THE HIGHTOWER REPORT

Futures Analysis & Forecasting

SPECIAL REPORT

HightowerReport.com

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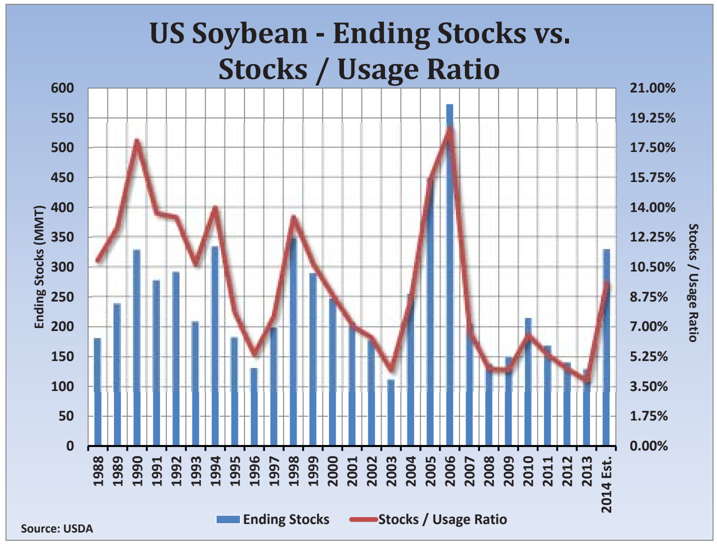
Soybean Shift: Record Tightness to Abundance

Speculative Trade Ideas Ahead of the Key June USDA Updates

In the stock market, there is an old saying, "don't fight the tape." For grain traders, the saying is "don't fight the weather." The weather outlook for the next several weeks looks ideal for growing soybeans, and this suggests a "sell shallow rallies" mentality will develop for grain traders. The June 30th Planted Acreage and Stocks reports from the USDA is the next key volatility event for the soybean market, but the main focus in the weeks ahead will be the weather. We think that given the great start to the crop, traders can look for bearish futures and option plays for November soybeans. Normal weather could keep the trend down into the key USDA report date of June 30th, at which time the market will get another read on whether we face a) record tightness for the end of the 2013/14 season or b) enough short-term supply and enough soybean and meal imports to move up to the wall of supply that awaits the market at harvest.



The soybean and soybean meal export pace for the 2013/14 marketing year continues to be a supportive force. Crush margins remain high, crushers still need soybeans for August, and end-users need soybean meal for August and September. However, import activity is increasing, and once the US crop starts to look like a "bin-buster," the US farmer may be more inclined to sell some of their old crop soybeans rather than risk losing the $2.70 premium they carry to the new crop. The July/November Soybean spread has pushed to a new contract high, and spreads, rather than flat prices, may help ration supply going into the late summer.

The market is in a transition period, as 2013/14 US ending stocks are projected at just 130 million bushels while the early estimates for 2014/15 ending stocks are more than double that level at 330 million. The USDA stocks/usage ratio is expected to climb from a record low 3.8% to 9.6%, the highest level since 2006/07.

A large portion of the Midwest looks to receive 1 1/2 to 3 inches of rain over this week, spread out over several different rain events. Some areas of central and southern Iowa could get as much as 4 inches. This is a region that is still recovering from dryness last year. Warm and wet weather is ideal for the crop, and by the third week in June, the weekly crop progress reports should show good/excellent readings near the high end of historical norms.

As of May 25th, there were still nearly 6 million acres of corn in the northern Midwest that had not been planted. Given the rainfall that region has received since, at least 1 million acres could be switched from planting corn to planting soybeans.

There were also about 2-4 million acres that were planted to other crops across the US last year that did not show up in the March Prospective Plantings report. The excellent weather for late May and early June and the surge in soybean prices into the May 22nd peak may have created an opportunity (and incentive) to plant more acres across the Corn Belt. As a result, the June 30th Planted Acreage report could show an increase of as many as 1 million acres planted to corn and 3 million acres to soybeans.

