



AgReview

May 2012

Volume 24, No. 4

World Perspectives, Inc.



Big Ag in Big Squeeze

Regulating the Villains

**A Banner Year Ahead for U.S.
Soy Exports**

Farm Bill: Still North versus South

**Grain Merchandisers' Necessity
and Resilience**

Commodity Market Review

WORLD PERSPECTIVES: AG REVIEW

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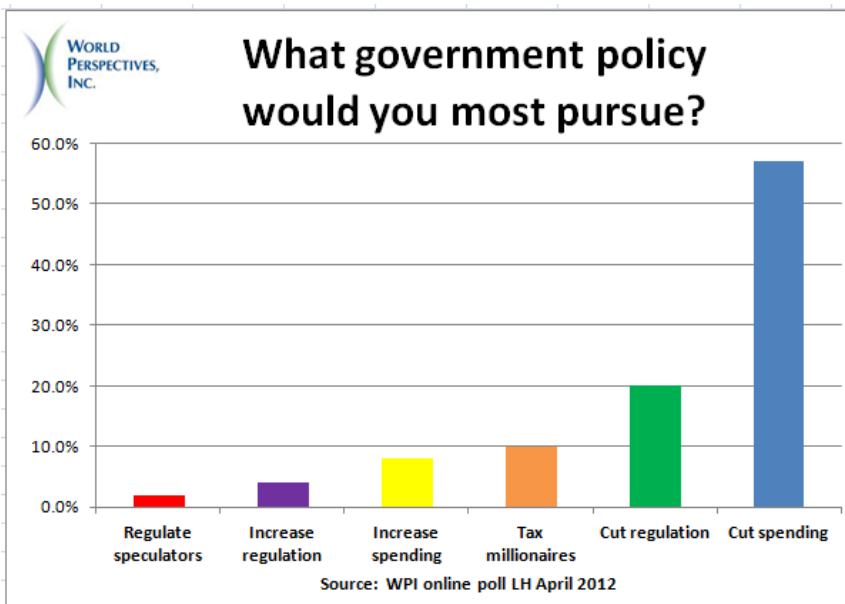
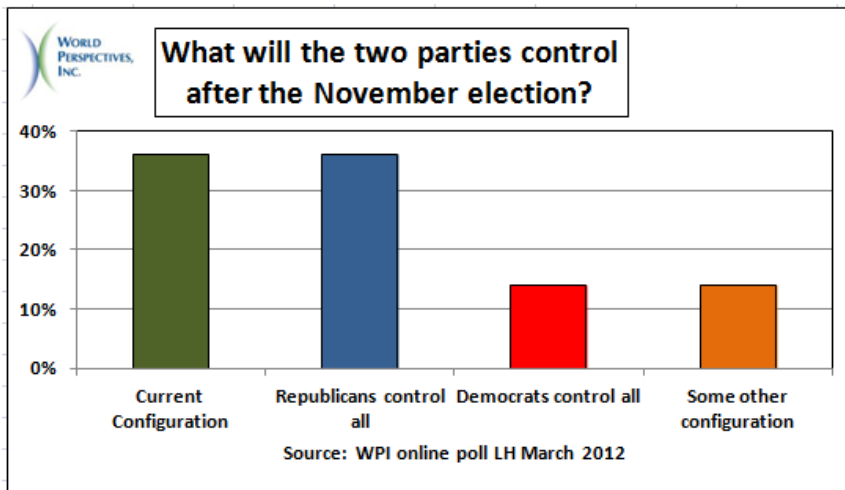
“Leaders do not sway with the polls. Instead, they sway the polls through their own words and actions.”

— Robert L. Ehrlich

<i>HARVESTED DATA</i>	
Agriculture	
Farm Bill Crystal Ball	When asked if we will have a farm bill by the end of 2012, 77 percent of respondents voted “no” and only 23 percent said “yes.” ZimmPoll
Jobs, Jobs, Jobs	28 percent of respondents believe the best job opportunities in agribusiness are in Biotech; Energy came in second place with 21 percent. ZimmPoll
Food & Health	
To Eat or Not to Eat	U.S. consumers are divided when it comes to the safety of genetically modified foods: 39 percent disagree that GMOs are safe for human consumption, 37 percent agree, and 24 percent are unsure. IBOPE Zogby
Low Pollution Woes	When asked about U.S. water and air pollution, only 36 percent of Americans expressed a great deal of concern about air pollution and 48 percent about drinking water pollution. Both figures are down more than 20 percentage points from the year 2000. Gallup

WPI POLLING

Below are the results of WPI's recent bi-weekly surveys. Visit www.worldperspectives.com to cast your vote:



BIG AG ENDS IN BIG SQUEEZE

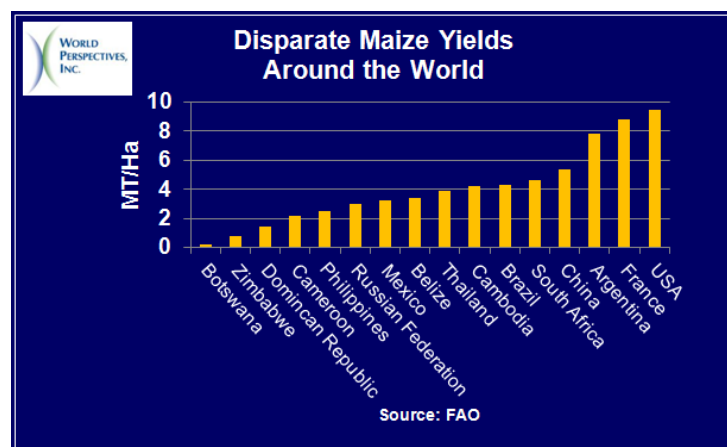
By Gary Blumenthal

Short Story

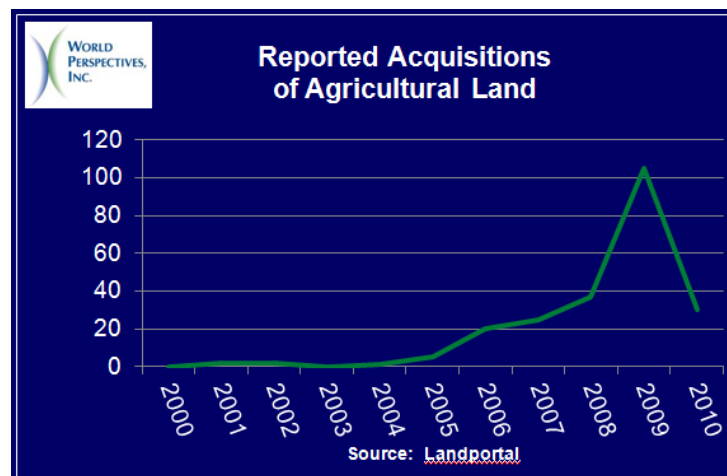
Some will say this is a ‘glass half-full’ analysis. After all, projections for agricultural production and demand by major authorities such as USDA, the multilateral institutions (FAO/OECD, IFPRI, etc.) and academic modelers (FAPRI, etc.) are straight lines rising as far as the eye can see. Famous commodity investor Jim Rogers roams the world proselytizing new converts to his vision of endless profits from the “commodity super-cycle.” Indeed, agricultural exports did not drop off following the recent recession as they have done during some prior boom-to-busts. Investors and Big Ag — the industrial-sized farmers and globally integrated agribusinesses that actually feed the world — are doing their best to catch supply up with demand, but their effort is being undermined by two powerful forces: foodies and government.

Big Ag’s Efforts

Land investment illustrates just one of the things being done by Big Ag that annoys foodies and worries politicians. As noted in previous editions of *Ag Review*, disparities in agricultural production and food security around the world are often the result of poor governance. Nonetheless, work is ongoing by the international community and by private investors to address hugely disappointing crop yields in some countries (see graph).

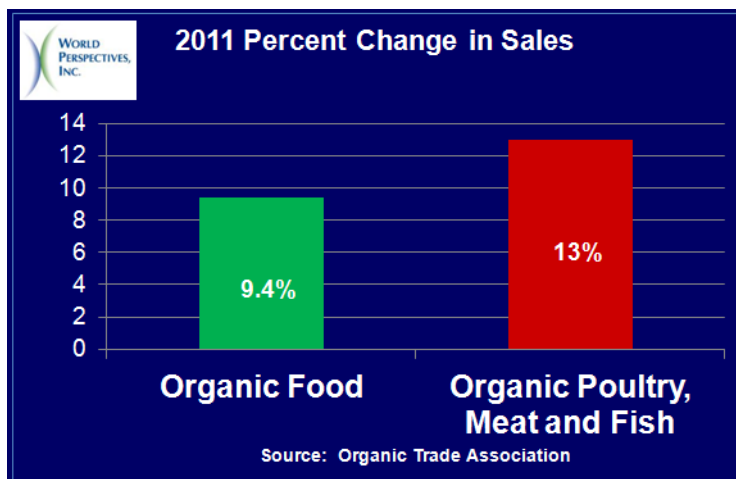


One key approach to boosting productivity and thus food security is consolidating and improving the existing base of agricultural land around the world. Cash at low interest rates is not earning much elsewhere; so, once investors identify areas with the combination of large yield gaps and available arable land, they sink their capital into land (see graph below). Nearly half the countries meeting this definition are in Sub-Saharan Africa — places like Sudan, Mozambique and Madagascar. Once grain production gets going, livestock expansion will follow.



