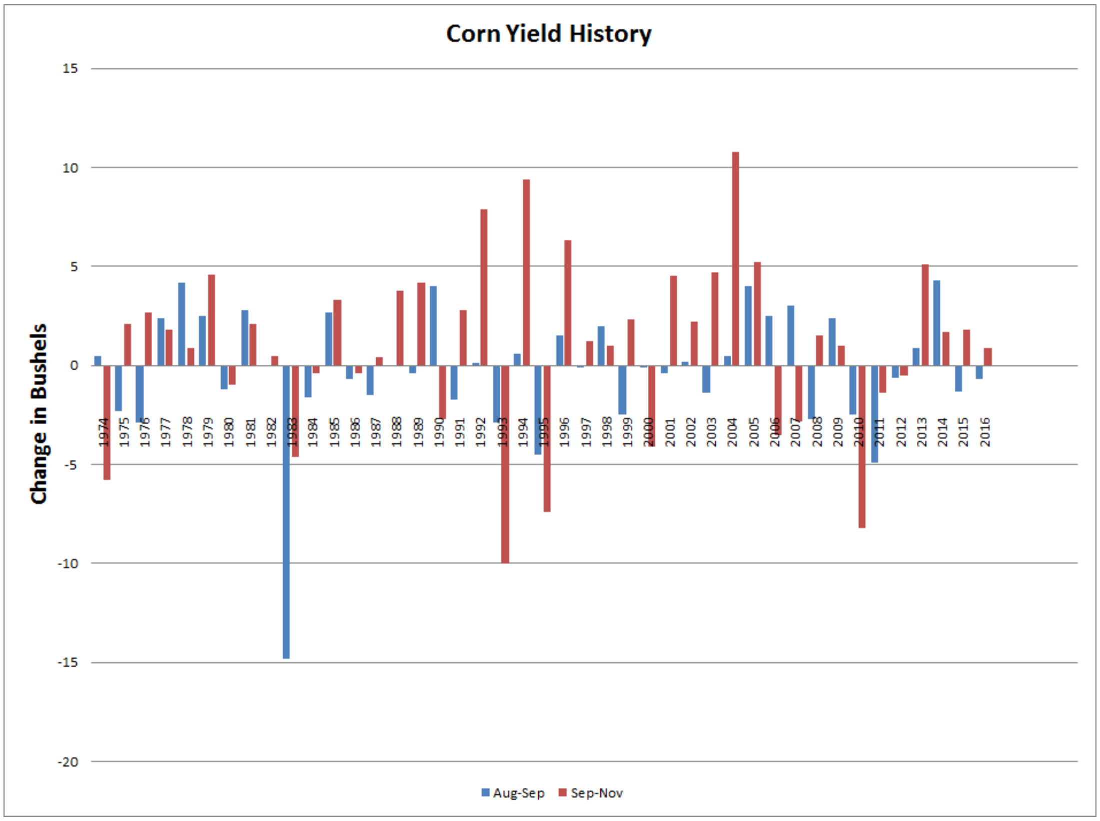
FCStone Grain Recap
September 13, 2017

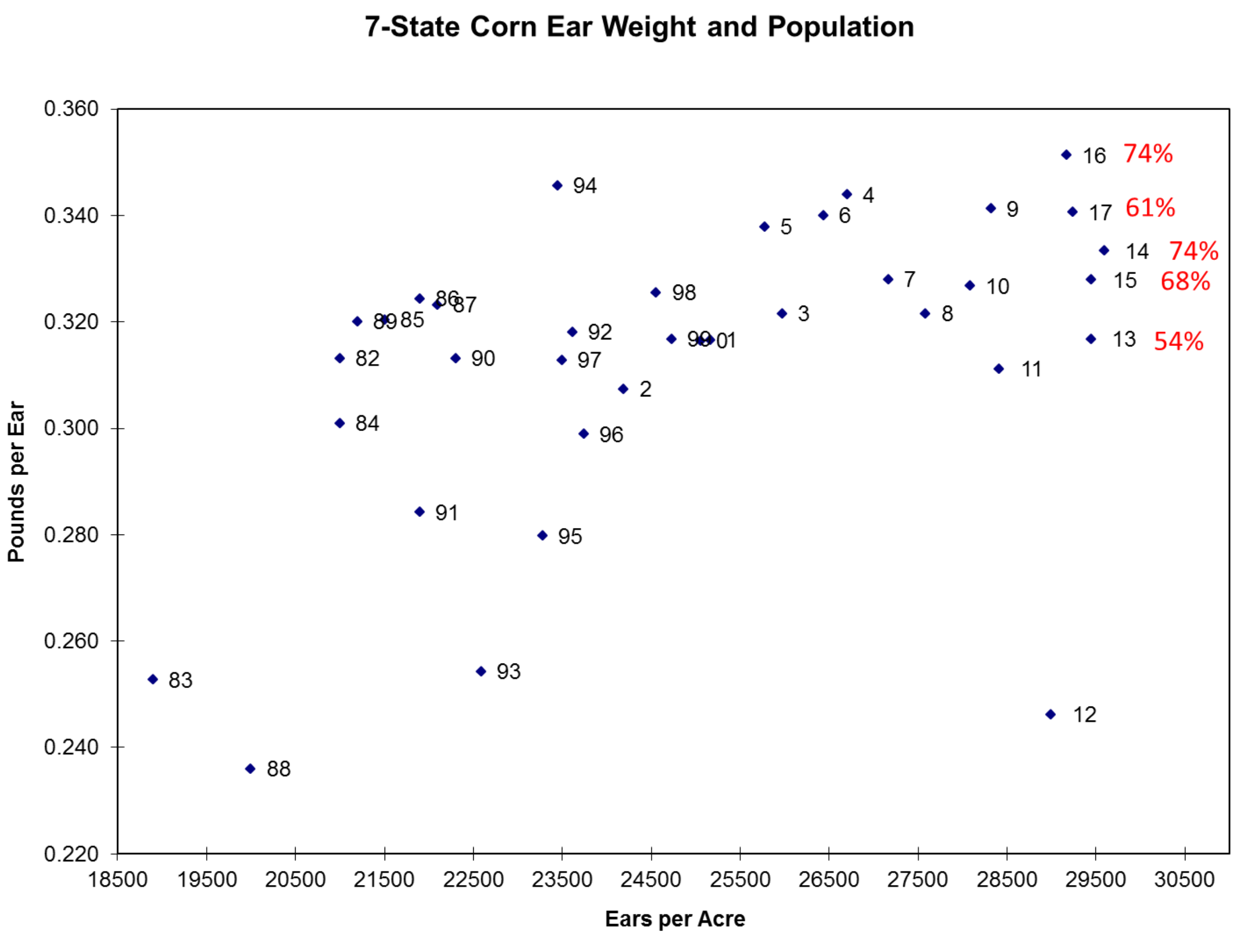
INTL FCStone Financial Inc.
FCM Division

CORN:

Values starting out strong but mellowed by the close. The market battles with USDA's yield with the trade expecting a smaller yield two reports in a row and the USDA showing a growing trend outcome in opposition of private forecasters. History tells us that small upward revisions in yield Aug-Sep (less than 1 bu/acre) have seen 4 of 5 instances where yield is increased consecutively through November. If all increases are considered there has been only 4 times since 1974 where yields were reduced in the October report.



Other things to contemplate when considering if yield is rising in subsequent reports are objective yield data and methodology. The USDA has indicated it has shifted, marginally, to new methods of projecting yields in 2017. If there has been a structural shift significant enough in yield patterns of the agency it could nullify past performance. Objective yield data is pointing to this in a way. As it was highlighted in August, the ear weights were the 3rd highest on record match with the 5th highest ear counts. In the September report the USDA reduced ear weight while discovering nearly 500 more ears per acre of the 10 state survey area. Condition ratings remained unchanged over the course of August with an absence of normal rains to finish the crop leading some to believe the ear filling was suboptimal which is needed to generate a heavy ear. There is also the history of crop ratings and ear weights to consider. One can assume the last 5 years have benefited from a shift in population/genetics that generate more ears per acre but as you can see in order to get a .33 lb ear in the 7 state core group the hurdle has been 68% G/E. This year the MidSep rating is 61% and a .34 lb ear. Ear count rarely shifts and if does in later reports it declines. The Ear weight is almost all that is left in the yield equation. To shift the ear weight to a point adjusting for its G/E rating would drop national yields to the 161-165 level. Have genetics advanced to the point where corn looks in poorer condition than it really is or is impervious to declining crop ratings???



