

## Weekly Commodity Markets Review

From: Joe Schmidt

Date: February 24, 2012

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The biggest news of the week is the hefty bail-out for Greece locked up, totaling 130-billion euro. Long term implementation is still in question, but the bail-out right now is viewed as net positive for world markets. In the EU, investors are still nervous about the Greek bailout and the ability of Greece to fulfill the austerity measures. Some feel that the 130 billion euro bailout will be insufficient to prevent a default down the road. The supportive macro world should result in weaker Ag prices.

The government reported January consumer food prices (CPI-Food) up 4.4% from a year ago. At-home food price gains slowed to 5.3% (versus 6.0% last month), while the away from home prices recorded a 3.1% increase during January. While the overall rate of inflation has moderated, several items continue to post strong gains, including beef (+10%), vegoil (+13%), and coffee (+15%). During January 2012, wholesale food costs rose by 5.1% from a year ago, a continuation of the slow-down in the rate of gain. Fresh vegetable prices declined 22% and fresh fruits fell 14% from a year ago. Excluding fruits and vegetables, the PPI-Food gained 7.0% from a year ago. The key driver of higher wholesale costs during 2012 will likely be proteins. This was reflected in the January data, with sharp year-over-year gains in beef (+14%), chicken (+10%) and pork (+9%).

The largest gains in underlying commodity prices are found in beef items, energy (crude oil and diesel fuel) and resin-based items. These gains are offset by declines in the price of grains (corn and wheat) as well as soft commodities (coffee and cocoa).

This morning, U.S.D.A. released their 2012/2013 outlook for grains and oilseeds. Their report is highlighted by acreage gains and prospects for a large increase in supplies driven by favorably high net return prospects ahead of spring planting. Combined 2012 area for wheat, corn, and soybeans is projected to be record high and up 3% from 2011 supported by strong new-crop futures prices and a return to more normal spring and summer weather. For wheat, increased area and a return to trend yields support higher production and carryout. Exports are expected to remain flat year-to-year pressured by large world wheat supplies.

Corn plantings, at 94 million acres, are projected to be the highest since 1944. A return to trend yields pushes corn production to a new record allowing recoveries in feed and residual use and exports. Falling gasoline consumption and declining ethanol exports limit expected corn use in the production of ethanol. Consequently, corn ending stocks are projected to double, pushing cash prices sharply lower by fall harvest.

Soybean planted area is expected to match the 75 million acres planted in 2011 as relatively better expected returns for corn keep soybean plantings from increasing. Soybean supplies are projected 8% higher with higher beginning stocks and production; however, soybean ending stocks are projected to decline with higher expected crushings and exports.

Rice planted acreage is projected to expand 2% from flood-reduced 2011 with virtually all of the increase in long-grain in the Delta states. Total rice use is expected 4% higher with increased domestic use and exports. Larger supplies of long-grain rice expand projected exports to Western Hemisphere markets. All rice ending stocks are projected 13% lower with medium- and short-grain stocks accounting for most of the reduction. The "all rice" price is expected to strengthen as tighter supplies of medium-grain rice increase its expected price.

Futures and cash prices for wheat, corn, and soybeans are all expected to fall in 2012/2013 as record U.S. corn production pushes global grain supplies to a new record. Despite the expected decline, prices remain historically high because of strong global demand for grains and oilseeds.

### Flour Markets:

Wheat futures ended the week lower with most of the pressure on the hard red spring wheat. Kansas City and Chicago wheat contracts were modestly lower on continued commercial support while Minneapolis posted sharp losses. The forecast snow storm for the Northern Plains could replenish soil moisture, although 4 to 8 inches is far from a drought breaker. While the near-term supply-and-demand situation continues to grow more bullish after the March-to-May Chicago futures spread turned inverted Thursday, the strong carry in deferred spreads reflects a bearish outlook longer term.

The U.S.D.A. Outlook Forum estimates the U.S. all wheat plantings is expected to increase 3.6 million acres and will reach 58 million acres—up from 56.5 million projected in the baseline and up from 54.41 in 2011/2012. Winter wheat seeded area at 41.9 million acres is up 1.3 million from last year. The January 12, 2012, Winter Wheat Seedings report indicated Hard Red Winter (HRW) wheat seedings up 1.6 million acres to 30.1 million and Soft Red Winter (SRW) wheat seedings down 0.2 million acres to 8.4 million. Spring wheat planted acres in 2011/2012 were 11.589 million and the U.S.D.A. expects those acres will increase better weather permitting this season. HRS prices neared marketing year lows. Lower prices for spring wheat and durum, compared with last year at this time, and favorable net returns for oilseeds and corn are expected to limit the rebound in spring wheat plantings.

The larger expected wheat crop raises projected total supplies 5% to 3,130 million bushels for 2012/2013. At the projected level, supplies would be above the 5-year average of 2,961 million bushels.

