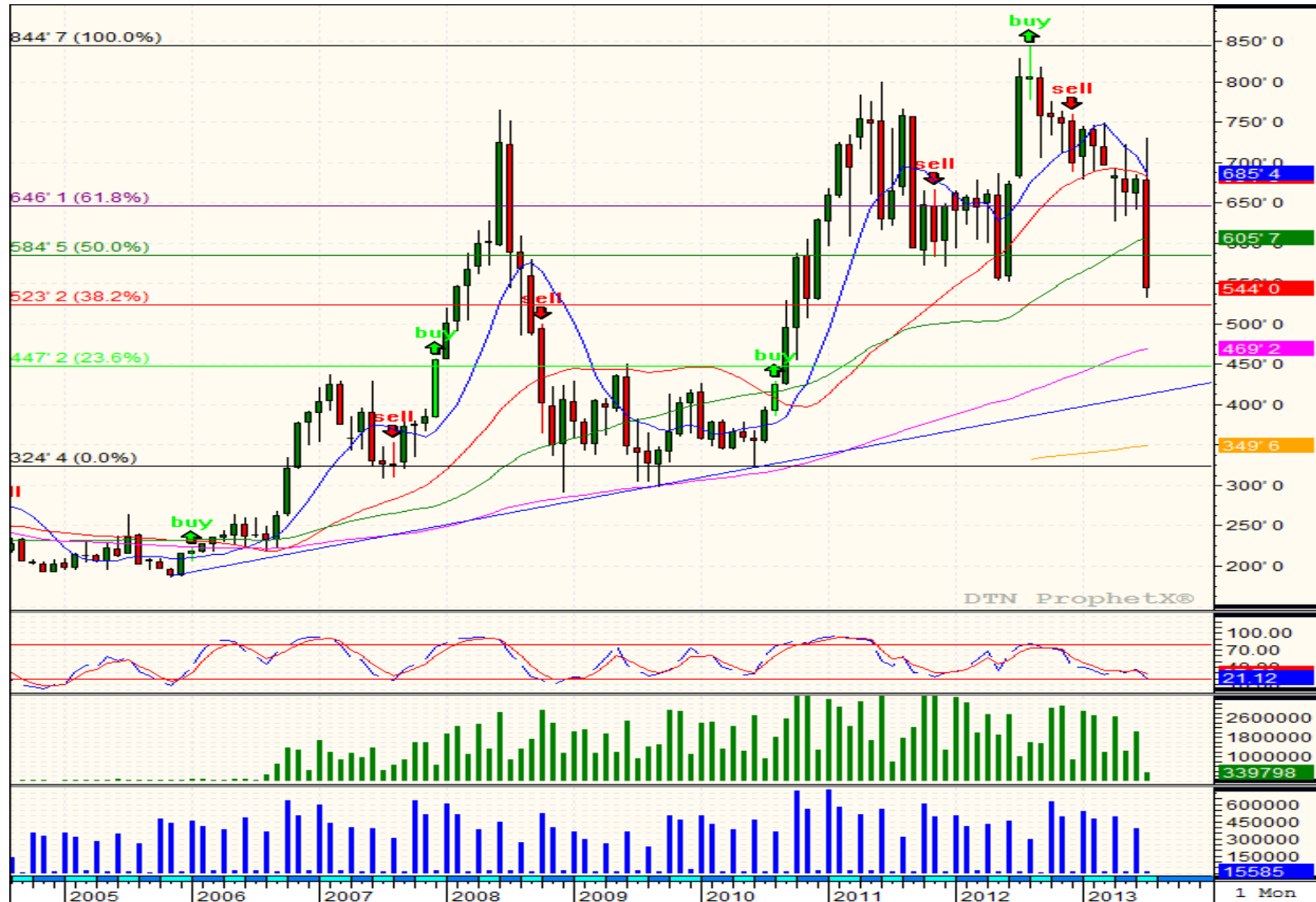
- Fundamentals: Market rationing demand.
 - Job of the market: transition from old crop prices to new crop ration US domestic demand thru basis and spreads.
 - Late planting did see acres switch to beans or not get planted current crop conditions are good – FC crop survey Aug 1st.
- Demand and price.
 - US corn exports will increase on lower US futures prices.
 - CN/CZ traded to record levels CU/CZ has/will be volatile.
 - Price has encouraged world corn production expansion.
- Over The Horizon -
 - Corn use for ethanol plateauing for the next few years.
 - “Normal” weather allows US corn stocks to build dramatically.
 - China has started to buy US corn to rebuild reserves = Put ?

13/14 CORN SUPPLY/DEMAND

US CORN 2013/14	USDA	FCStone	FCStone	FCStone	FCStone
	<u>EST</u>	<u>Alt 1</u>	<u>Alt 2</u>	<u>Alt 3</u>	<u>Alt 4</u>
Planted Acres	97.40	97.40	97.40	97.40	97.40
Harvested Acres	89.1	89.2	89.2	89.2	89.2
Yield	156.5	158.0	156.0	150.0	148.0
Carryin	729	700	700	700	700
Production	13950	14089	13910	13375	13197
Total Supply	14709	14789	14610	14075	13897
Feed	5150	4900	4900	4900	4900
Exports	1250	1300	1300	1300	1300
Feed/Seed/Ind	6350	6350	6350	6350	6350
(Ethanol)	(4900)	(4900)	(4900)	(4900)	(4900)
Total Use	12750	12550	12550	12550	12550
Carryout	1959	2239	2060	1525	1347
CO/Use Ratio	0.154	0.178	0.164	0.122	0.107
Price	\$ 4.40				
	\$ 5.20				