Foodies Gain Ground

Robert Paarlberg of Wellesley College argues that foodies — those populists yearning for a food production system that is anything but the one we've got — have won over the popular culture (celebrities, news media, elitists, etc.) but not the market. He notes that organic food represents just 4 percent of the market. Market analysis firm NPD Group says consumers trying organic at least once in the past two weeks has been stagnant at just over a quarter of the population. But when a brand, in this case being small/local/organic, has the full-throated and constant support of the elite, it is certain that the market will change — and indeed it is (see graph below).



Moreover, the elites pull the public and consequently the politicians into all kinds of traps set by the foodies. When the subject of lean, finely textured beef (LFTB) erupted negatively, USDA immediately announced that its school lunch subsidy money did not have to be used on a product that was safe and approved by USDA. The nanosecond the issue blew up, Starbucks stopped using carmine, a food coloring derived from the cochineal beetle since the time of the Aztecs and Mayans. It even swore off its use in China, a country known for having the widest possible palate. Instead, the coffeemaker will get its red food coloring from the lycopene in tomatoes, a member of the nightshade family of plants which also produces the poisons atropine and tomatine.

Burger King has capitulated to the Humane Society in saying it will only source pork and eggs from producers who renounce gestation crates and battery cages. PETA lost out on its demand this year that the Obama White House cancel the annual egg roll, but its persistence on the matter is a more certain bet. The modus operandi of the foodie crowd is to throw every crazy thought into the blogosphere and see what sticks. *The New York Times* editor Verlyn Klinkenborg says agriculture should “emulate nature” rather than try and change it. Gawain Kripke of Oxfam America declares “our food system is broken” because it produces surpluses and waste.

The normal function of economics is typically suspended as the foodies presume everyone can and should eat like the elites. Echoing the jobs mantra popular in this economy, the Organic Trade Association on 25 April declared, “Producing U.S. foods organically creates thousands more jobs than if that food were produced using conventional agricultural methods.” This served only to remind us once again of the famous story about Milton Friedman visiting a canal building project in a poor country and asking why it was being dug manually by men with shovels instead of with a mechanical excavator. He was told using shovels employed more people. Friedman replied, “Oh, I thought you were trying to build a canal. If it's jobs you want, then you should give these workers spoons, not shovels.” The point being, of course, that employment does not make people (or society) wealthy — only productivity can do that.

Reputation Destruction

Some in the conventional food industry argue that it is just marketing; it is selling what the customer wants. But customers are driven to the foodie's den via wrongful denigration. Whether organic food is 2, 4 or 40 percent of the food market is irrelevant. It is a philosophy unsubstantiated by science, and its success depends upon the reputation destruction of its law abiding competition. If you produce or sell conventional food approved by the FDA, then you are bad, your food is bad and you are

making people sick. Meanwhile, foodies offer more sustainable, nutritious, tastier and healthier alternatives — all said without a shred of peer-reviewed statistical proof.

Yes, this is about market share — that of the conventional food market. Organic has accomplished double-digit annual growth, now at +\$31 billion worth, and is extraordinarily profitable if not for growers then for marketers. The “Just Label It” campaign against biotechnology is funded by companies like Whole Foods, which has double the income of conventional retailers. Trader Joe’s manages twice the sales per square foot of retail space, earning \$1.5 million sales in sales per employee. When Annie’s Homegrown, an organic, non-GMO food processor out of Berkley, California went public on 28 March, it was the largest initial public stock offering of the year. Its stock rose 83 percent on a day when the Dow fell 71 points. All with the feint of avoiding the chemicals and processes otherwise approved by U.S. government scientists and regulators.

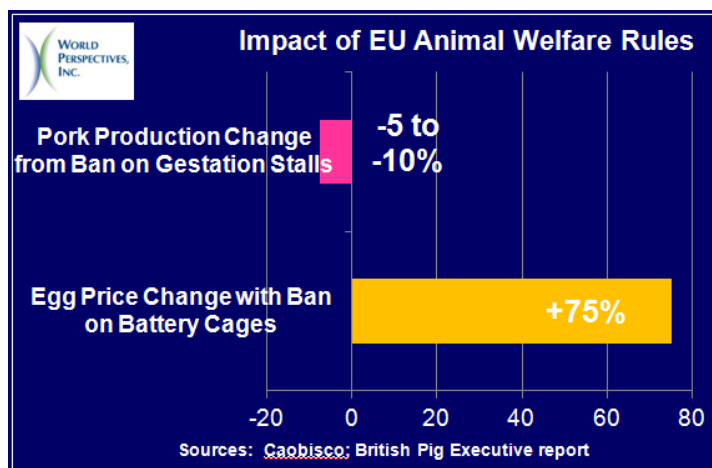
“It is hard to miss the problems arising in the wake of the conventional food system — toxic exposures, birth defects, learning disabilities, obesity, water pollution, unacceptable suffering by farm animals, to name a few.”

The Washington Post Independent Supplement

Government Joins the Deceit

Politicians are elites themselves, and so when lobbied by moneyed donors, they readily capitulate to the deceit. A group of affluent horse lovers successfully influenced adoption of a subsequently proven impractical ban on equine slaughter for food export. Politicians created the Organic Standards Board, comprised of the vested interests that profit from its success. It housed the Board under the wings of the Agricultural Marketing Service because putting

it with a science-based agency would have certainly posed conflicts. Pressed further, the government has added subsidies and now rents out USDA as a full-fledged foodie marketing arm with a “Know Your Farmer, Know Your Food” website that is a conceptual contradiction with the long-standing comparative advantage, free trade boast of the sector. Politics recently led the French government to ban Halal foods from its schools; GMOs are certain to be next. Industry can and will adapt. Indeed, the small and local campaign was started by foodies frustrated that their original elite approach of organic had been hijacked by conventional agribusiness and marketed by even the grossly down-market Wal-Mart. But philosophy aside, there is a cost to pay for adopting the foodie’s platform (see graph below).



Fight Fire with Fire

Foodies are represented by zealots — people who are willing to spike trees, strip naked and assault government officials — let alone tell lies. By contrast, those in conventional agriculture are virtual teddy bears. This is illustrated by the industry’s current approach:

- **Global Harvest Initiative:** An all too subtle approach that emphasizes there are 9 billion people who must be fed, so think hard how this will get accomplished without biotech and chemicals. Meanwhile, the organic sector says it can do the job while emphasizing (very narrow and easily refutable) research by the Rodale Institute.

- **Modern Agriculture Policy Conference:** Hosted by CropLife America (agricultural chemical industry), this is the “kumbaya” approach to the problem. The industry holds its next annual confab this month during which it invites antagonistic groups like Mother Jones, the Environmental Working Group, and the Environmental Defense Fund to mix it up. The goal is to show that big, bad ag chemicals is actually soft and cuddly. See, we can all get along.
- **U.S. Farmers and Ranchers Alliance:** This is the conventional agriculture producers’ contribution. Like Global Harvest, its aim is to boost education in the hope that if consumers were to understand that farmers are caring people as well as the practicalities underlying modern farming practices, then everything would be alright. Not many consumers know about the effort; but the antagonists do, and they are out to undermine the effort. Farmers and ranchers started what they call the “food dialogues” in order to engage consumers but a visit to the group’s blog reveals that the top vote getter is a post by a foodie with the handle “keyspoet.” Keyspoet gets the most votes by attacking factory farming, GMOs, and asking, “Why, if this organization says it wants to be a part of the solution, are there NO organizations devoted to growing organically or cleaning up toxins in our environment?” Hip foodies are way more skilled at the use of social media than are conservative aggies that don’t even control postings on their websites.

All of these efforts are noble and necessary, but way less than what is needed. It is a clear signal that you are not playing with nice people when you should hire reputation.com for your own website.

No More Mr. Nice Guy

Conventional agriculture is making a mistake by being generous and forgiving toward its rivals just because they appear less powerful (4 percent market share; 0.5 percent of farmland). Yes, marketing in an otherwise commodity business

like food is about differentiation, but the success of organic food depends specifically upon the reputational destruction of conventional foods. If this were a presidential campaign, the benign reaction by aggies to the opposition’s negative campaigning would mean a big loss on Election Day.