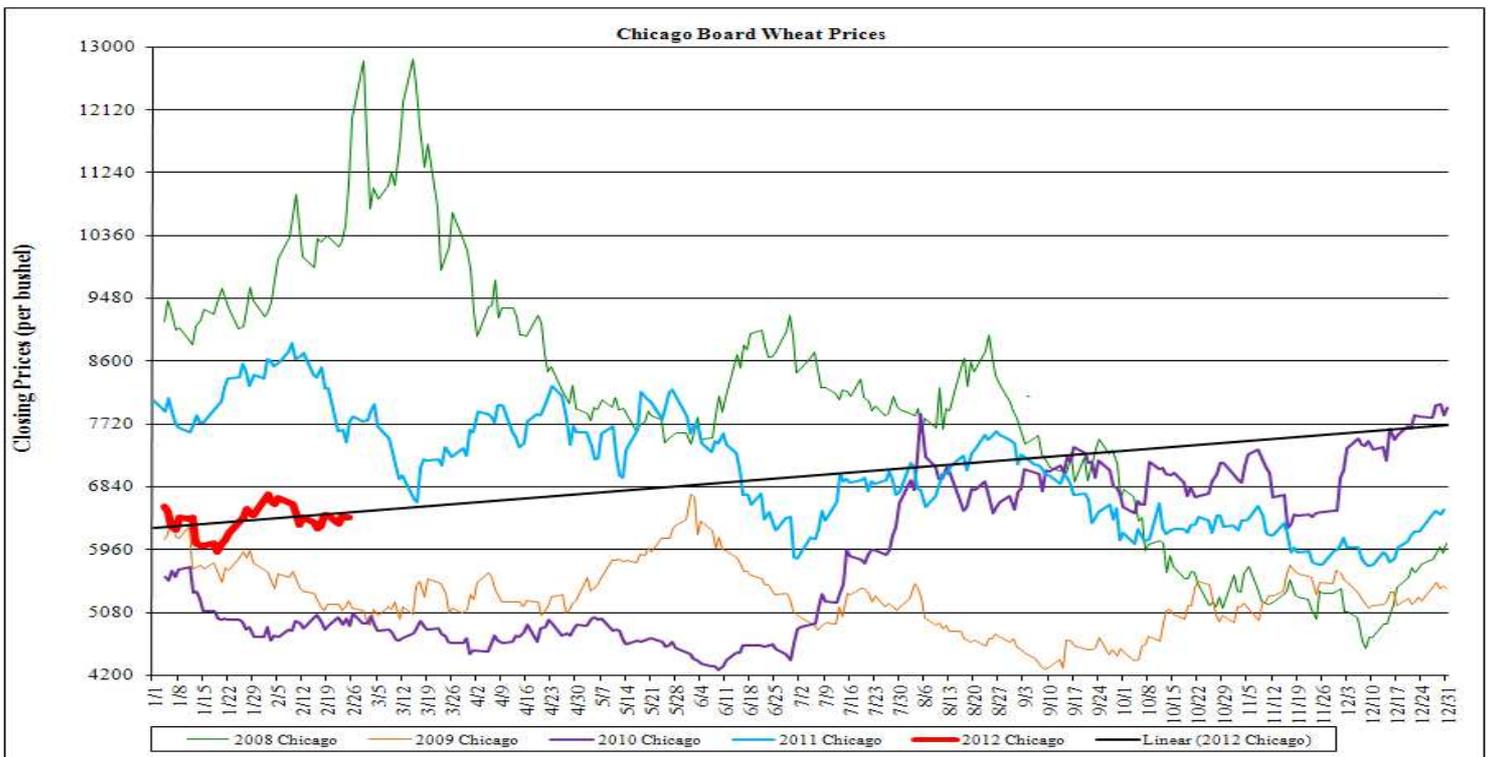
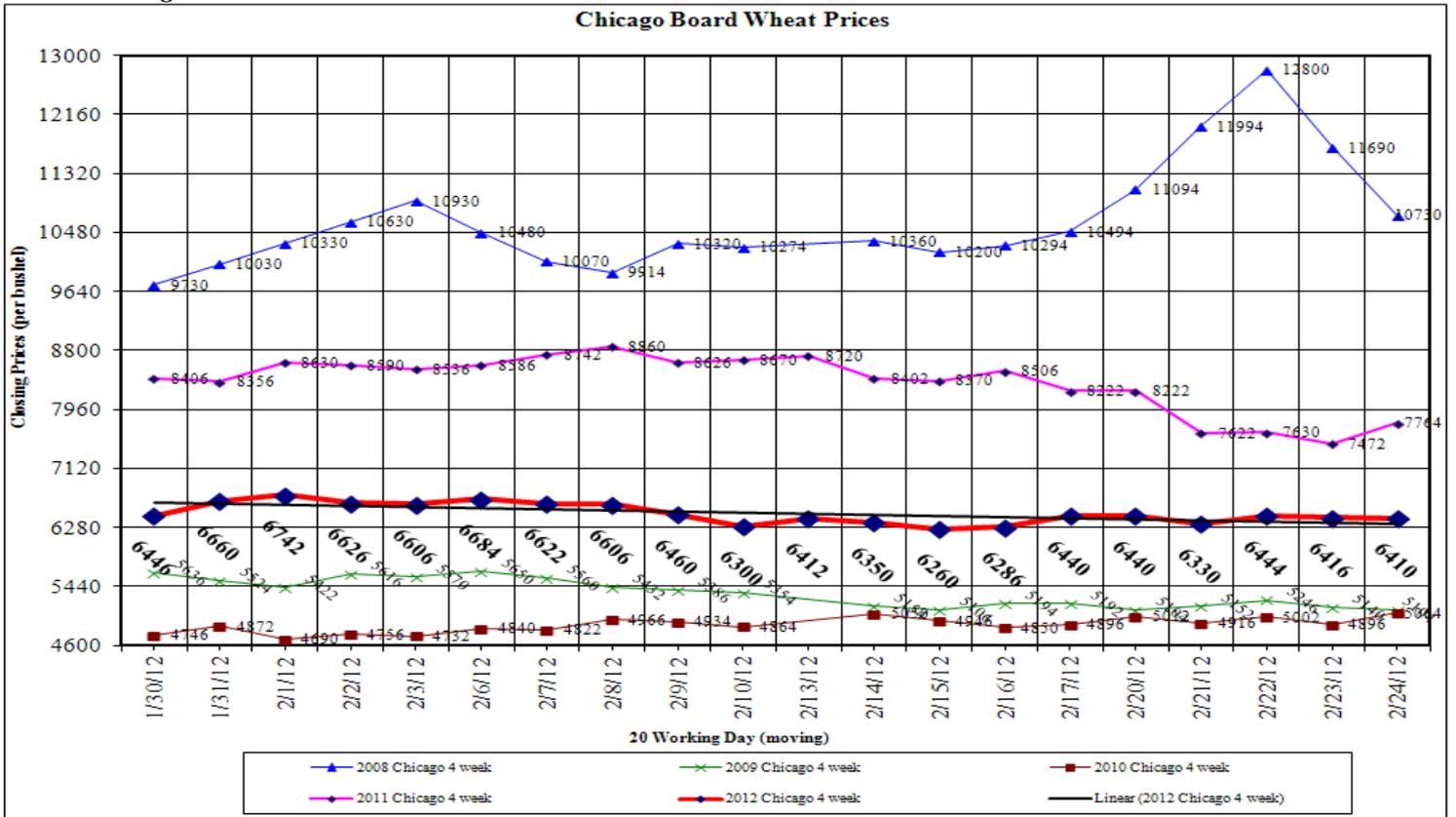
Although drought persists in the southern and central Great Plains, timely winter precipitation has helped to lift crop conditions. Weighted by seeded area, the HRW wheat states have 46% of their crop rated in the good or excellent categories, compared with only 24% at this time last year. Two precipitation events will impact the U.S. central and northern Great Plains over the next week. Saturday-Monday will be a big event producing 5-12 inches of snow from NE through WI. Parts of the upper Midwest will see good precipitation starting today. Wheat stocks at select export elevators and terminals were down 1.88 million bushels from the previous week to 176.9 million versus 220.9 million last year. The PNW and Northern Plains are expected to receive measurable precipitation on Sunday and Monday. The Texas state crop bulletin showed winter wheat conditions rose 3 points last week to 32% good/excellent, 32% fair and 36% poor/very poor. Pasture and range conditions rose 5 points to 18% good/excellent. Recent precipitation improved the wheat/oats crops across the state, but the High Plains need more moisture. Some other states issue monthly crop bulletins, but these will not be available until next Monday, February 27.