If the weather remains favorable, the trade will soon be talking about a 46 bushel-per acre average yield for the new crop season, versus the current estimate of 45.2. That on top of the general idea that actual plantings will be up at least 1 million acres from the March Planting Intentions report will have fundamental traders talking about a "wall of supply" for the 2014/15 crop year.

The enclosed table shows the results under various planting scenarios. If there is a 1 million-acre increase in plantings from the March estimate and yield does indeed reach 46 bushels per acre, ending stocks would come in at 444 million bushels with a stocks/usage of 12.9% (assuming no adjustments in usage). If actual planted acreage is up 2 million from the USDA estimate, ending stocks could push up to 490 million bushels.

And if planted area increase by 3 million-acres, ending stocks could climb to 536 million bushels, and the stocks/usage ratio could reach 15.5%.

The US supply situation should remain tight throughout the summer, but world stocks on September 1st (before the US harvest) are expected to be the second highest on record at 66.98 million tonnes. By September 1 2015, world stocks are expected to reach 82.23 million tonnes, 12 million tonnes higher than the previous record.

USDA SUPPLY/DEMAND								2014/15 Estimates		
US SOYBEANS					May	May	May			
					USDA	USDA	USDA	Acreage Estimates		
	08-09	09-10	10-11	11-12	12-13	13-14	14-15	Low	Mid	High
Planted Area (M Acres)	75.7	77.5	77.4	75.0	77.2	76.5	81.5	82.4	83.5	84.5
Harvested Area (Acres)	74.7	76.4	76.6	73.8	76.2	75.9	80.5	81.5	82.5	83.5
Yield (Bu/Acre)	39.7	44.0	43.5	41.9	39.8	43.3	45.2	46.0	46.0	46.0
Beginning Stocks (M Bu)	205	138	151	215	169	141	130	130	130	130
Production	2,967	3,359	3,329	3,094	3,034	3,289	3,635	3,749	3,795	3,841
Imports	13	15	14	16	36	90	15	15	15	15
Supply,Total	3,185	3,512	3,494	3,325	3,239	3,519	3,780	3,894	3,940	3,986
Crushings	1,662	1,752	1,648	1,703	1,689	1,695	1,715	1,715	1,715	1,715
Exports	1,279	1,499	1,501	1,365	1,320	1,600	1,625	1,625	1,625	1,625
Seed	90	90	87	90	89	95	92	92	92	92
Residual	16	20	43	-2	1	0	18	18	18	18
Use, Total	3,047	3,361	3,279	3,155	3,099	3,390	3,450	3,450	3,450	3,450
Ending Stocks	138	151	215	169	141	130	330	444	490	536
Stocks/Use Ratio	4.5%	4.5%	6.6%	5.4%	4.5%	3.8%	9.6%	12.9%	14.2%	15.5%