Another major story put upon the market today was the Chinese government announcement it would work toward nationwide E10 availability by 2020 and commercial level production of cellulosic ethanol production by 2025. Currently ethanol is regionalized with local estimates of 18 mmt of industry usage as of 2016. Capacity is approximately 48 mmt for the industry. Most industrial usage goes to starch production. The ethanol push is being sold as a climate/environmental item but it's more a push to use up inedible supplies of the 225 mmt corn reserve. The ethanol industry has to be subsidized to run the bad corn. The government says it will positon the ethanol industry growth nearest the main corn growing areas. This could cause some logistical issues when moving the fuel additive to their end markets. I have put together a rough table of what an orderly expansion of their ethanol industry would do to supplies up to 2020. As you can see below, ethanol alone won't draw the reserves to even the minimum 50 mmt permanent reserve level by 2020 without entertaining exports. This also assumes no yield appreciation from better genetics, especially with the Chinese purchase of Syngenta. If GMOs are embraced as eagerly as ethanol production, China could be chasing a long term surplus of corn even if it reduces acres annually. If interior logistics become an issue while ethanol ramps up the nation could easily expand its ethanol export program indirectly exporting corn. US weekly ethanol with a lower production this week at 1047 thousand barrels per day but with margins at 1 year+ highs. Stocks remained near last week's level with 21132 thousand barrels.