Trade estimates for the weekly export sales report range from 500 to 800 thousand MT. Export inspections for the week ending 2-16 were 22.15 million bushels. YTD shipments are running about 128 million bushels behind last year. U.S. 2011-2012 wheat exports could top U.S.D.A.'s forecast for 975 million bushels due to a slowdown in Black Sea exports, high overseas demand for feed grain and competitive U.S. prices, especially for soft red and white wheat. U.S. corn inventories are at a precarious level with low stocks-to-usage ratio, and this has pushed up the demand for soft wheat in animal feed ratios both locally and overseas. U.S. soft wheat exports are forecast to rise 19% this season and white 10%, despite overall wheat exports slipping 24%.

Kazakhstan reduced their estimated 2012 grain crop output to 13 to 15 MMT, barely above the drought year of 2010. Japan will not tender for wheat this week due to adequate supplies. A Reuter's survey shows Canadian producers planning to sharply increase spring wheat plantings from last year. Acreage last year was constrained by prolonged wet conditions in the spring. Wheat exports from the EU are expected to increase as supplies tighten in the Black Sea Region.

Western Canadian dryness to persist, raising threat of summer drought, although timely late winter snows/spring rains could ease risk. Dry winter weather will likely persist for most of the western Canadian Prairies, with winter precip already 2-3 inches below normal. This is the opposite problem several provinces had in the last two seasons, when heavy rains delayed or caused farmers to abandon plantings.

