Weekly Commodity Markets Review

From: Joe Schmidt Date: March 2, 2012

In January, U.S. durable goods fell 4% from December. This is versus forecasts for just a 1% decline.

Funds continue to be pushing markets higher, and outside markets helping the cause. Still uncertain crop production numbers are coming out of South America. And with concerns about planting in U.S. (corn versus beans--which more or less already done), the markets have all the impetus they need to move higher.

U.S.D.A. will release updated supply/demand estimate next Friday, March 9. However, the trade’s true focus will be on the Prospective Plantings report due out on March 30th.

Flour Markets:

Wheat futures advanced this week. Basis levels remained steady to a little higher. U.S. soybeans and corn were higher on reports that the South American soybean production is down. U.S. winter wheat conditions have improved with the warmer weather and much needed moisture promoting early growth. There is still a concern of a late freeze damaging the crop. Moisture was welcomed in the U.S. spring wheat planting areas this week. U.S.D.A. estimates a total of 58 million acres of wheat to be planted for harvest in 2012 with 41.9 million acres of winter wheat and an estimated 16.1 million acres of spring wheat/durum which is up 2.3 million acres from last year. The value of the U.S. dollar is up this week, which adds pressure to the market as it makes the U.S. wheat more expensive.

U.S. hard red winter wheat country will see restricted precipitation over the next 10 days but the northern U.S. Great Plains will continue to see additional precipitation relieving drought conditions. The wheat market continues to follow corn.

U.S. weekly wheat export sales were 509,100 metric tons, nearly low-end of the expectations. There are growing concerns that U.S. wheat is breaking dormancy too early due to mild winter. Heavy snowfall forecast in the northern U.S. Plains spring wheat region is expected to boost soil moisture there.

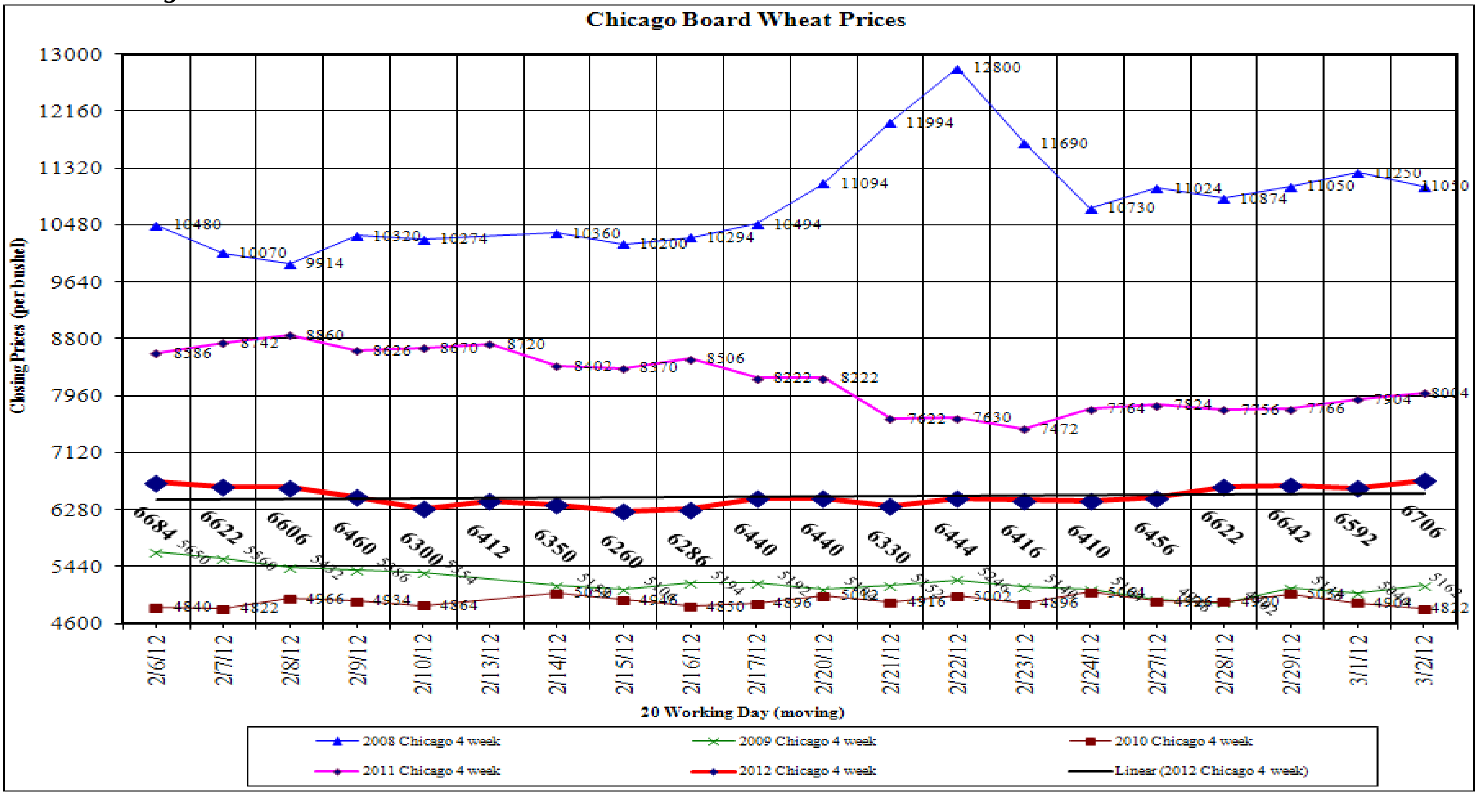
Cumulative wheat export shipments are now 138 million bushels smaller than last year at this time. Minneapolis futures are still dealing with the larger than expected spring wheat acreage number from U.S.D.A. on Friday, as well as Canadian surveys calling for expanded production there. The Texas state crop report on Monday night showed 31% of the crop in good or excellent condition, with 43% poor or very poor. The Oklahoma monthly report showed 67% of the crop there in good or excellent condition, with only 7% rated poor or very poor. Wheat stocks at select export elevators and terminals were down 2.031 million bushels from last week—to 174.8 million versus 223 million a year ago. More of the wheat than usual is being grazed (45% versus 34% average).

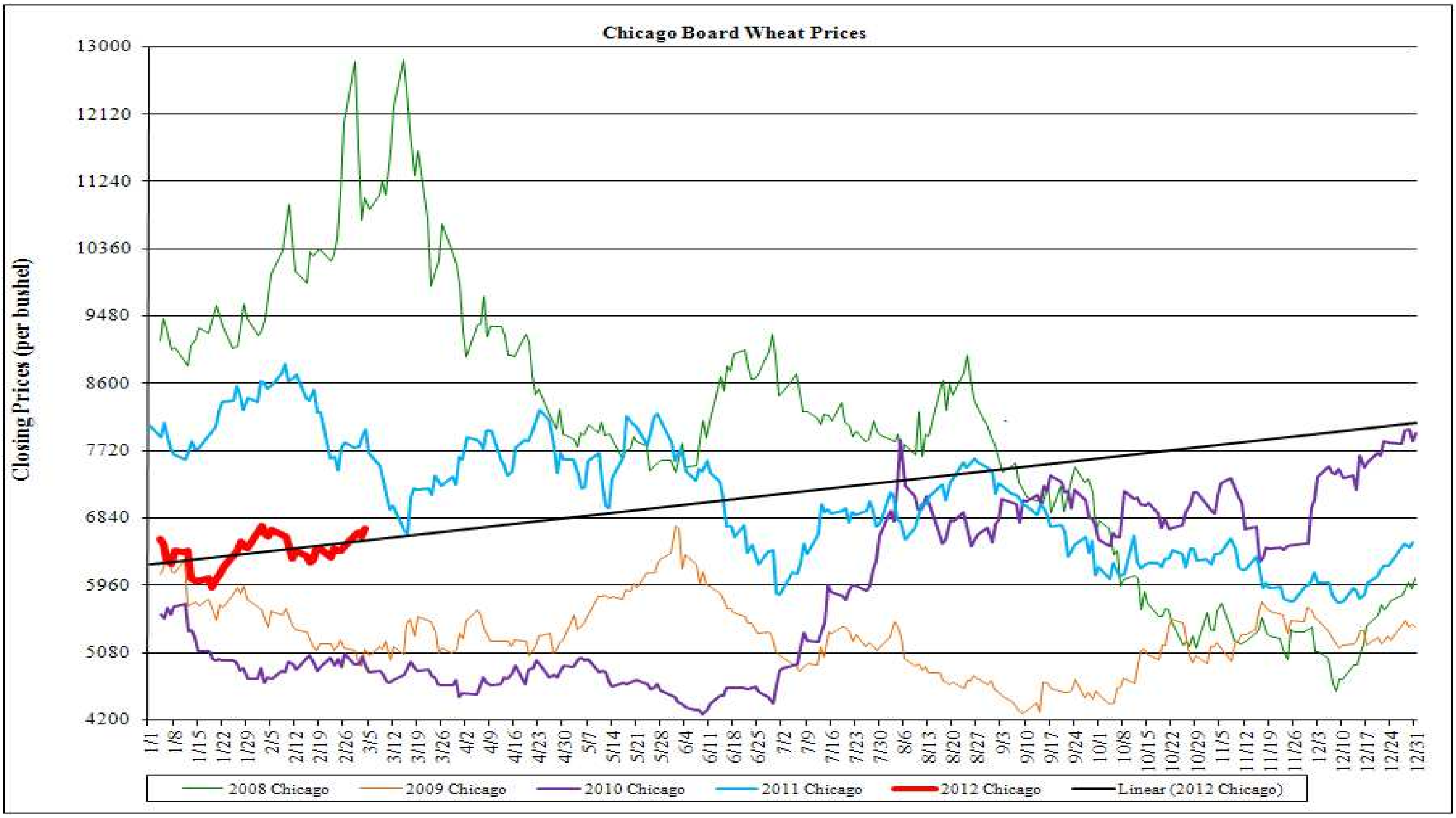
KC ended higher despite a weather forecast calling for precipitation over the next 7 days. Some producers and agronomists are concerned about the warm weather across the Southern Great Plains.

Another record production estimate for India was another reminder current crop-year global ending stocks are forecast at an all time high.

Russia’s AgMin estimated 2011-2012 grain exports to reach 27-28 million tons, up from a previous estimate of 25 million tons and winter grain damage lower than 10-year average. China’s 2012 grain harvest is projected to be 525 mmt versus last year’s record 571, according to China’s ag minister. The crop was hampered by poorer weather conditions and rising labor/fertilizer costs.

a. ***Chicago Board Wheat Prices***

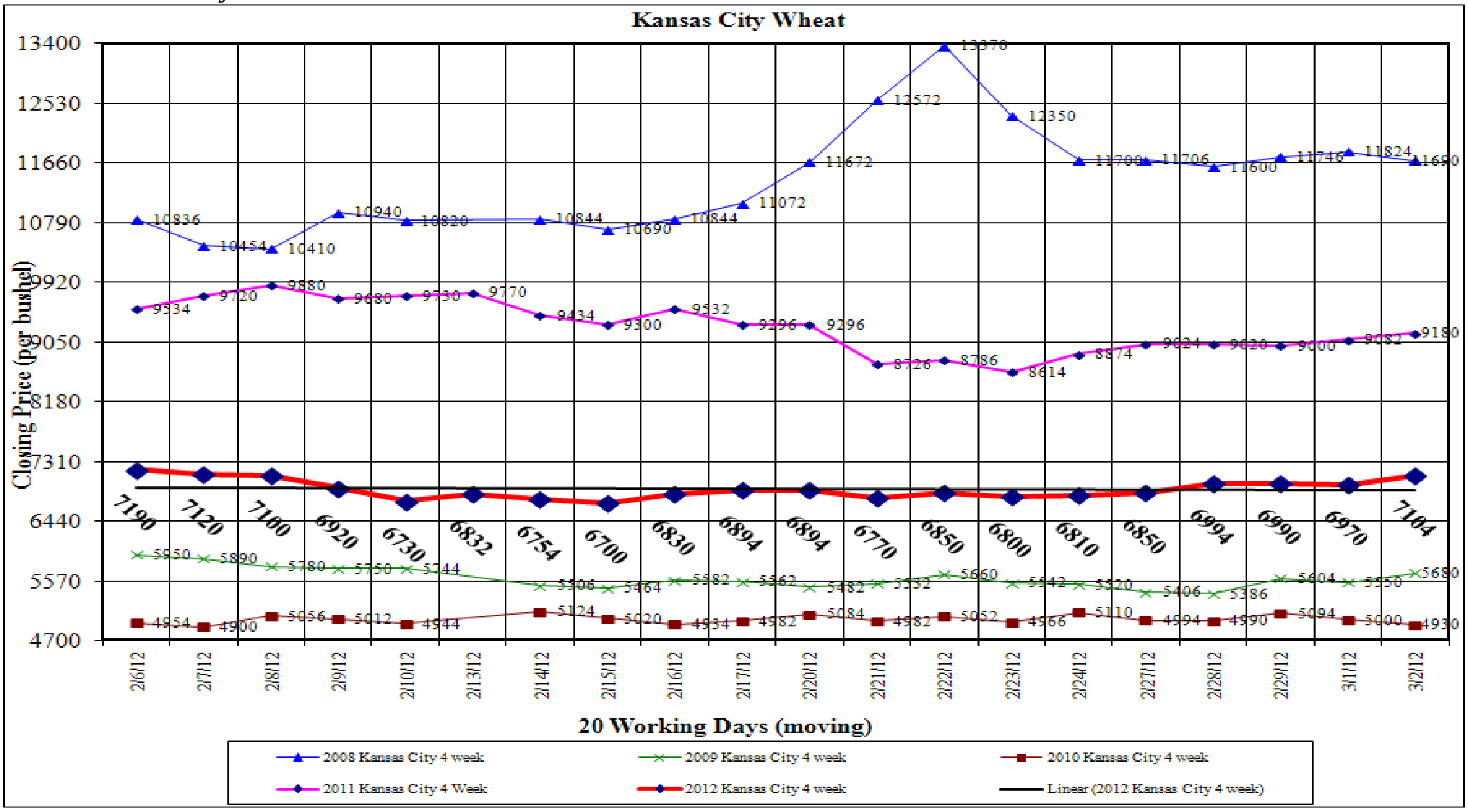


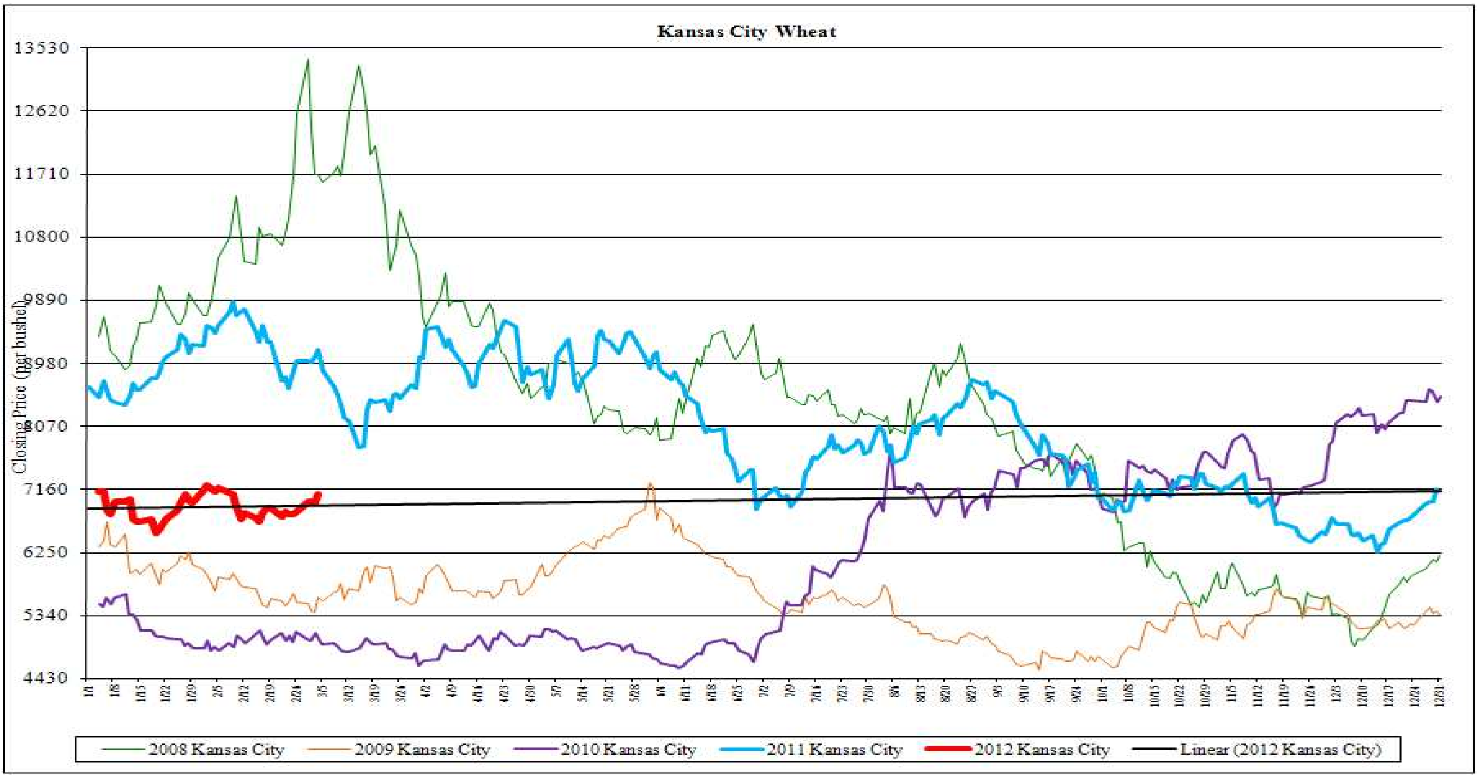


The Chicago Board chart above shows the price activity for the last 20 working days (one full period). Flour made from the wheat traded on this board includes **CAKE AND PASTRY** flours.