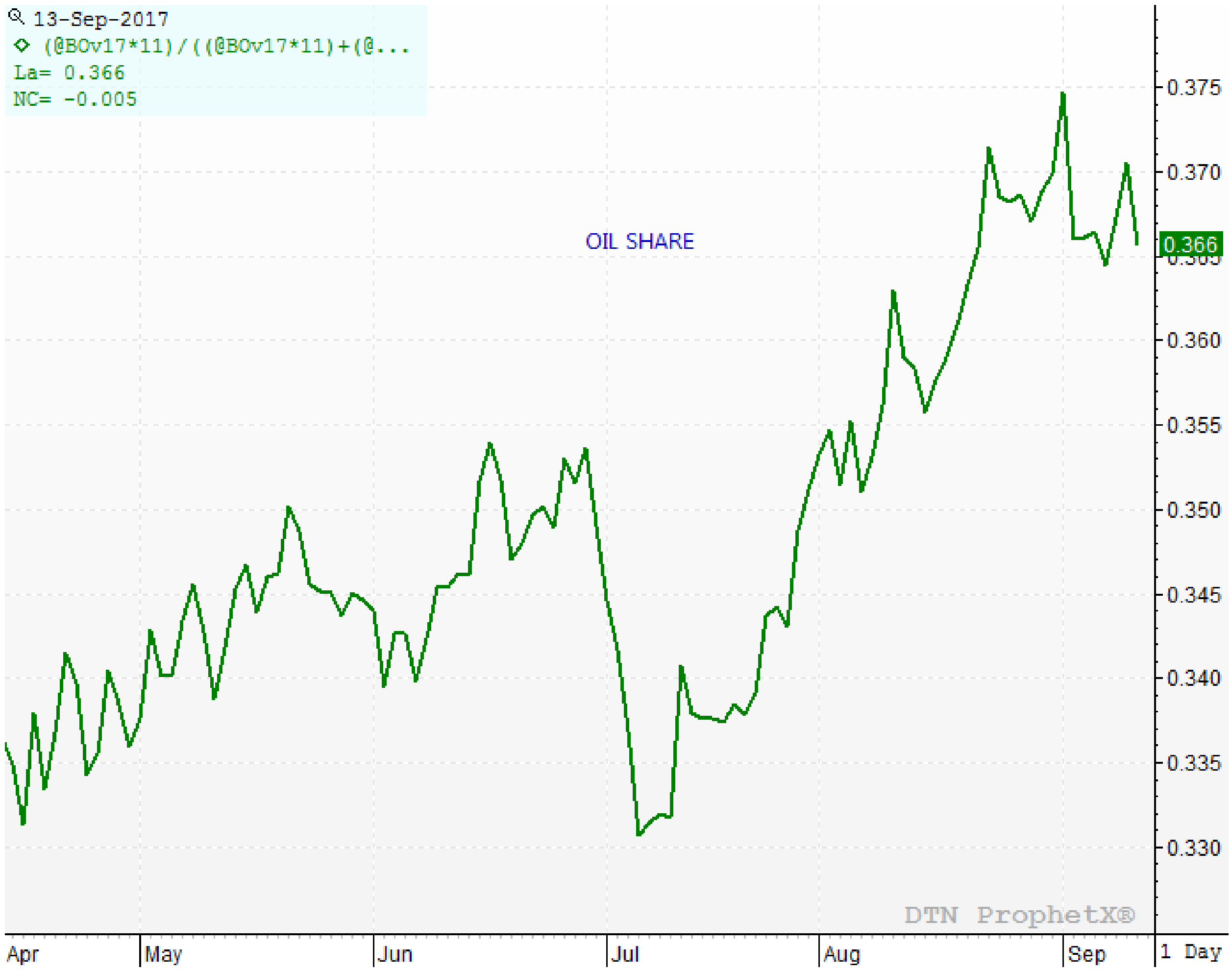
China Corn Perspective

	2016	2017	Reserve Added 2017	2018	2019	2020
Carryin	111	102	302	281.3	252.3	215.3
Production	220	215	215	215	215	215
Imports	3	3	3	3	3	3
Total Supply	334	320	520	499	470	433
Domestic Feed	162	166	166	168	171	174
Ethanol/Starch	48	50.5	50.5	55	60	65
Exports	0	0	0	0	0	0