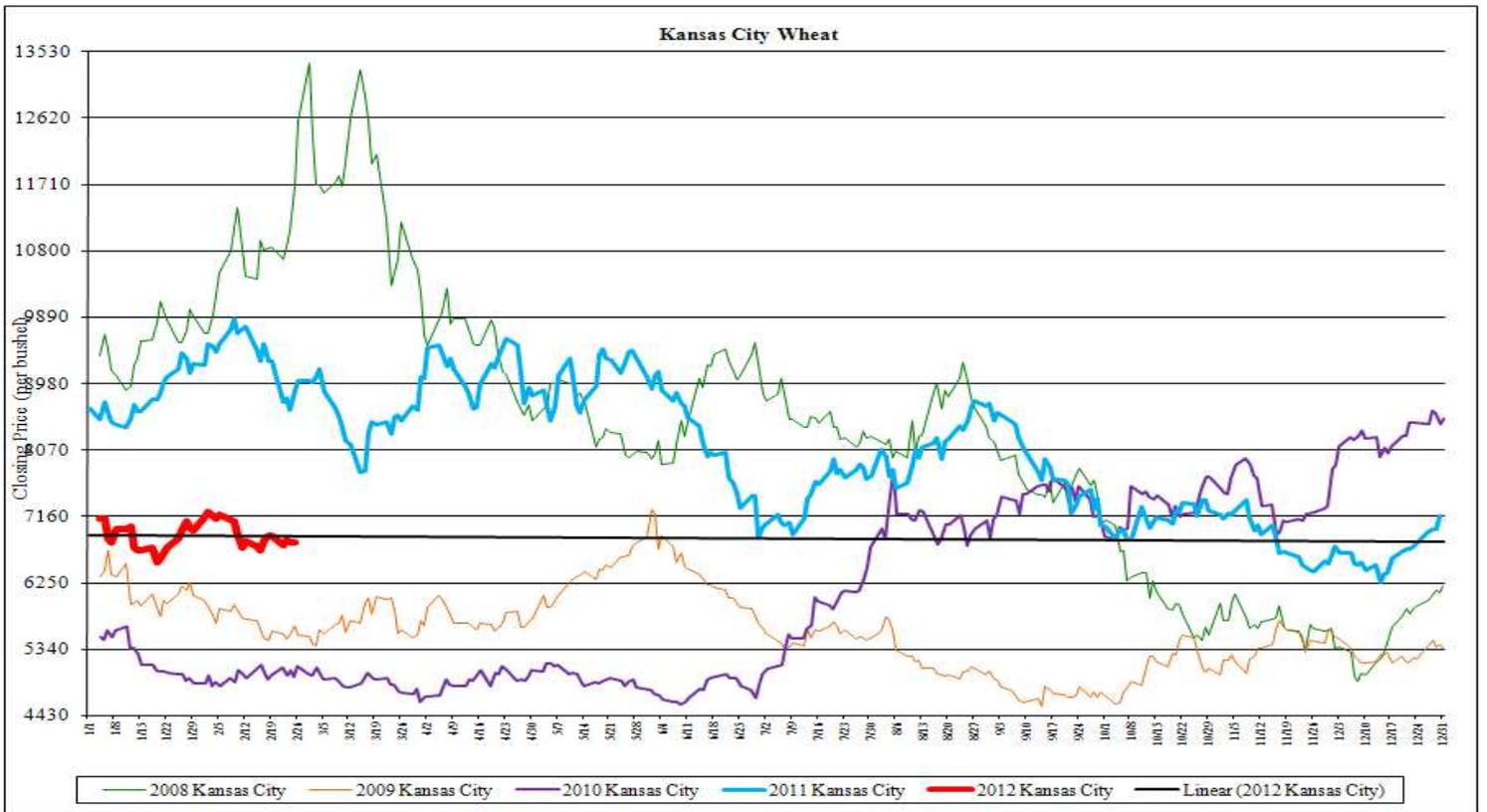
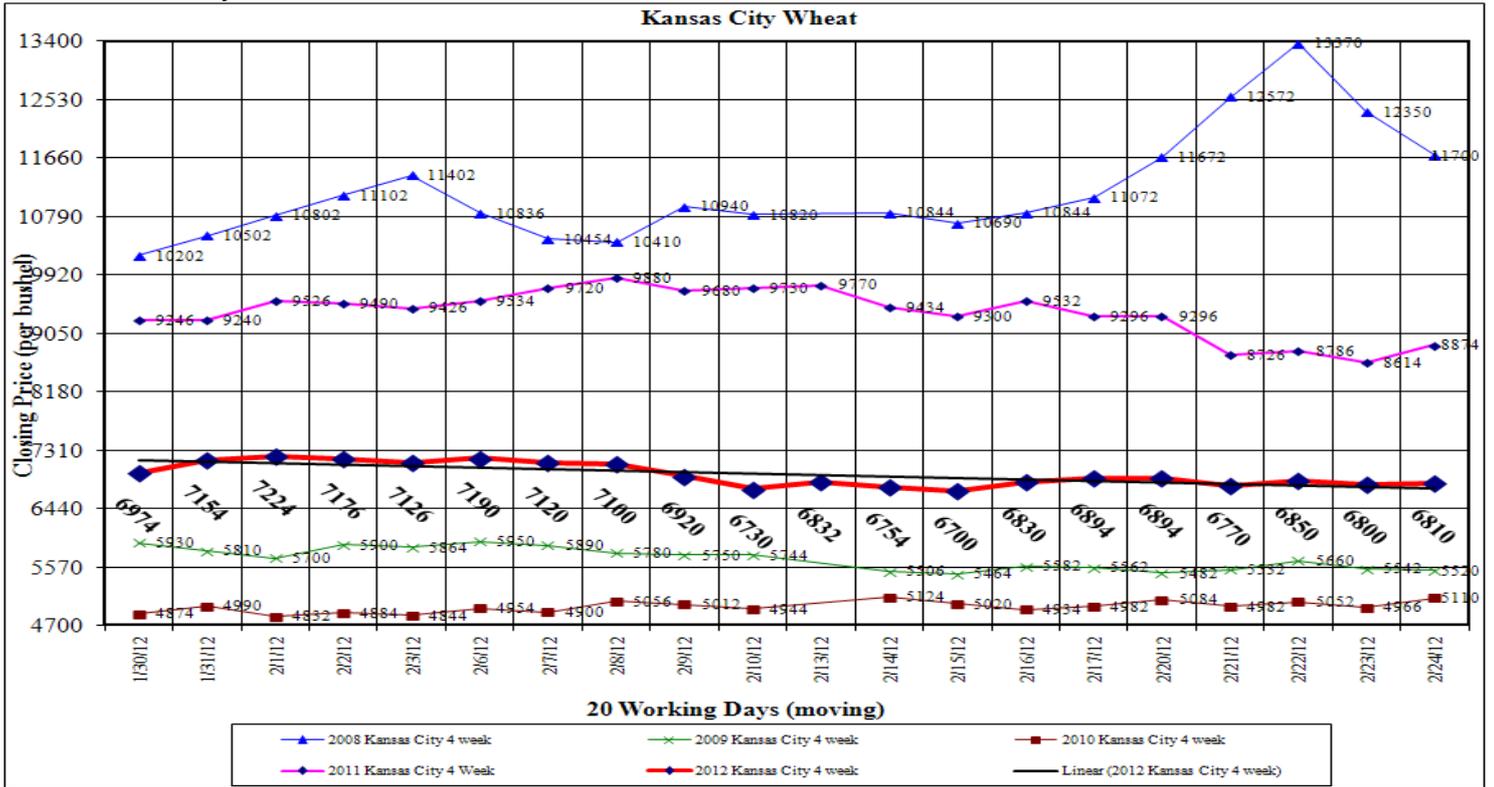
**a. Chicago Board Wheat Prices**



