



Revenue Management Update

Friday, December 9, 2011

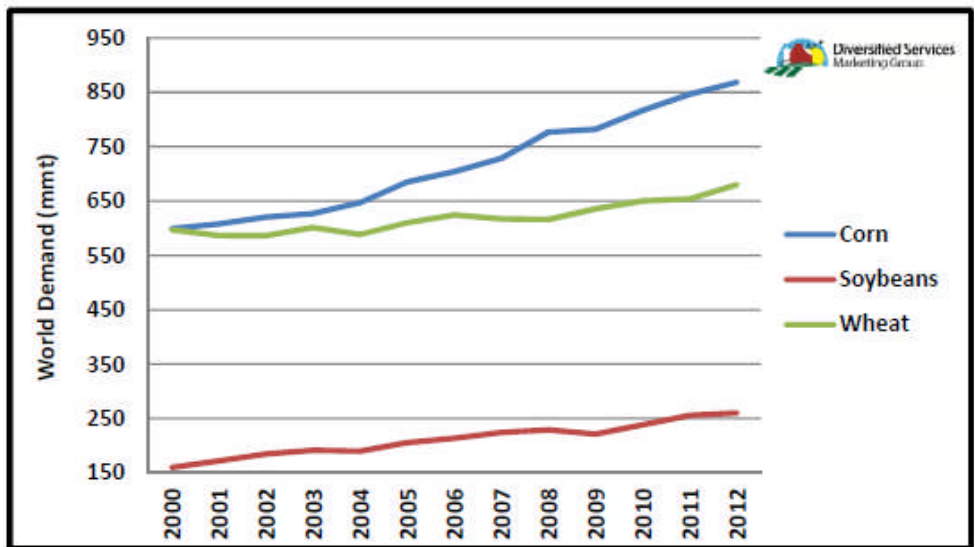
I guess at this point in my life I shouldn't be shocked to see a bearish report from USDA. It's probably closer to 50/50 than I think, but it feels like a majority of the time! The trade was anticipating a larger **US soybean ending stocks** estimate, but not as large as the 35 million bushel increase that we got. USDA cut exports another 25 million bushels (down 201 million from last year) and domestic crush another 10 million bushels (down 127 million from high two years ago). USDA also cut the average farm price for soybeans to \$11.70, down 90 cents from last month! **US wheat ending stocks** were unexpectedly raised 50 million bushels as well due to another cut in exports (down 364 million from last year). The increases in wheat stocks by class were: hard winter – 25 mln; soft red – 15 mln; white – 10 mln. **US corn ending stocks** had a minimal bump of 5 mln bushels due to a slight drop in feed/seed/industrial usage, but a 30 cent drop in the average farm price to \$6.40. Cotton was the only crop with a positive US report, as USDA cut the yield and production estimates for the 2nd straight month. Domestic usage was also cut slightly, but the bottom line was a cut in **US cotton ending stocks** to 3.50 million bales. All in all, the US report was bearish to soybeans and wheat and neutral to corn and cotton.

The real action in the December report occurred in the world numbers, as I suspected it might. **World corn stocks** were increased 5.62 mt, or 4.6%, due to a 7.25 mt increase in Chinese production and a 1.04 mt increase in EU production. Making matters worse for feed grains markets was a large increase in **world wheat stocks** of 5.92 mt, or 2.9%, due mostly to production increases in Australia, Argentina, and Canada. Even with a cut in US cotton production, **world cotton stocks** were increased 2.71 mt due strictly to a drop in foreign cotton demand. Soybeans saw the smallest increase in this month's report, as **world soybean stocks** were bumped 0.98 mt. This was also due to a forecast cut in demand since last month.

So although most of the numbers from the report were bearish, I wanted to leave you with some optimism before you turn this page over! The chart at right shows world demand of corn, wheat, and soybeans since the turn of the century. World corn demand this year is forecasted at over 868 mt, which is an increase of 45% since 2000, or over 4% a year. World wheat demand is forecasted at 680 mt, an increase of 14% since 2000. And world soybean demand is forecasted at 260 mt, which is a whopping 63% increase since 2000, or 9.2% per year! Sometimes we get caught up looking at the small market details each day and forget to realize that the big picture is still supportive to production agriculture!