CORN FORWARD LOOK







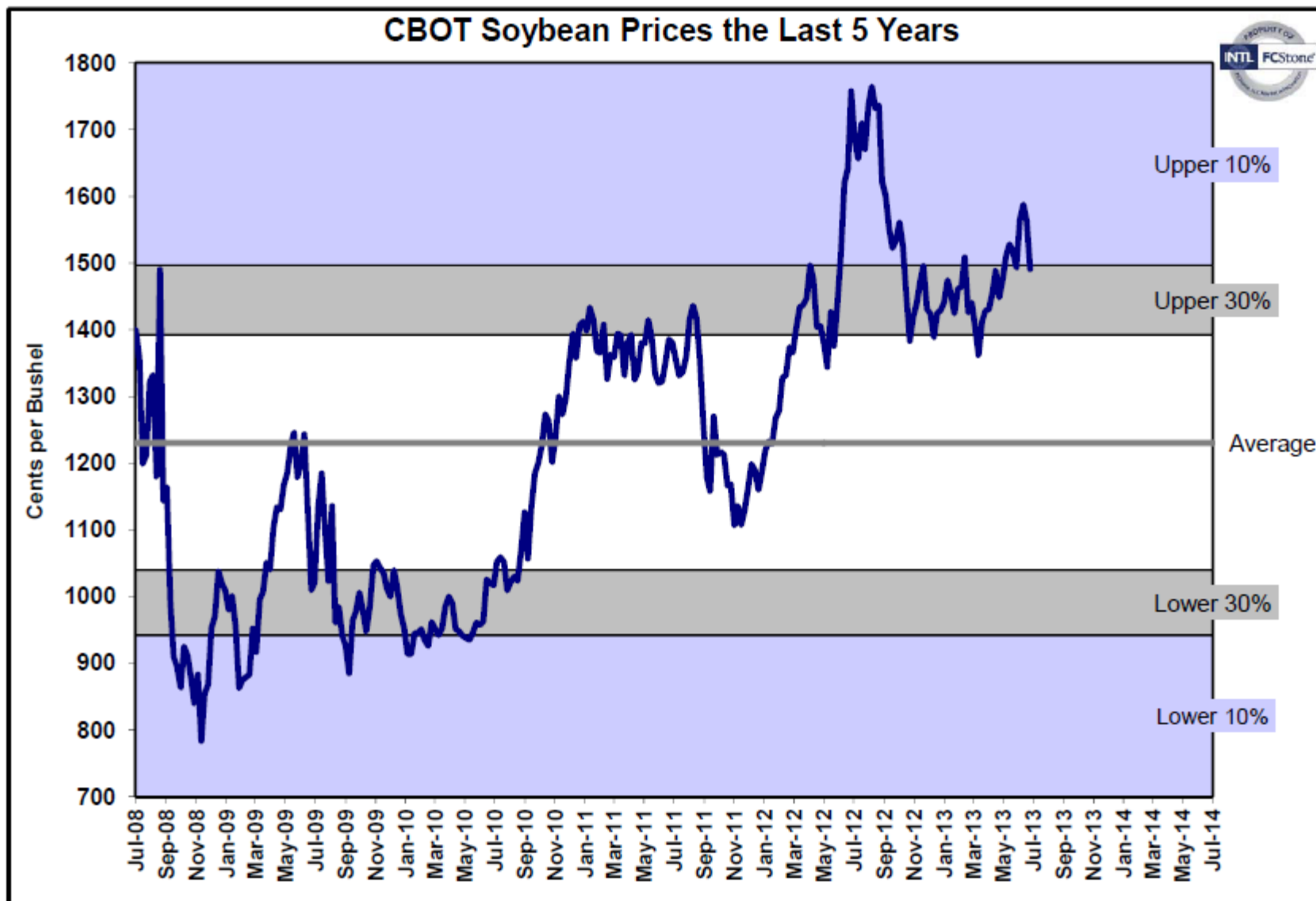
Soybeans

United States and World
Supply and Demand Information



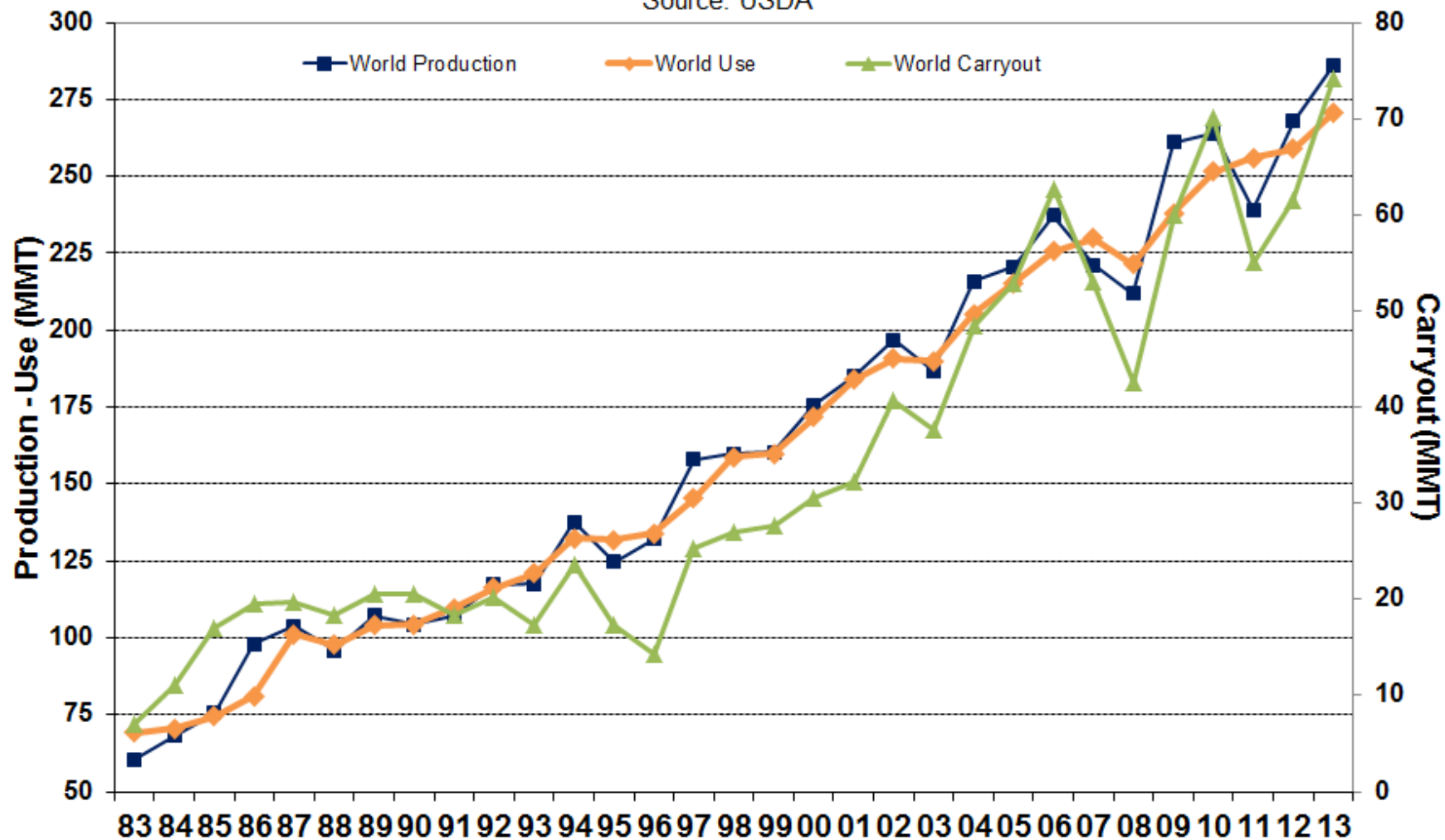