Aggies need an outright campaign against organic. It is not mother’s milk. The chemicals they approve for use are not better than those used by conventional agriculture. As Devin Miller of Virginia Tech notes, “rotenone is a natural poison used by some native tribes, pyrethrum is carcinogenic, and sabadilla is highly toxic to honeybees. The claim that something being ‘all natural’ is better for you is absurd. Lead, asbestos, and hemlock are ‘all natural’ substances as well. The natural world can create poisons and toxins just as well as man.” In fact, a study of chemicals approved for organic agriculture showed that half are carcinogenic, the exact same share as the chemicals used in conventional agriculture.

Miller goes on to say that 8 percent of all food-borne E. coli cases are the result of the animal manure required on organic crops. It is fair to say that it is organic food that is unsustainable. A USDA comparison of organic and conventional yields across 54 different crops found that organic was 38 percent less efficient on average. Under scrutiny from environmentalists, McDonald’s uses a tough set of metrics to assess the sustainability of its various suppliers and not one of the top six are organic.

Michael Pollan, Eric Schlosser and their ilk are growing rich by preaching that conventional agriculture rapes and pillages the earth. Meanwhile, aggies have been “cutting” (castrating) their livestock for so long that they can’t find their own testosterone. The industry needs to find its mojo soon before it gets pink-slimed.

Will it be easy? No. A YouTube video entitled “Stand Up for Agriculture” elicited comments like the following: “Industrialized agriculture has led to 100 percent of the problems we have

with our food system,” Theotherredguy; “This is an awful video implying the solution to the agriculture community is industrial agriculture and science, when those are the very things that

have caused this mess in the first place,” Racheendn. In short, conventional agriculture is playing soft-sell in a hardball world.

REGULATING THE VILLAINS

By Robert W. Kohlmeyer

The Rose Garden Speech

On 17 April President Obama stepped up to a podium in the White House Rose Garden and gave a speech in which he called on Congress to tighten regulations on speculation in crude oil futures. He proposed giving the Commodity Futures Trading Commission (CFTC) the funding necessary to increase by six times the Commission's surveillance and enforcement personnel and to upgrade its technical capacity to better detect oil market manipulation. He also proposed tightening the penalties against manipulators. Additionally, he urged Congress to give the CFTC the authority to increase margin requirements for oil futures market traders.

What President Obama did not do in his speech was to actually accuse traders in crude oil futures markets of manipulating the market or of causing the high crude oil prices that have led to high retail gasoline prices. Nor did he provide examples of market manipulation which his proposals would address. In fact, in his speech he gave no justification at all for the measures he requested. Yet, most of the press coverage of President Obama's speech left the impression that speculators and rampant oil market manipulation are behind the surging gasoline prices. The unspoken implication was that if only such market manipulation could be weeded out, gasoline prices would fall to more comfortable levels.

Sensing an election year advantage, Republicans have been hammering President Obama over high gasoline prices in particular, and his energy policies in general. The president's decision to reject construction of the Keystone pipeline from Canada to the U.S. Gulf of Mexico in spite of all of the inter-agency approvals has drawn a lot of criticism. He has been accused of preventing a needed and convenient source of

crude oil as a gesture to his supporters in the environmental lobby who automatically oppose pipelines of any kind going anywhere. It appears that President Obama's veto of the Keystone Pipeline project will force Canada to turn to China as the market for its growing crude oil production.

Rejection of the Keystone Pipeline plus the limitations his administration has placed on new drilling for oil offshore and in the Arctic at a time when retail gasoline prices are bumping up against \$4.00 per gallon is confusing and politically awkward to say the least. Unpleasantly high retail gasoline prices at the pump always light up a political debate over energy policies, and all the more so during a presidential election year. In this sense, rising energy prices in 2012 bring back memories of 2008, the last presidential election year, when the crude oil futures market set a new record high price of about \$147.00 per barrel. However, in that case President George W. Bush, a Republican, was the incumbent, and then-presidential candidate Barack Obama could bash the Bush Administration and the Republican candidate John McCain for the pain consumers suffered at the pump.

No doubt the Republican attacks on its energy policy decisions have stung the administration. The president's Rose Garden speech was his response. By demanding more regulation of speculators in crude oil markets he implied, but did not specifically say, that manipulative speculative activity drove gasoline prices to uncomfortably high levels.

While making his remarks on oil market manipulation, President Obama was accompanied by U.S. Attorney General Eric Holder and CFTC chairman Gary Gensler, among other dignitaries. We find a certain irony here. Just about a year ago President Obama

ordered Attorney General Holder to set up a Justice Department task force to investigate and identify manipulation of the crude oil futures market and its perpetrators. To the best of our knowledge, after a year, this task force has yet to report its findings. One would think that if evidence of manipulation existed, the task force and the Obama administration would be all over it. However, the existence of the Justice Department task force was completely ignored in President Obama's speech and in the press briefing that followed.

Investigating the Speculators

Following the record high crude oil futures prices in 2008, Chairman Gensler's CFTC staff did investigate at length the impact of speculative trading activity on the crude oil market's price action. The report following that investigation concluded that while speculative trading added market liquidity and may have added volatility, it had little if any effect on price direction. However, this was not and still is not the politically correct conclusion. Thus, the CFTC staff report has largely been ignored.

In fact, the CFTC already has ample authority to pursue manipulative, illegal trading activities in futures markets and to levy civil fines and other penalties as punishment. One purpose of the Dodd-Frank legislation passed in 2010 is to punish speculators for their alleged abuses that some say were a cause of the Great Recession. It is unlikely that Congress will act on President Obama's proposals, but they give him a ready response when Republicans attack him over high gasoline prices. Congress has been reluctant to increase funding for the CFTC, although the agency no doubt could use more personnel and resources to oversee the massive trade in derivatives in the U.S. But drawing a connection between beefing up the CFTC and retail gasoline prices is purely a political exercise.

The role of futures markets has never been well understood by the general public. Nevertheless, the impact of speculators and other non-commercial participants on futures market price action and on consumer prices for fuel and food has been a widely studied topic during the last

several years. Economists have conducted considerable research and have written numerous papers on the role played by speculators and other traders who did not have a vested interest in the commodities that underlie commodity futures markets. One can sift through the many studies on the role played by speculators and find one to support whatever conclusion is desired. However, a large majority of work done on speculative market impact including that done by economists who specialize in analyzing the structure of the markets and the roles they play supports the view that speculators have had very little impact, if any, on market price direction.

Nevertheless, it is easy to point fingers at speculators as the cause of high gasoline prices. The word "speculator" carries a negative image in the collective minds of the general public. The fact that today's political definition of "speculators" may include index funds, pension funds, foundations, college endowments and the like is almost completely ignored. The retirement accounts of some of the most vocal critics of "speculation" probably have some portion of their retirement funds placed by fund managers in those same commodity markets in which "speculators" are vilified.

The current furor over gasoline prices is a political problem for the president's re-election campaign, and lambasting speculators and "excessive speculation" is a common approach used by politicians seeking cover whenever market action or even the broader economy do not act as the politicians would like. It is still a popular theme to blame unbridled speculation in derivative markets for the U.S. recession of 2008/09. The passage of the controversial Dodd-Frank financial reform legislation in 2010 was, among other things, an effort to punish market speculators.

It is easy to discard the latest non-specific attack on "speculative oil market manipulation" as simple political posturing. However, the *déjà vu* over the fallout from 2008 should remind those of us involved in agriculture that similar attacks are likely the next time food prices rise enough to draw the spotlight. We should recall that in

the wake of 2008/09 it was rising food prices more so than energy costs that drew the most worldwide attention and the most intense attacks on speculators and their activities. We fear we are but one major crop problem away from another round of “beat up speculators” over food prices. When these situations arise, there is always the risk that free markets will be damaged by the rush to punishment. There are always some vocal critics who would prefer that there be no markets at all.

Speculation or Investment

A frequent target of those who attack so-called “excessive speculation” in derivative markets is commodity index funds. Indexes that track the prices of a specified group of various commodities have become the subject of considerable controversy ever since 2008 when commodity prices bubbled, then crashed. The price crash was seen as a part of the larger U.S. economic collapse into a deep recession.

Commodity index funds solicit and use investor money to establish long positions in specific commodity futures contracts. These contracts are in the exact proportion as each commodity comprising the index is weighted by the particular commodity index. Simply put, an index fund uses futures markets to replicate the particular commodity price index it follows. Index funds have become an important part of the long side of a wide variety of commodity futures markets. In some markets index funds can account for 30-40 percent of total open interest.

Thanks to weekly CFTC reports, the size of index fund long positions is highly visible. Index funds were and still are generally passive. They established long futures positions in various commodity futures markets weighted precisely according to the particular commodity index being followed. Thereafter, the only trading they engaged in was to roll long positions in nearby contract months ahead to more deferred contract months. Also, they occasionally rebalanced their long positions whenever the index changed the weighting of individual commodities covered by the index.