Cake and Pastry flour closed up $0.68/cwt from last Friday's close.

b. Kansas City Board Wheat Prices

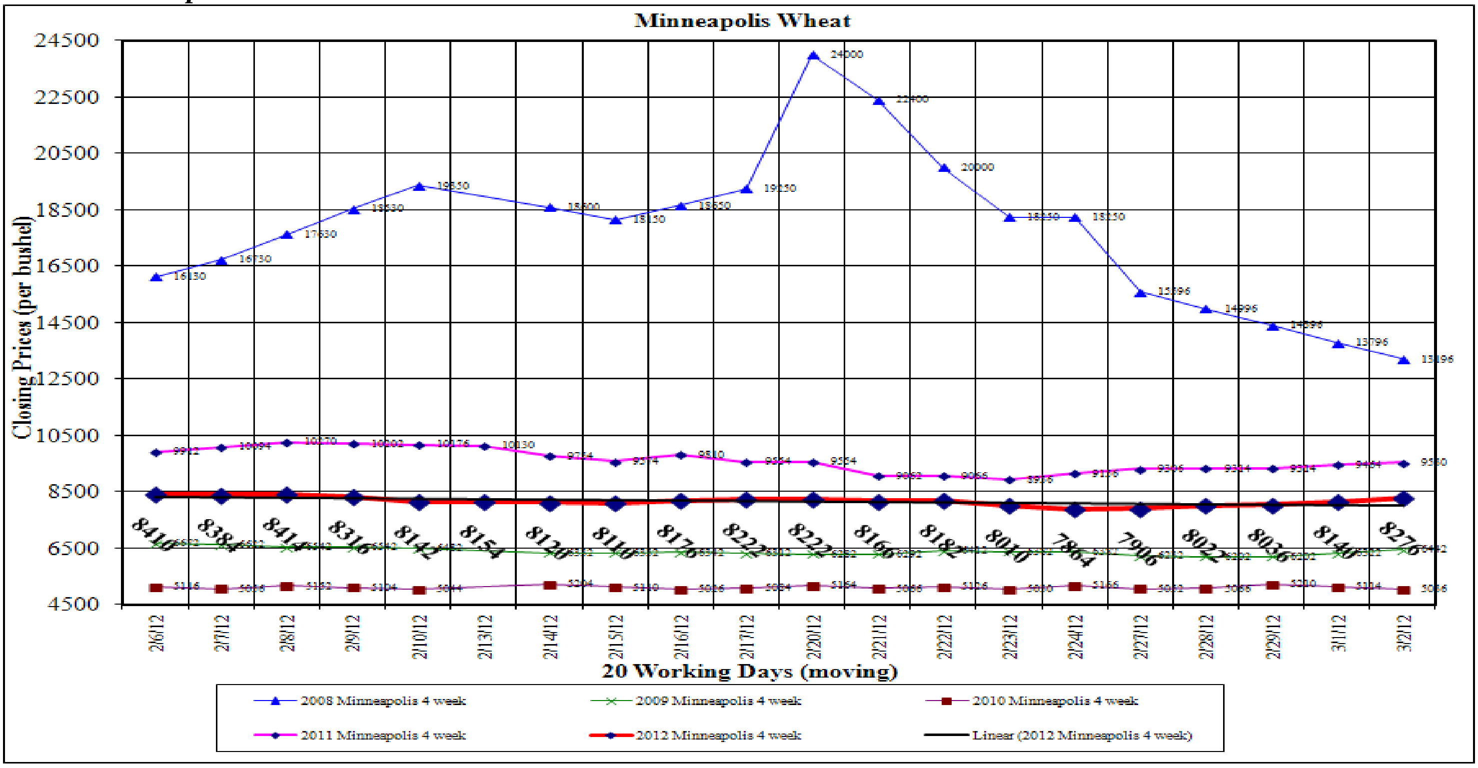


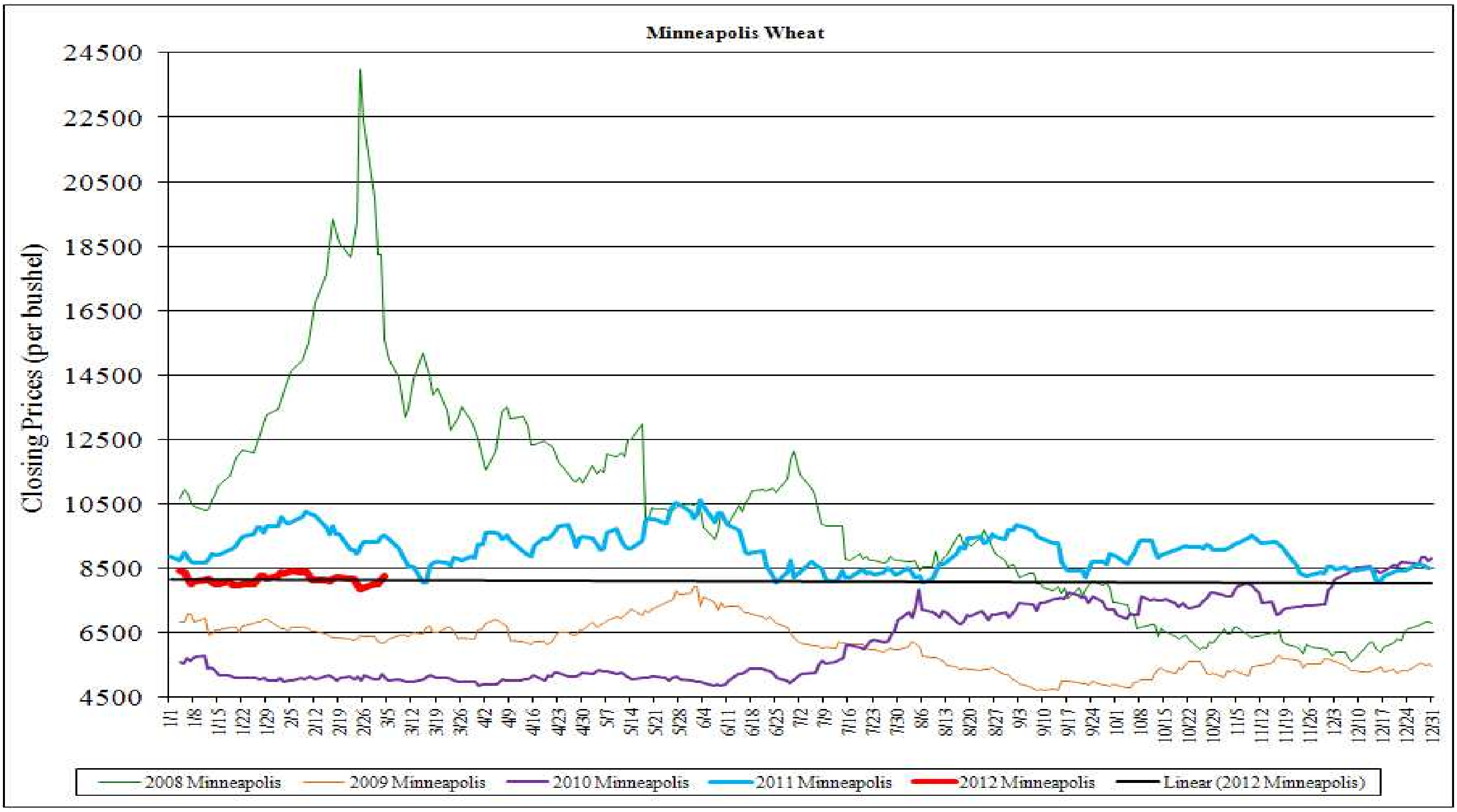


Kansas City Wheat is used to make **Hard Red Winter Patent flours (white pan bread) and H&R flours.**

Hard Red Winter wheat flour closed up $0.68/cwt. versus last Friday's close.

c. Minneapolis Board Wheat Prices





Minneapolis wheat is Hard Red Spring and is used to mill **high gluten and spring patent flours**.

The High Gluten flour market closed up $0.95/cwt. off last Friday's close.

Shortening Market:
Soybean futures posted a new high for the recent run up in price (on Thursday) before moving to lower on the day and now back to slightly higher. Weekly export sales were in line with trade guesses for a total of 976,400 MT for both marketing years which included 549,100 MT for 2011/2012 and 427,300 MT for 2012/2013 delivery. The market has all the hallmarks of a realizing bull market. Uncertainty for 2012/2013 annual global production is encouraging traders to add more risk premium to the price of soybeans. It looks like the February average for November futures will be $12.55 for crop insurance purposes, although we don't yet have the official announcement.

The U.S. weekly grain stocks report showed elevator and terminal soybean stocks declined 2.5 million to 29.6 million versus 16 million last year. Weekly export sales showed strong total old/new crop U.S. soybean sales of 976,000 metric tons, but total exports commitments are still running 26.5% behind last year.

The dry and warmer winter promises that producers are likely to get a good jump on this growing season. With land now promised to corn (94 million acres according to U.S.D.A.'s Outlook Forum) over beans (75 million acres), it's no wonder that the bean market is flexing a bit of muscle in order to stay attractive. The weekly U.S.D.A. export inspections report was less than exciting at 36.97 million bushels. Shipments of old crop continue to fall further behind last year, now lagging by 282 million bushels.

South American production estimates continue to shrink. Losses in South America remain undefined, (Brazil's Agrural lowered the bean crop to 68 mmt from 70.2 mmt) adding to strength and the potential for demand to return to the U.S. Cash remains strong for soybeans. Traders say recent southern Brazilian rains may be too late to boost final yields, although Argentine soybeans may have benefited. Brazil's soybean harvest advanced 10 points this week—to 29% versus 5-year average of 15%; forward sales 55% versus 5-year average of 45%, Celeres reports. With the reduced South American crop, unchanged U.S. planted soybean acres and an expected pick-up in U.S. exports, the 2012/2013 U.S. soybean balance sheet is expected to tighten up significantly. **Oil World** says world soybean output to see record 7.1% drop on the year to 246.5 mmt (that matches the IGC estimate Monday).

Oil continued its decline overnight after closing below the trend line support for the 3nd day in a row on Friday. Expect the market to retrace back to the 5350-5250 region in the May oil. The U.S. Ag Attaché in Brazil pegged the bean crop at 70.0 mil MT—down from 72.0 in February but well above trade estimates between 66.5-69.0 million…so the concern in the trade is that the March 9 report doesn't cut as much production as the market expects. On the bullish side of the equation, we're still seeing good bean exports from the U.S. and many expect that to continue as China best option is from the U.S. for the June-September period. As a result the set back in the complex should be limited until we get a better understanding of the size of the South America crop and the March planting intentions.

Bullish Factors

- Drought conditions in southern Brazil and Paraguay—each subsequent production estimate shows a decrease in 2012 soybean production.
- Recent purchases of U.S. soybeans by China
- Malaysian palm oil production declined double-digit percentage points in January.
- U.S. soybean oil stocks are declining for the third consecutive year and projected to be at their lowest level since 04/05 crop year.
- Dryness in northern U.S. Plains and Canada's Prairie Provinces
- Biofuel mandates are still in place
- Smaller Chinese oilseed crop.
- U.S. Federal Reserve stating that interest rates will remain unchanged through 2014.

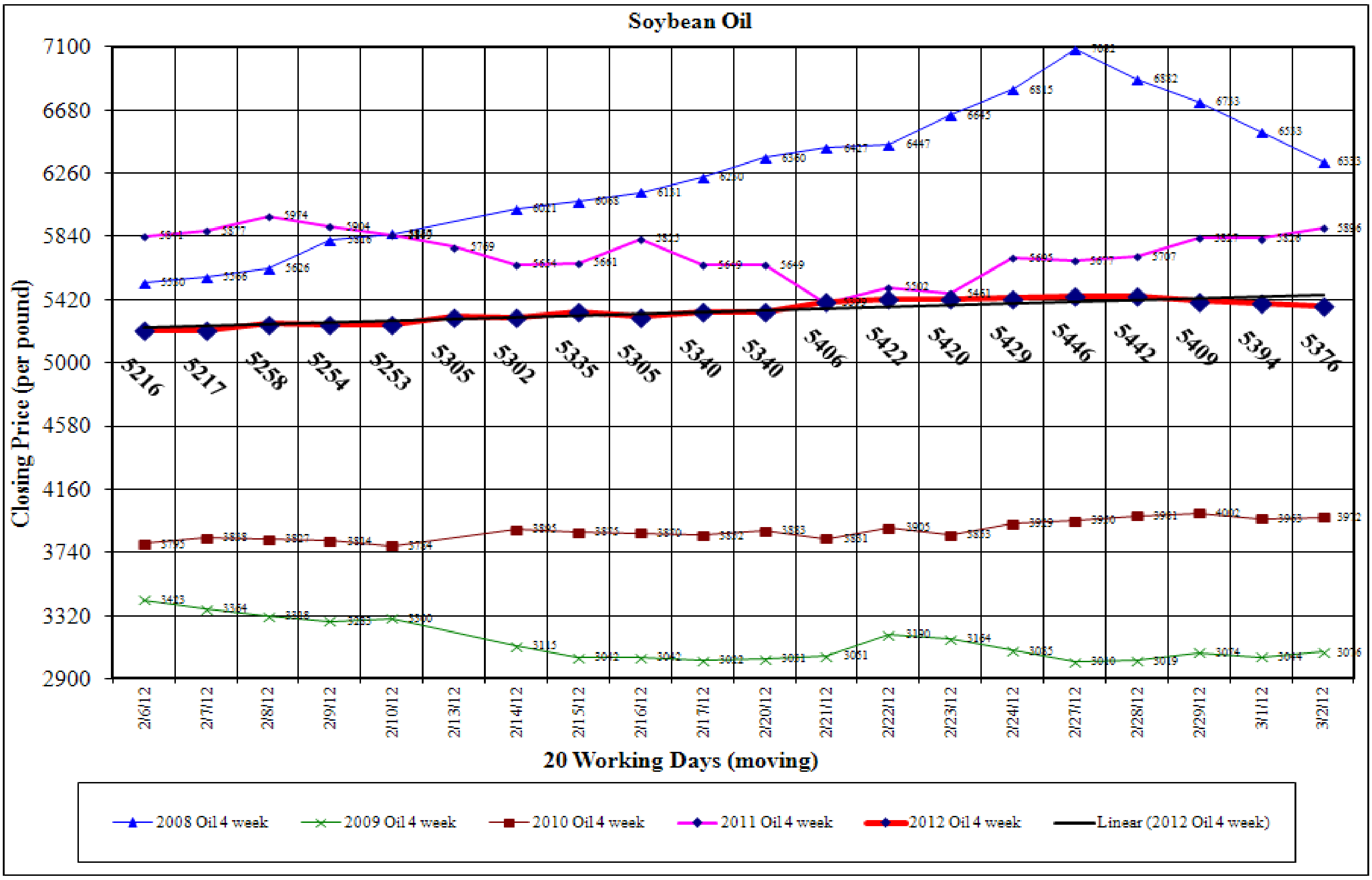
Bearish Factors

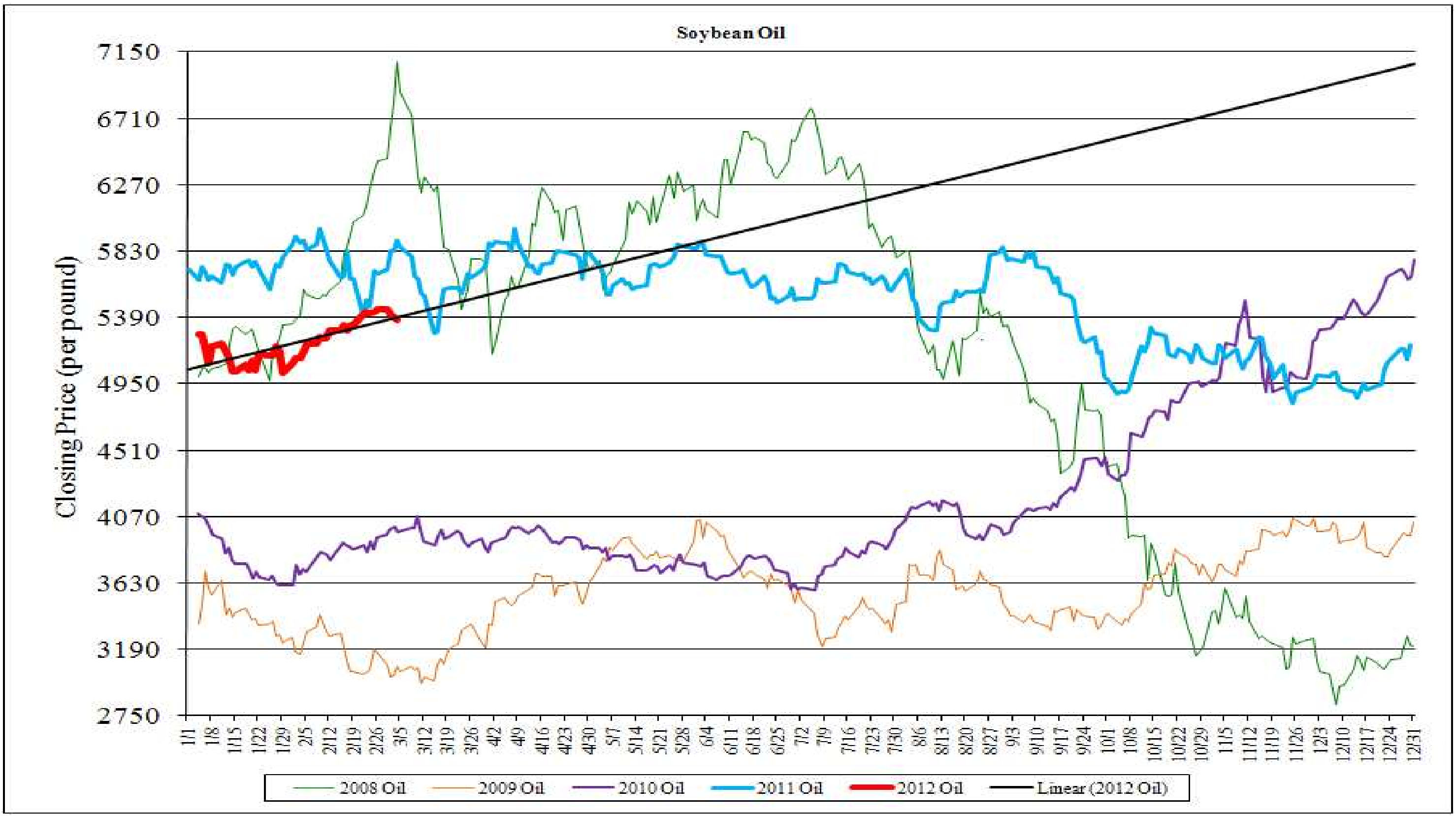
- The continuing soap opera in Europe over sovereign debt.
- Overall weak U.S. soybean, soybean oil and soybean meal exports.
- Ag Canada is projecting record canola plantings and production in 2012.
- Expiration of the biodiesel blender's tax credit—demand from sector appears to finally falling.
- Malaysian palm oil stocks remain above 2.0 million metric ton mark.

Swing Factors:

- La Nina
- Value of U.S. Dollar
- Health of global economy
- Less transparency in soybean and soybean product markets with discontinuation of the Census crush data due to budget cuts and therefore less reliable supply/demand estimates.
- 2012 U.S. planted acres

Shortening closed down $0.29/50# cube ($0.20/35# pail of oil, $0.0058/lb. for bulk oil) for the week.


Soybean Oil
7100
6680
6260
5840
5420
5000
4580
4160
3740
3320
2900
Closing Price (per pound)
5216
5217
5258
5254
5253
5305
5302
5335
5305
5340
5340
5406
5422
5420
5429
5446
5442
5409
5394
5376
2/6/12
2/7/12
2/8/12
2/9/12
2/10/12
2/13/12
2/14/12
2/15/12
2/16/12
2/17/12
2/20/12
2/21/12
2/22/12
2/23/12
2/24/12
2/27/12
2/28/12
2/29/12
3/1/12
3/2/12
20 Working Days (moving)
2008 Oil 4 week
2009 Oil 4 week
2010 Oil 4 week
2011 Oil 4 week
2012 Oil 4 week
Linear (2012 Oil 4 week)


Soybean Oil
7150
6710
6270
5830
5390
4950
4510
4070
3630
3190
2750
Closing Price (per pound)
2008 Oil
2009 Oil
2010 Oil
2011 Oil
2012 Oil
Linear (2012 Oil)

Cocoa Market:

Cocoa prices climbed to a 3-1/2 month high before falling back—closing slightly lower for the week.

Bullish factors include:

- concern that global supplies will remain limited until the smaller of the two annual cocoa harvests in the Ivory Coast starts next month,
- ICO's prediction that 2011/2012 global cocoa output will drop -10% year over year to 3.87 MMT, and
- ICO's hike in its 2010/2011 global grindings estimate to a record 3.83 MMT.