FCStone®

Soybean Fundamentals



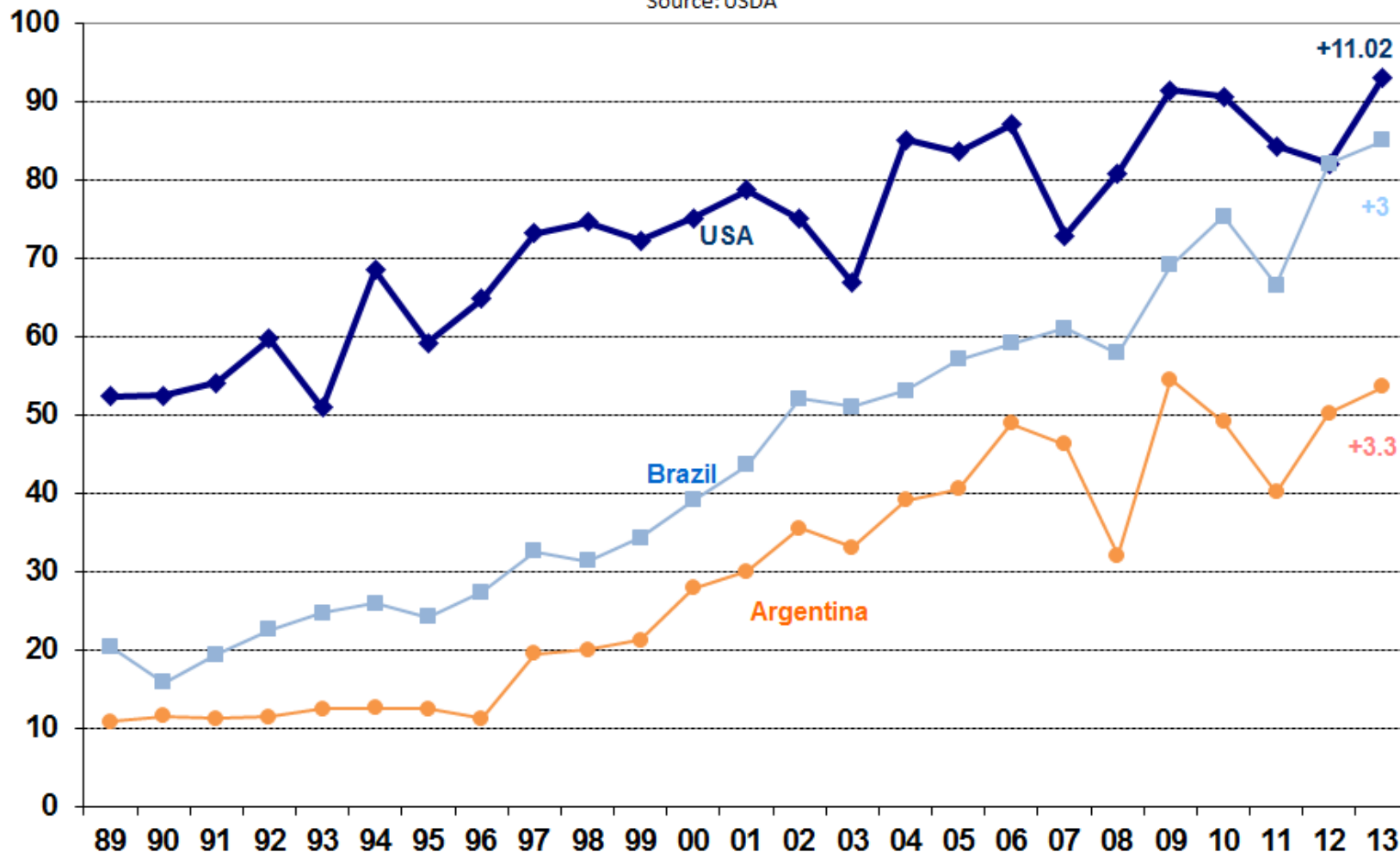
World Soybean Statistics (MMT)

Source: USDA



Major Soybean Exporters Production (mmt)