Total Demand	232	239	238.5	247	255	263
Carryout	102	81.3	281.3	252.3	215.3	170.3
Free Carryout	102	81.3	81.3	82.3	82.3	82.3
Reserve	225	200	200	170	133	88

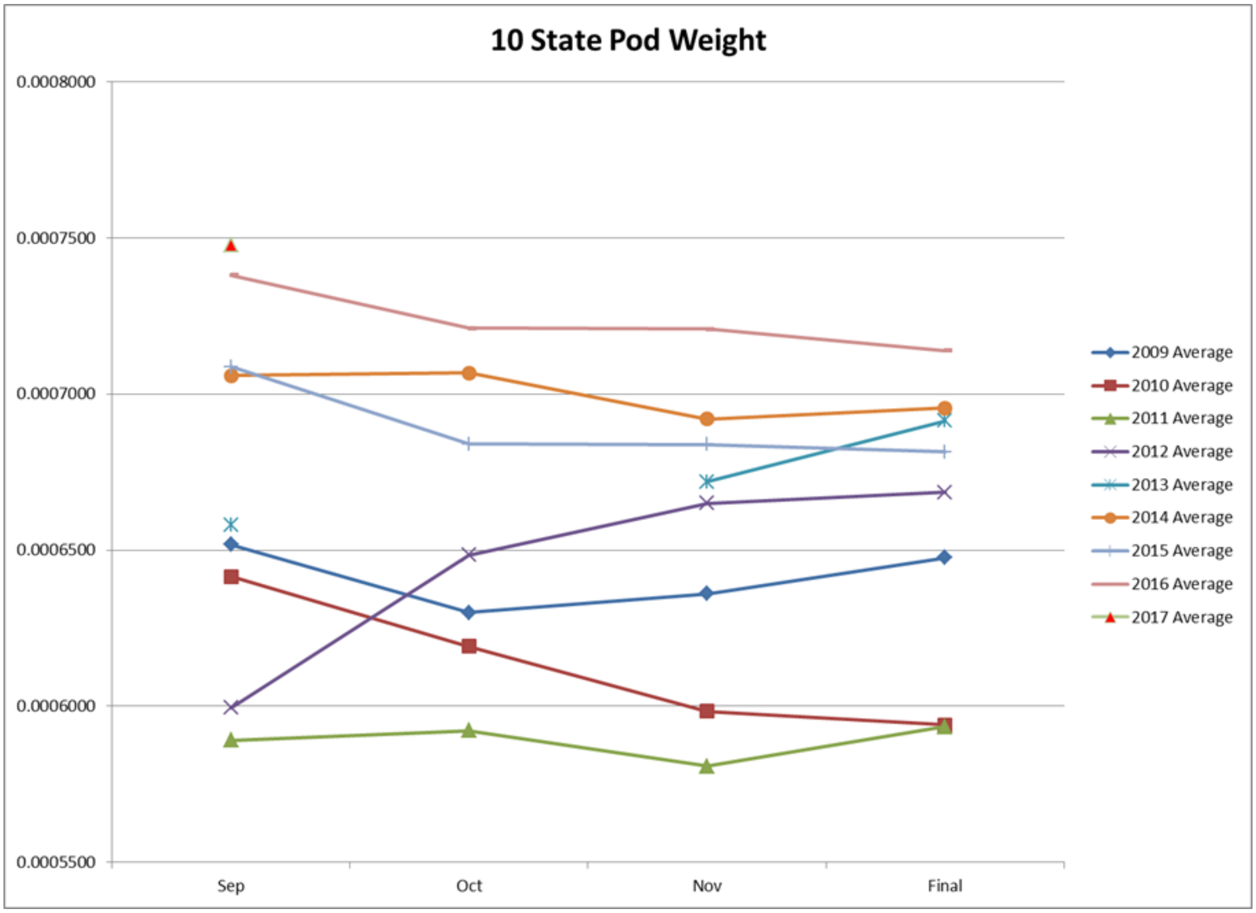
September futures go off the board tomorrow at noon. Deliveries totaled 375 contracts today. Funds credited with selling 5000 contracts today.