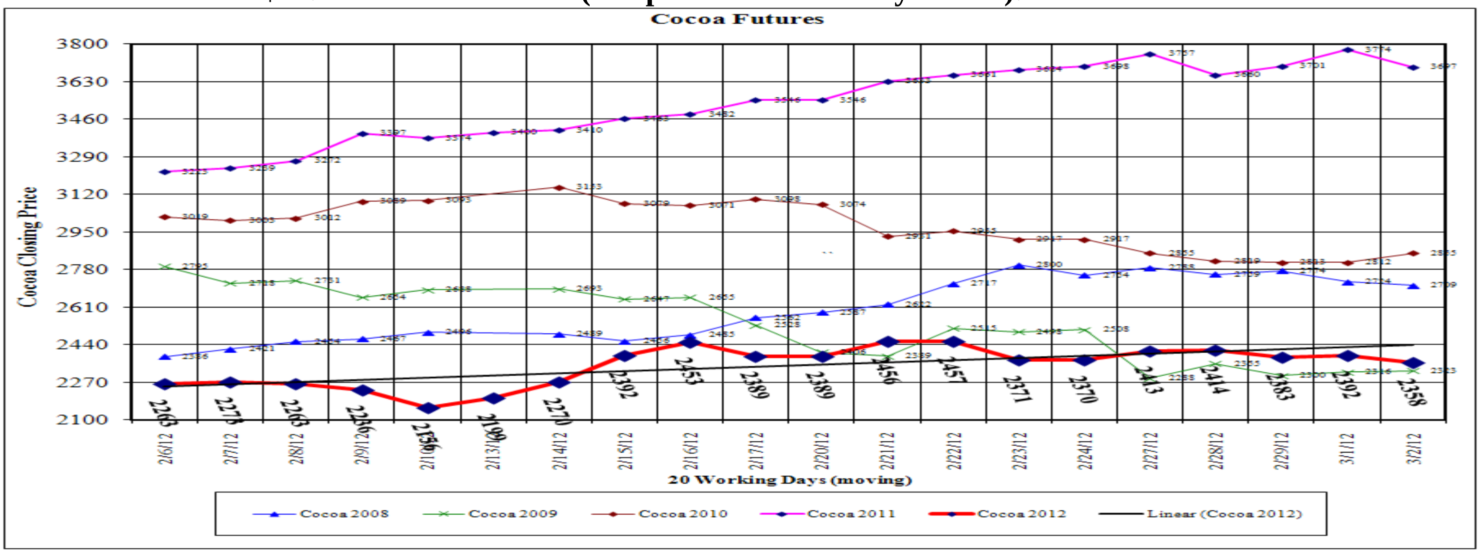
Bearish factors include

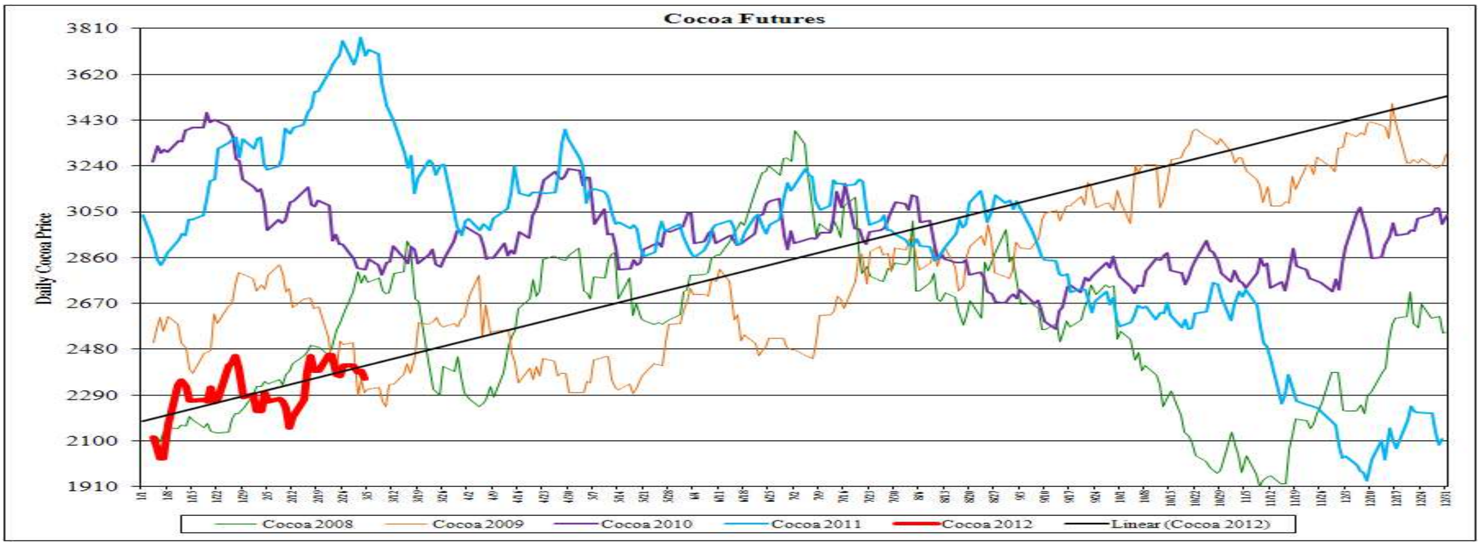
- increased supplies as Dec Ivory Coast cocoa exports rose +53% year over year to 125,816 MT,
- Q4 European cocoa grindings of +1.8% year over year, the slowest pace in a year,
- Ivory Coast's prediction that its 2011/2012 cocoa output may rise 10% to a record 1.65 MMT, and
- ICO's hike in its global cocoa ending stocks estimate for 2011/2011 to a record high of 1.93 MMT, up +18.5% year over year.

Fundamental Outlook-Short-Term Bullish-

Prices had plunged to a 3-year low in December on record output from West Africa and the hike in the ICO's global production and surplus estimates. Long-term global demand is strong (+3.1% in 210/2011), but ICO forecasts higher output will lead to a +18.5% gain in ending stocks to a record 1.93 MMT. The stocks/ consumption ratio is forecast a 47.8% versus year-earlier 44.2%.

Cocoa closed down $12.00/ton for the week (compared to last Friday's close).





Sugar Market

Fundamental Outlook-Short-term-Bullish- Sugar prices are moving higher on supply concerns. Prices had fallen to an 8-1/2 month low in December after the U.S.D.A. raised global ending stocks and global supplies increased. ISO is forecasting small global sugar surpluses for 2010/2011 (1 MMT) and 2011/2012 (4.2 MMT) after 2-years of deficits. However, ISO is forecasting a 1.7% rise in global sugar demand this year, cutting the inventory-to-consumption ratio to a 20-year low of 32%.

The U.S. domestic sugar market is relatively quiet. American Crystal Sugar continues to operate with replacement workers. U.S. supplies of sugar are adequate for now, but we expect supplies to tighten as we approach the third quarter (JAS). **Price Outlook**: U.S. sugar balance sheet is supportive to prices and prices are expected to move higher from current levels.

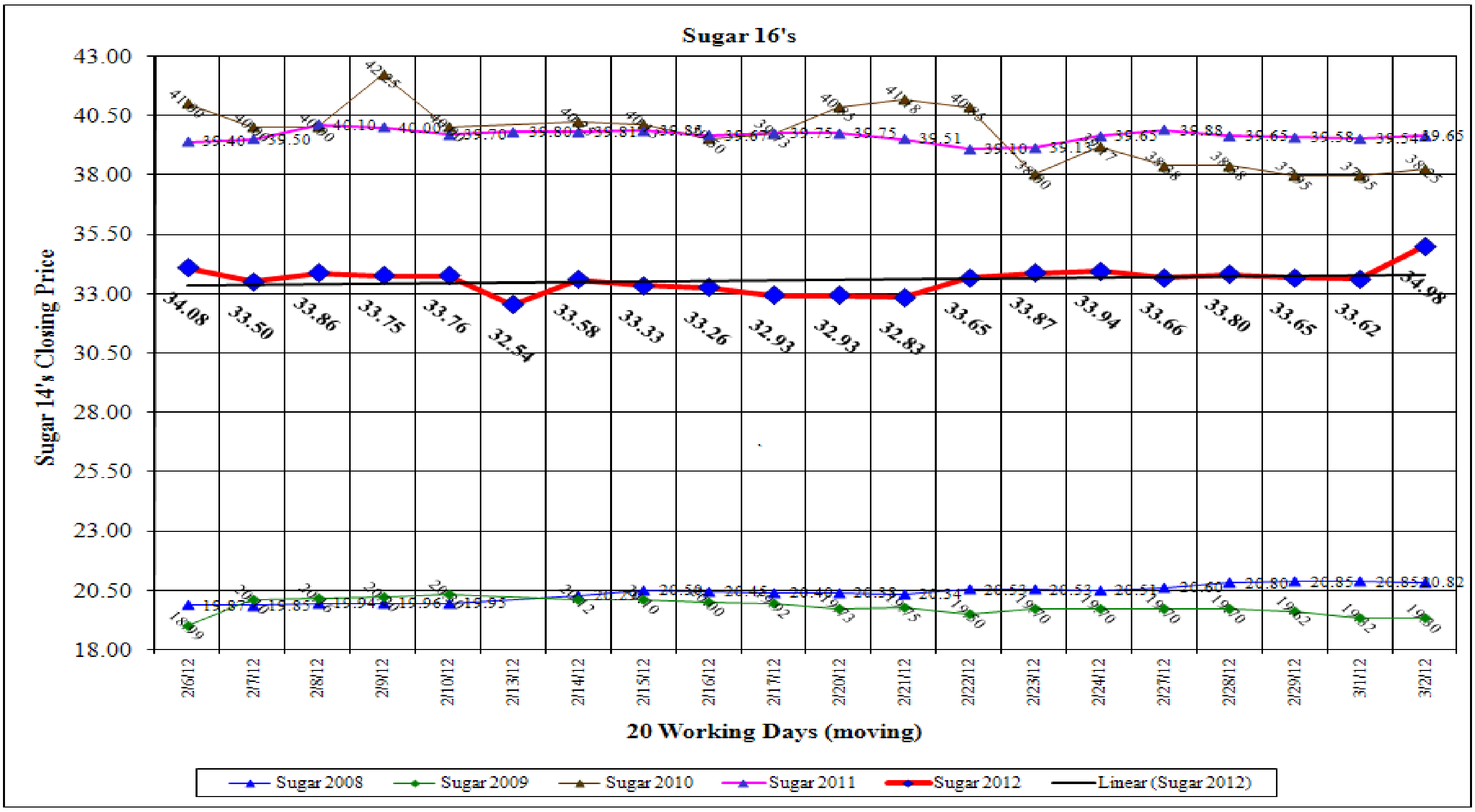
Bullish Factors

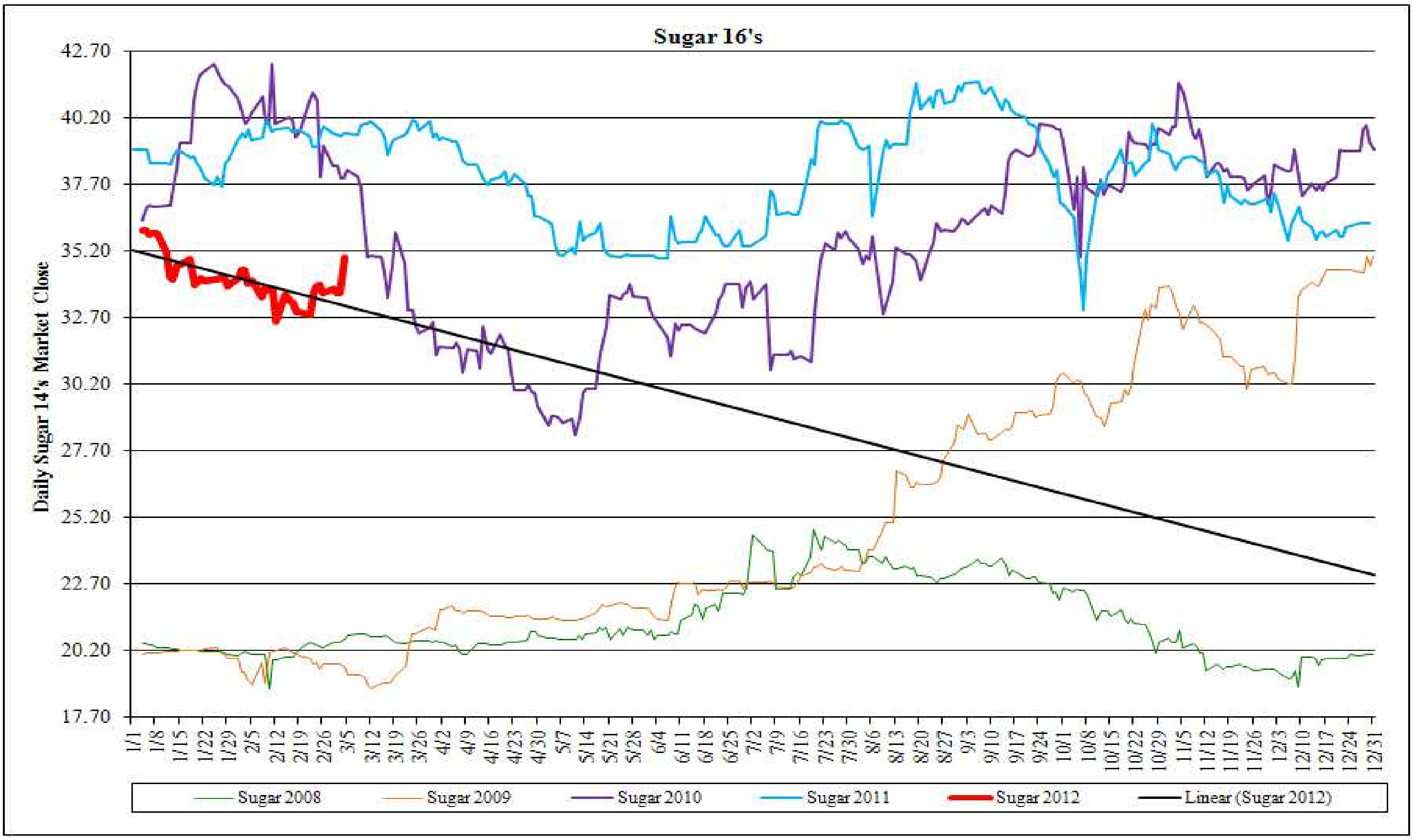
- The recent WASDE report continues to indicate that the 2011/2012 marketing year will be tight with overall sugar supply expected down 6.1% over last year. 2011/2012 sugar production is estimated to be up 0.5%, while imports are projected 22% lower. The decrease is related to Mexico (expected to be down 39%). So, the stocks to use ratio is at 5.3%. (The 10-year average is 15.2 %.) The 2010/2011 marketing year's stocks to use ratio was 12.7%.
- The U.S.D.A. estimates 2011/2012 Mexican sugar production at 5.0 million MTRV. The reduction is related to harvest progress and sugar recovery. 2010/2011 Mexican production is projected at 5.2 million MTRV
- The Mexican stocks to use ratio indicates that the sugar situation will remain tight in the country. The stocks to use ratio are 13.4% for 2010/2011 and 17% for 2011/2012. The Mexican ending stocks level is equal to less than two month's domestic usage as well as being below the six year average of 24.3%.
- Two cane refineries' continue to have production issues.
- Although the U.S.D.A. has total usage increase 1.8% and 1.0% in 2010/2011 and 2011/2012 respectively, we still believe domestic demand is being greatly understated in WASDE report.
- There continues to be some movement away from high fructose corn syrup to sugar by some major companies. (Kraft, Ocean Spray, Starbuck, Gatorade, Pepsi-Throwback products, Hunts and Heinz ketchup, many dairies for chocolate milk)
- According to the Sweetener Market Data Report, sugar usage in (Oct-Sept) for 10/11 was up 2.2% over last year for the same time period.
- Domestic Refiners are well sold for the 2011/2012 marketing year. Sugar sales have been very brisk for 2011/2012 with three beet refiners saying they are practically sold out. 2013 sales have been estimated at 50% to 60% of production.
- Although the world sugar market (#11) pricing has declined about 25% since its high at the end of 2010, it has shown some resilience lately by increasing 16% since May. The reason for the increase is the market not expecting a world supply surplus as earlier predicted.

Bearish Factors

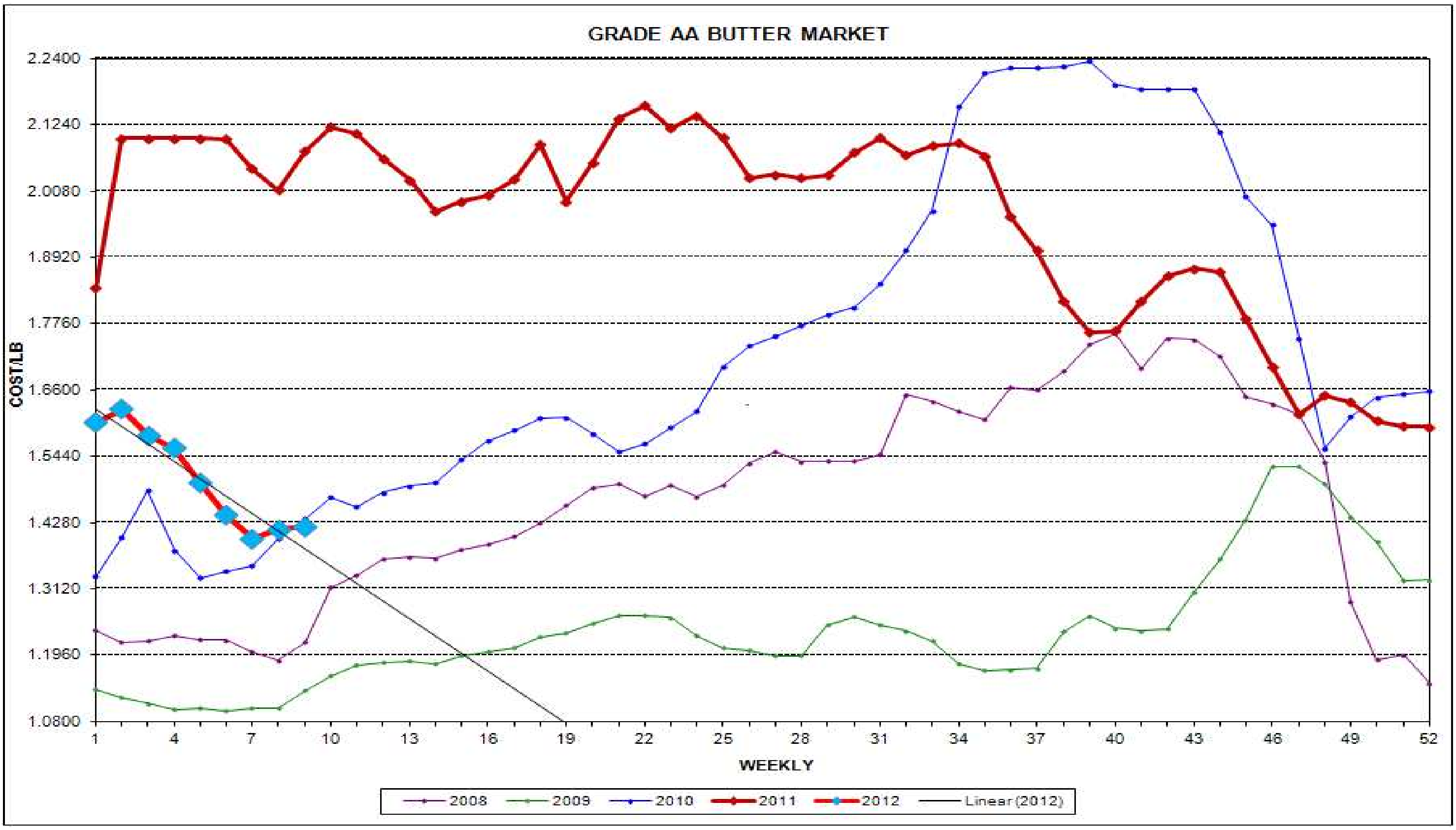
- Mexico is projected export 1.03 million STRV of sugar to the U.S. in 2011/2012 crop year which is down 39% over last year. Mexico allowed another 150,000 metric tons of imports. This should help them achieve the export number.
- As more High Fructose Corn Syrup is shipped to Mexico, more sugar could be earmarked for the U.S.
- If the World Market (#11) drifts back under $0.20 per lb, this could allow Tier 2 sugar to enter into the market and put pressure on the market in particular the cane sugar side. Impact on the beet sugar price may be limited due to them being well sold for 2011/2012 crop.

Sugar 16's closed up $1.04/cwt for the week (versus last Friday's close).


Sugar 16's
Sugar 14's Closing Price
20 Working Days (moving)
Sugar 2008
Sugar 2009
Sugar 2010
Sugar 2011
Sugar 2012
Linear (Sugar 2012)


Sugar 16's
Daily Sugar 14's Market Close
Sugar 2008
Sugar 2009
Sugar 2010
Sugar 2011
Sugar 2012
Linear (Sugar 2012)

Butter Dairy Market



Score AA butter closed down $0.015/lb on Friday, ending the week at $1.45/lb. The weekly average is $1.4205/lb. up $0.0049/lb from last week's average.

A. Butter Market

The butter price fluctuated this week - starting 2.25 cents lower on Monday, moved 6.75 cents higher on Thursday, and then shed 1.5 cents on Friday to close the week at $1.4500. There were 18 sales recorded this week. The market looks to be showing some strength because only "new crop" butter - butter made after December 1, 2011 - can now be traded on the cash, CME market. Butter churning schedules remain heavy in all regions with cream supplies available and clearing to churns. There has been an uptick in cream utilization in higher-class products such as cream cheese, sour cream, dips, and other like products, as orders are prepared for upcoming retail and foodservice needs for the Easter and Passover holidays. Trade sources are indicating that the current butter price is working better for featuring print butter at retail versus the price ($2.02) a year ago. In addition, manufacturers are making and clearing 82% butter for export needs. The Cooperatives Working Together (CWT) program has accepted requests for export assistance to sell 3.053 million pounds of butter with delivery of product from February through June 2012. Additional cream demand is appearing from ice cream manufacturers on a limited scale.