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 down \$0.07/cwt from last Friday's close.**

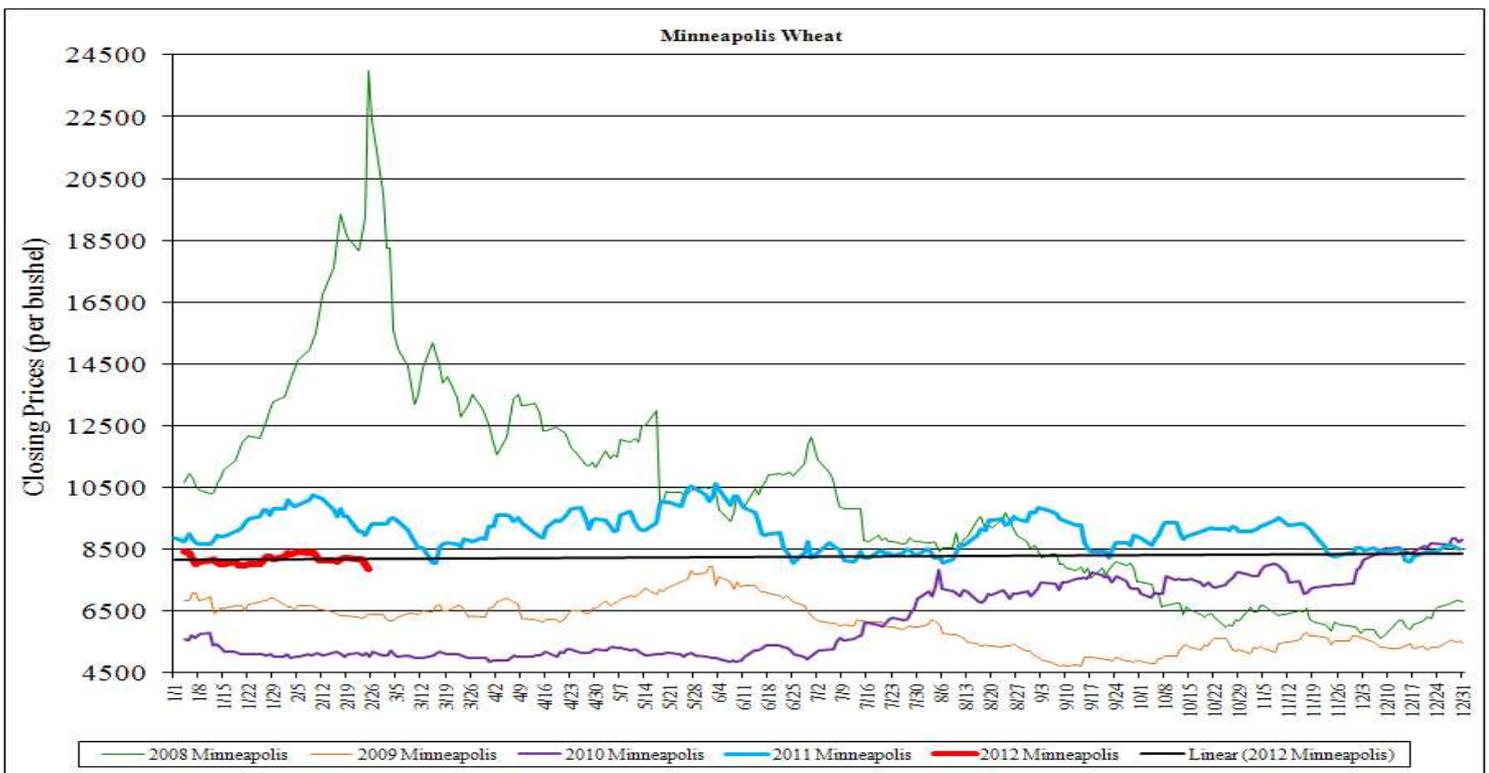
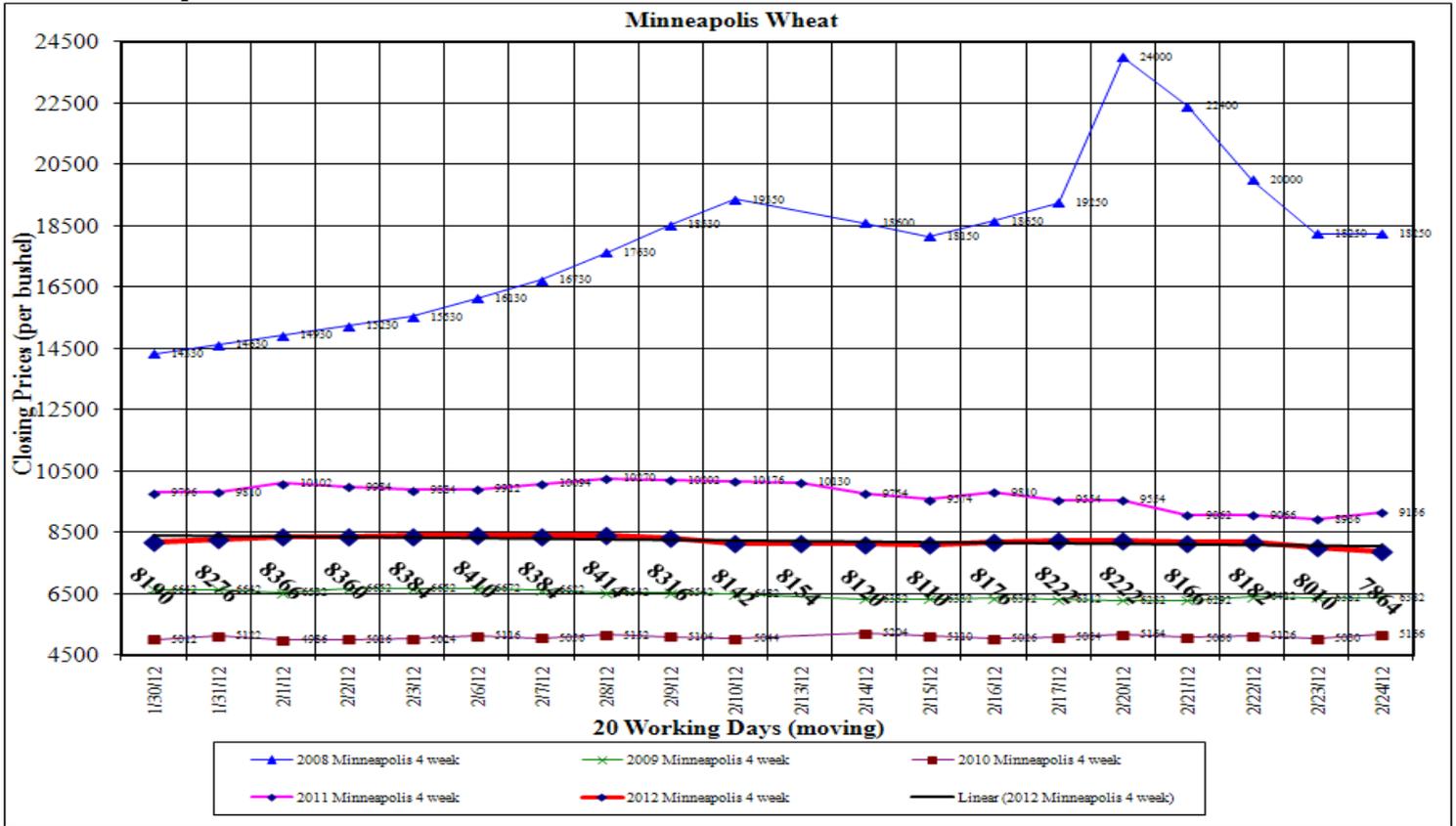
**b. Kansas City Board Wheat Prices**