When the political class sought someone to blame for the high futures prices and market volatility that signaled rising consumer food prices in 2008 and thereafter, index fund “speculators” were an easy target. Instant futures market experts declared that index funds caused rising futures prices and therefore forced higher food and energy prices on consumers. The U.S. Senate’s Permanent Subcommittee on Investigations held a hearing and took testimony from a few of the instant experts on the particular impact of index funds on wheat futures. The subcommittee actually issued a report in 2009 blaming index funds for “unwarranted changes” — read increases — “in the price of wheat futures prices relative to the price of wheat in the cash market.” Thus, the report claimed that not only did index funds cause “unwarranted” wheat price increases, but that they also were responsible for the lack of convergence between wheat cash and futures prices.

There is a considerable body of analytical research, not to mention simple market logic, that refutes the subcommittee’s conclusions, and we will not dwell on the point. We mention it because of the public attention focused on a segment of commodity futures market participants whose activities had heretofore attracted little attention.

Commodity Price Indexes

Commodity price indexes have been around for a while. *The Economist* has published an index of prices of a group of spot physical commodities since 1864. However, commodity price indexes that are based on futures markets go back to the early 1990s. In 1991 Goldman Sachs created such an index that tracked a group of futures market prices. That index is now known as the S&P GSCI. It follows a basket of 24 commodities that are heavily weighted towards the energy sector. It includes 60-70 percent of energy futures, and the inclusion of other sectors is relatively minor. The eight smallest commodities included in the index account for only about 5 percent of the total. Another influential commodity index is the DJ-UBSCI index. It was started in 1998, and it has

19 commodity components of which no one sector can be weighted to exceed one-third of the total.

Index funds really took off around 2005, when institutional investors such as pension funds, college foundations and various individual trusts, and other investment funds began to invest in commodity index funds as a means of diversifying their portfolios. Most pension fund managers have no desire to trade in physical commodities. If they want to include commodities among their investments, putting money into an index fund or an exchange traded fund (ETF) that tracks a particular commodity index makes far more sense.

This raises a question. Is being long commodity futures by buying shares in an index fund any less of an investment than owning stocks via mutual funds or owning bonds through a bond fund? There has always been a bias that anyone participating in futures markets that did not hold a direct vested interest in the underlying physical commodity must be a speculator. When institutional investors began to own commodity futures through shares of an index fund or an ETF despite having no involvement with the underlying commodities, the old distinction between investor and speculator began to blur.

Commodity index funds are a fact of life for commodity markets and commodity traders. But they no longer seem scary. By now we have enough experience to conclude that index funds have little impact on commodity prices. Even their rolls seem to have limited impact on spreads, perhaps because some traders wait until a roll period approaches so they can run ahead of

them.

Whether or not one concludes that commodity indexes have performed better than stock market indexes can depend on what time frame is used for comparison. There have been some individual commodities — crude oil, gold, copper and soybeans, among others — that have had spectacular price runs during the last few years. But then, so has stock in Apple. However, spectacular individual price runs tend to be muted by indexes that invariably include some losers as well as winners.

Actually, the S&P 500 stock index has outperformed the popular commodity indexes over the last year, the last two years and the last five years. A long term 10- to 12-year comparison does give the advantage to commodities. As long as commodity index funds are forced to absorb the cost of rolling a lower-priced contract into a higher-priced contract, it will be difficult for them to consistently overcome that handicap. And when a commodity is renewable, higher prices tend to induce bigger supplies, which in turn tend to promote carrying charge board spreads in the futures market. This is a major reason why many index fund results do not seem to keep pace with commodity market price rallies.

Index funds do seem here to stay. Even when many commodity prices were in retreat during 2011, many institutional investors chose to stick with commodities in their portfolios. Hopefully, commodity index funds will not be blamed for the next recession.

A BANNER YEAR AHEAD FOR U.S. SOY EXPORTS

By John Baize

Lower U.S. Soy Exports in 2011/12

To say the current marketing year has not been a stellar one for U.S. soy exports is an understatement. As of 19 April U.S. soybean exports in the 2011/12 marketing year totaled 28.678 MMT, 20.7 percent (7.489 MMT) below exports at the same point in the 2010/11 marketing year. Outstanding unshipped sales of soybeans for delivery in 2011/12 totaled 4.742 MMT, 3.6 percent (0.179 MMT) below the previous year. U.S. soymeal exports in 2011/12 as of 19 April totaled 4.664 MMT, 8.3 percent (0.418 MMT) below the pace of the previous year. Outstanding unshipped soymeal sales totaled 1.623 MMT, which was slightly greater than the 1.619 MMT outstanding at the same point in the previous marketing year. U.S. soyoil exports as of 19 April totaled only 0.245 MMT, which was 74.9 percent (0.758 MMT) below the pace of exports last year. Unshipped export sales of soyoil totaled only 0.113 MMT, which was 27.7 percent (0.0431 MMT) below outstanding sales last year.

U.S. soybean exports are down sharply this year mainly because South America had a lot more soybeans to export at the beginning of the U.S. 2011/12 marketing year than they did a year earlier. On 1 September, Argentina, Brazil and Paraguay's combined soybean stocks were 7.04 MMT greater than a year earlier. Most of those additional stocks had already been sold for delivery to export markets in 2011/12 when the U.S. began its 2011 harvest. As a result, demand for U.S. soybeans was far less in the first half of the marketing year than it was a year earlier. U.S. soymeal exports are down by less because most U.S. soymeal exports go to nearby markets where South American soymeal is less competitive. The strong domestic demand for soyoil from the biodiesel sector has reduced

supplies of soyoil for export in addition to making U.S. soyoil too expensive to be competitive, except in nearby markets.

Very Strong Soy Exports Expected in 2012/13

As a result of the sustained drought in South America, the outlook for U.S. soy exports in the next marketing year is outstanding. Also contributing to South America's lower soybean production in 2012 were the increased losses to rust in Brazil's center West Region. USDA is forecasting the combined soybean production of Argentina, Brazil, Paraguay and Uruguay in 2012 at 116.8 MMT, 17.6 MMT (647 million bushels) fewer than production in 2011.

2011 and 2012 Soybean Production in Argentina, Brazil, Paraguay and Uruguay (MMT)		
Country	2011	2012
Argentina	49.0	45.0
Brazil	75.5	66.0
Paraguay	8.4	4.2
Uruguay	1.5	1.6
Total	134.4	116.8

Source: USDA, April 2012

It must be stressed that USDA's estimates were made in April. Since then there have been forecasts by the Argentine government and private sector analysts that are substantially lower than USDA's. Soybean production in Argentina has been forecasted as low as 40 MMT by one respected U.S. analytical firm. Analysts in South America expect the crop to be around 42 MMT. Brazil's 2012 soybean crop is now estimated by firms in Brazil at around 65 MMT. Based on these forecasts it is now very likely that soybean production in the four South

American countries this year will be more than 20 MMT (735 million bushels) below production in 2011 and could be as low as 24.6 MMT (904 million bushels) below production in 2011.

Because of the greatly reduced South American soybean crop, U.S. exports are certain to face significantly less competition in the 2012/13 marketing year. USDA currently is forecasting soybean stocks on 1 September 2012 in Argentina, Brazil, Paraguay and Uruguay at 33.644 MMT (1.236 billion bushels), which would be 11.87 MMT (436 million bushels) below stocks on 1 September 2011. If the South American crop is as small as some analysts expect, South American stocks on 1 September of this year could be as much as 15 MMT (551 million bushels) below a year earlier. By necessity this would force soybean importers around the world to rely much more on the U.S. for their import needs in the period from September 2012 through April 2013.

Foreign buyers already have recognized the need to rely more on the U.S. for their soy imports in the next year. They have begun to make large purchases from the U.S. for shipment during the remainder of the 2011/12 marketing year and for shipment in 2012/13. As of 19 April U.S. soybean export sales for delivery in 2012/13 totaled 7.817 MMT (287.2 million bushels). That was 1.098 MMT (403 million bushels) greater than at the same point a year ago and 229 percent greater than at the same point in April 2010. As usual, China is the largest buyer with purchases totaling 6.446 MMT. U.S. soybean export sales for shipment in 2012/13 are also above the export sales pace of the last two years. USDA has not yet issued a forecast for U.S. soy exports in 2012/13, but it is likely that the forecast will approach a record for any year.

U.S. soybean exports will face a greater challenge because of strong competition from Argentina and Brazil. Even with a greatly reduced crop, Argentina will continue to have large soybean exports because the country's large soybean processing sector will attempt to keep as much of the crop home for processing as possible. This will be assisted by Argentina's

differential export tax system, which favors exports of soybean products over unprocessed soybeans. Brazil also will continue to be an aggressive soybean exporter, as will India. Nevertheless, the U.S. should be able to export close to 9 MMT of soybean in 2012/13, assuming that it has a large soybean crop. U.S. soybean export potential is not as great as it was in 2009/10 because three U.S. soybean processing plants have since been closed as a result of lower domestic demand for soybean.