B. Dairy Powders

Dry dairy product markets range from weak to strong. Lactose prices held steady this week and interest is active. Whey protein concentrate 34% mostly prices retreated fractionally. Interest from food companies is active while sales into some animal feed operations came under price pressure due to availability of substitute products at comparative lower prices on a per unit of protein basis. Dry whey markets in the Central and West realized declines on the bottom ends of the ranges on both of those markets. The low end prices have reportedly slowed spot interest according to market participants. Nonfat dry milk prices are weaker, with continued strong production trends piling more NDM onto the supply side of the equation. Dry buttermilk prices clipped off one-quarter to one cent on the tops of the Central/East and West ranges. Production is strong, but inventory buildup is finding some relief from increasing interest in condensed buttermilk for Class II production of ice cream mixes and hard ice cream.

Eggs

A. Shell Eggs:

Retail demand ends the week described as fair. Some were hoping that the calendar turning over would create a bump in interest toward the latter part of the week, but no major changes have been reported. Buyers continue to take supplies at a seasonally average pace, and feature activity has tapered some in comparison to volumes seen just a week or two ago. Several have ads placed through the first half of March, some major retail chains included. Most think some promotional activity will be required to spur consumer shopping patterns prior to holiday needs. Foodservice call is again said to be slightly better than anticipated. Supplies of all sizes are considered adequate to at times available. Extra large continue to be the most sought after and in the best balance. Wholesale traders seem to be comfortable with the current market conditions and price levels. Some report that export opportunity has helped to tighten the supply situation. Further processors continue to be interested, but unmotivated, buyers of heavy breaking stock. Sellers here are holding asking prices at the high end of quoted ranges and at times higher. The market is steady.

B. Egg products

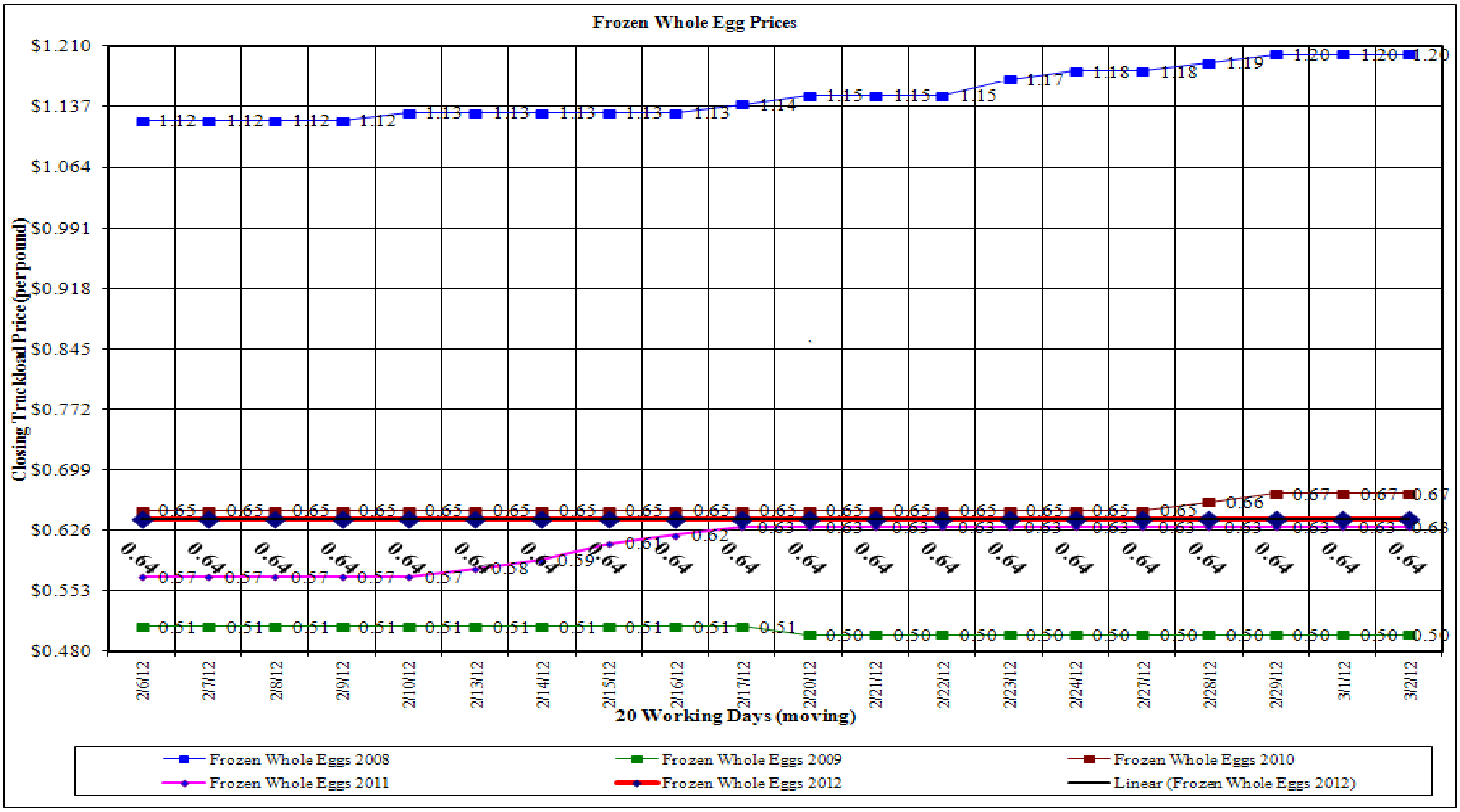
The products market is somewhat quiet today. Underlying buying interest is noted on all categories of liquid, with public bidding for whole egg expressed at multiple levels. Completed trading is minimal in today’s session, rendering our markets unchanged. The dried and frozen complexes are mostly inactive domestically, however more and more sellers are fielding interest from European buyers. Expect interest from Europe to persist, especially as the prices of EU breaking eggs and egg products continue to climb.

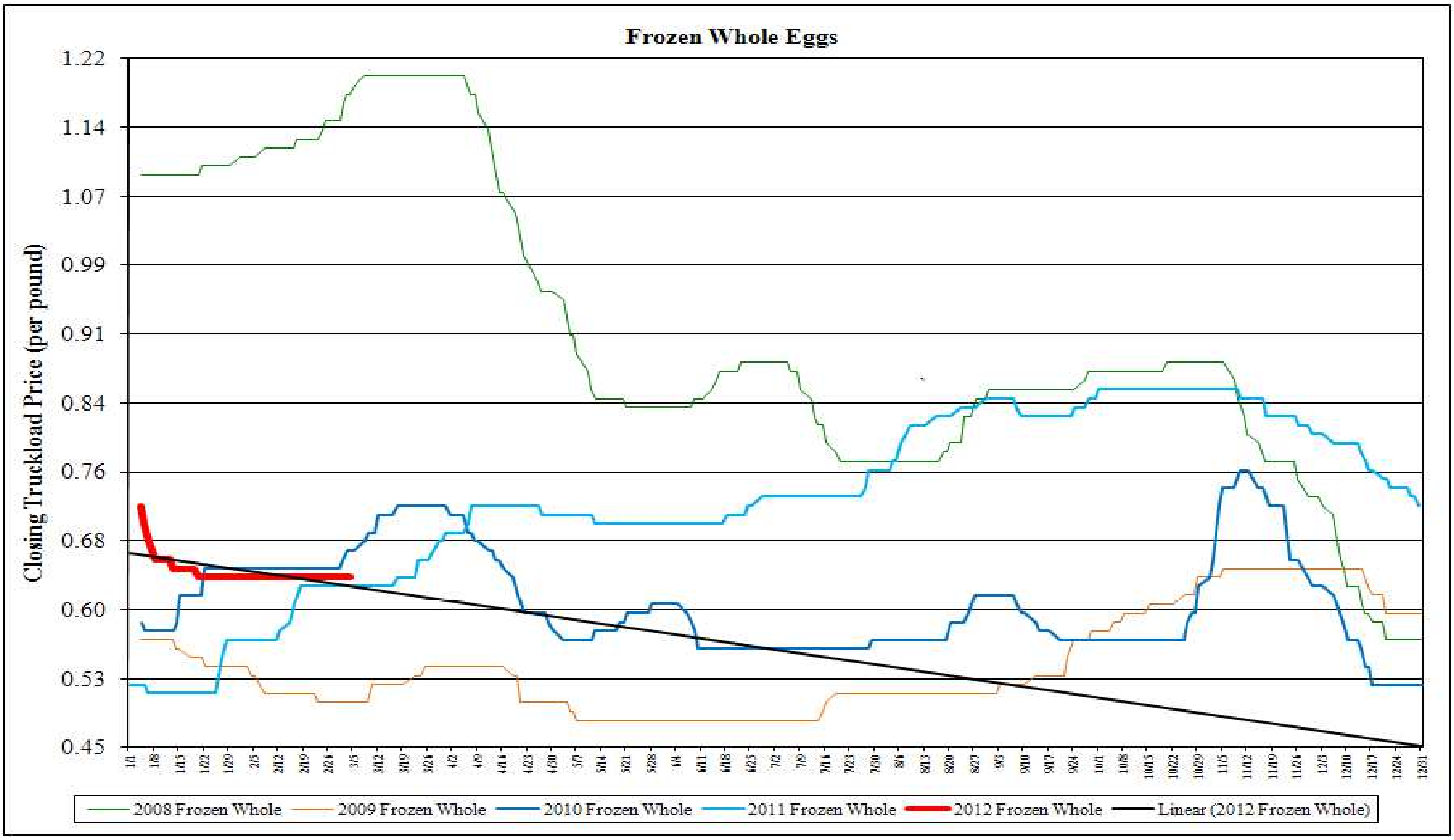
Several buyers are pursuing supplies of liquid whole egg, but find they must pay a premium above quoted market ranges to complete transactions. Liquid whites and yolk are also generating interest, as buyers have begun to increase their delivery schedule on previously signed contracts.

C. Egg Market in General

The U.S. chicken industry continues to downsize, with weekly broiler egg sets 6% below last year and chick placements down 5%.

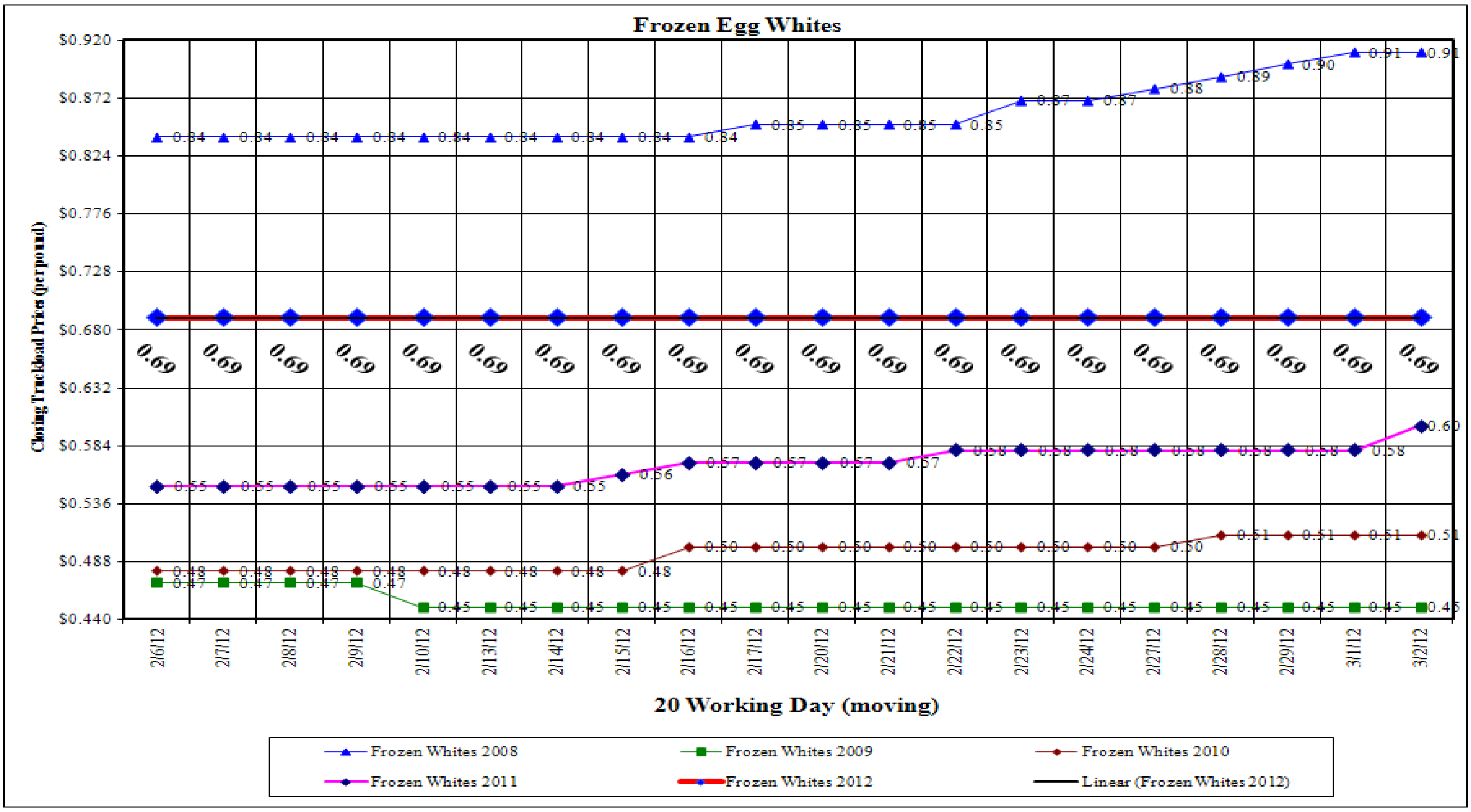
a.   Frozen Wholes

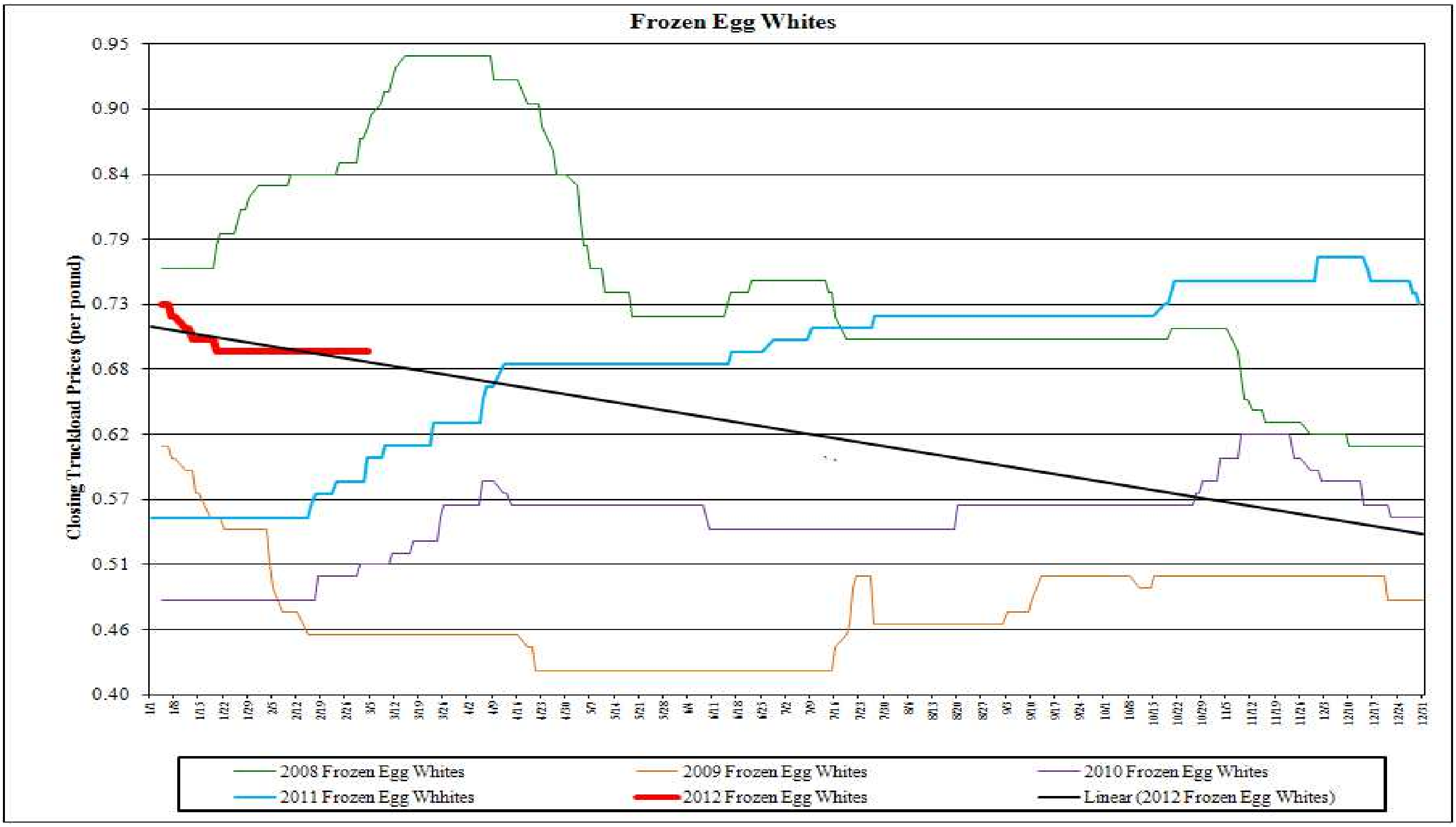




Frozen Whole Eggs closed "no change" for the week (compared to last Friday's close).