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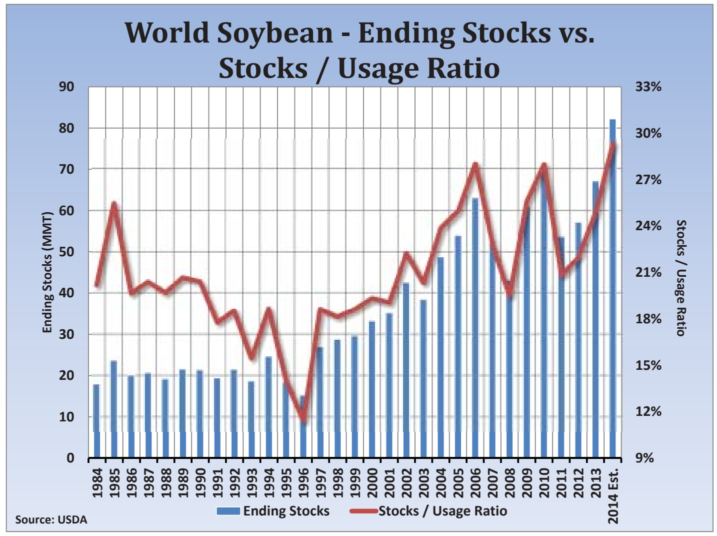
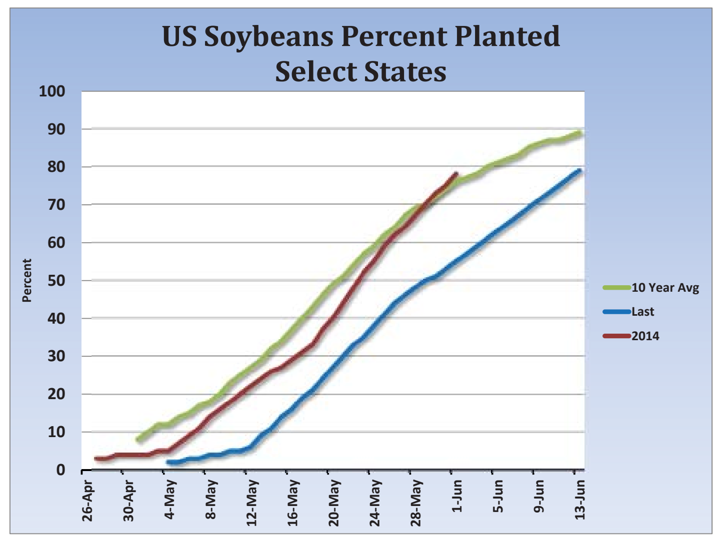
For the weekly Crop Progress Report as of June 1st, traders were expecting plantings to have reached 71% complete, but the report actually indicated that 78% had been planted, up from 59% the previous week and 55% a year ago. The 10-year average for this time of year is 76%. Overall, that report leaned bearish, as the planting pace has managed to catch up to normal after a slow start. It is still early, but the speed with which the crop went into the ground should discount any headline risk of talk of freeze/frost damage later in the growing season.

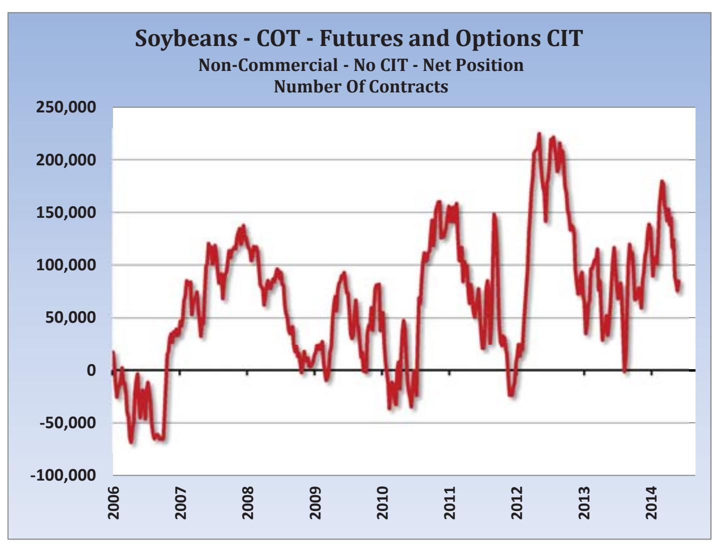
Given the strong start to the crop, futures look vulnerable to a long liquidation selling trend just ahead, as fund traders have added to long positions in recent weeks. The Commitments of Traders reports as of May 27th showed non-commercial traders were net long 141,790 contracts, an increase of 9,690 contracts for the week. Non-commercial and non-reportable traders combined held a net long of 79,063 contracts, up 5,814 contracts for the week. Trend-following fund traders reached a net long of 84,422 contracts, up 8,818 contracts for the week. This is the group most vulnerable to exiting longs in the weeks just ahead.