Uncertainty about U.S. Soybean Production in 2012

Another reason that foreign buyers have stepped up their purchases of U.S. soybeans for future shipment is the uncertainty of U.S. soybean production in 2012. USDA's March prospective plantings report indicated U.S. farmers intended to plant only 73.9 million acres of soybeans in 2012. That is 1.07 million (1.4 percent) fewer acres than were planted in 2011 and 5 million acres (4.5 percent) less than in 2010. That suggests U.S. soybean production in 2012 could be smaller at a time when the world needs a larger crop. If the growing season is not ideal or poor, the world will be very short of the soybean supplies it needs and prices are certain to move higher to ration demand.

The combination of the poor South American crop and lower soybean plantings has caused soybean prices to move to a three-year high and make soybeans more attractive to farmers relative to corn. Many believe this ultimately will result in soybean plantings being higher than in the March planting intentions report, but that will not be known until June. In addition, the early spring this year is likely to allow farmers to plant more double-crop soybeans after wheat this year and help boost U.S. supplies. This may result in U.S. soybean plantings ultimately topping 75 million acres or maybe even 76 million acres. If the weather is good, the U.S. could potentially produce a crop close to 3.35 billion bushels (91.3 MMT).

With domestic demand for soybean down by about 3.7 MMT (11.9 percent) in recent years, large soy exports are essential for soybeans if

they are to continue competing for land against corn in the U.S. Strong export demand is key to keeping soybean prices high. For the next year, at least, it appears the necessary export demand will continue.

FARM BILL: STILL NORTH VERSUS SOUTH

By Dave Juday

In a mini legislative Civil War skirmish over the farm bill markup in the Senate Agriculture Committee, the North was victorious. The following question remains: Will the South rise again as the bill progresses? Or, perhaps the more pertinent question is whether the farm bill will progress at all.

On Friday, 20 April, the Senate Agriculture Committee released a draft outline of the Committee mark, credited to both Chairwoman Debbie Stabenow (D-Michigan) and Ranking Minority Member Pat Roberts (R-Kansas). By Tuesday, 24 April, Chairwoman Stabenow delayed the markup and went back to the drawing board because of complaints from the Southern commodity groups and their respective senators. More than 40 Southern-based groups (and the Minnesota Corn Growers) sent a letter to Stabenow expressing “serious equity issues and grave concerns over planting distortions.” They urged the chairwoman to postpone the markup so that members, producers and others might have “a more transparent and meaningful process.”

As can be seen from the following table, rice takes a 63 percent hit in support, cotton suffers an 80 percent reduction and peanut support is reduced dramatically as well. Meanwhile, corn’s support is reduced about 20 percent and soybeans come out ahead. Cumulatively for commodity programs, there are no changes in 2013 projected spending over or under baseline, except for dairy which takes a \$42 million hit.

Commodity	2013-17 Spending Change	Compared to Jan 2012 Baseline* 2013-17
Corn	-\$2.244 billion	\$10.889 billion
Sorghum	-\$203 million	\$1.012 billion
Barley	-\$275 million	\$425 million
Oats	-\$5 million	\$24 million
Soybeans	+\$518 million	\$3.885 billion
Wheat	-\$2.869 billion	\$5.556 billion
Cotton	-\$2.628 billion	\$3.282 billion
Rice	-\$1.374 billion	\$2.164 billion

*total for direct payments, countercyclical, ACRE and marketing loan gains
 Source: CBO, WPI

Back to the Drawing Board

As it turns out, two influential lawmakers — and the Great Plains states — were not happy with the proposal: Senate Budget Committee Chairman Kent Conrad (D-North Dakota), who effectively wrote the 2002 and 2008 Farm Bills, and Senate Finance Committee Chairman Max Baucus (D-Montana). Senator Conrad wanted more for energy and Senator Baucus wanted more for disaster payments. As we reported in WPI’s daily *Ag Perspectives* on 14 February, the duo had written their own farm bill draft in an attempt to ensure that the Northern Plains were taken care of in the bill.

In the redraft of the Chairman’s mark, some sweeteners were added for rice and peanuts. Specifically, it provided that:

If the national marketing year average price under clause (i)(II) for any of the applicable crop years is lower than the price for the covered commodity listed below, the Secretary shall use the

following price for that crop year: (I) For long grain rice, \$13.00 per hundredweight. (II) For medium grain rice, \$13.00 per hundredweight. (III) For peanuts, \$530.00 per ton.

However, prices do not offset the lack of crop insurance coverage that rice and peanuts have compared to corn and soybeans, thus making the shallow loss concept adopted in the Commodity Title of the bill less appealing to rice and peanuts. Those commodities are still left with major cuts in support compared to other commodities under this bill.

Another change was the increase in shallow loss coverage. For individual coverage, payment is made on 65 percent of eligible acres instead of 60 percent, as originally drafted in the Chairman's mark, and county coverage payment is made on 80 percent of eligible acres instead of 75 percent, as originally drafted. Another priority for Baucus and Conrad was the refunding of the supplemental revenue assistance payment (SURE) program. The language in the redraft states that the USDA secretary "shall use sums as are necessary of the Commodity Credit Corporation" to carry out payments.

Markup

A grand total of 123 amendments were submitted to the Chairman's mark. Nevertheless, the Committee completed the markup on Thursday, 26 April, just one day later than the original date. The final draft eliminates direct payments, countercyclical payments and the ACRE program, and replaces it with a new Ag Risk Guarantee (ARG) program. ARG:

- Is based on county averages;
- Covers wheat, corn, grain sorghum, barley, oats, long grain rice, medium grain rice, pulse crops, soybeans, other oilseeds and peanuts;
- Is based on total acres that are planted or prevented from planting, but is not to exceed total acres planted in the 2009/10 crop years adjusted for land coming out of Conservation Reserve Program (CRP);

- Requires a one-time election for enrollment;
- Makes payments if actual crop revenue for the crop year of the covered commodity is less than the agriculture risk coverage guarantee; and,
- Directs the Secretary to consider whether popcorn should be a commodity covered under the ARG.

The agriculture risk coverage guarantee for a crop year of a covered commodity equals 89 percent of the benchmark revenue, which is calculated by multiplying the average five-year Olympic average of individual yield (or in the case of county coverage, the five-year Olympic average historical county yield) by the five-year Olympic average national marketing year average price.

Finally, as stated above, for individual coverage, payment is made on 65 percent of eligible acres, while county coverage payment is made on 80 percent of eligible acres. For prevented planting, payment is made on 45 percent of eligible acres.

Cotton is not under the coverage of ARG payments. Upland cotton will be covered under the sector's proposed Stacked Income Protection Program, which is a combination of the Group Risk Income Protection Plan with the Harvest Revenue Option. Coverage by the Risk Management Agency will start in 2013.

Conservation, Energy, Dairy and Nutrition

The Conservation Title was generally applauded by most conservation groups as being the best outcome in spending. The title consolidates 23 programs into 13 programs to provide \$6 billion in deficit reduction over 10 years. Specifically, the Conservation Reserve Program reduces the maximum acreage as follows:

Year	Maximum Acres
2012	32 million
2013	30 million
2014	27.5 million
2015	26.5 million
2016	25.5 million
2017	25 million

The Committee bill continues — and expands — several of the Energy Title programs for which the 2008 Farm Bill provided no baseline beyond fiscal year 2012. Senator Conrad was successful in adding in \$800 million in mandatory spending for energy programs. The scoring of the farm bill, according to the Congressional Budget Office, was about \$25 billion in savings, but the Committee decided to stay with its initial \$23 billion deficit reduction target. Therefore, much of that \$2 billion in savings got added back into various programs, including re-loading the Energy Title. While the original Chairman's mark kept some programs alive, it did not provide mandatory spending; rather, it left the budget to discretionary appropriations. The Energy Title could be subject to floor amendments by Senate budget hawks as it adds mandatory spending back into the baseline.

The Committee bill also includes the controversial dairy provision based on the Dairy Market Stabilization program originally proposed by the National Milk Producers Federation (NMPF) and introduced by House Agriculture Committee Chairman Colin Peterson (D-Minnesota). Although this program is being sold to Congress as budget savings and a way for the government to control milk price volatility, controversy arises because it limits production through the margin insurance provisions. The plan for margin insurance is built on the trigger of reducing production at the farm level, which amounts to subsidizing a supply control measure. Floor amendments are expected in the Senate on this provision. Finally, in the Nutrition Title, the Senate bill provided some window dressing. The mark calls for:

- Stopping lottery winners from continuing to receive assistance;

- Ending misuse by college students;
- Cracking down on retailers and recipients engaged in benefit trafficking; and,
- Increasing requirements to prevent liquor and tobacco stores from becoming retailers

Meanwhile, House Agriculture Committee Chairman Frank Lucas (R-Oklahoma) was obligated to reconcile agriculture spending in accordance with the House passed budget resolution. To avoid putting his fellow Republicans on record in an election year, he orchestrated a voice vote in support of cutting all \$33 billion in spending from the SNAP domestic food assistance program. While the final farm bill in the House is likely not to follow suit, there will be a serious fiscal gap in the Nutrition Title that must be addressed before there is a conference committee bill.