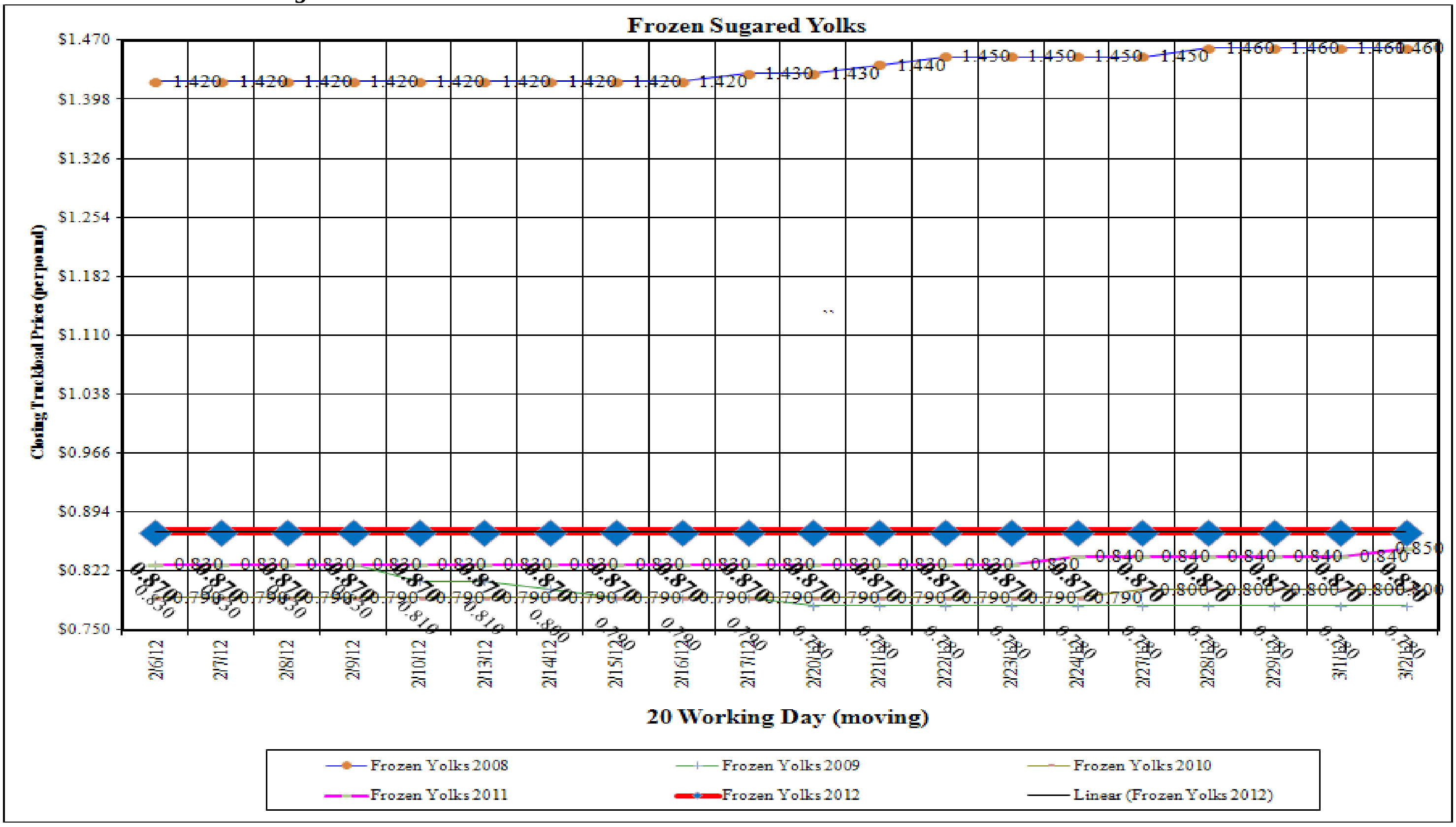
b. Frozen White

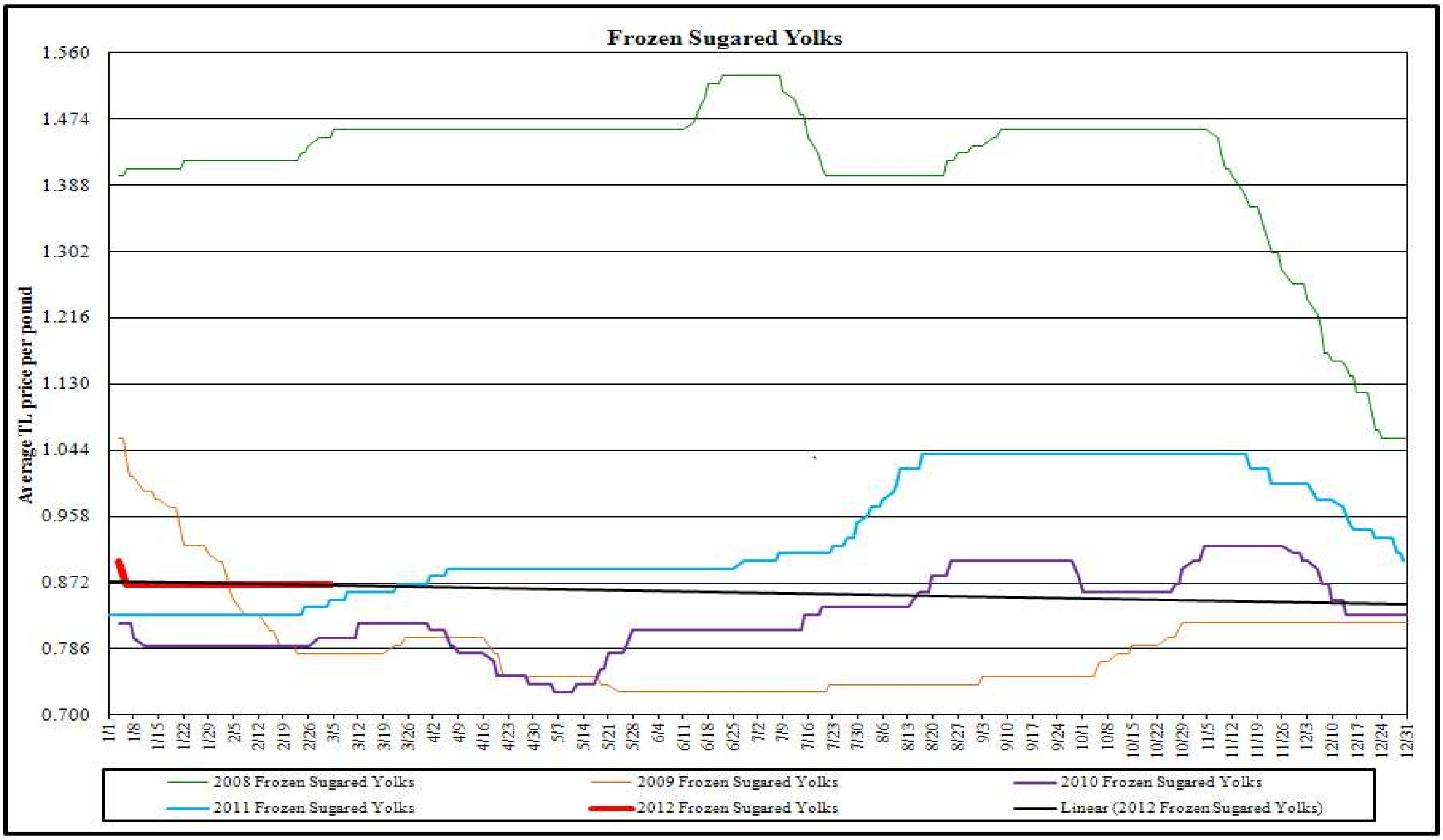




Frozen Egg Whites closed "no change" for the week (compared to last Friday's close).

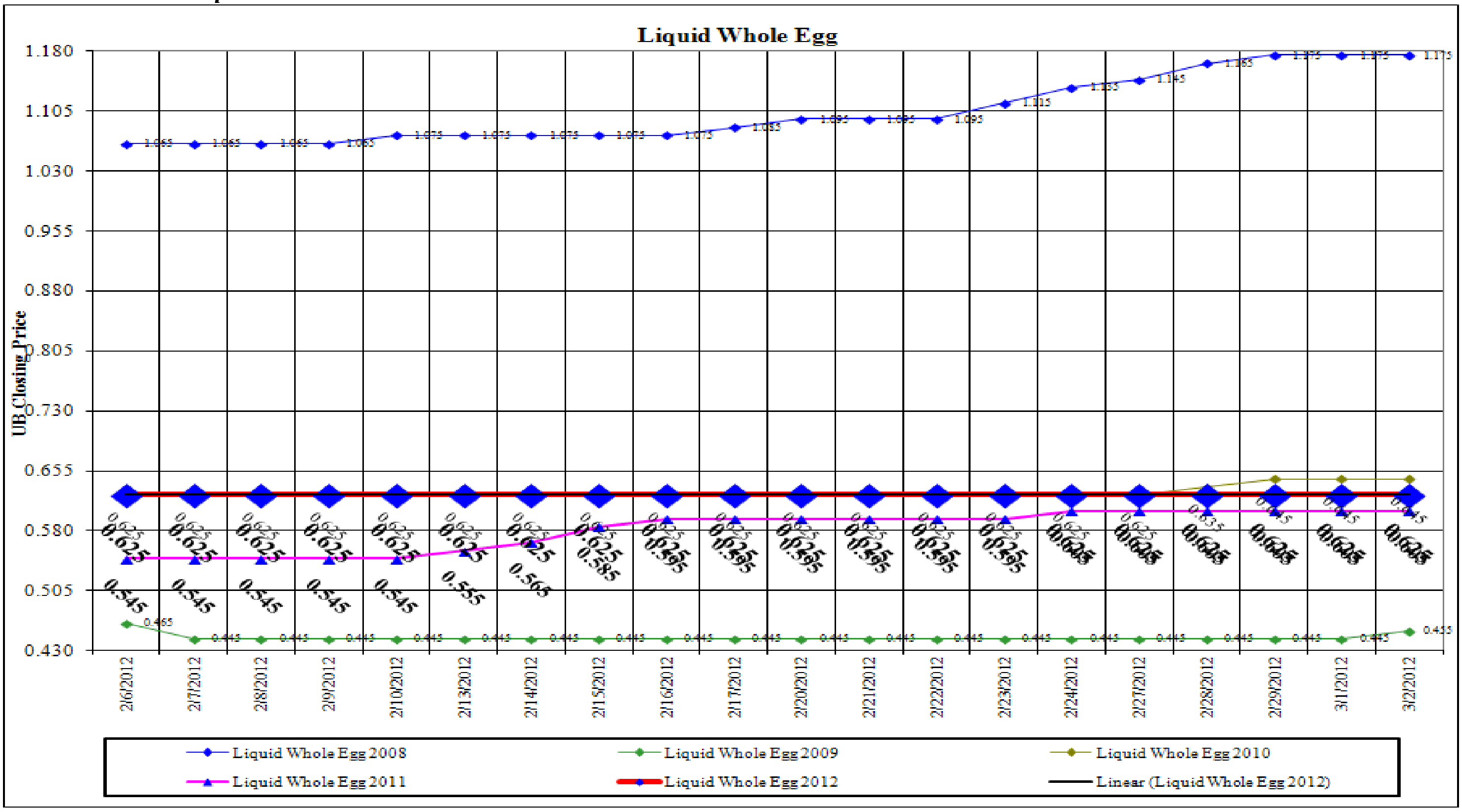
c. Frozen Sugared Yolks

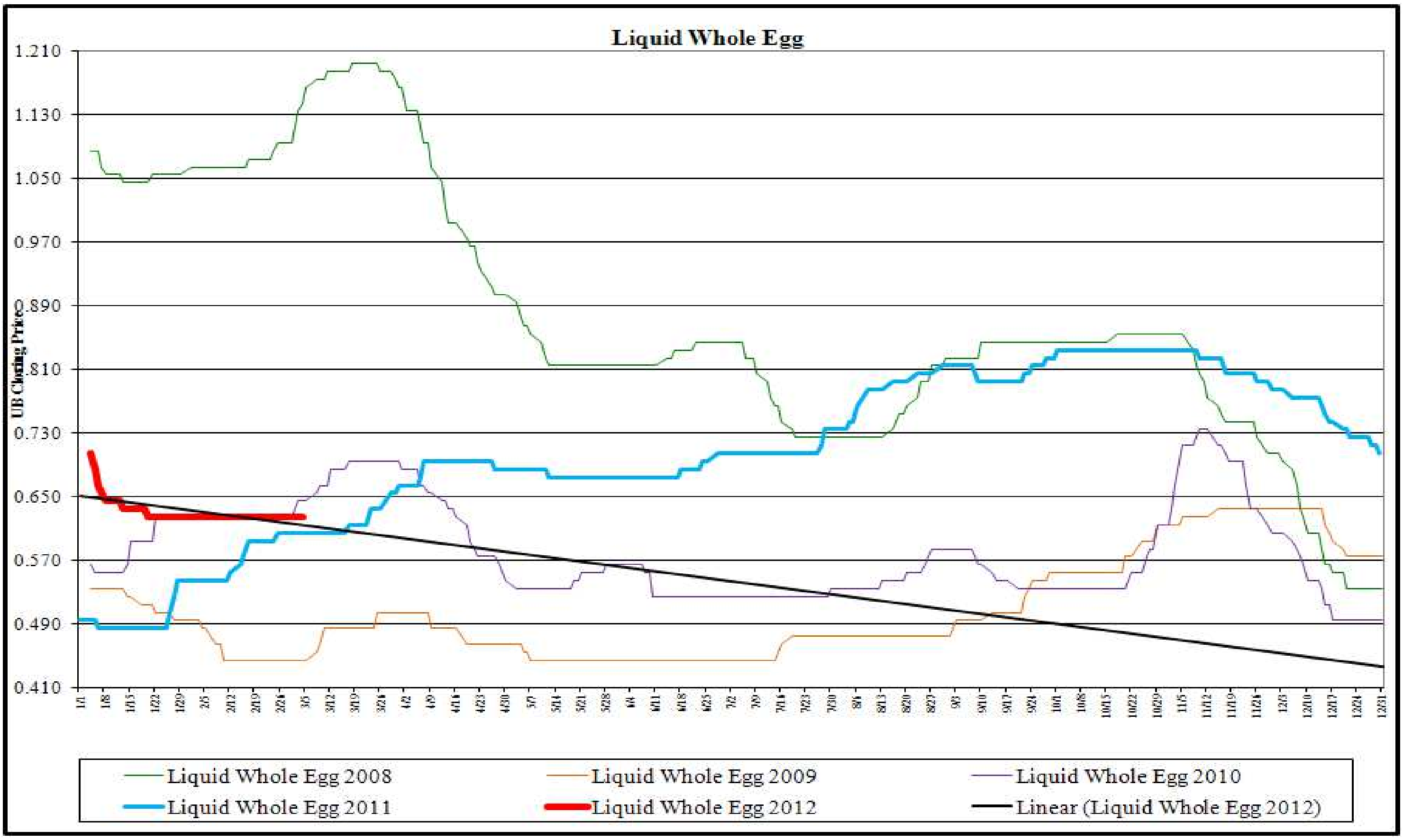




Frozen Sugared Yolks closed "no change" for the week (compared to last Friday's close).

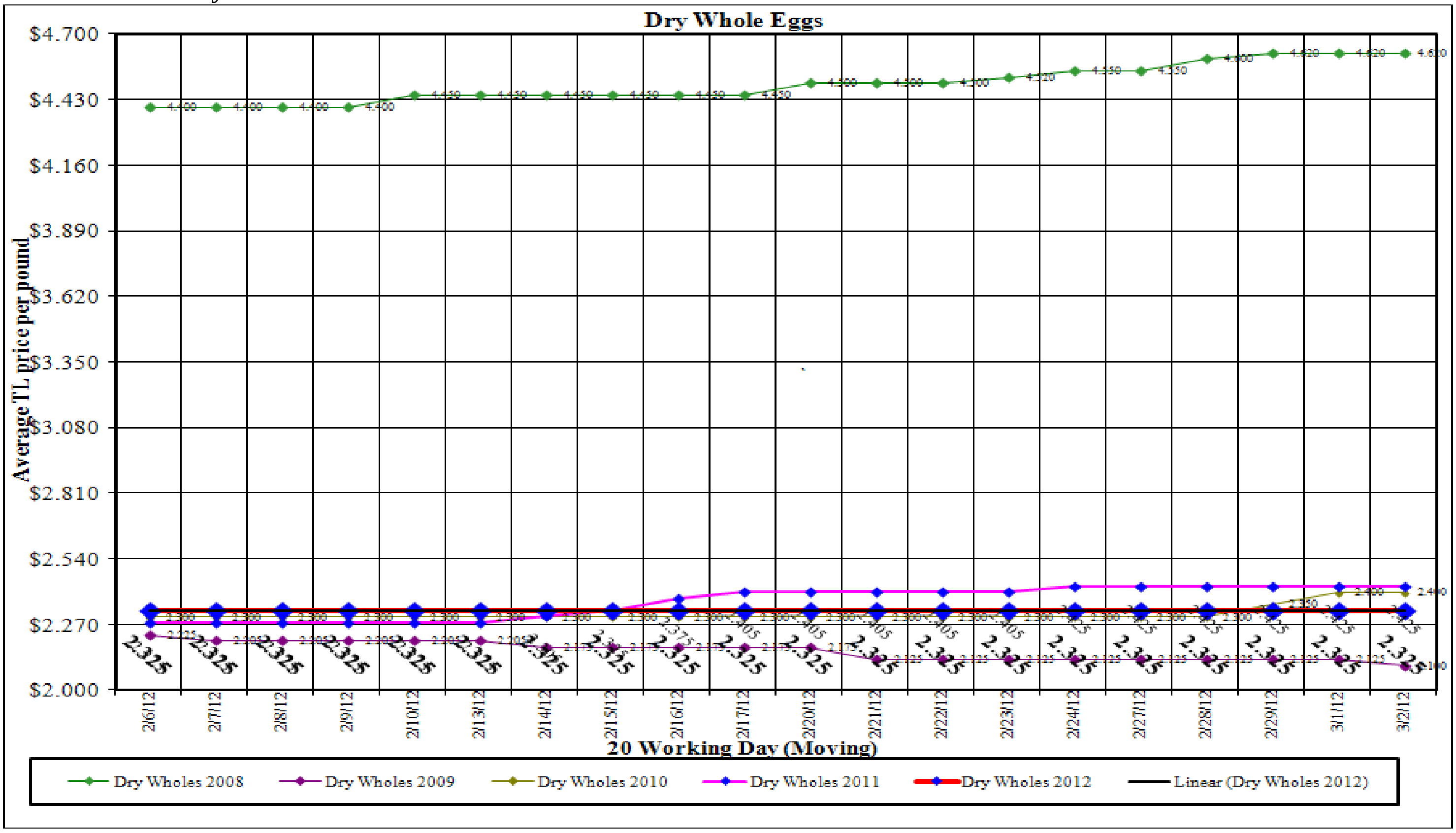
d. Liquid Wholes

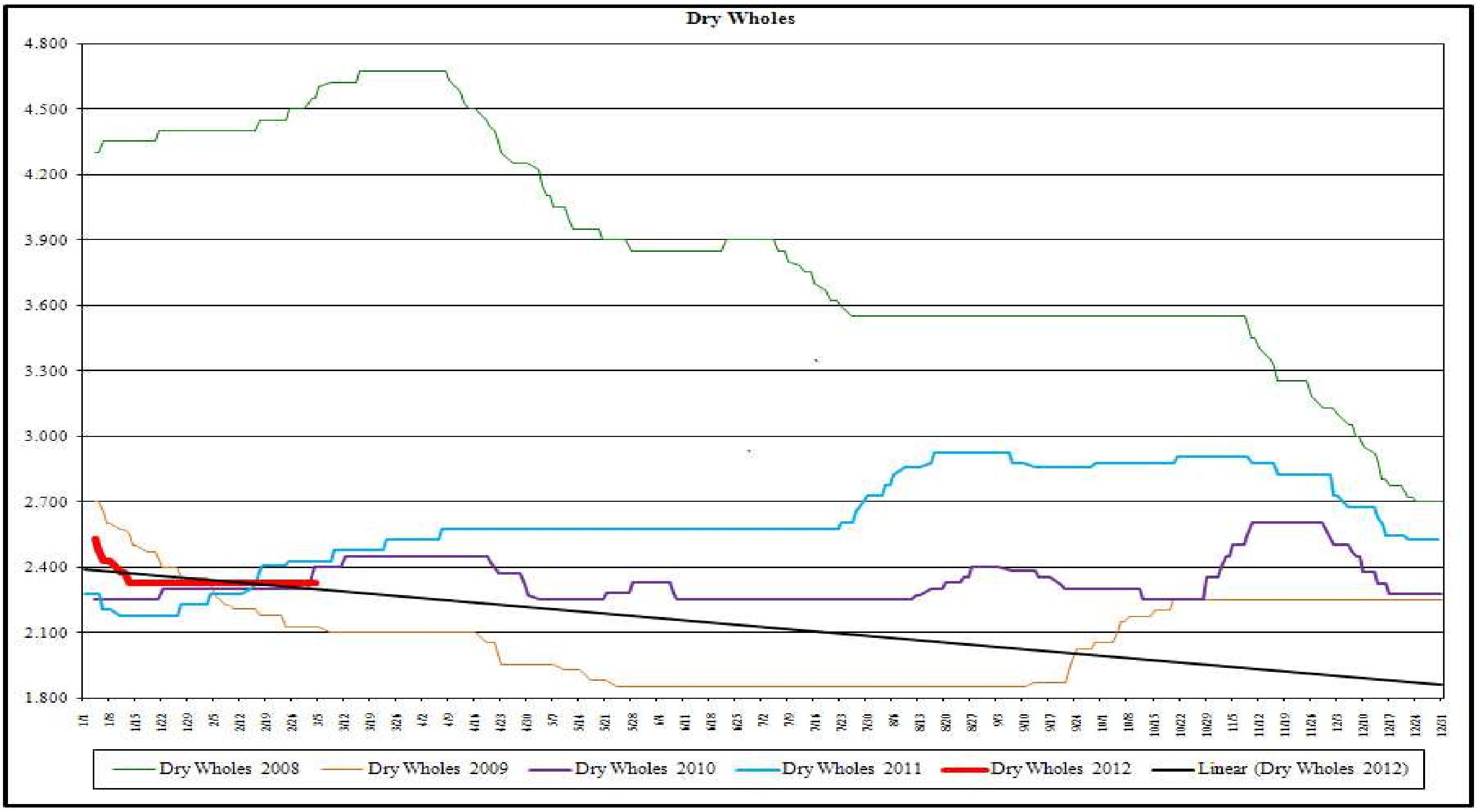




Liquid whole eggs closed "no change" for the week (compared to last Friday's close).