Speculative Trade Ideas Ahead of the Key June USDA Updates

For now, the trend has turned down, and unless a serious weather problem develops in late June and early July, the US crop looks to reach a new record, and world ending stocks look to be revised even higher. The technical action is bearish, and with a slightly oversold condition, we cannot rule out a bounce in November Soybeans to the $12.38 ¾ to $12.46 ½ resistance zone. Downside targets include $12.06, $11.83 ½ and $11.61. With normal weather into mid-August, we cannot rule out a longer-term downside objective of $10.15 ¼.



Suggested Trading Strategies

1) SELL November soybeans at $12.38 with an objective of $11.29. Risk to $12.55.

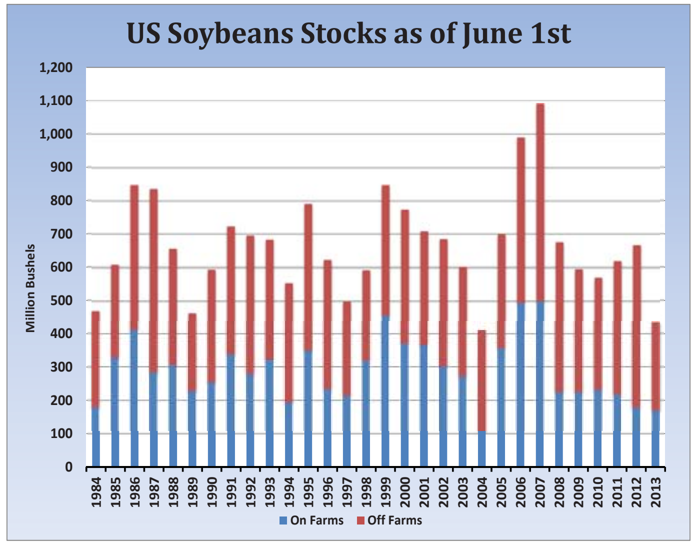
2) **SDNCO Bear Put Spread:** BUY the September Soybean short-dated new crop $12.20 put and SELL the September Soybean short dated new crop $11.20 put for a net cost of 30 cents. Use an objective of 66 cents, and risk a total of 9 cents on the spread.

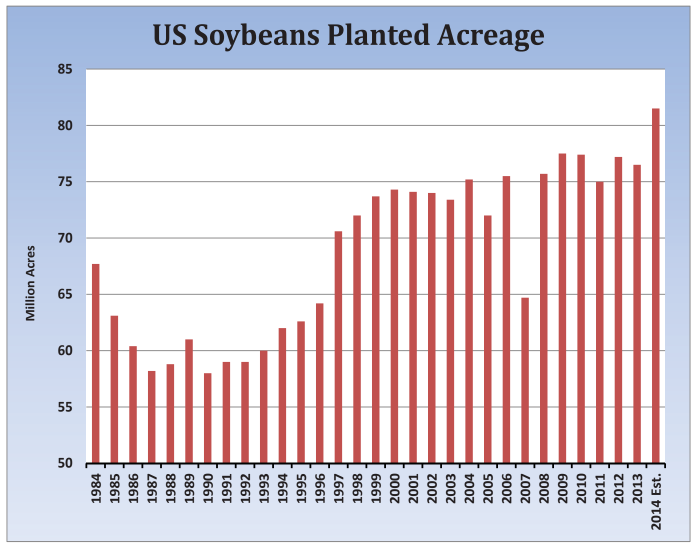
In addition, CONSIDER SELLING a September short-dated new crop Soybean $13.00 call at 20 cents. This would add to the risk of the spread, but it would also lower the initial cost. In this case, increase the objective on the entire spread by 20 cents (for 56-cent total gain) and risk a total of 16 cents on the entire position.

Strategies Continued on Page 5...