What's Next?

The Chairman's mark passed the Committee with five senators voting against it: Thad Cochran (R-Mississippi), Saxby Chambliss (R-Georgia), John Boozman (R-Arkansas), Kirsten Gillibrand (D-New York) and Senate Minority Leader Mitch McConnell (R-Kentucky) by proxy. Obviously the Southerners voted against the bill because of their commodity concerns. Senator Gillibrand has concerns with dairy. McConnell's vote likely shows the Republican leadership has concerns with added mandatory spending, as will the House Republican caucus. If the extra \$2 billion were redirected to Southern crops, the bill could have passed near unanimously. Instead, it was the concerns of Plains states Baucus and Conrad that were addressed with the extra monies preserving the North-South split for the Senate floor debate. Spending more on Southern commodity support would be easier to defend in the House among budget hawks and Tea Party members rather than refunding SURE and reinstating the mandatory budget baseline that expired in the Energy Title. This move opens up the bill to a Senate floor amendment that would strike that extra spending. And with McConnell opposing the bill in the Committee's mark, it is likely that most Republicans, plus any Democrats with concerns over the bill, will follow suit.

Congress has essentially three weeks in session in May. The first week in the Senate is scheduled for the student loan bill. That leaves a two-week window. Then after the Memorial Day recess, there are essentially eight weeks of session and all 13 appropriations bills to be finished. Add to that whatever political statement votes get scheduled before the party's presidential nominating conventions and time is waning. For the Senate to complete action on the farm bill, it will have to be a priority of Senate Majority Leader Harry Reid (D-Nevada).

Additionally, scheduling floor time for the farm bill will have to have some acquiescence from McConnell — a member of the Ag Committee who, as noted above, voted against the bill. And that is all before the House, which is still holding hearings on the farm bill, and the Senate reconcile their two bills.

GRAIN MERCHANTISERS' NECESSITY AND RESILIENCE

By David Poe

The environment of the grain merchant is constantly changing and that can be a positive fact, as progress itself is a process of change and new opportunities arise before perceptive individuals. Merchandisers seem particularly comfortable as constructive change is generated within free market economies with stable currencies. Perhaps their confidence comes from the longevity of their profession, whereas market forces quickly eliminated activities that no longer serve a constructive purpose. The fact that grain merchandisers are utilized extensively by both producers and end users seems to be an indication that they serve a particularly useful purpose.

The Role of Grain Merchandisers

Grain merchandisers offer buyers and sellers the essential ability to make transactions at different points in time. The buyer and seller both work through the merchandiser because the merchandiser can assist each in obtaining a better deal than either could obtain independently. Without the merchandiser, both buyer and seller would have to meet together at a single point in time. The grain merchant's office may be located at a grain elevator, but the merchant is theoretically traveling and marketing grain over a period of time that may extend years into the future. Trading grain into the future allows the merchandiser to take advantage of changes that occur between cash and futures market prices (basis).

Profiting from changes in basis (cash – futures) is how grain merchandisers primarily make a living and benefit the market by allowing a product that is harvested within a brief period to be efficiently utilized throughout the year. In

addition, the merchandiser offers marketing alternatives to farmers and end users who are able to lock in costs over an extended period reaching into the future. The majority of merchandisers have affiliations with at least one storage facility that acts as a central point for both access and delivery of grain. That facility stores and maintains the quality of the grain.

Experienced grain merchandisers are seldom overly concerned about the absolute level of futures' prices. The merchandiser normally sees the futures price as a benchmark and recognizes that futures do not fix the price for cash grains. In other words, the merchandiser understands that if the government were to suddenly dictate that the price of corn futures could no longer change, it would not matter; the price of cash corn would continue to fluctuate.

The primary advantage of futures contracts is that they are public displays of price discovery. The various contracts also create an enormous advantage in that a display of prices can be seen far into the future. The savvy merchandiser can read the activities of futures contracts like clouds on the horizon. For example, futures prices that stair-step higher into the future are displaying the "cost-of-carry" (cost of storage and interest) and indicate that there is ample supply. On the other hand, when there is strong immediate demand, then the price of nearby futures will increase above distant contracts to discourage storage and encourage selling in the current period.

Cash prices are derived directly from those public displays of price discovery (futures) after there have been adjustments for factors such as the cost of transportation and local supply and demand conditions. Basis (cash – futures) is negative when there is abundant supply in a

local region and becomes more positive as grain supplies become smaller or demand increases. Consequently, basis is constantly adjusting as market conditions change within a region. The merchandiser would have limited means to analyze cash prices without futures acting as a benchmarking tool.

The merchandiser utilizes futures as a tool by temporarily hedging one side of an exchange until the offsetting cash transactions can be made. For example, a merchandiser at a grain elevator may buy corn from a farmer and then sell futures to protect against a decline in the value of that asset which he just acquired. The merchant will make money on his short futures position if contract prices decline, which will offset some or even more of the corresponding decline in the value of the cash corn.

Additionally, if the corn futures that he used to hedge increases in value, then the value of the cash corn that he purchased will also increase and hopefully offset all or more of the loss on the hedge side of the equation. In short, the merchandiser is always seeking to make more money from one side of his offsetting trades than from the other. A good merchandiser is able to benefit the buyer, the seller and himself by being a skilled trader who anticipates changing market dynamics that are expressed in basis patterns.

Changing Market Dynamics

Basis patterns are normally less volatile and more consistent than futures prices. However, when volatility increases significantly within the futures market, then the bell curve of the expected price range becomes wider and the established seasonal basis pattern also becomes less predictable. An example of this could be when a merchandiser purchases some wheat from a farmer during harvest, and at least by historical standards the local basis is weak (say, at 30 cents under the futures contract during harvest). The merchandiser recognizes that a negative 30 cent basis is in the lower quartile of historical basis. The merchant buys and expects the basis to strengthen as the season moves along. However, poor weather patterns in other

parts of the world and large inflows of capital keep flowing into grain futures contracts. As a result, the upward momentum of grain futures continues to outpace local cash prices in their upward momentum. The unexpected result is that basis (cash – futures) continues to weaken further as cash wheat is trading an unexpected 70 cents under the nearby futures contract. The merchandiser loses more money on his position than he makes from storage. The wheat farmer may not have sold at the top of the market but he had a good return. However, both the merchandiser and the end user suffer financially from the unexpected market conditions. (That is a realistic scenario of what happened a few years ago in the wheat market.)

Government to the Rescue

The urge to be a potentate who is able to rescue all people from unexpected difficulties seems to periodically overpower politicians. As a result, members of various national governments have called for the forced reduction of volatility within commodity futures. To the surprise of these government officials, many experienced commodity merchants did not welcome the rescue.

Grain merchandisers seem to recognize that price volatility will continue regardless of policies relating to futures contracts, as long as equilibrium has been knocked out of sync and uncertainty reigns. Under such conditions, a proclamation that volatility must be eliminated is basically the equivalent of attempting to shrink the horizon by looking through a smaller window.

Experienced grain merchandisers seem to perceive that a storm could be brewing on the horizon, but few are asking for government assistance to weather the storm. This is because many have already watched U.S. government officials mandate that a substantial portion of the world's feed grains be utilized in biofuel production. Many merchants recognized beforehand that it would be impossible to independently elevate a single strand without affecting the whole intricate blanket of agricultural production.

With similar foresight, grain merchandisers are commonly aware of the influence that currencies have on global grain markets. Many have watched as U.S. government policies hasten the dollar's decline in value. Intentional or not, global wealth is being redistributed as the dollar declines and the buying power of other nations increases. U.S. grain merchants understand that the increased buying power will enable foreign consumers to be less responsive to commodity price increases.

The Ability to Adapt and Manage

Grain merchants do not seem nearly as intimidated by price volatility as many onlookers are. Merchandisers seem well aware that prices constantly change in commodity markets and it would be unrealistic to dictate that the structure and participants of any dynamic market remain stagnant. Furthermore, many merchandisers do not seem overly concerned about the influence of large speculators such as long-only index funds (funds

that buy and pool together a composite of different commodity futures into a single index.) Instead, grain merchants recognize that those long-only index funds are particularly transparent about their size and the roll of their positions.