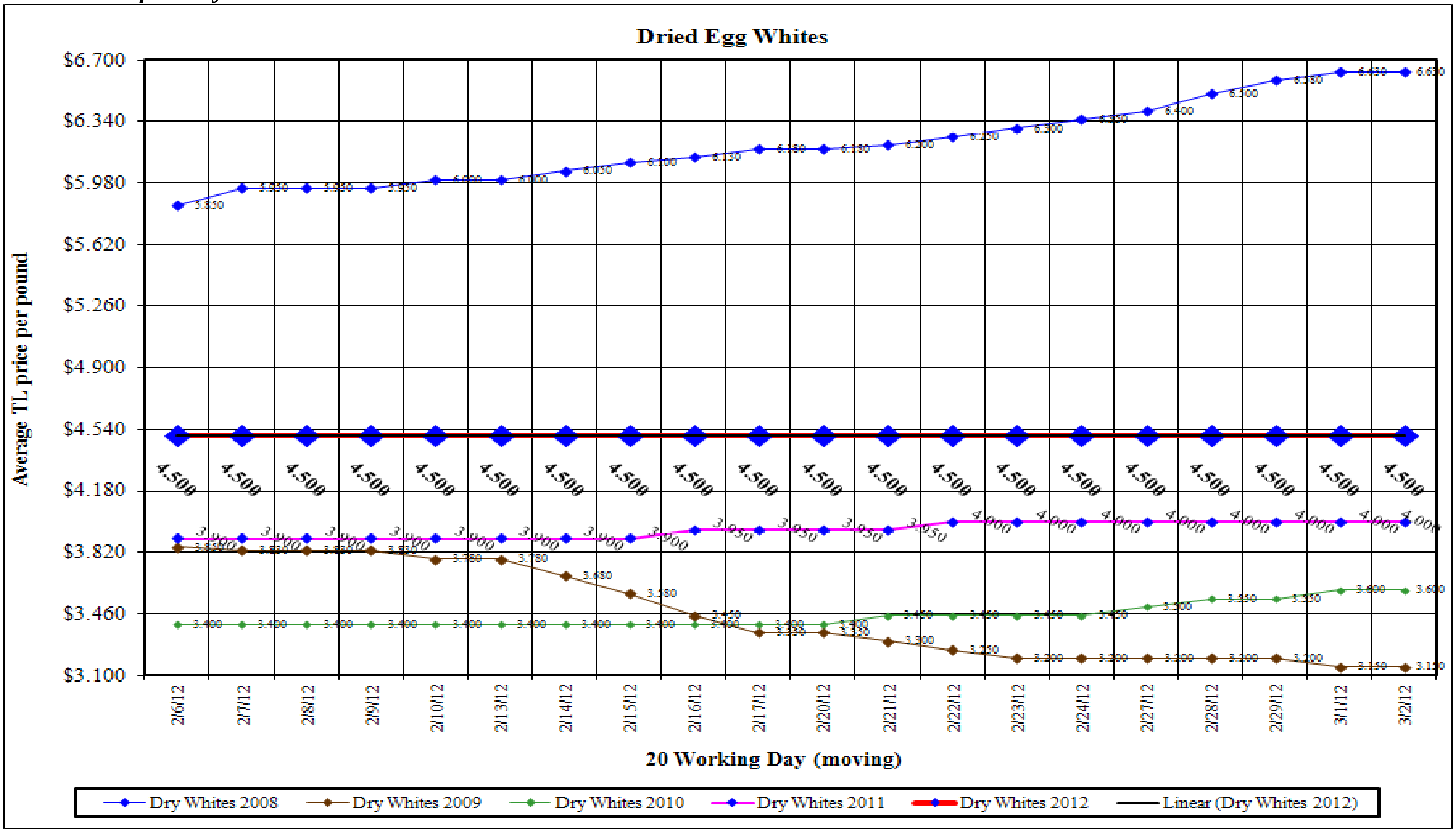
e. Dry Wholes

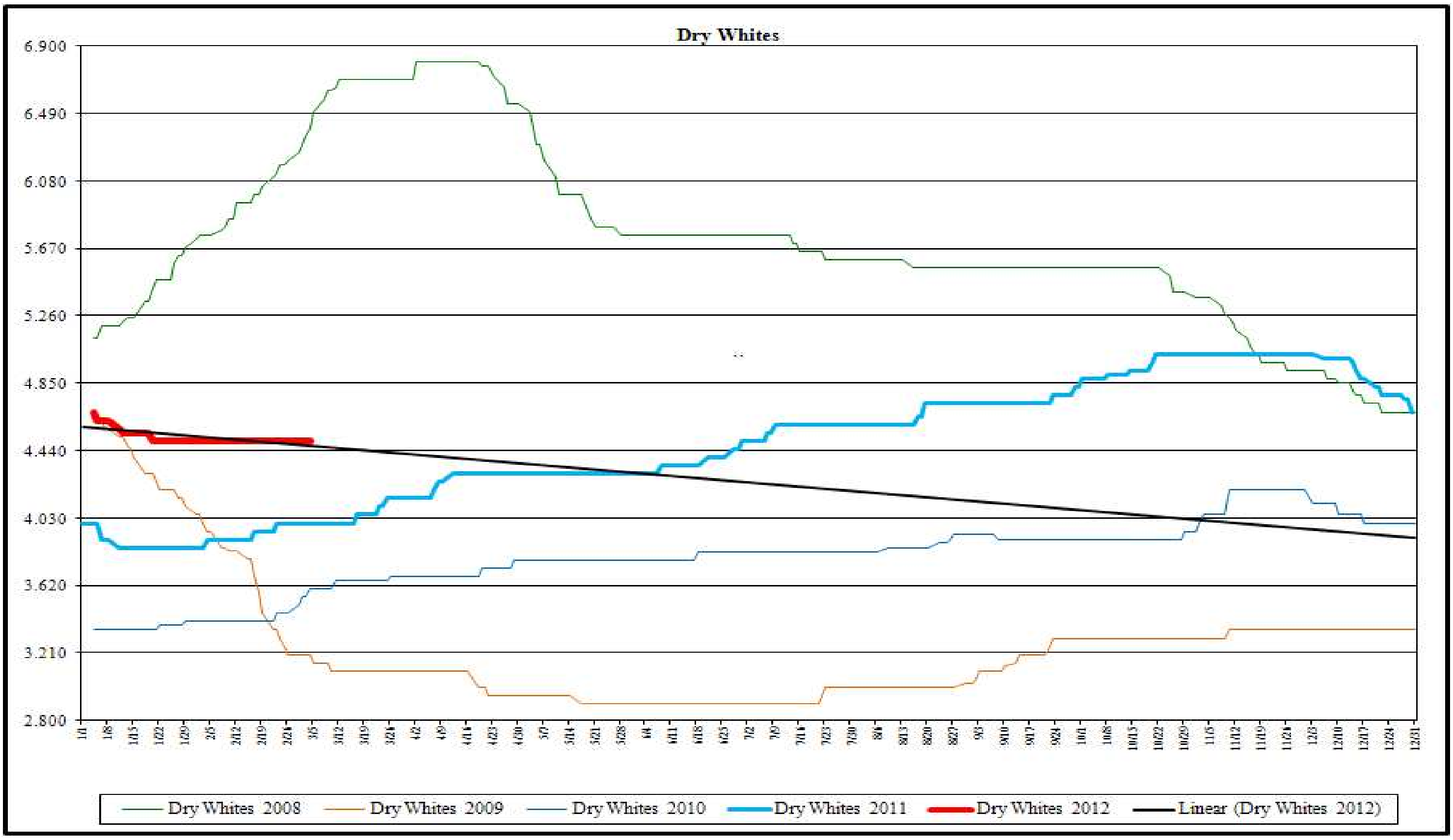




Dried Whole Eggs closed "no change" for the week (compared to last Friday's close).

f. Dry Whites





Dried Egg Whites closed "no change" for the week (compared to last Friday's close).

Corn

Cash basis levels were steady in the Midwest with river terminals higher. Trade estimates for the weekly export sales report ranged from 600 to 950 thousand MT. USDA this morning said the number for last week was 690,000 MT for 2011/12 delivery and 23,000 MT for 2012/13 delivery.

With less than 2 cents carry from now to July, there is no incentive being offered to store corn—just hope for higher prices.

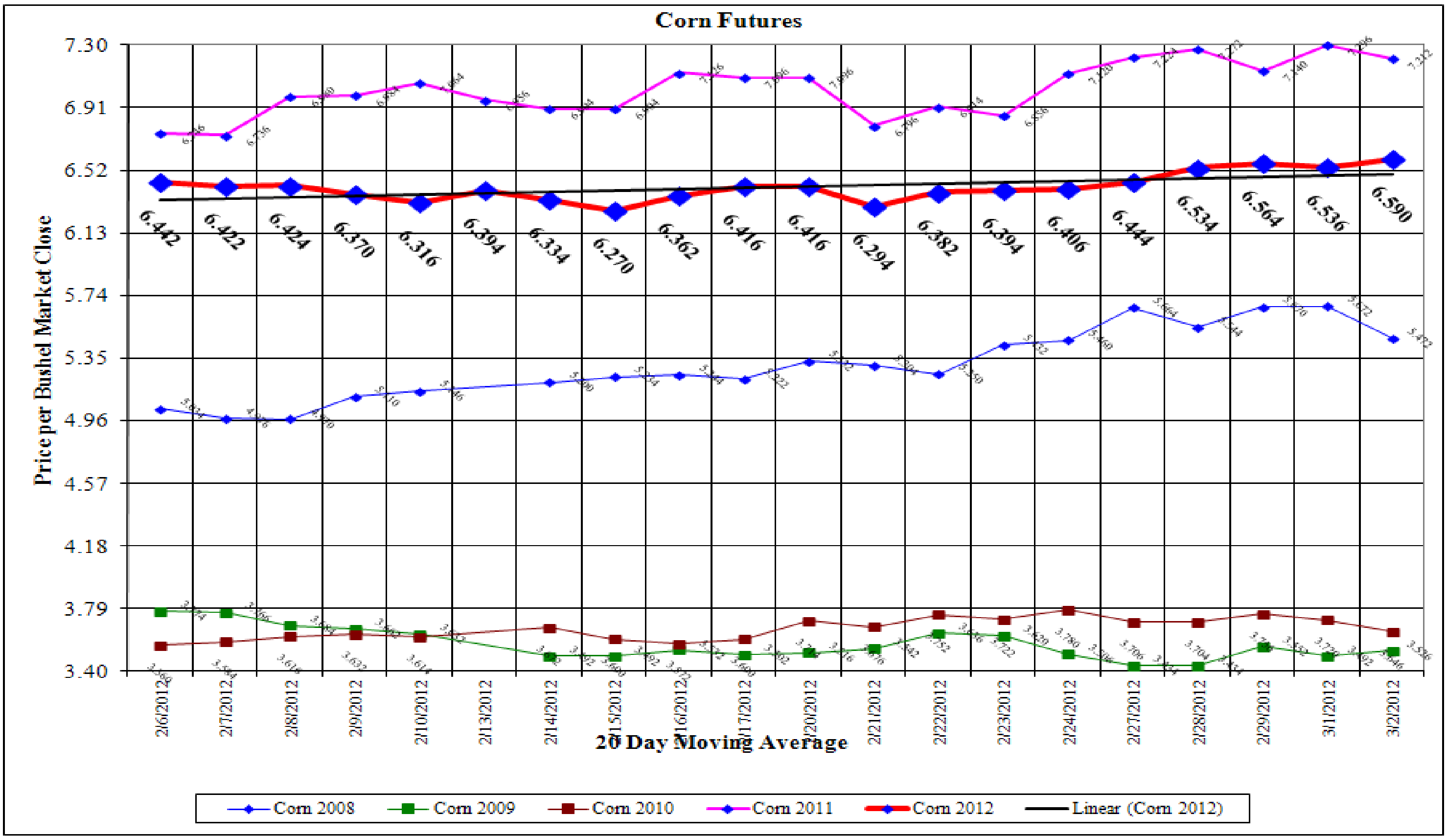
U.S. 2012 crop insurance “floor price” for corn set at $5.68/bushel and soybeans at $12.55—encouraging corn plantings over beans

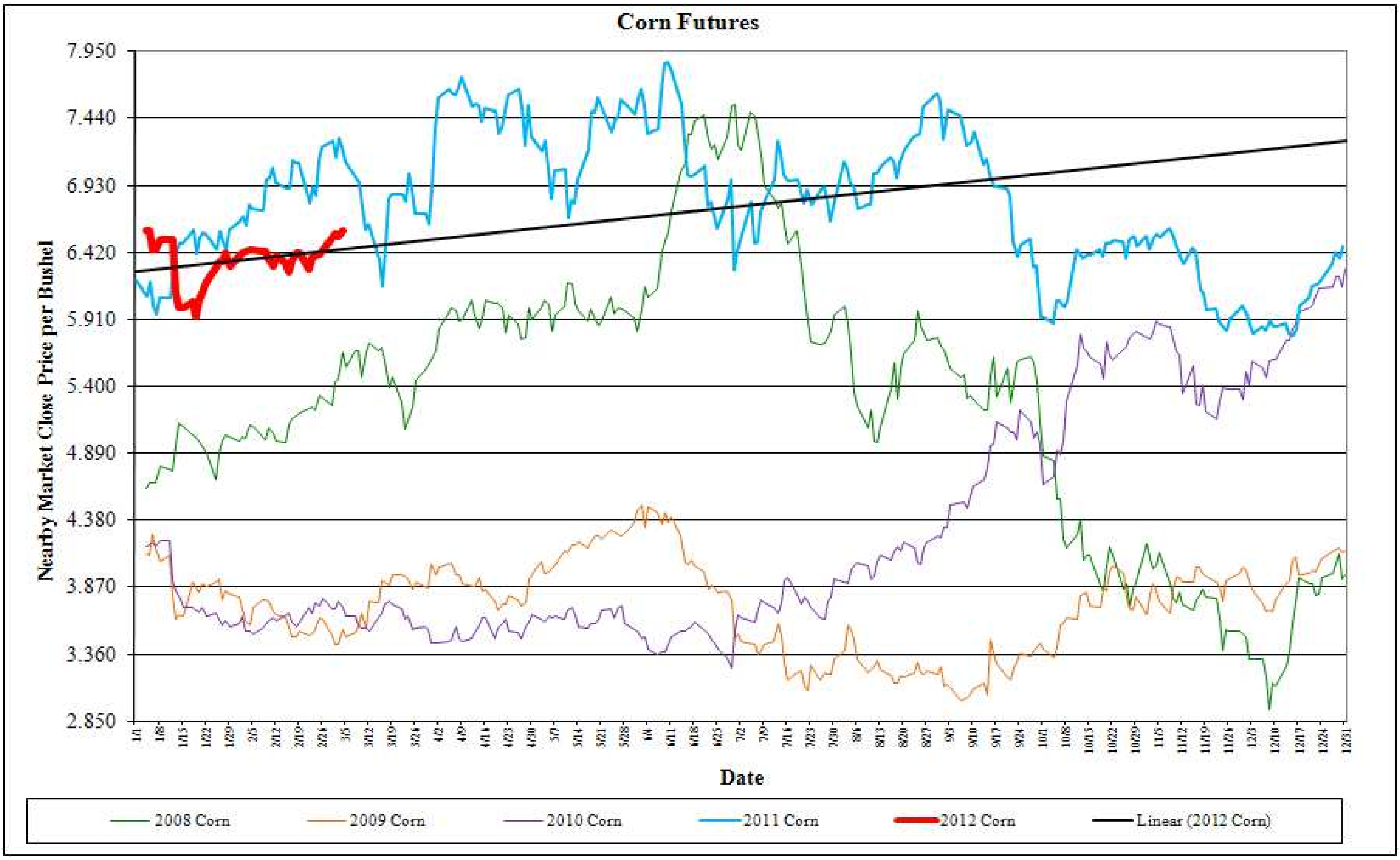
U.S.D.A. export inspections, after revisions to previous week data, are only 1.07 million bushels behind year ago. U.S.D.A. is still calling for total shipments for the year to be 135 million smaller. The U.S. weekly grain stocks report showed elevator and terminal corn stocks declined 707,000 bushels to 61.5 million versus 86.4 million a year ago.

China did buy a couple more cargos of old crop U.S. corn. Chinese cash prices have been rising, making imports more attractive.

The monthly EIA report showed December U.S. ethanol production at a record 29.772 million barrels, thanks in part to producers rushing to crush as much corn as they could prior to the tax credits expiring. Weekly ethanol production dipped to 896,000 bpd from 919,000 the week before. This is welcome; as ethanol stocks have built to 22 million barrels and that is putting tremendous pressure on ethanol prices. The production was only 99,000 barrels below expectations.

Corn futures closed up $0.184/bushel for the week (versus last Friday’s close).


Corn Futures
Price per Bushel Market Close
20 Day Moving Average
Corn 2008
Corn 2009
Corn 2010
Corn 2011
Corn 2012
Linear (Corn 2012)

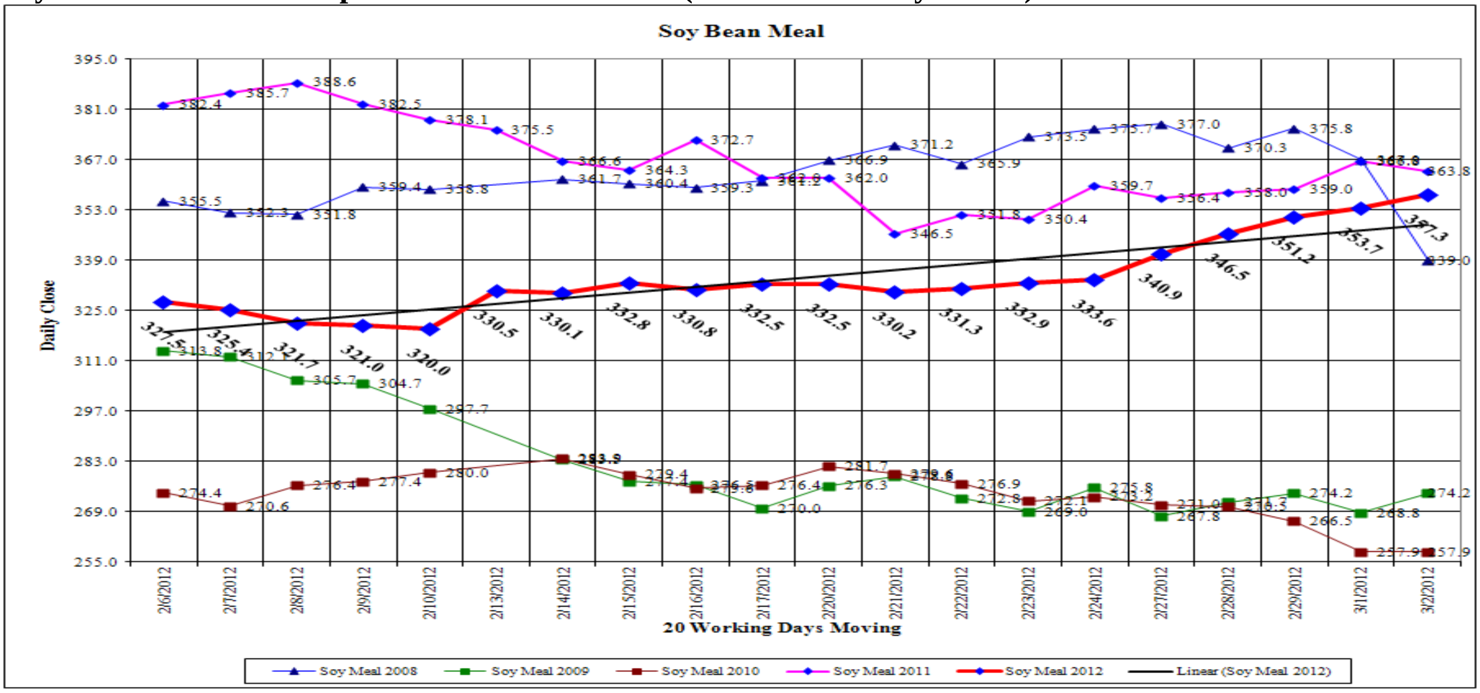

Corn Futures
Nearby Market Close Price per Bushel
Date
2008 Corn
2009 Corn
2010 Corn
2011 Corn
2012 Corn
Linear (2012 Corn)