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 down **\$0.19/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 down \$0.82/cwt. off last Friday's close.**

### **Shortening Market:**

Soybean prices continue to move higher while corn stays sideways. The U.S.D.A. Ag Outlook forum reported a rise in soybean acres from the baseline report earlier in the month. Soybean planting is expected to reach 75 million acres the same as last year, up from the 74 million on the baseline estimate, but down 1.6 million from last year's planting intentions which were not achieved partly due to excessive moisture during planting season, especially in the upper Midwest. With forward price quotes for soybeans below year-earlier levels, relatively stronger returns for corn, and fewer winter wheat acres planted in traditional double-crop soybean states, incentives for expanding soybean planting in 2012 are limited. However, gains are expected in harvested area as abandonment returns to more typical levels in several states that were affected by adverse weather in 2011.

Brazil and Argentina soybean exports to China are up sharply from last year at 987,000 MT for Brazil and 461,000 MT from Argentina according to China's General Administration of Customs. Brazil and China remained as key drivers for the uptrend in soybeans as yield estimates continue to fall and Chinese officials tour the U.S. announcing big purchase intentions.

Brazil and Argentina 6 to 10 day weather forecast is calling for rains in northern Argentina and southern Brazil. Northern Brazil will be drier than normal during the period and southern Argentina precipitation is expected to be normal. The U.S. does have the potential to capture more export business this year because of reduced production in Brazil and Argentina from drought conditions during critical crop development. South America has been seeing more timely rains but that was too little too late for some areas. The majority of soybeans are in the pod filling stage in Brazil and flowering in Argentina, although harvest is already well underway in parts of Brazil and weather conditions have improved in recent weeks. The bushels currently being harvested were initially hit by drought earlier this year. Weather in South America has turned to a more beneficial pattern, with stressed areas such as southern Brazil and Paraguay seeing rainfall. Brazil's soybean harvest 19% versus 14% last year; forward sales 53% versus 5-year average of 43%.