Merchandisers have the ability to quickly adapt to a higher and wider trading range and become much more nimble about their entry and exit of trades. In other words, the more experienced merchandisers seem to have stepped back and redrawn their basis charts. Once they are prepared and expecting different conditions, most grain merchants welcome any attempt to drive prices higher and perceive greater volume and open interest as the natural outcome of economic progress. Grain merchandisers will continue to be an invaluable part of commodity markets so long as they are allowed to function without undue interference.

COMMODITY MARKET REVIEW

By Robert W. Kohlmeyer

There have been three factors dominating grain and soy futures markets for the last several weeks. One is the unusually rapid pace of spring planting of U.S. crops, thanks to a lengthy period of above average temperatures across the Midwest. The second has been the significant decline in production of South American crops, primarily soybeans, that has resulted in the shift of world demand to the U.S. The third has been the aggressive pursuit of soybeans and corn by Chinese buyers. A number of other factors important to markets have been involved, too. There are concerns about wheat crops in Ukraine, Russia and Kazakhstan. There has been increased demand for U.S. soybean meal that has improved soybean crushing margins. U.S. ethanol production has been in slow decline following the expiration of the blender's tax credit last year, but is still on a pace to exceed USDA's forecast. But in our view, early U.S. spring planting, deteriorating South American production prospects and China have been the primary market drivers during April.

This may be changing. The "perfect" weather of March and FH April has deteriorated. U.S. corn planting has been slowed by rains in the western Corn Belt and is no longer at a record pace, although the pace of corn planting is still quite early. South American soybean production estimates are still declining, and USDA is expected to make further reductions to its estimates of the Brazilian and Argentine soy crops in the May WASDE. However, the market has mostly absorbed this by now and has begun to try and figure out what the consequences of the substantial reduction in South American soybean production will be.

Following is a brief summary of the factors currently driving grain and soy markets as we view them.

Soybeans

Disappointing yields are further reducing estimates of Argentine soybean production. An Argentine soybean crop of 42 MMT seems to be the trade's consensus now, although some private estimates are less than that. If one assumes a Brazilian crop of 65 MMT, as many do these days, those two countries would combine for production of 107 MMT, down 17 MMT or 14 percent from last year. Back in December 2011 expectations were that Brazil and Argentina would see record-large soybean production. At that time, USDA forecast the two countries would produce a combined 127 MMT, so the drop from early expectations has been a precipitous 20 MMT.

However, falling South American soy production is only part of the story. Initial estimated U.S. soybean acreage for 2012/2013 is 73.9 million acres, down 1.1 million from 2011/12. The trade had generally expected a small increase in soybean acreage. Since USDA compiled that estimate, the market has tried by widening the spread between soybean prices and corn prices to persuade farmers to increase soybean planting. We will not know how successful this effort will be until USDA reports the final planted areas for spring seeded crops on 30 June. The feeling is that any increase from the initial estimate will be small.

It seems clear that even if there is a high national average soybean yield, the U.S. 2012/13 soybean crop will be hard pressed to meet the demand thrust upon it by the reduced South American production. Already we are seeing old crop soybean demand being shifted to the U.S, and the 2011/12 soybean carryout will be smaller than anticipated. It seems clear that world oilseed demand in 2012/13 will be on the rise. It will be led by an anticipated increase in Chinese soybean imports to about 59 MMT.

Because Brazilian and Argentine soybean supplies available for export will largely be exhausted by the time the U.S. harvest gets underway this autumn, the U.S. will be the world's soybean supplier at least until next year's South American soybean crop becomes available starting in March 2013.

Increased old crop export and domestic demand will run ending U.S. 2011/12 stocks well below USDA's estimate of 250 million bushels. How low U.S. soybean stocks and fall at the end of the 2012/13 crop year will likely depend on what the minimum stock level will be necessary to transition to the following 2013/14 year and how successful the market will be in rationing demand in 2012/13. It is imperative that South American soybean production for 2012/13 rebounds very sharply. The world cannot afford a repeat of this year's weather related production problems.

The soybean market's role during 2012/13 will be to control demand and to induce increased soy acreage for 2013/14, pretty much a carbon copy of the corn market's job for 2011/12. Once again we are in this pattern in which the need for more planted area and large production of corn and soybeans alternates from year to year.

Even if the U.S. produces a good soybean crop on the projected acreage, supply and demand fundamentals suggest that we are in for an extremely volatile soybean market in which relatively high prices predominate. If a weather problem were to somehow threaten the 2012/13 U.S. soybean crop, it would be explosive for soy futures prices, and they are potentially explosive enough already.

Corn

The corn market is a story of very tight 2011/12 old crop and supplies and record high cash bids in many areas weighed against the anticipation of relief from a huge 2012/13 crop based on a high yield and the biggest corn acreage in 75 years. Part of the optimism for a huge 2012 crop comes from the assumed benefit to yield from early planting, but the planting has slowed to something less than a record pace. Planting was

53 percent complete by the last weekend of April. However, rains are forecast to slow progress in the western Corn Belt. It is worth noting that corn planting in Iowa went from only 9 percent done on 22 April to 50 percent complete on 29 April. It is truly amazing how fast corn can be planted given the right weather conditions.

The weather outlook for the next 14 days suggests that planting will slow to a more normal pace. It is likely that the 2012 corn crop will still be rated as planted early, but not quite as unusually early as it first appeared might be the case.

China has inserted itself as a factor in the corn market. Trade reports suggested that private Chinese feed compounders used a brief dip in corn prices to buy about 700,000 MT of corn from the 2011/12 crop. It was also strongly rumored that Sinograin, the Chinese government's grain agency, used the same price dip to buy about 2 MMT of new crop 2012/13 corn. Near-record high Chinese domestic corn prices made it quite profitable for southern Chinese users to import old crop U.S. corn even after paying the value added tax. On the other hand, Sinograin preferred to buy the cheaper new crop corn with which it intends to replenish its own reserve stocks. During the last two weeks of April USDA reported a number of old crop and new crop corn sales to China or to "unknown" destinations which will likely become China that appear to be parts of the original rumored quantities.

With a very large new corn crop expected, the 2012/13 U.S. corn supply and demand balance can easily absorb a 2 MMT sale to China or anyone else. However, it is unlikely that the old crop 2011/12 corn supply and demand balance can handle another 700,000 MT of export demand. Old crop corn supplies are growing more difficult for exporters and ethanol producers to originate. Farmers are holding tightly to whatever ownership they have left, and cash basis bids have reached historic levels in parts of the Midwest. It seems clear that USDA will be forced to lower its last estimated carryout level from 801 million bushels, even though the

rapid pace of corn planting suggests that more than the usual amount of new crop corn will be harvested by the 31 August end of the 2011/12 crop year. How much of the freshly harvested corn will actually be available to load to a ship is a question.

What is already clear is that no matter what ending 2011/12 corn stocks turn out to be, the ending stocks-to-use ratios for the U.S. and the world will be very close to the lowest in history. What that says is that the U.S. and the world as a whole badly need to produce huge corn crops to bolster supplies.

The old crop/new crop July/December corn spread has been hanging around an inverse of around \$0.85 premium July which may seem comparatively relaxed given the obviously tight old crop supplies and the pressure of fresh Chinese old crop purchases. Aside from the hoped for early new crop harvest, the rationale is that cheaper winter wheat will replace corn in livestock feed and thus help to alleviate the tight corn supply situation. Based on comparative prices there is no question that there should be a substantial increase in the amount of wheat fed to cattle and to a lesser extent hogs and poultry as well. But this has also been true for the last two to three months. Only after the fact when we can analyze USDA's quarterly report on corn stocks and wheat stocks as of 31 August will we be able to make some educated guesses about the volume of wheat fed during the last few months of the corn crop year.

What is also clear is that the corn market needs to price itself to ration old crop demand from exporters and the ethanol sector no matter what one may think about the impact of early new crop availability or about wheat feeding. By contrast, the specter of a new corn crop of 14.5 billion bushels or so and an estimated 2012/13 carryout of 1.8-1.9 billion bushels hangs over the new crop market that should force a longer term bearish trend that should keep the spot new crop corn futures contract below \$5.50 and maybe closer to \$5.00. However, at some point

in early 2013 the corn market will be called upon to defend against the loss of too much land to soybeans and other crops.

Wheat

The wheat market has tended to follow the influence of corn and the sway of daily economic news, especially the ups and downs of the dollar. However, on its own the wheat market is a story of more than ample U.S. and world supplies, and a near record-high 2012/13 world wheat carryout may be in the offing. This has encouraged a record large non-commercial short position in CME wheat futures. To find demand wheat needed to price itself as a feed grain, and indeed the market has done that. We shall see how much added wheat demand that produces. U.S. SRW is now the cheapest wheat in the world which makes it also the cheapest major grain in the world. That has generated some limited export demand but not enough to change the bearish outlook the market faces.