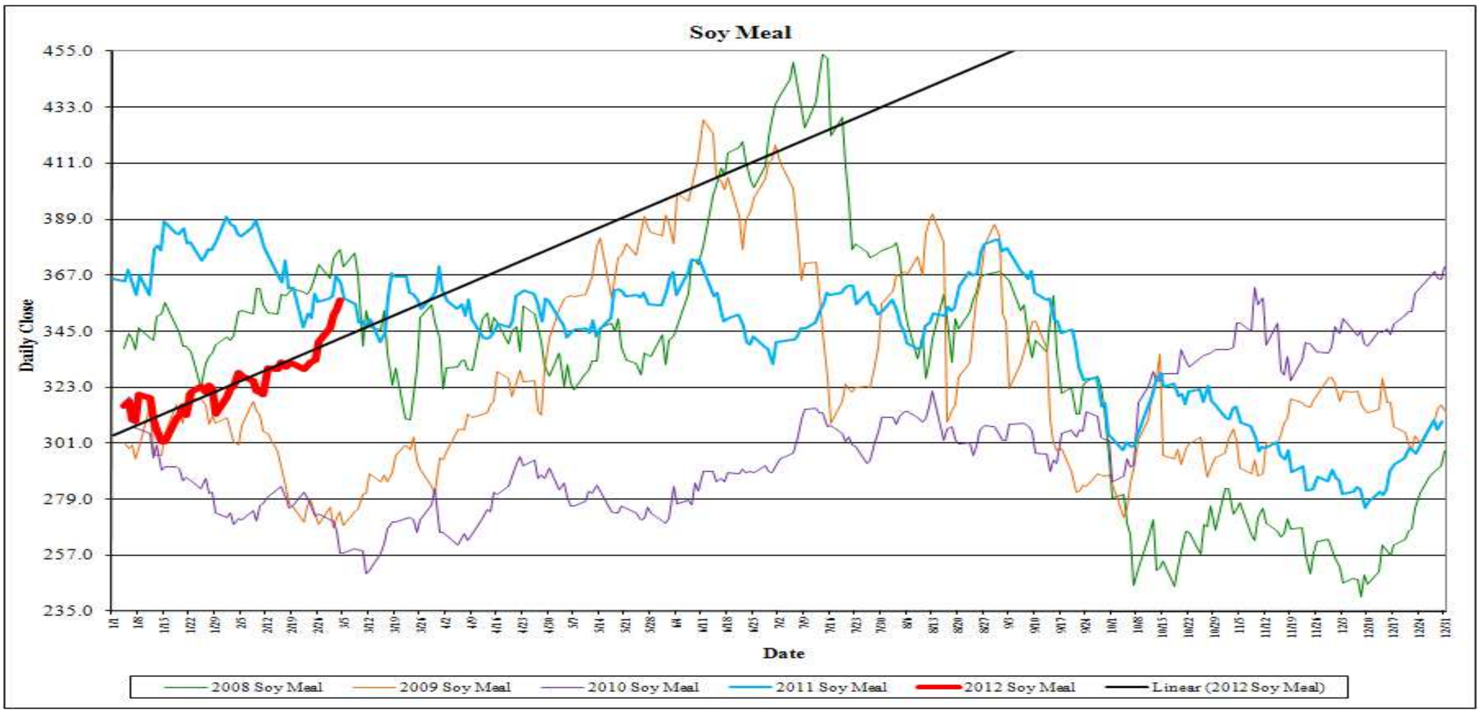
Soy Meal

The trading range for May meal is from 328.00 up to current high of 357.30 (made on tonight's close). Meal could test its highs before selling off. New highs beget new highs and although we are overbought to the upside the market appears ready to continue to rally if need be. One of the drivers for higher meal (besides firm cash) is the fact that Argentina dock workers were on strike and restricting the passage of ships. Any hiccup in export activity is net plus for the U.S. driving potential demand back here.

Weekly soy meal exports were 40,000 metric tons for (versus an expected 75-150,000)–a marketing year low, and down 82% from the previous week and 70% from the 4-week average). Meal futures seem to have concluded its rally temporarily at $357.00, but further new highs could be seen down the road.

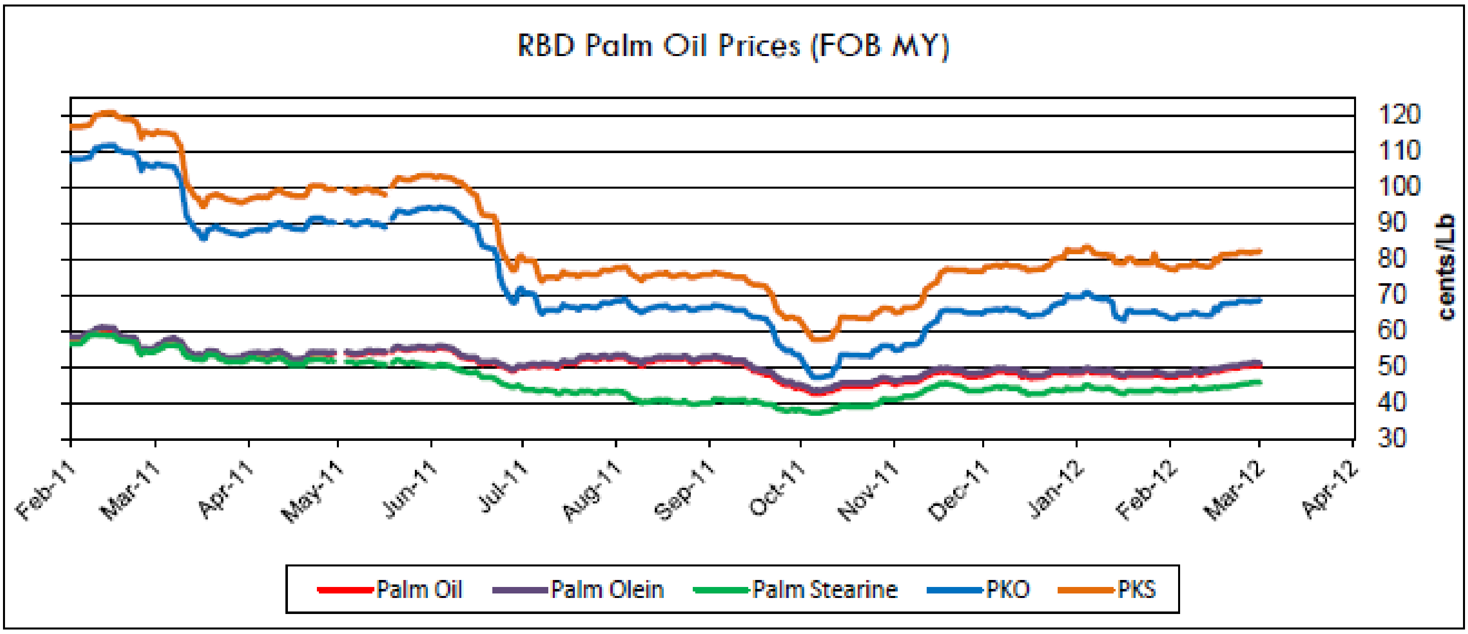
Soy meal futures closed up $23.70/ton for the week (versus last Friday's close).



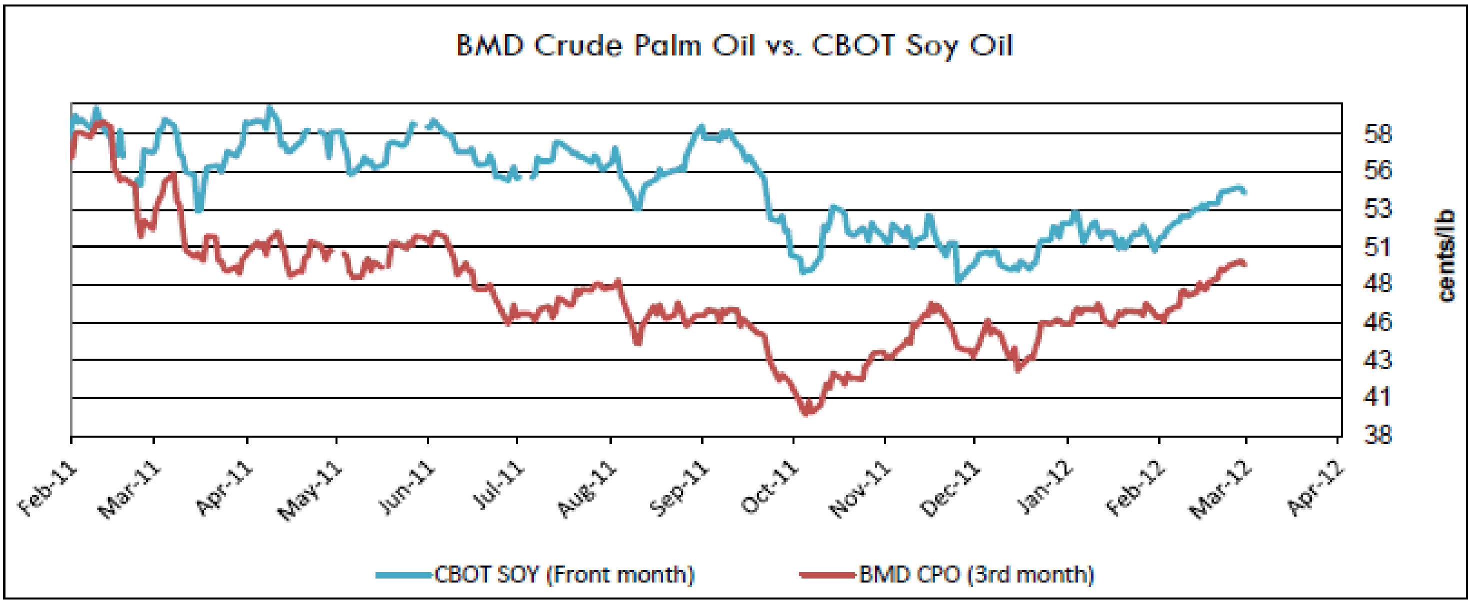


Palm Oil

By week's end, Malaysian crude palm oil futures fell as traders booked profits from a rally driven by surging crude oil prices and prospects of tighter soy oil supplies from South America. Prices rose more than 6% in February and have come under pressure this week from concerns of orders shifting to Indonesia that offers more discounts due to ample feedstock and lower export taxes for refined palm oil. Cargo surveyors have reported up to a 10.5% drop in February exports from a month ago even though demand from China and India has been resilient. Benchmark May palm oil futures dropped 26 ringgit to close at 3,259 ringgit ($1,085) per ton. Market players expect some short covering ahead of the Bursa Malaysia Palm Oil Conference next week where analysts are expected to present bullish views on vegetable oil markets. A Reuter's survey of Chinese and Singaporean traders showed China's palm oil stocks probably rose to nearly a million tons in February with a further build-up seen as traders keep buying cargoes on concern over strengthening prices. Market players expect Malaysia February stock levels to be flat or end higher as exports seem to be slowing at a faster pace than production. Steady China demand may lead to better Malaysian export numbers in March. The palm oil market may rally in March if China is snapping up more cargoes with the prices probably staying well above 3,200 ringgit ($1,000).



(Graph source: Loders Croklaan)



(Graph source: Loders Croklaan)

Energy Markets

Crude oil has been on a tear to the upside. Crude does have a positive seasonal for this time of the year. Not surprising, geopolitical tensions are again the catalyst for a higher crude oil trade.

Oil surged nearly 5% on Thursday to its highest level since crude's record run in 2008 after a late report out of Iran of a pipeline fire in top exporter Saudi Arabia. Iranian media reported an explosion on an unknown oil pipeline in the oil-rich Eastern Province of Saudi Arabia, although it was not possible to verify the report immediately.

Prices edged off highs after Dow Jones newswires reported a Saudi oil official said the report was untrue, according to CNBC television. Markets have been on edge this year as threats of a supply disruption due to the West's standoff with Tehran over Iran's nuclear program have added to concerns about actual production losses from South Sudan, Yemen, Syria and the North Sea.

"The sharp move up on the pipeline story points to the market nervousness on anything related to supply problems," said Gene McGillian, analyst for Tradition Energy in Stamford, Connecticut.

Brent crude prices topped $128 a barrel in late post-settlement trade, levels not reached since July 2008 when the growing economic crisis sent oil spiraling to record peaks of more than $147 a barrel. Prices were already up before the pipeline report, lifted by news Israel would test-fire a ballistic interceptor missile, escalating tensions over the crisis that has included tough sanctions against Iran.

International benchmark Brent crude climbed to $128.40 a barrel in post-settlement trade, after settling at $126.20, up $3.54 on the day. U.S. April crude settled at $108.84 a barrel, up $1.77, before rising to $110.55 in late activity, the highest since May 2011.

Iran, the world's fifth largest oil producer, has been struggling to sell its crude in the face of tightening U.S. sanctions and an EU embargo that kicks in on July 1. This has threatened to tighten global crude supplies. However, U.S. Energy Secretary Steven Chu said that global oil producers have enough spare production capacity to make up for a drop in Iranian exports. U.S. President Barack Obama said his administration will lay out as "many steps as we can" in coming weeks to unclog bottlenecks in the world's top consumer that are helping to push up the price of gasoline and other fuels, a key issue for consumers as the economy struggles to recovery in an election year.

Data showing U.S. jobless claims fell last week -- the latest sign that the labor market recovery was gaining momentum -- also helped support prices.

Currently WTI and Brent are trading above $109 and $125 per barrel respectively and have returned to their April 2008 pre-financial crisis levels. The following discussion will examine some of the market drivers responsible for the recent relentless upward movement in prices:

There are two principal drivers responsible for the recent increases in the price of energy. The first is the unprecedented level of liquidity available in the global financial markets. The second is the growing risk of a supply disruption as a result of increasing geopolitical tension. Non-fundamental factors (i.e., non-supply/demand factors) have been principally responsible for the increase in energy prices during the post-financial crisis period. In November of 2008 the world was introduced to Quantitative Easing (QE) by the US Federal Reserve. In short, QE is the process in which a central bank injects liquidity into the financial system by printing currency and purchasing financial assets – e.g., government debt, mortgage-backed securities, agency debt, etc. The goal of QE is to support the financial system and re-inflate the economy. The Fed’s first QE program (QE1), which commenced in November 2008 and concluded in March 2010, purchased $1.35 trillion in assets. The Fed followed QE1 with a second program (QE2) which commenced in November 2010 and concluded in June 2011 and purchased an additional $600 billion in assets. Since the introduction of QE, the Fed’s balance sheet has expanded to a total of $2.91 trillion – a truly unprecedented level. To give some context as to how large the Fed’s balance sheet has become, one should note that the total annual GDP in the U.S. is approximately $15 trillion. Moreover, the government's total annual budget for 2010 was approximately $3.4 trillion and annual tax receipts by the U.S. government in 2010 were $2.2 trillion.

Clearly, the Fed's balance sheet and the amount of liquidity it has injected into the financial system were substantial. As noted above, the Fed effectively completed the bulk of its QE programs in the middle of June 2011. Why, then, has there been such a significant increase in the price of energy in the recent months in light of this fact? The answer lies not with the Fed but with the European Central Bank (ECB) and the Bank of Japan (BOJ). In the past months the ECB, in fighting the European Sovereign Debt Crisis, has undertaken a type of stealth QE of its own. In addition to purchasing the sovereign debt of troubled EU countries, the ECB recently undertook a program referred to as the Long Term Refinancing Operation (LTRO). Under the LTRO the ECB has made low interest, 3-year loans available to financial institutions. The objective of the LTRO was to provide financial institutions with liquidity, the opportunity to fund/refinance their operations and purchase high interest sovereign debt. The last objective effectively creates a very profitable carry trade for the banks – i.e., borrowing long term at low rates from the ECB and lending to struggling sovereigns at high rates. In short, the ECB is undertaking QE indirectly through European banking institutions. In the initial LTRO offering approximately 523 banks participated borrowing €489 billion. The ECB will undertake a second tranche of LTRO later this month. Some commentators are forecasting that the second LTRO tranche will be in the range of €200 to €500 billion of additional borrowing.

As a result of these activities over the past months the ECB balance sheet has expanded to an eye-popping €2.7 trillion (not including LTRO2). In addition to the unprecedented level of liquidity being injected by the ECB into the financial system, the BOJ, in early February, announced its own program in the amount of ¥10 trillion ($125 billion). As such, the recent upward move in global equities, commodities and energy prices appears to be fueled by additional liquidity coming from the Fed, ECB and BOJ.

The second factor driving prices is the rising risk of supply disruption as a result of geopolitical tensions. In 2011 the energy markets were focused on the events in North Africa and the Mid-East. The Arab Spring resulted in the removal of many long-standing regimes, unsettling this key region. Although the effects of the Arab Spring continue to reverberate in the affected countries (Tunisia, Libya, Egypt, Bahrain and Yemen) as well as the region, the market's attention to the movement has waned. The markets today are firmly focused on the rising tensions between the West and Iran. At the start of the year the U.S. imposed new sanctions on Iran designed to limit Iran's ability to export oil with the objective of forcing Iran back to the negotiation table with regard to its developing nuclear program. On the heels of U.S. sanctions, the EU followed suit by enacting a ban (set to take effect on July 1st) on the importation of Iranian oil. These sanctions are clearly impacting the Iranian economy. The value of the Iranian Rial has dropped significantly (approximately 20% against the U.S. dollar) causing severe inflation and shortages within the country. Moreover, some of Iran's major oil customers (Japan, South Korea) have reduced their purchases in an attempt to either conform to the sanctions or gain a waiver. In the face of mounting pressure, Iran has remained defiant. In response, the Islamic Republic has undertaken a strategy to combat outside pressure by making provocative statements to intentionally unsettle the global energy markets.

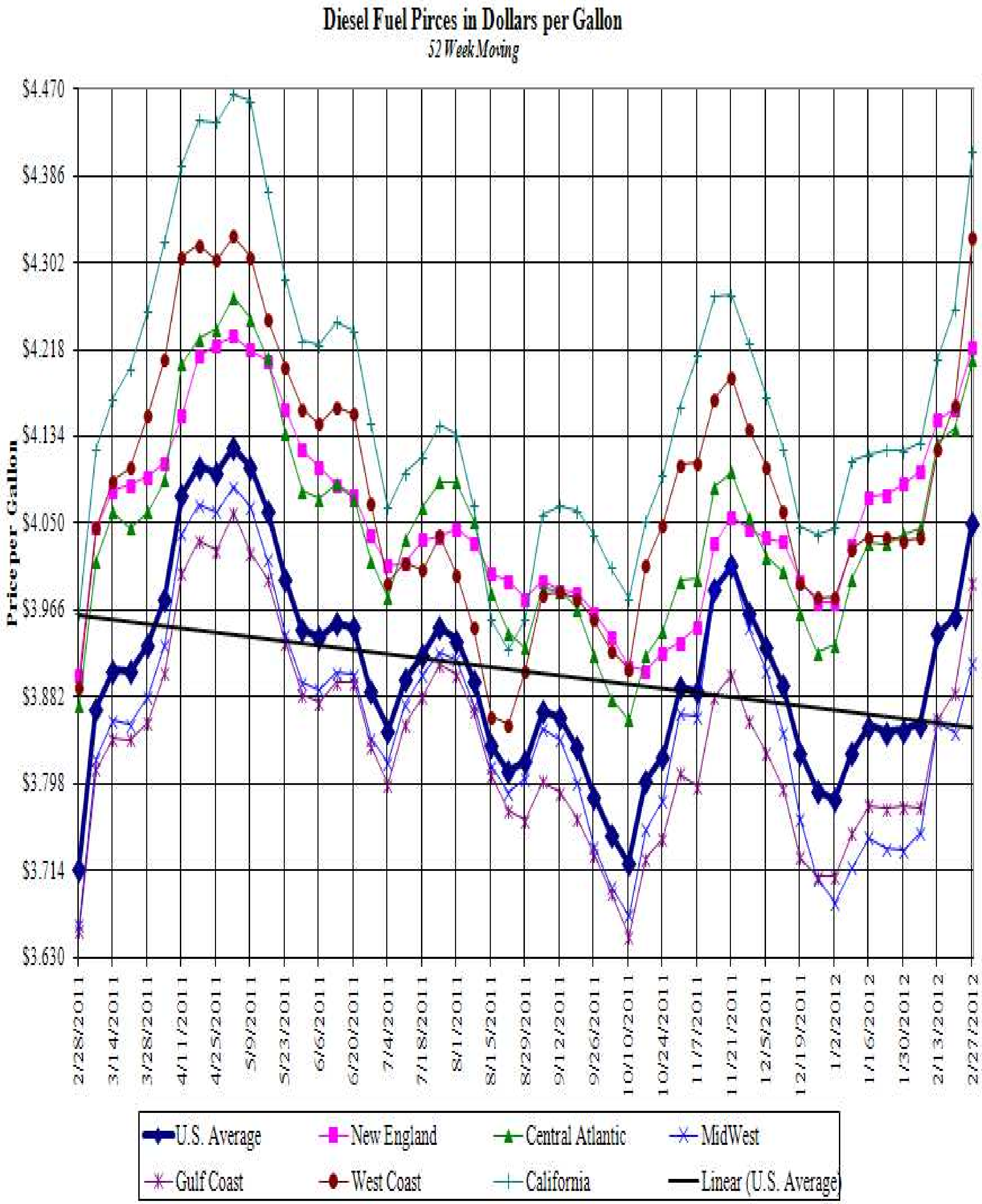
Over the past weeks tension between Iran and the West has escalated. Iran continues to push forward its nuclear program and to further develop its capacity to enrich uranium. The likelihood of a military confrontation, most likely triggered by an Israeli preemptive strike, grows with each passing week. The U.S. and its allies have taken the position that sanctions must be given time to be effective and that such time exists because Iran is still far from developing the capabilities to construct a nuclear weapon. Israel, however, views Iran's nuclear program as an existential threat. To Israel waiting for Iran to develop the capability to construct a nuclear weapon is too late. In their view, Iran must be stopped before it has the opportunity to disperse the program's components into multiple hardened sites that cannot be successfully destroyed from the air in a pre-emptive strike – the so-called "zone of immunity."