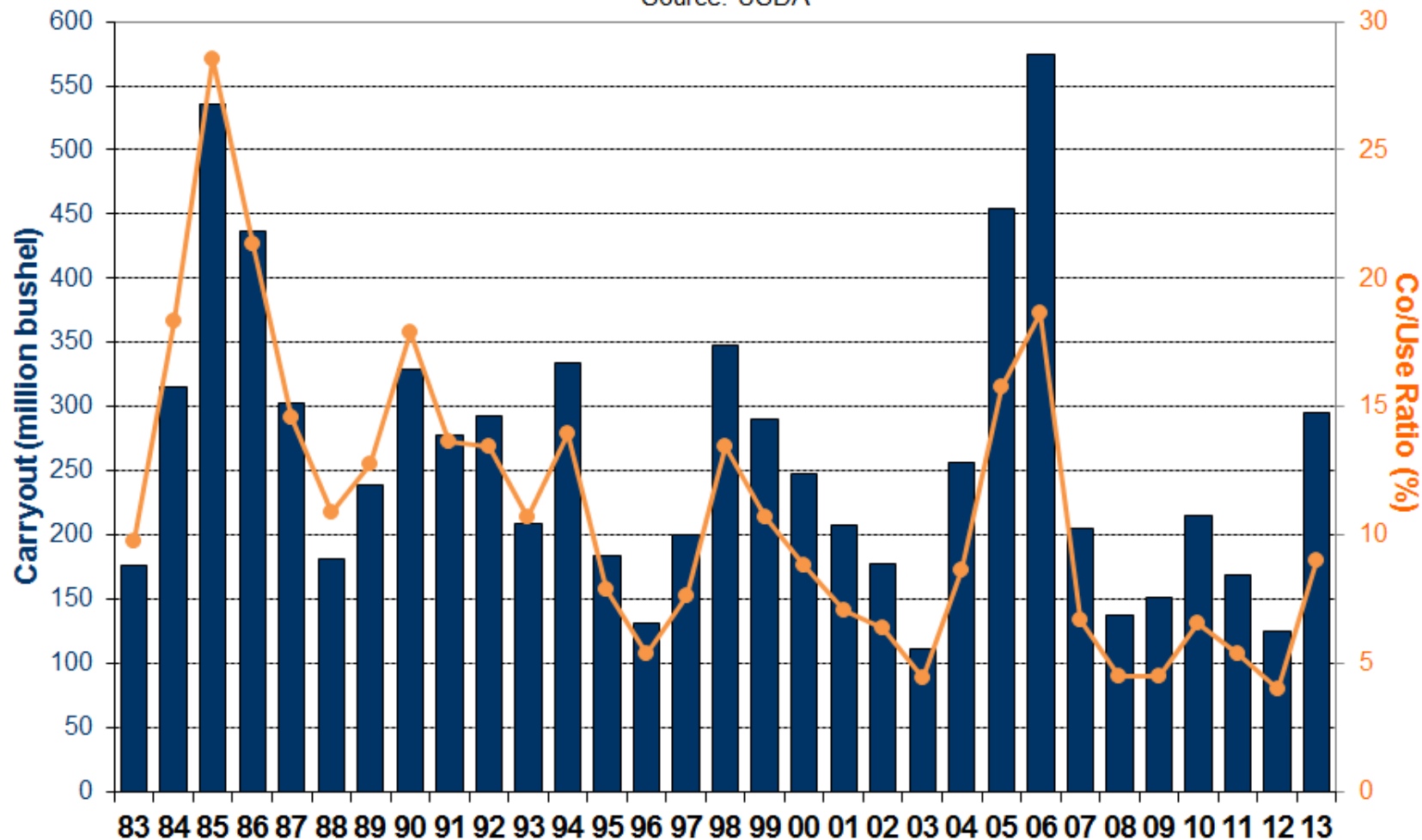
Source: USDA



12/13 carryout at a 15 day supply
13/14 carryout at a 32 day supply