2011-12 US Ending Stocks (million bushels or bales)				
	December USDA	November USDA	Change vs Previous	2010-11 Final
Corn	848	843	+5	1128
Soybeans	230	195	+35	215
Wheat	878	828	+50	862
Cotton	3.50	3.80	-0.30	2.60

World Ending Stocks (million metric tons)				
	December USDA	November USDA	Change vs Previous	2010-11 Final
Corn	127.19	121.57	+5.62	128.27
Soybeans	64.54	63.56	+0.98	68.43
Wheat	208.52	202.60	+5.92	199.75
Cotton	57.67	54.96	+2.71	45.49





Godfrey Insurance Agency

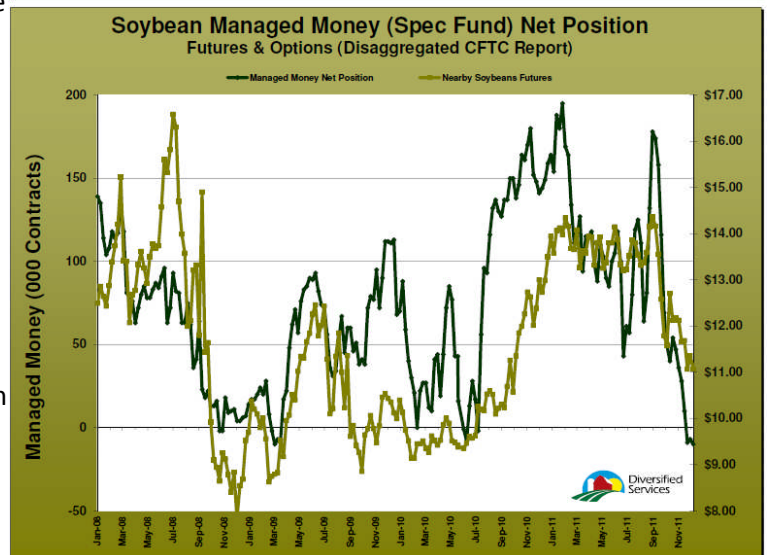
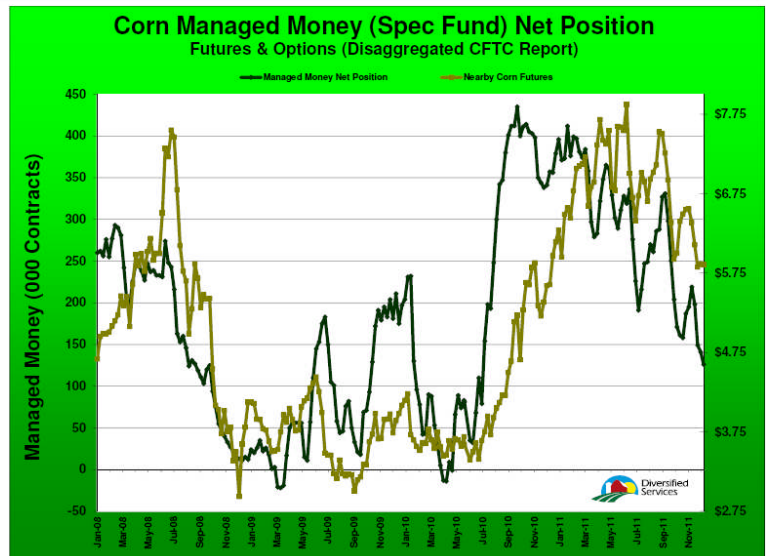
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Please join us for our 3rd Thursday
Marketing Meeting December
15th at 9:00am in our Chatham
office. Hope to see you there!

Diversified Services Revenue Management Update

SIGNS FOR A POSITIVE 2012 START?

There are quite a few reasons to think positively as we get ready to start the New Year. The European Union members seem to be on track to reform debt issues, which would not only be supportive to world stock markets, but would be supportive to the euro and thus bearish the US dollar. And as we've seen in the past, a weaker dollar is a good thing for commodities! Cheaper prices are historically the best cure for cheap prices. With corn over \$2.00, wheat over \$2.00, soybeans over \$3.00, and cotton over 20 cents below their summer highs, demand has been picking up. Domestic demand remains very strong with corn and soybeans, but the demand for all crops have picked up recently as prices have dropped, with China the buyer everyone has their eye on. And as I wrote on the last page, world demand continues to grow. As far as USDA is concerned, I still believe they need to make an adjustment to their September 1 corn stock estimate, that given the lack of available corn last fall that it's unlikely we could have had over 1 billion bushels of corn on hand September 1. This happened a year ago too, and the adjustment came in USDA's January 12 S&D report. Dan Hueber continues to look for cycle lows to be put in most markets around Christmas, and he and other technicians are looking for a price rebound into the first of the year. Finally, the managed money traders (spec funds), have liquidated much of their length in corn (green line, top chart) and ALL of their length in soybeans (green line, bottom chart). This leaves the spec funds with a lot of money to spend if something like a cheaper dollar, a South American dry spell, or a big adjustment from USDA provides a spark.





Diversified Services Revenue Management Update