SOYBEANS:

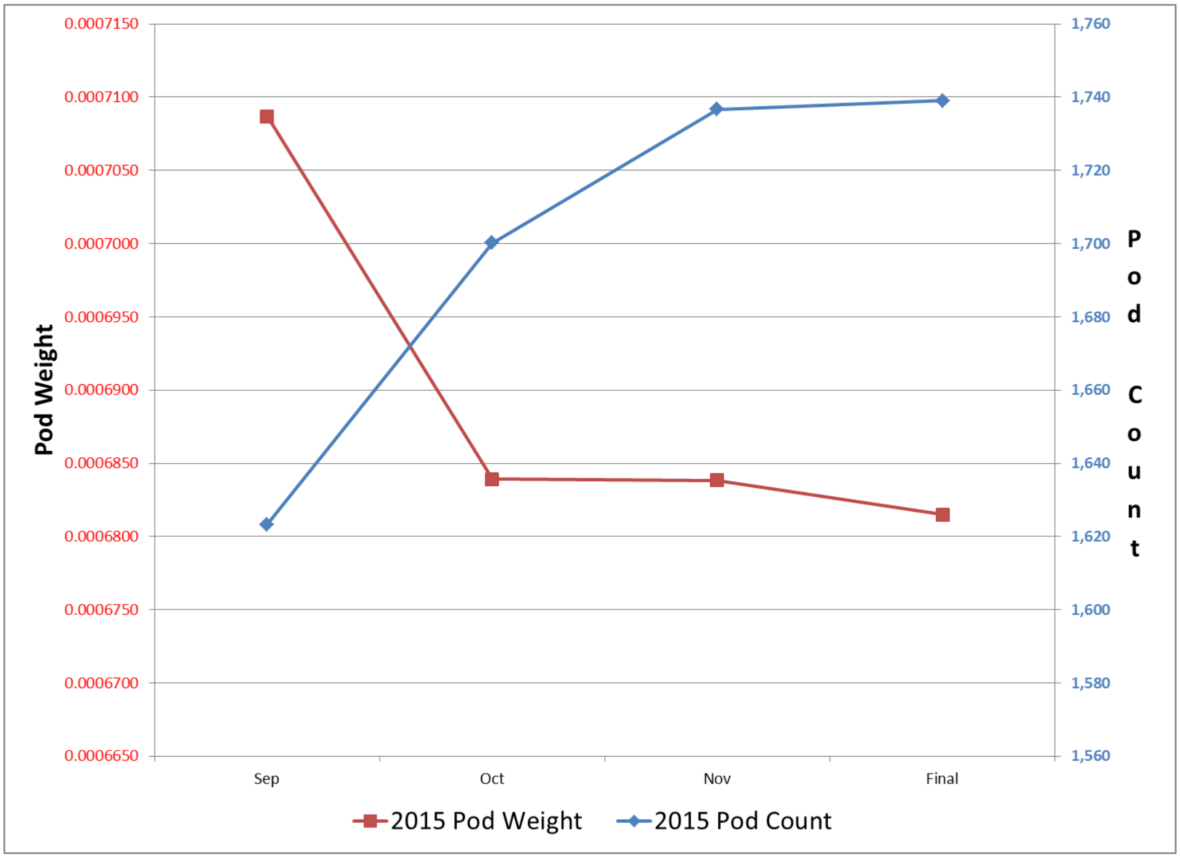
A strong session despite a bigger US yield, production and robust world supplies today. A "sell the fact" action in the Oil Share may be part of the support for soybeans. As we discussed in yesterday's wire, the USDA rearranged the Soybean oil table for the US based on Countervailing duties instituted by the Department of Commerce. This upended what was intended for export, biodiesel usage and in the end brought US carryout down sharply. A day two reaction to the USDA's recognition of the CVDs on the US domestic market was to sell Oil Share. The pressure upward by buying meal and selling oil supported the soybean futures market.