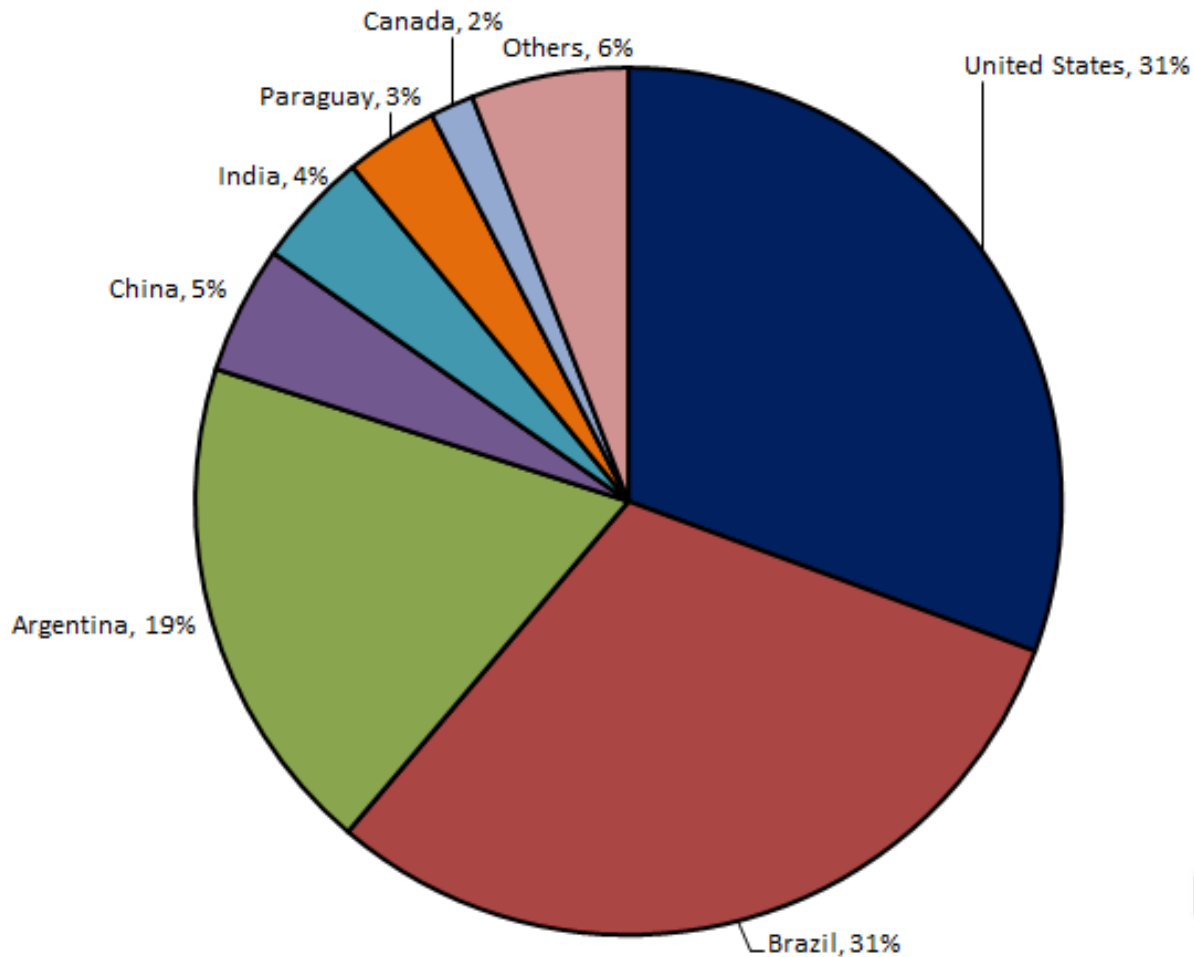
US Soybean Carryout and CO/Use

Source: USDA



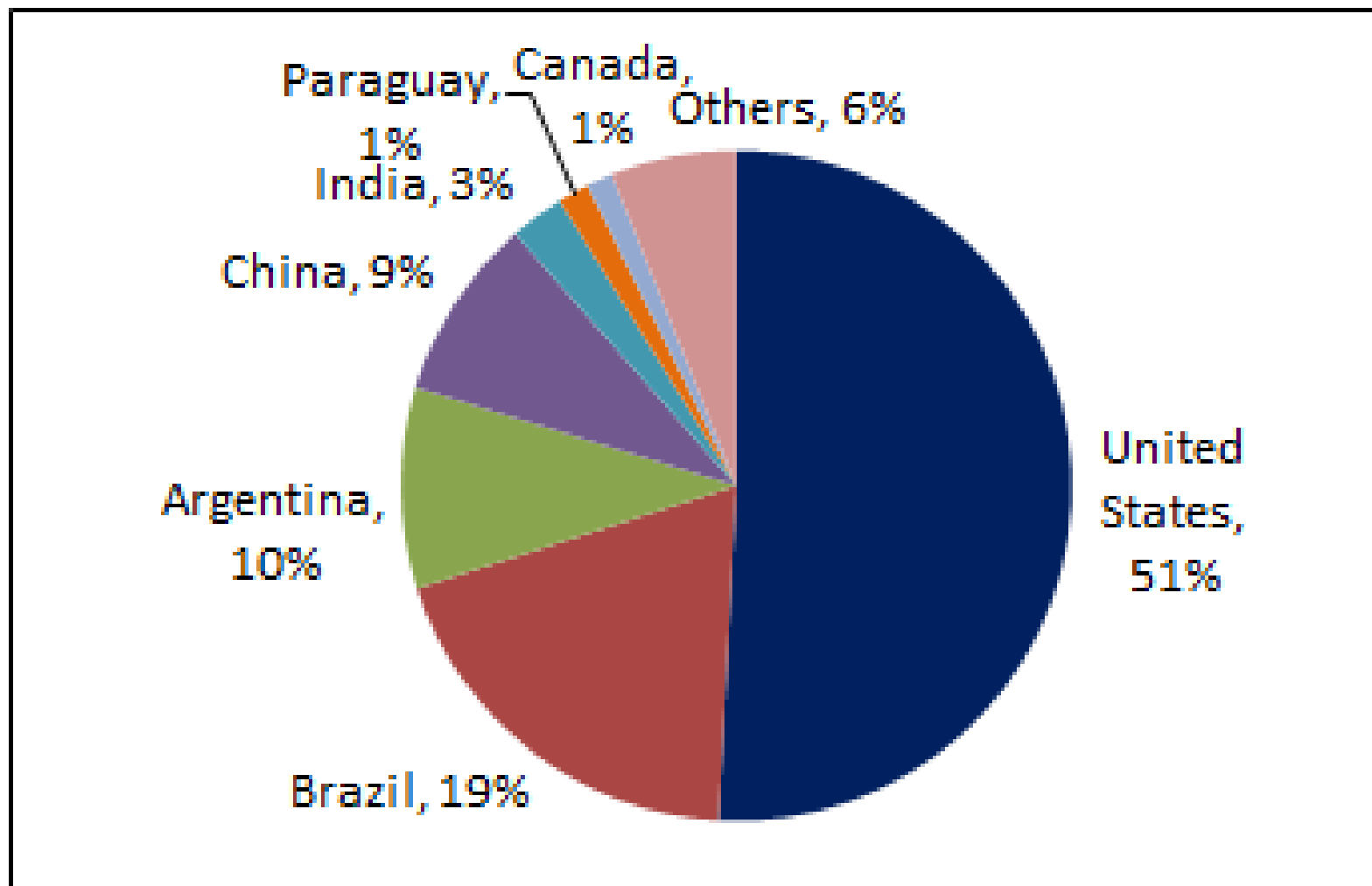
Soybean Fundamentals