This week tensions once again flared when the IAEA visited Iran and was denied access to certain nuclear sites. The lack of material progress during the IAEA's visit stymied any hope of bringing Iran to the negotiating table. Markets are progressively pricing in the risk of a potential supply disruption as a result of military conflict with Iran. However, there can be little doubt that should such a military confrontation come to pass markets will react with prices moving aggressively higher. The extent and duration of such a price spike will depend upon Iran's response and the extent to which neighboring countries in the region become enmeshed in the conflict.

In the near term prices will continue to climb. There has been no indication that monetary policy amongst the developed nations will change in the coming months. Moreover, at present Iran has shown no indication of altering course with regard to its nuclear program. As such, the current trend of prices grinding higher will only be broken if we see a change in global monetary policy, tensions with Iran begin to ease, or the high price of energy once again tips the global economy into recession.

Prices in Dollars Per Gallon

Date	U.S. Average	East Coast	New England	Central Atlantic	Lower Atlantic	Midwest	Gulf Coast	Rocky Mtn	West Coast	California
2/28/2011	$3.7160	$3.7640	$3.9030	$3.8750	$3.7030	$3.6610	$3.6560	$3.6980	$3.8920	$3.9640
3/7/2011	$3.8710	$3.9080	$4.0460	$4.0140	$3.8500	$3.8230	$3.8120	$3.8450	$4.0460	$4.1220
3/14/2011	$3.9080	$3.9460	$4.0810	$4.0610	$3.8850	$3.8590	$3.8420	$3.8880	$4.0910	$4.1700
3/21/2011	$3.9070	$3.9380	$4.0870	$4.0460	$3.8780	$3.8550	$3.8410	$3.9250	$4.1040	$4.1990
3/28/2011	$3.9320	$3.9520	$4.0950	$4.0610	$3.8920	$3.8830	$3.8570	$3.9590	$4.1550	$4.2560
4/4/2011	$3.9760	$3.9820	$4.1090	$4.0920	$3.9230	$3.9320	$3.9050	$4.0170	$4.2090	$4.3230
4/11/2011	$4.0780	$4.0820	$4.1540	$4.2040	$4.0240	$4.0400	$4.0010	$4.0970	$4.3080	$4.3970
4/18/2011	$4.1050	$4.1110	$4.2120	$4.2290	$4.0510	$4.0680	$4.0330	$4.1260	$4.3190	$4.4400
4/25/2011	$4.0980	$4.1050	$4.2220	$4.2380	$4.0380	$4.0610	$4.0240	$4.1340	$4.3050	$4.4380
5/2/2011	$4.1240	$4.1280	$4.2310	$4.2690	$4.0590	$4.0860	$4.0600	$4.1560	$4.3280	$4.4650
5/9/2011	$4.1040	$4.1170	$4.2180	$4.2480	$4.0520	$4.0660	$4.0220	$4.1560	$4.3070	$4.4590
5/16/2011	$4.0610	$4.0750	$4.2070	$4.2100	$4.0050	$4.0150	$3.9960	$4.1340	$4.2480	$4.3710
5/23/2011	$3.9970	$4.0110	$4.1610	$4.1380	$3.9430	$3.9420	$3.9350	$4.1010	$4.2010	$4.2870
5/30/2011	$3.9480	$3.9620	$4.1210	$4.0820	$3.8970	$3.8960	$3.8840	$4.0200	$4.1610	$4.2270
6/6/2011	$3.9400	$3.9550	$4.1050	$4.0740	$3.8910	$3.8890	$3.8770	$4.0150	$4.1460	$4.2230
6/13/2011	$3.9540	$3.9680	$4.0870	$4.0880	$3.9050	$3.9050	$3.8960	$3.9880	$4.1630	$4.2450
6/20/2011	$3.9500	$3.9620	$4.0770	$4.0740	$3.9040	$3.9040	$3.8960	$3.9590	$4.1560	$4.2360
6/27/2011	$3.8880	$3.9140	$4.0380	$4.0140	$3.8600	$3.8420	$3.8340	$3.8850	$4.0690	$4.1460
7/4/2011	$3.8500	$3.8700	$4.0090	$3.9780	$3.8120	$3.8180	$3.7980	$3.8510	$3.9930	$4.0650
7/11/2011	$3.8990	$3.9260	$4.0120	$4.0340	$3.8720	$3.8750	$3.8560	$3.8380	$4.0120	$4.0990
7/18/2011	$3.9230	$3.9630	$4.0340	$4.0660	$3.9120	$3.9030	$3.8820	$3.8270	$4.0050	$4.1140
7/25/2011	$3.9490	$3.9880	$4.0370	$4.0900	$3.9400	$3.9250	$3.9130	$3.8480	$4.0380	$4.1450
8/1/2011	$3.9370	$3.9740	$4.0450	$4.0900	$3.9180	$3.9180	$3.9040	$3.8550	$4.0000	$4.1360
8/8/2011	$3.8970	$3.9360	$4.0310	$4.0530	$3.8770	$3.8750	$3.8680	$3.8510	$3.9490	$4.0670
8/15/2011	$3.8350	$3.8710	$4.0010	$3.9830	$3.8110	$3.8150	$3.8060	$3.8260	$3.8630	$3.9570
8/22/2011	$3.8100	$3.8440	$3.9940	$3.9440	$3.7880	$3.7890	$3.7720	$3.8150	$3.8550	$3.9280
8/29/2011	$3.8200	$3.8430	$3.9770	$3.9300	$3.7930	$3.8030	$3.7630	$3.8390	$3.9080	$3.9580
9/5/2011	$3.8680	$3.8860	$3.9940	$3.9870	$3.8330	$3.8520	$3.8000	$3.8900	$3.9810	$4.0580
9/12/2011	$3.8620	$3.8790	$3.9850	$3.9850	$3.8250	$3.8410	$3.7900	$3.9030	$3.9840	$4.0670
9/19/2011	$3.8330	$3.8530	$3.9830	$3.9680	$3.7920	$3.7990	$3.7650	$3.8920	$3.9770	$4.0620
9/26/2011	$3.7860	$3.8040	$3.9630	$3.9220	$3.7390	$3.7380	$3.7300	$3.8670	$3.9570	$4.0390
10/3/2011	$3.7490	$3.7650	$3.9410	$3.8810	$3.6990	$3.6990	$3.6930	$3.8460	$3.9270	$4.0070
10/10/2011	$3.7210	$3.7410	$3.9120	$3.8600	$3.6740	$3.6710	$3.6510	$3.8280	$3.9100	$3.9770
10/17/2011	$3.8010	$3.8150	$3.9070	$3.9220	$3.7610	$3.7540	$3.7260	$3.8850	$4.0100	$4.0530
10/24/2011	$3.8250	$3.8320	$3.9250	$3.9460	$3.7750	$3.7820	$3.7450	$3.9090	$4.0490	$4.0960
10/31/2011	$3.8920	$3.8860	$3.9350	$3.9940	$3.8360	$3.8660	$3.8080	$3.9590	$4.1070	$4.1630
11/7/2011	$3.8870	$3.8750	$3.9500	$3.9970	$3.8160	$3.8630	$3.7960	$3.9780	$4.1090	$4.2130
11/14/2011	$3.9870	$3.9640	$4.0300	$4.0850	$3.9060	$3.9870	$3.8820	$4.0930	$4.1710	$4.2700
11/21/2011	$4.0100	$3.9840	$4.0560	$4.1000	$3.9180	$4.0100	$3.9030	$4.1440	$4.1910	$4.2710
11/28/2011	$3.9640	$3.9530	$4.0450	$4.0570	$3.8820	$3.9490	$3.8590	$4.0940	$4.1420	$4.2240
12/5/2011	$3.9310	$3.9340	$4.0360	$4.0180	$3.8620	$3.9070	$3.8280	$4.0350	$4.1050	$4.1720
12/12/2011	$3.8940	$3.9170	$4.0320	$4.0030	$3.8300	$3.8480	$3.7940	$3.9910	$4.0610	$4.1220
12/19/2011	$3.8280	$3.8730	$3.9950	$3.9630	$3.7830	$3.7650	$3.7270	$3.9130	$3.9920	$4.0470
12/26/2011	$3.7910	$3.8400	$3.9730	$3.9250	$3.7520	$3.7060	$3.7080	$3.8610	$3.9780	$4.0390
1/2/2012	$3.7830	$3.8440	$3.9730	$3.9320	$3.7540	$3.6830	$3.7090	$3.8360	$3.9790	$4.0460
1/9/2012	$3.8280	$3.9080	$4.0290	$3.9960	$3.8200	$3.7170	$3.7500	$3.8430	$4.0260	$4.1110
1/16/2012	$3.8540	$3.9430	$4.0760	$4.0310	$3.8530	$3.7460	$3.7770	$3.8230	$4.0370	$4.1160
1/23/2012	$3.8480	$3.9380	$4.0770	$4.0300	$3.8430	$3.7360	$3.7740	$3.8170	$4.0370	$4.1210
1/30/2012	$3.8500	$3.9450	$4.0880	$4.0400	$3.8480	$3.7340	$3.7760	$3.8160	$4.0330	$4.1200
2/6/2012	$3.8560	$3.9480	$4.1010	$4.0460	$3.8460	$3.7510	$3.7750	$3.8170	$4.0360	$4.1280



Diesel Fuel Pirces in Dollars per Gallon
52 Week Moving
Price per Gallon
$4.470
$4.386
$4.302
$4.218
$4.134
$4.050
$3.966
$3.882
$3.798
$3.714
$3.630
2/28/2011
3/14/2011
3/28/2011
4/11/2011
4/25/2011
5/9/2011
5/23/2011
6/6/2011
6/20/2011
7/4/2011
7/18/2011
8/1/2011
8/15/2011
8/29/2011
9/12/2011
9/26/2011
10/10/2011
10/24/2011
11/7/2011
11/21/2011
12/5/2011
12/19/2011
1/2/2012
1/16/2012
1/30/2012
2/13/2012
2/27/2012
U.S. Average
New England
Central Atlantic
MidWest
Gulf Coast
West Coast
California
Linear (U.S. Average)

Fruits/Nut Markets

***Strawberries—s* US (CA): Strawberry growers worried by cold spell**
The recent cold snap has had California strawberry growers desperately picking fruits to try and avoid losing their crop to frost burn. Grower Hector Gutierrez said that is the low temperatures lingered for more than 3 hours at a time "we could potentially see some damage to the fruit and the flowers." He is tasking all the preventative measures he can in the hope of averting disaster. He is watering his plans at night to create some humidity in the field. "We will be keeping a close watch on the crop itself, taking some turns, coming out here to see what the temperatures are doing," he said.

***Almonds—*US (CA) "Almond crops keep getting bigger, better"**
"Our almond crops just keep getting better and better," says Michael Kelley, president and CEO of the Central California Almond Growers Association. "That was certainly the case last year. The 2011 crop was phenomenal. It looks like we're on track to hitting the 2-billion-pound production number that the industry has been talking about."

That view is based on the record-setting volume of nuts passing through the association's shelling facilities at Kerman and Sanger, Calif., this past fall. The final figure for California won't be known until the current almond marketing year ends. But, a crop of this size would surpass the record 1.62 billion-pound crop which growers produced in 2010.

Clearly, the 2012 crop is definitely the largest volume of almond meats the association's members have produced in a single year. The world's largest cooperative huller/sheller, the CCAGA represents growers from near Bakersfield in Kern County in the south to the Chico area of Tehama County in the north.

"The 2011 crop will be our biggest by a vast margin on basically the same acreage," Kelley says. The association shelled about 104 million pounds of almonds this season, he reports. That's up 28% from its previous all-time high of 81.2 million pounds processed in 2008 and 32% higher than in 2010. That year, member growers produced 78,200,000 meat pounds — their second largest crop up to that point.

"Yields were very good, averaging just over 2,400 pounds per acre," Kelley says. "However, on the West Side, where yields typically are higher, some growers harvested upwards of 4,000 pounds of almonds per acre." He attributes the huge 2011 almond crop to an ideal growing season of mostly moderate temperatures and low insect and disease pressures, as well as improved rootstock, which growers have been planting in recent years. "Growers have been fairly profitable in the past few years and they're replacing trees at the end of their productive life with all-new rootstock that's much more productive."

The 2011 crop features more than just high production. "From a quality standpoint, this is one of the better crops I've seen," says Kelley, now in his eighth season with the association. Most of the nuts were brought in very dry so they shelled quite nicely."

Although prices for the 2011 almonds have slipped some lately from levels earlier this marketing year, they remain respectable. Depending on size, Nonpareil, the industry standard, has been trading in the $1.90 - $2.40-per-pound range, Kelley notes. However, as usual with a large crop, finding large count sizes in this crop that fetch a premium is proving challenging. Meanwhile, prices for California varieties have held their own, selling from about $1.50 a pound to $1.60.

"To come off a crop as large as this one and still have prices at these levels is really fantastic," Kelley says. "It reflects the record volume of shipments that are going out." In fact, he notes, the industry broke shipping records for each of the first four months of the 2011 marketing year. The California Almond Board's shipments during that period totaled 710.3 million pounds, an 11.1% increase over the same period in 2010.

"October was the first time the industry shipped more than 200 million pounds of almonds in a single month, and we did it again in November," Kelley says. "Although these levels suggest that quality could be limited when we get into the summer months, selling all of the 2011 crop shouldn't be a problem."

However, adequate supplies of water to grow the 2012 crop could be. "Up until the rain in mid-January, we've been on track to having the driest year in the San Joaquin Valley since the mid-1920s," Kelley says. "That's spooky. There's a lot of new wood on the trees this season and that bodes well for a good nut set. But, right now, I think the biggest thing on growers' minds is the lack of rain so far this winter."

***Almonds*—Almond prices**
Because of the huge almond harvest last fall, — likely to be the state' first 2-billion pound almond crop — prices for these nuts have softened. Last year, Nonpareil prices ranged from about $2.20 to $2.30 a pound. This year they are about $2.10 a pound for Nonpareil. Prices for the pollinators are down around $1.50 to $1.70. That may be off a little from the previous year, but not by much. The quality of our 2011 almonds was really good. Growers pushed real hard to get them in before any rain. A lot of them had less than 1% insect damage. Yields of pollinators, Carmel and Monterey, averaged about 1,800 pounds per acre last year. Nonpareil yields came in at average of 2,000 pounds per acre. Estimates of total almond production in 2011 rose about 20% above the previous year's level. It is not certain how much that reflects the weather last year. However, part of that increase is attributed to young trees, planted several years ago to replace those lost to wind in 2005, which are beginning to come into production.

***Walnuts*—US (CA): Walnut growers to vote on assessment cap increase**
A vote by the grower members of the California Walnut Commission is scheduled to take place next month on a proposal to raise the assessment cap - but not the assessment - from $0.01 per inshell pound to $0.0175 cents per inshell pound. The assessment cap can only be changed by a vote of the growers, and each year the assessment itself is decided by Commission Board members. The California Department of Food and Agriculture will mail the ballots on March 2 and growers will have thirty days to send in their vote. When the Commission was established in 1987, the assessment cap was set at $0.01 per inshell pound. In the 25 years of existence, the CWC has been below the cap in 12 of those years, including the current year. But the Folsom-based commission says the walnut industry faces some serious challenges. Marketing costs are on the rise in key markets around the world, exchange rate fluctuations can significantly hinder the ability to implement market development programs, and the cost of conducting health research is up, the commission says. Health research has proved to be a valuable program for the industry. Over the past 20 years the CWC has established a health research program that has generated 75 published papers in peer-reviewed journals. Research has focused on key public health issues including cardiovascular disease, cancer, diabetes and cognitive function, among others. This strong database of health research led to walnuts achieving a qualified health claim from the U.S. Food and Drug Administration, the commission says. Lastly, says the Commission, is the cost of "continually working" to reduce trade barriers in export markets, which now account for over 60% of the industry's shipments.

***Walnuts*—California walnut harvest not super in 2011, but good**
"It was a good year, but not a totally super year for us," says Glenn County, Calif., tree nut producer Gary Anderson as he looks over the figures of last year's production from 435 acres of almond and 600 acres of walnut trees. However, with walnut prices at an all-time highs and memories of rain falling on his unpicked orchards last October still fresh, he wouldn't mind a do-over of his walnut harvest.

He and his partner, Charles Demmer, own and operate Ratliff and Demmer Farms near Willows, Calif. An unusually cool season delayed maturity of their almonds. However, despite starting and finishing their four-week almond harvest about five to 10 days later than usual, they got all the nuts in the bins — safe and dry — by the first of October.

Immediately after that, Anderson started shaking the walnut trees. Like the almonds, the walnuts were slow to ripen. Normally, he can dry a row of bins (about 2.5 truckloads) filled with ripe, dry walnuts in about 12 to 18 hours. Last fall, the green nuts were taking two to three times as long to dry.

Less than a week after Anderson began harvesting the walnuts, the first of two October rain storms moved in, knocking nuts onto the muddy ground and shutting down work in the orchards for a few days. That wasn't all.

"The wet, cool harvest weather hurt us quite a bit," Anderson says. "After the two rains, the quality of the nuts went downhill. In good, dry weather we may have no more than 3% to 4% mold. But, last fall we were seeing anywhere from 10% to 20% mold in our nuts. Plus, all the mud sticking to the nuts meant processors had to jump through a lot of hoops to sanitize them."
As a result, meat yields, which determine the price growers receive for the nuts, declined.

"Typically, we get about a 47% edible meat yield-to-shell in our Chandlers," Anderson says. "This past year that fell to 43%or less. That's a big drop."

Good tree yields, helped cushion that loss. Because they are still young, production of his early varieties is still on the upswing. His earliest variety is Gillet. In 2001, in their 6th year, these trees produced about 1,800 pounds of nuts per acre — an 1,100-pound increase over 2010.

"They were really nice nuts," Anderson says. "Most were jumbo and graded very well. All were in-shell."

He was pleased with the 5,500-pound yield of his Hartleys, too. However, because they were rained on, some failed to make in-shell, Anderson notes.

Another of his early variety yields still climbing is Howard. One orchard, just finishing its 8th year, produced almost 5,000 pounds of walnuts per acre last year. That was 2,000 pounds more than in 2010, he reports. His other block of Howards, in its 5th year in 2011, yielded 2,500 pounds of nuts per acre. That compares to a 1,000-pound yield the previous year.

Production of his Chandlers, his latest and most widely-planted variety, fell from the usual 3 tons per acre to 2.5 tons. In 2009 and 2010 his oldest block of Chandlers, now beginning its 20th year, achieved a yield of 7,500 pounds per acre each season. In 2011, production dropped by 2,000 pounds per acre.

Anderson figures that the increased yields from his young, early-variety trees just about offset the decrease in his Chandlers. "Our total walnut production in 2011 was probably pretty close to what we had in 2010," he says.

However, prices for his 2010 crop were in the $1.30 to $1.40 range. Prices for his 2011 crop have climbed to the $1.30 to $1.60 range, "That's the highest we've ever been paid for walnuts," Anderson says.

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