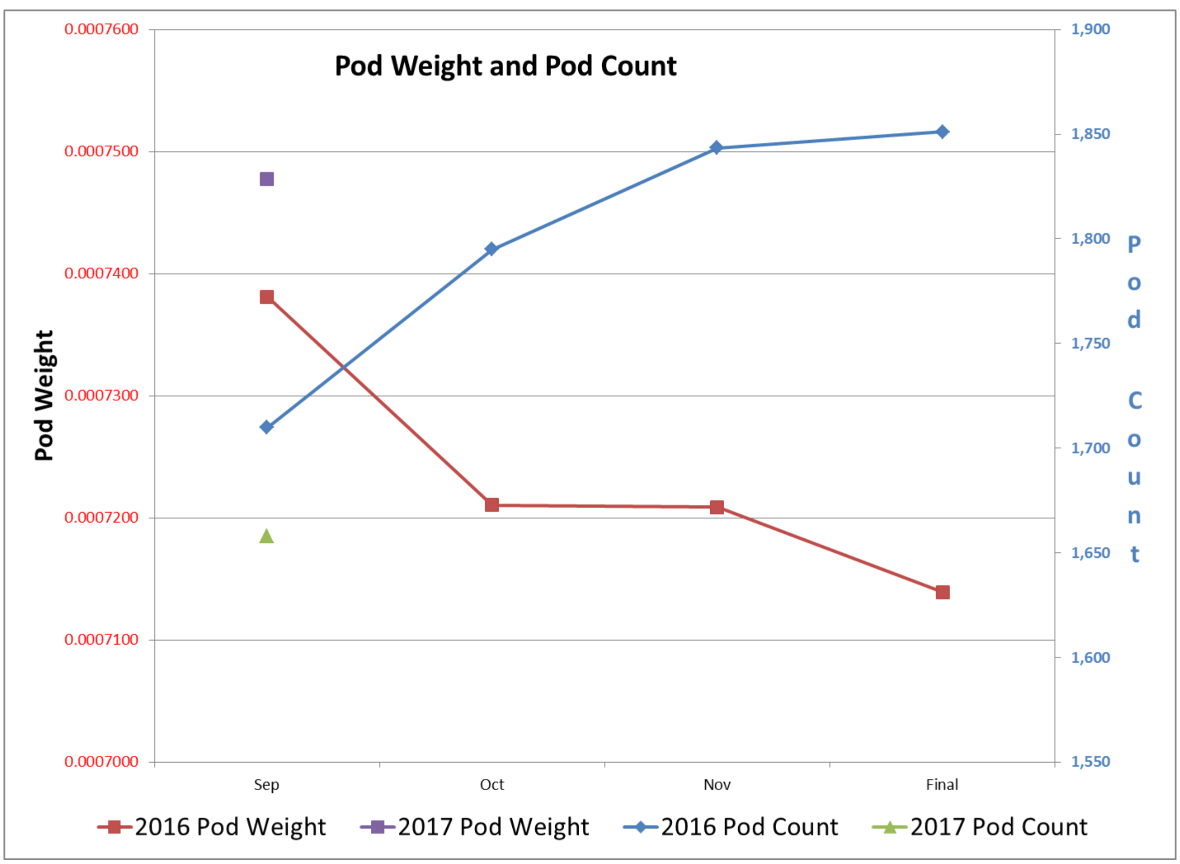
There is also some concern the USDA might be solving for a larger yield in the September report than what is really out there. Expanding on the discussions regarding the USDA's assumed largest pod weight on record vs this level of pod count I have included a history of the 10 state pod weight in the graph below.