World Soybean Production - 2012/13

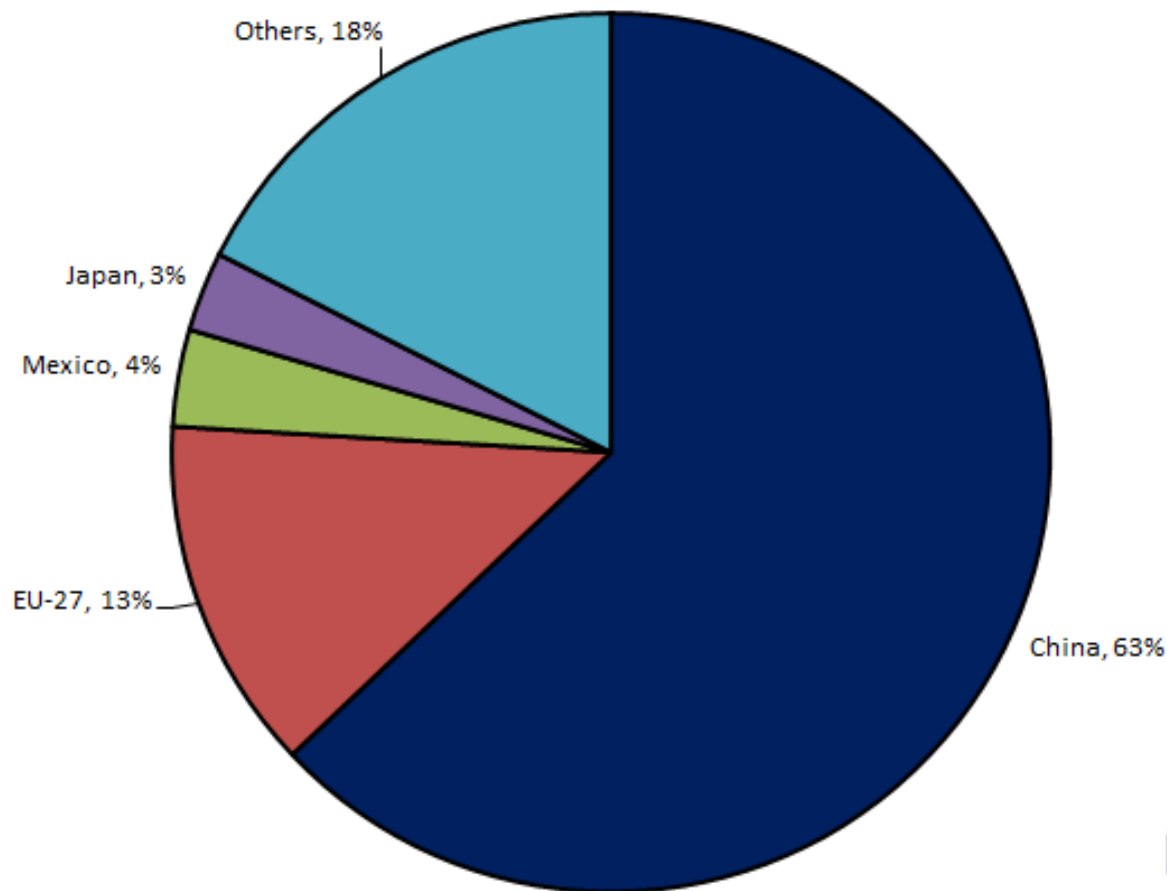


Source: USDA

World Soybean Production 1992-93