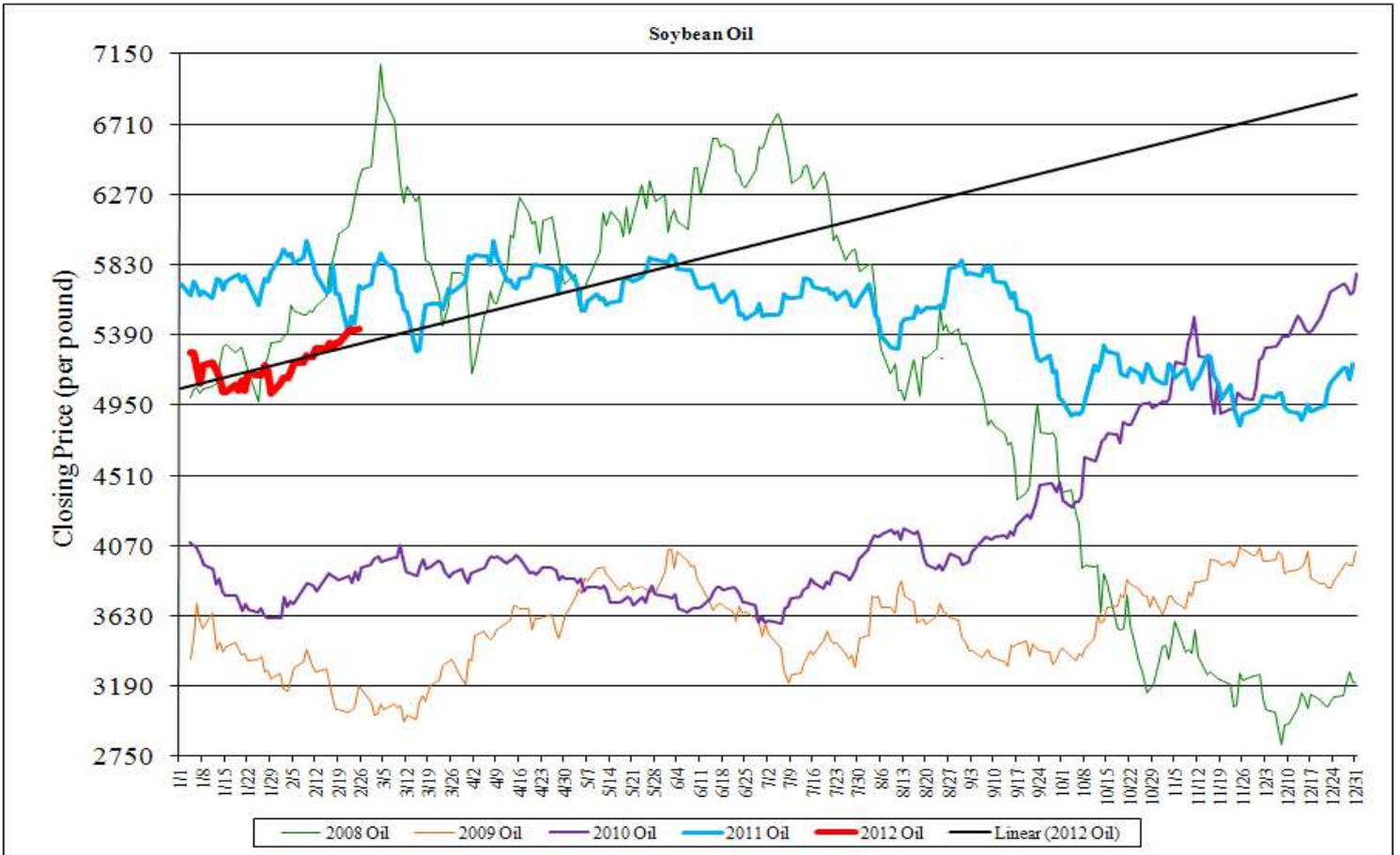
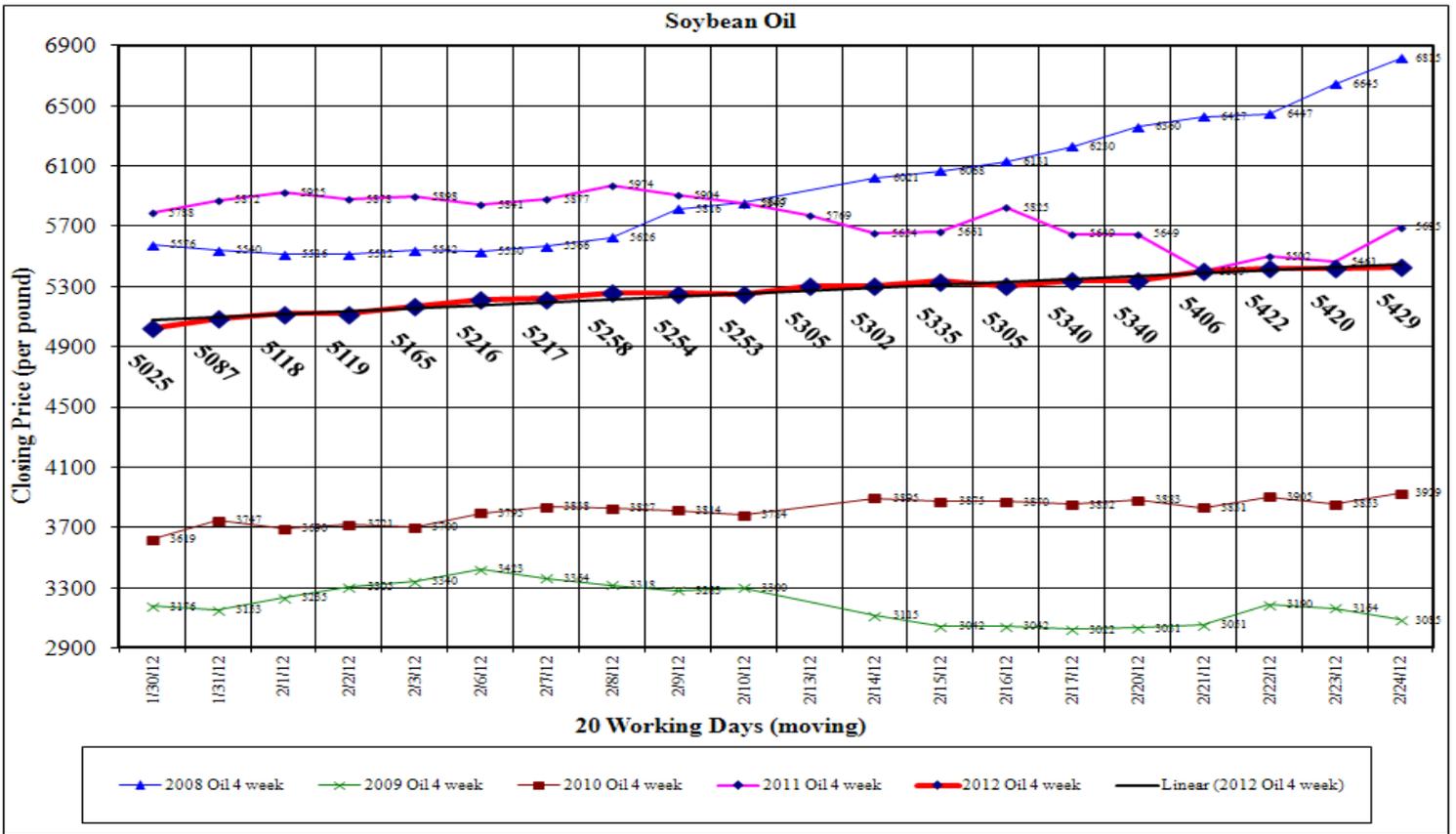
Brazil's new crop soybean sales rose 2 points on the week to 53%--on par with last year, but 10 points ahead of the 5-year average, analyst Celeres says.