With the exception of 2012, the general direction from the September pod weight estimates for the 10 state region is lower. At the same time the pod counts usually increase marginally sometimes offsetting the pod weight decline. An example of this is 2009. 2010 is an example of increasing pod counts of 5% could offset the pod weight decline of 7%. Yield declined for the 10 state area by 3%. The last two years have been examples of the extreme where the USDA started with heavy pod weights and pod counts come up to more than offset pod weight declines. The 2017 yield estimating season has stretched that extreme even further as I have overlayed the 2017 objective yield data for the 10 state region over 2016. The pod counts are extremely low compared to the pod weights. To put a number on it, pod weights are 8% higher against its matching pod count. With the dry finish to the majority of the main US soy belt, will additional pods be found while the pod weights do their seasonal decline? Will the decline be more extreme matching their extreme starting point???

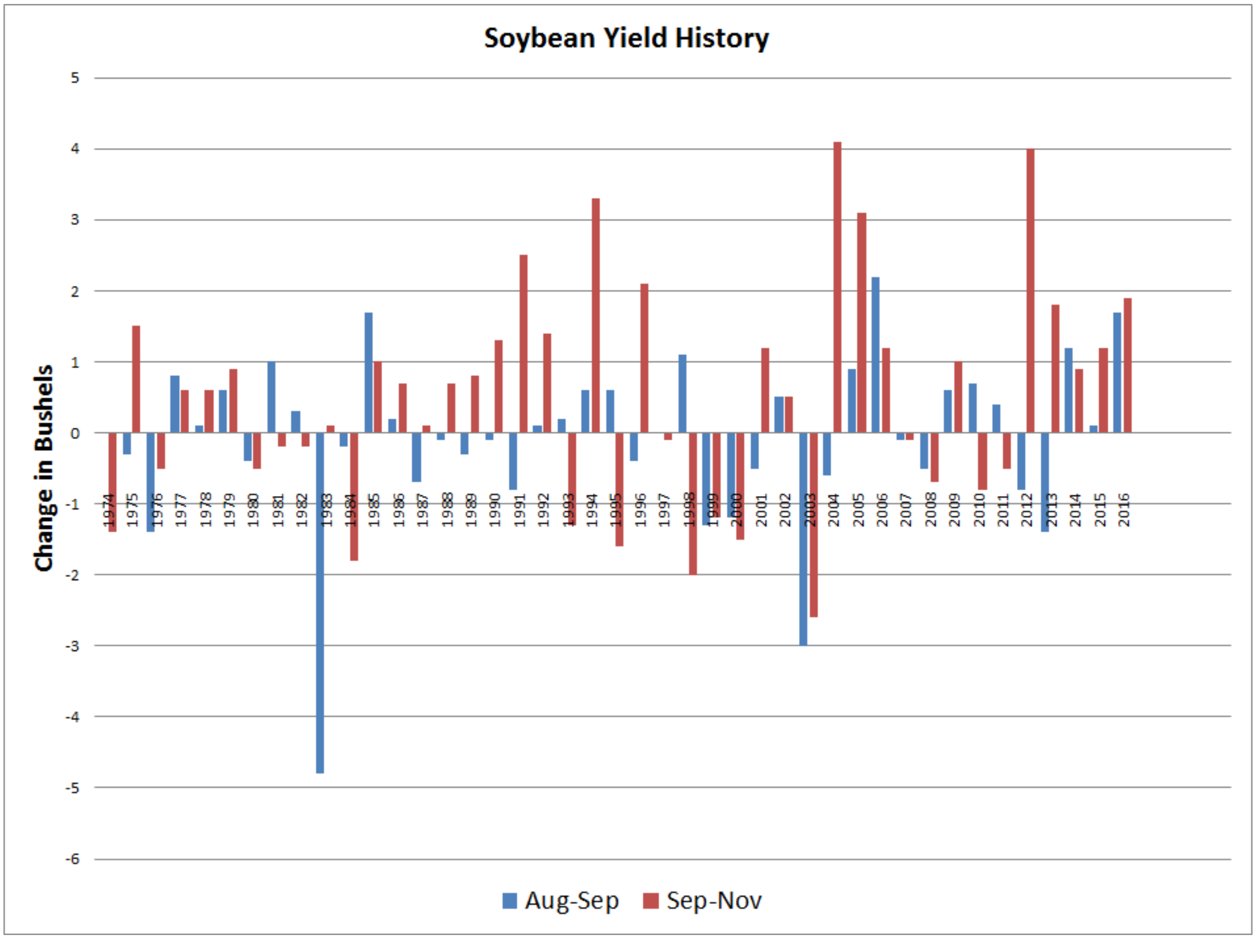


Pod Weight
Pod Count
0.0007150
0.0007100
0.0007050
0.0007000
0.0006950
0.0006900
0.0006850
0.0006800
0.0006750
0.0006700
0.0006650
1,760
1,740
1,720
1,700
1,680
1,660
1,640
1,620
1,600
1,580
1,560
Sep
Oct
Nov
Final
2015 Pod Weight
2015 Pod Count



Pod Weight and Pod Count
Pod Weight
Pod Count
0.0007600
0.0007500
0.0007400
0.0007300
0.0007200
0.0007100
0.0007000
1,900
1,850
1,800
1,750
1,700
1,650
1,600
1,550
Sep
Oct
Nov
Final
2016 Pod Weight
2017 Pod Weight
2016 Pod Count
2017 Pod Count

Going beyond the objective data review history there is the pattern of yield estimates by the USDA. Of the 21 yield increases from Aug to Sep since 1974, 6 had declines in Sep-Oct.



The September contract goes off the board at the CBOT tomorrow.

Deliveries

Soybeans 0
Soybean meal 118
Soybean oil 340

Funds credited with buying 7000 contracts of soybeans, 4000 meal and sold 3000 soybean oil.

WHEAT:

Wheat futures stalled in their push upward today in synchronization with corn. US values still need to buy extra export business and with a now recognized larger Russian crop it is necessary to keep in competition with the FSU. Debate on whether Russia can export its surplus remains the debate. No changes for the better in the Australian wheat belts. The weather forecast implies the yields will struggle in portions of the east and west with the dry 15 day outlook. US upper plains wet in the 6-10 and then the rains expand to the Southern Plains in the 11-15 providing more moisture for winter plantings. Domestic values hint at lower winter wheat acres. The insurance price discovery period ending tomorrow has a preliminary support level at $4.87 for

HRW and $5.02 for SRW wheat. The insurance price may be just enough of a motivation to plant wheat and see if it pans out and if it doesn't the producer may till up the ground and put it to soybeans for the better profit turns. Thus planted acres could remain unchanged while abandonment rises. Stresses on farm finances are a motivation for bankers to push producers toward soybeans to generate income to pay off operating lines. Similar equipment to plant and harvest and better P/Ls that can be locked in today with almost no risk of discounts at harvest. The September contracts go off the board at the CBOT, MGEX and KBOT tomorrow.

Deliveries

KC Wheat 35
CBOT Wheat 18
MGEX Wheat 1

FOB NOLA – US SPOT PRICES

CORN	+ 25Z
SOYBEANS	+ 50X
SRW	+ 40Z

FOB TEXAS GULF – US SPOT PRICES

HRW	+ 80Z

ECBOT	HIGH	LOW	CLOSE	CHANGE
Sep Corn	3.4425	3.3925	3.385	- 1 1/2
Dec Corn	3.5675	3.5025	3.515	--
Sep Beans	9.53	9.44	9.53	+ 8 3/4
Nov Beans	9.6325	9.4675	9.605	+ 10
Sep Wheat	4.26	4.26	4.2075	+ 1 1/4

Regards

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