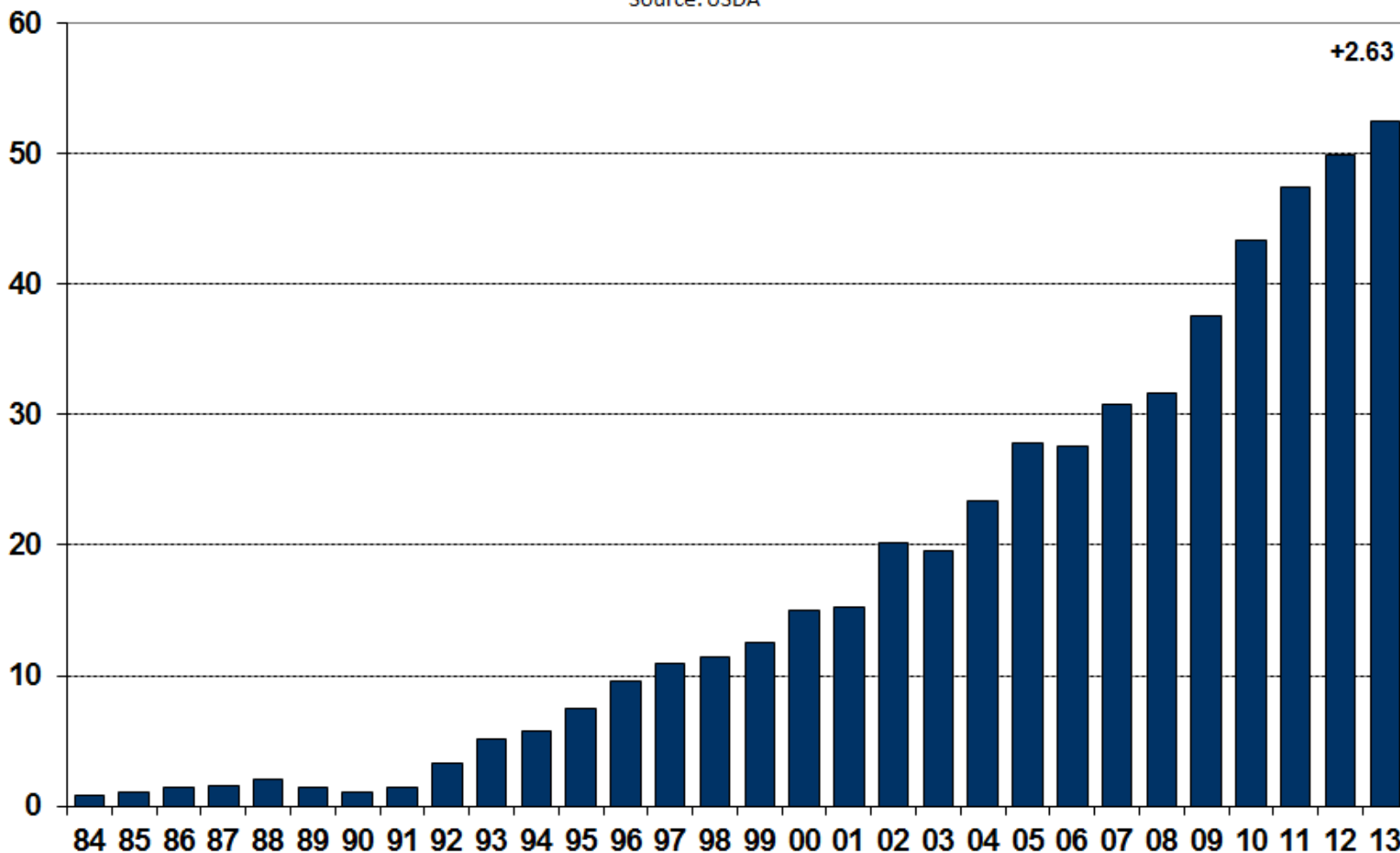
World Soybean Importers - 2012/13



Source: USDA

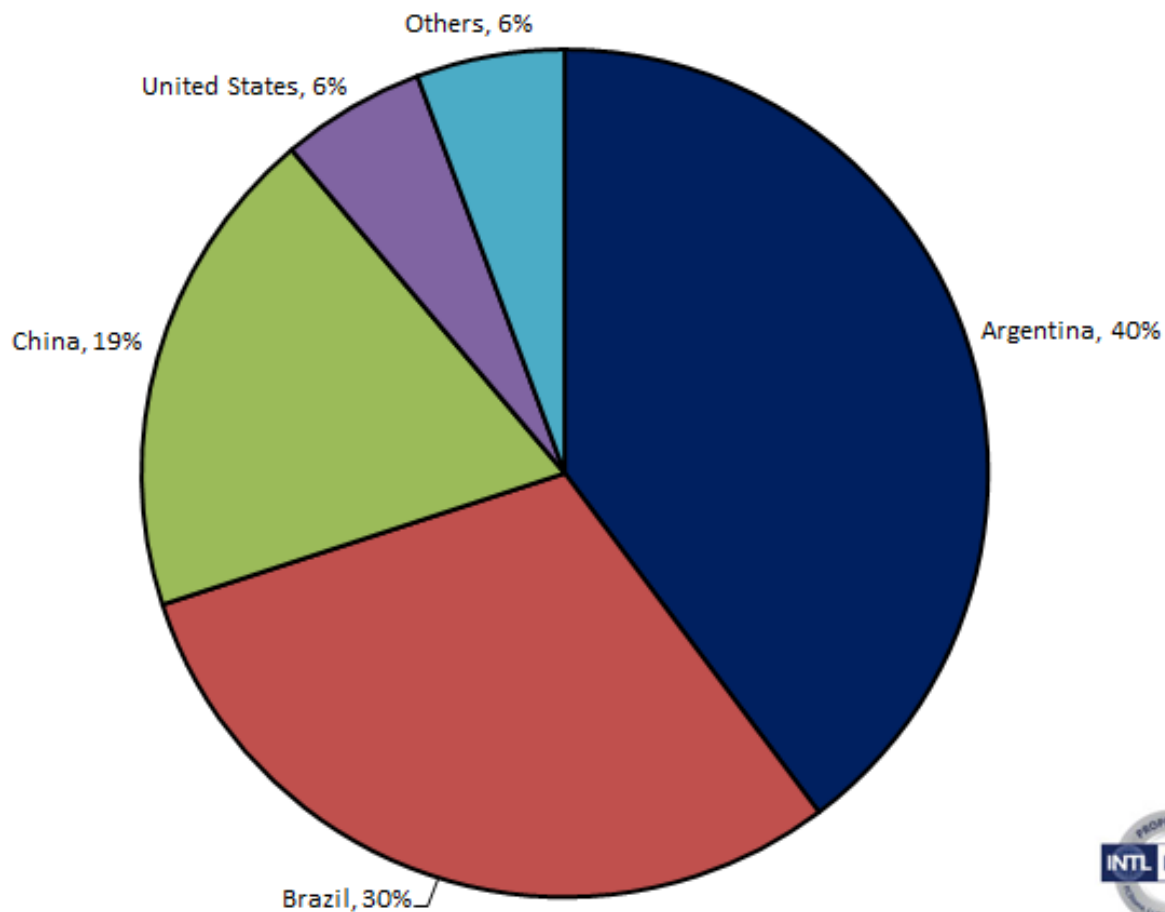
China Soybean Meal Use (mmt)