SOYBEAN FUTURES REACTION TO JUNE STOCKS/ACREAGE REPORT

	NOVEMBER		AUGUST	
Year	Price Changes Day of Report	10 Days Later	Price Changes Day of Report	10 Days Later
1990	0.00	0.25	-0.50	-2.25
1991	-11.00	-29.25	-10.25	-28.00
1992	-4.00	-43.00	-3.25	-36.75
1993	21.50	53.50	19.50	53.00
1994	-6.25	-52.00	-3.00	-43.50
1995	-4.00	60.00	-4.50	61.25
1996	14.25	62.50	16.00	66.25
1997	-30.00	8.25	-21.25	57.25
1998	10.75	-38.75	17.25	-11.50
1999	4.50	-33.50	3.00	-22.00
2000	-15.00	-28.25	-10.00	-25.25
2001	23.00	44.75	18.50	36.75
2002	15.25	26.50	13.75	41.25
2003	-5.75	-31.25	-10.25	-29.00
2004	-30.75	-23.50	-23.00	-31.50
2005	-22.75	65.25	-20.50	65.00
2006	13.00	-11.25	11.50	-10.50
2007	39.50	17.00	39.50	16.00
2008	14.50	-58.00	19.00	-56.00
2009	-2.50	-76.50	-2.75	-98.75
2010	-9.50	85.50	-0.50	88.00
2011	-29.00	93.00	-28.00	86.25
2012	24.25	162.75	35.50	152.00
2013	-23.25	11.75	-1.50	22.75
Higher				
Count	10	13	10	12
Average	18.05	53.15	19.35	62.15
Max	39.50	162.75	39.50	152.00
Lower				
Count	13	11	14	12
Average	-14.90	-38.66	-9.95	-32.92
Max	-30.75	-76.50	-28.00	-98.75





3) Leverage Play for a Major Top. If a major top is truly in place, entering a strategy with plenty of downside leverage on a major sharp move down may be the approach to take:

BUY 8 November Soybean $10.40 puts at 9 ½ cents each, SELL 1 November Soybean $12.00 put at 53 ¼ cents, and SELL 1 November Soybean $13.40 call at 21 ¾ cents. The net premium paid on the entire position would be 1 cent. Look for a net gain of $2.75 on the entire spread ($13,750 minus commissions and fees), and risk a total of 40 cents.

If in 40 days November Soybeans are trading down at $11.67 ¼, the $10.40 puts should be trading around 10 ¾ cents, the $12.00 put near 73 ½ cents, and the $13.40 call near 6 ¾ cents for a total spread value of 5 ¾ cents. This means that on a 50-cent break in the futures, the trader will see a net gain of just 4 ¾ cents.*

If in 40 days November Soybeans are trading down at $11.17 ¼, the $10.40 puts will be trading around 20 ½ cents, the $12.00 put near $1.01 ¾, and the $13.40 call near 2 ¾ cents for a total spread value of 59 ½ cents. This means that on a $1.00 break in the futures, the trader will see a net gain of 58 ½ cents.*

If in 40 days November Soybeans fall to our ultimate objective of $10.17 ¼, the $10.40 puts will be trading around 59 ¾ cents, the $10.40 put near $1.85 ¾, and the $13.40 call near ¼ cent for a total spread value of $2.92. This means that on a $2.00 break in the futures, the trader will see a net gain of $2.91.*

If in 40 days November Soybeans break to $9.50, the total spread value will reach $5.83 ½. This means that on a $2.67 ¼ break in the futures, the trader will see a net gain of $5.82 ½. This illustrates how the leverage will kick in on a dramatic break.*

If in 40 days November Soybeans rally 50 cents to $12.67 ¼, the $10.40 puts will be trading around 2 ½ cents, the $12.00 puts near 26 ¼ cents, and the $13.40 call near 27 ½ cents for a total spread value of -33 ¾ cents. This means that on a 50-cent rally in futures, the trader will see a net loss of 34 ¾ cents.*

**Option values are based on pricing models and are not guaranteed.*

Disclaimer