There are ongoing concerns about dry conditions that could reduce wheat production in Russia, Kazakhstan and Ukraine, where it is already clear that winter wheat production will be down. However, it will require severely reduced production on the scale of what occurred in 2010 to tilt demand toward the U.S. and jar the wheat market out of its longer-term bearish trend. Although wheat production prospects in the three countries of the former Soviet Union and Eastern Europe will be closely monitored, there is no reason to predict that will happen at this stage.

Until a supply shock of some sort occurs somewhere, wheat markets will struggle with a longer term bearish outlook. Comparatively lower profit potential will likely continue to erode the area planted to wheat in the U.S. and other parts of the world where there are other viable, more profitable crops.

July Chicago Wheat Futures Prices



Source: Prophet X (5/7/2012)

July Corn Futures Prices



Source: Prophet X (5/7/2012)

July Soybean Futures Prices



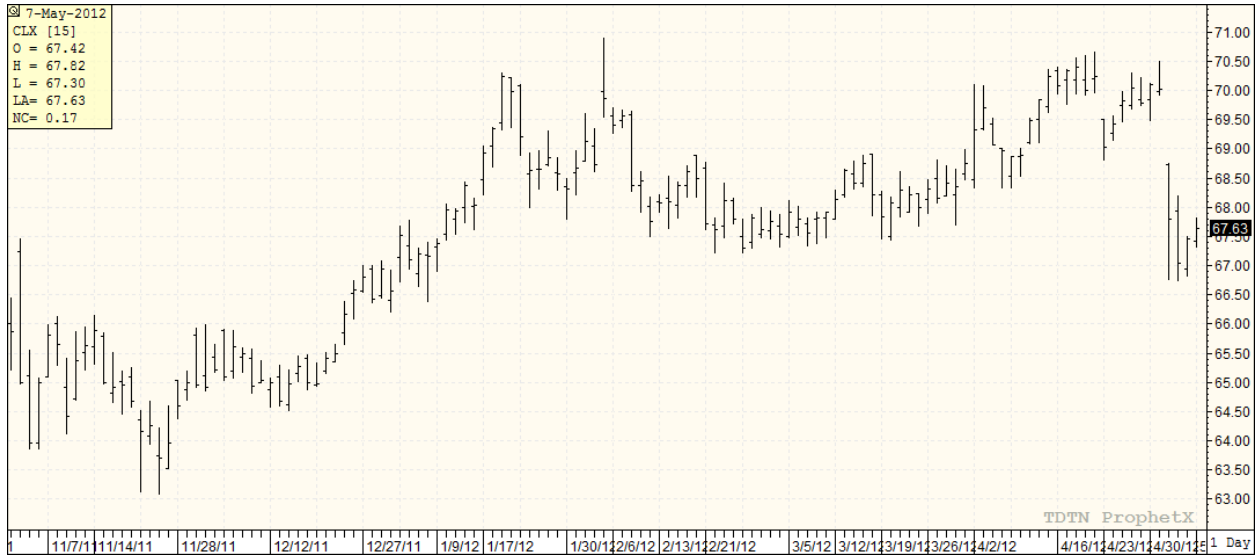
Source: Prophet X (5/7/2012)

July Soybean Oil Futures Prices



Source: Prophet X (5/7/2012)

Crude Oil Futures Prices



Source: Prophet X (5/7/2012)

U.S. WHEAT Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	47.6	45.7	45.7
Yield (bu/acre)	46.3	43.7	43.7
BEGINNING STOCKS (mln bu)	976	862	862
Imports	97	120	120
Production	2,207	1,999	1,999
TOTAL SUPPLY	3,279	2,982	2,982
Feed & Residual	132	180	180
Food, Seed & Industrial	997	1,009	1,009
Exports	1,289	1,000	1,000
TOTAL USE	2,417	2,189	2,189
ENDING STOCKS	862	793	793
Loan (\$/bu)	2.80	2.80	2.80
Avg. Price (\$/bu)	5.70	7.30	7.25

Source: USDA, WPI

U.S. SOYBEANS			
Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	76.6	73.6	73.6
Yield (bu/acre)	43.5	41.5	41.5
BEGINNING STOCKS (mln bu)	151	215	215
Imports	14	15	15
Production	3,329	3,056	3,056
TOTAL SUPPLY	3,495	3,286	3,286
Seed & Residual	130	121	121
Crush	1,648	1,630	1,635
Exports	1,501	1,290	1,315
TOTAL USE	3,280	3,036	3,071
ENDING STOCKS	215	250	215
Loan (\$/bu)	5.00	5.00	5.00
Avg. Price (\$/bu)	11.30	12.25	12.25

Source: USDA, WPI

U.S. CORN			
Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	81.4	84.0	84.0
Yield (bu/acre)	152.8	147.2	147.2
BEGINNING STOCKS (mln bu)	1,708	1,128	1,128
Imports	28	20	20
Production	12,447	12,358	12,358
TOTAL SUPPLY	14,182	13,506	13,506
Feed & Residual	4,792	4,600	4,600
Food, Seed & Industrial	6,428	6,405	6,425
Exports	1,835	1,700	1,725
TOTAL USE	13,054	12,705	12,750
ENDING STOCKS	1,128	801	756
Loan (\$/bu)	1.98	1.98	1.98
Avg. Price (\$/bu)	5.18	6.20	6.40

Source: USDA, WPI

U.S. SORGHUM			
Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	4.8	3.9	3.9
Yield (bu/acre)	71.8	54.6	54.6
BEGINNING STOCKS (mln bu)	41	27	27
Imports	0	0	0
Production	345	214	214
TOTAL SUPPLY	387	242	242
Feed & Residual	124	65	65
Food, Seed & Industrial	85	90	90
Exports	150	60	60
TOTAL USE	359	215	220
ENDING STOCKS	27	27	27
Loan (\$/bu)	1.98	1.98	1.98
Avg. Price (\$/bu)	5.02	6.10	6.15

Source: USDA, WPI

U.S. BARLEY			
Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	2.5	2.6	2.6
Yield (bu/acre)	73.1	69.6	69.6
BEGINNING STOCKS (mln bu)	115	89	89
Imports	9	10	10
Production	180	156	156
TOTAL SUPPLY	305	255	255
Feed & Residual	50	40	40
Food, Seed & Industrial	159	160	160
Exports	8	10	10
TOTAL USE	216	210	210
ENDING STOCKS	89	45	45
Loan (\$/bu)	1.88	1.88	1.88
Avg. Price (\$/bu)	3.86	5.35	5.35

Source: USDA, WPI

U.S. OATS Supply/Demand			
	USDA Apr 2010/11	USDA Apr 2011/12	WPI Apr 2011/12
HARVESTED ACRES (mln acres)	1.3	0.9	0.9
Yield (bu/acre)	64.3	57.1	57.1
BEGINNING STOCKS (mln bu)	80	68	68
Imports	85	110	110
Production	81	54	54
TOTAL SUPPLY	247	231	231
Feed & Residual	102	90	90
Food, Seed & Industrial	74	76	76
Exports	3	3	3
TOTAL USE	179	169	169
ENDING STOCKS	68	62	62
Loan (\$/bu)	1.35	1.35	1.35
Avg. Price (\$/bu)	2.52	3.45	3.45

Source: USDA, WPI

WORLD WHEAT			
Supply/Demand			
Apr 2012			
Area in millions of hectares, quantities in millions of metric tons.			
	USDA 2010/11	USDA 2011/12	WPI 2011/12
Area Harvested	223.3	222.6	222.6
Yield per Hectare	2.9	3.1	3.1
Beginning Stocks	202.5	198.7	198.7
Production	651.0	694.3	694.0
Total Supply	853.5	893.0	892.7
TOTAL USE	654.8	686.8	687.0
ENDING STOCKS	198.7	206.3	205.7

Source: USDA, WPI

WORLD SOYBEANS			
Supply/Demand			
Apr 2012			
Area in millions of hectares, quantities in millions of metric tons.			
	USDA 2010/11	USDA 2011/12	WPI 2011/12
Area Harvested	102.8	103.5	104.8
Yield per Hectare	2.6	2.5	2.5
Beginning Stocks	59.8	68.8	68.6
Production	264.3	245.1	240.0
Total Supply	324.1	313.9	308.6
TOTAL USE	251.5	254.9	255.5
ENDING STOCKS	68.8	57.3	53.1

Source: USDA, WPI

WORLD CORN

Supply/Demand

Apr 2012

Area in millions of hectares, quantities in millions of metric tons.

	USDA 2010/11	USDA 2011/12	WPI 2011/12
Area Harvested	163.1	168.8	168.8
Yield per Hectare	5.1	5.1	5.1
Beginning Stocks	144.1	125.0	125.0
Production	829.0	865.0	867.0
Total Supply	973.1	990.0	992.0
TOTAL USE	848.1	867.3	869.0
ENDING STOCKS	125.0	122.7	123.0

Source: USDA, WPI