Source: USDA



Soybean Fundamentals

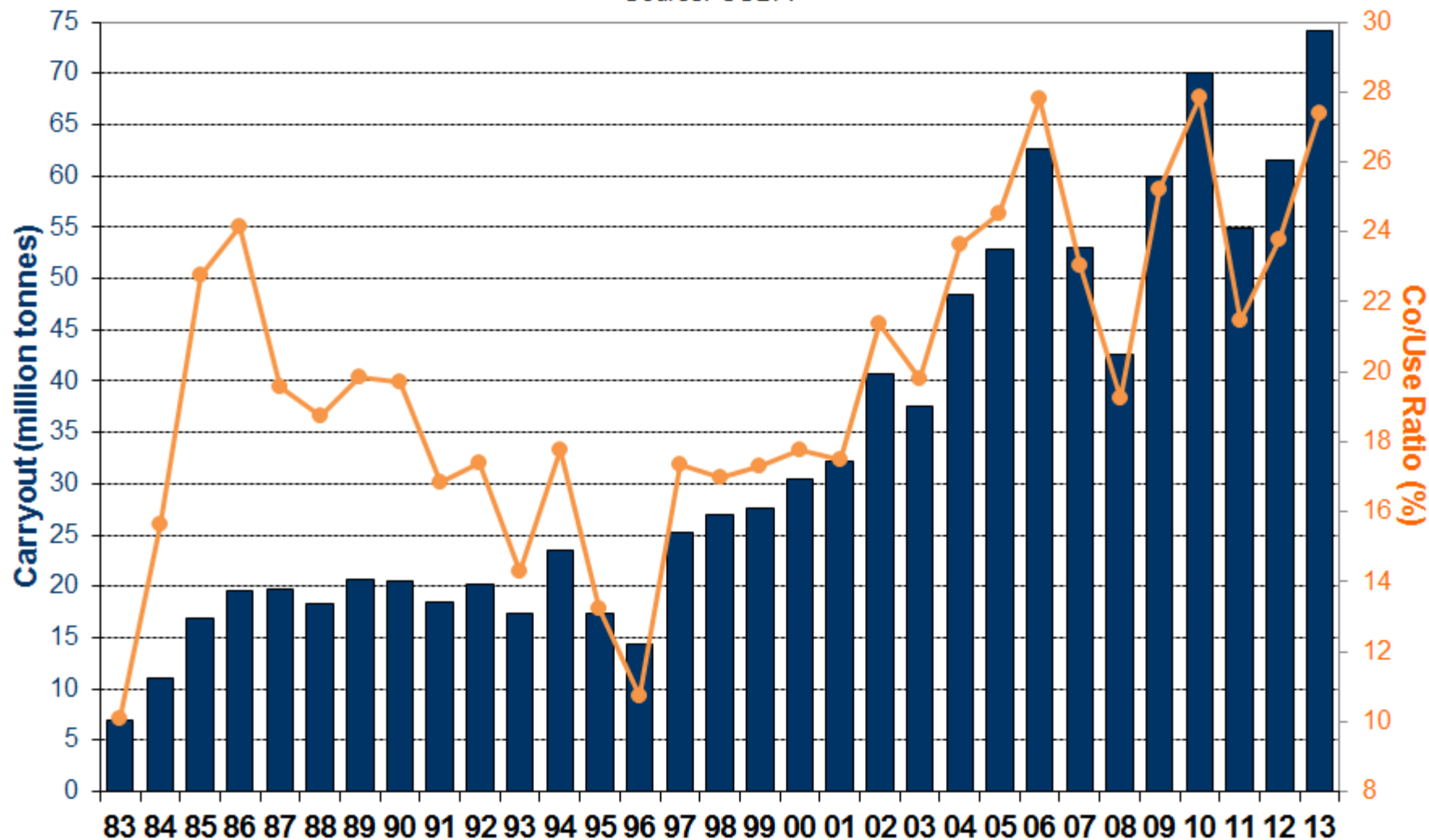
World Soybean Ending Stocks - 2012/13



Source: USDA

World Soybean Carryout and CO/Use

Source: USDA



– Fundamentals

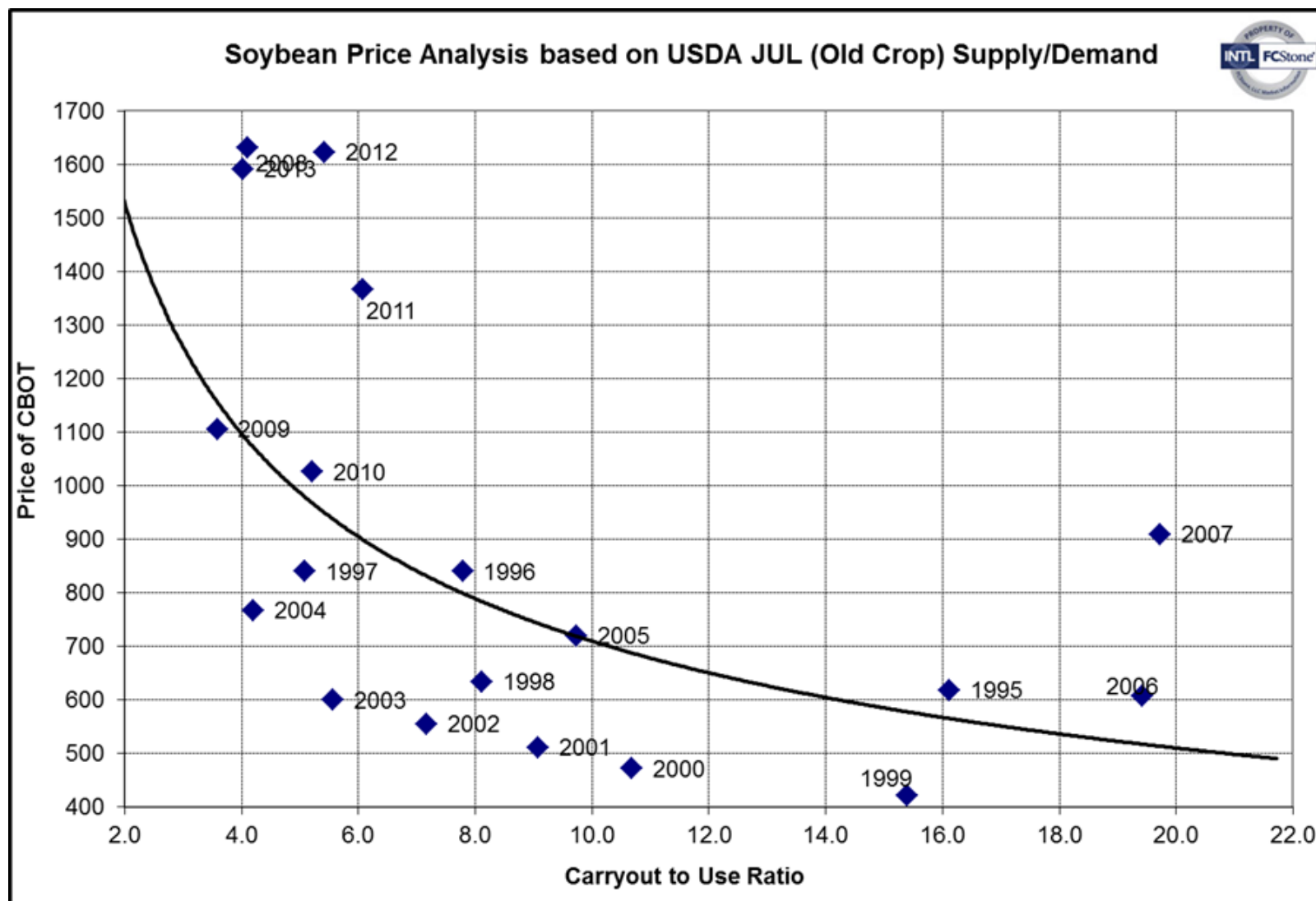
- South American Logistics have improved.
- US soybean demand must be rationed at the greatest rate since 2004 to maintain adequate carryout into new crop.

– Basis -

- The job of the market to ration US old crop bean supplies will be done by basis and spreads, SN/SX spread went to historic numbers, it's a long time till October.

– Over The Horizon -

- Dislocation of stocks will continue to be the market driver until new crop harvest in the US.
- Late planting may be a threat to soybean yield, freeze/frost.
- China import pace needs to be watched.
- Continued disruption of futures markets – cash convergence issues/delivery stocks will be limited .



Soybeans—A look forward

	USDA		USDA		USDA	FC ALT 1	FC ALT 2
	<u>2011/12</u>		<u>2012/13</u>		<u>2013/14</u>	<u>2013/14</u>	<u>2013/14</u>
Planted Acres	75.00		77.20		77.70	77.70	77.70
Harvested Acres	73.80		76.10		76.90	76.90	76.90
Yield	41.9		39.6		44.5	42.5	40.5
Carryin	215		169		125	125	125
Production	3094		3015		3420	3268	3114
Total Supply	3325		3209		3560	3393	3239
CRUSH	1703		1660		1695	1695	1695
Exports	1362		1330		1450	1450	1450
Seed	90		90		87	87	87
Res	1		5		33	33	33
Total Use	3155		3085		3264	3265	3265
Carryout	169		125		295	128	-26
CO/Use Ratio	0.054		0.041		0.090	0.039	-0.008

Soybeans Continuous Monthly



Commodity trading involves risks, and you should fully understand those risks prior to trading. FCStone, LLC assumes no liability for the use of any information contained herein. Please refer to Slide 3 for additional information regarding the risk of futures/options trading.

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