The rainfall pattern will help southern Brazil supplies, but the issue now is the long vessel line-ups and delays which are resulting in increased U.S. business. Soybean inspections in the U.S. were 38.410 million bushels last week, running about 3 million bushels ahead of last year for the same week but lag total YTD shipments from last year by 271.6 million bushels. Expect soybeans and the complex to find good support on breaks of size.

The weekly U.S. grain stocks report showed terminal and elevator soybeans declined 2.4 million to 32.1 million versus 21.5 million.

Ongoing strength in crude petroleum should provide underlying support to the soy oil market. Look for good buying in March oil futures to occur on any breaks below the \$0.53/lb. area. Overhead resistance should limit oil moves to the \$0.55/lb.-\$0.555/lb. region.

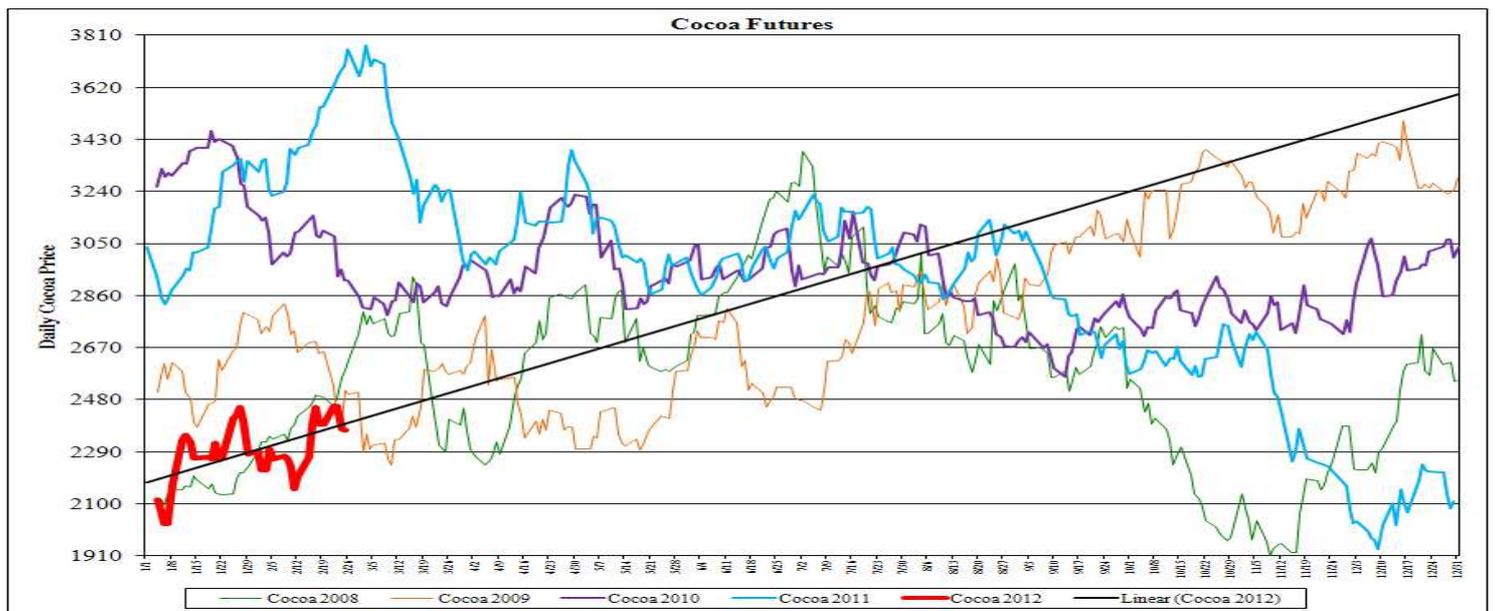
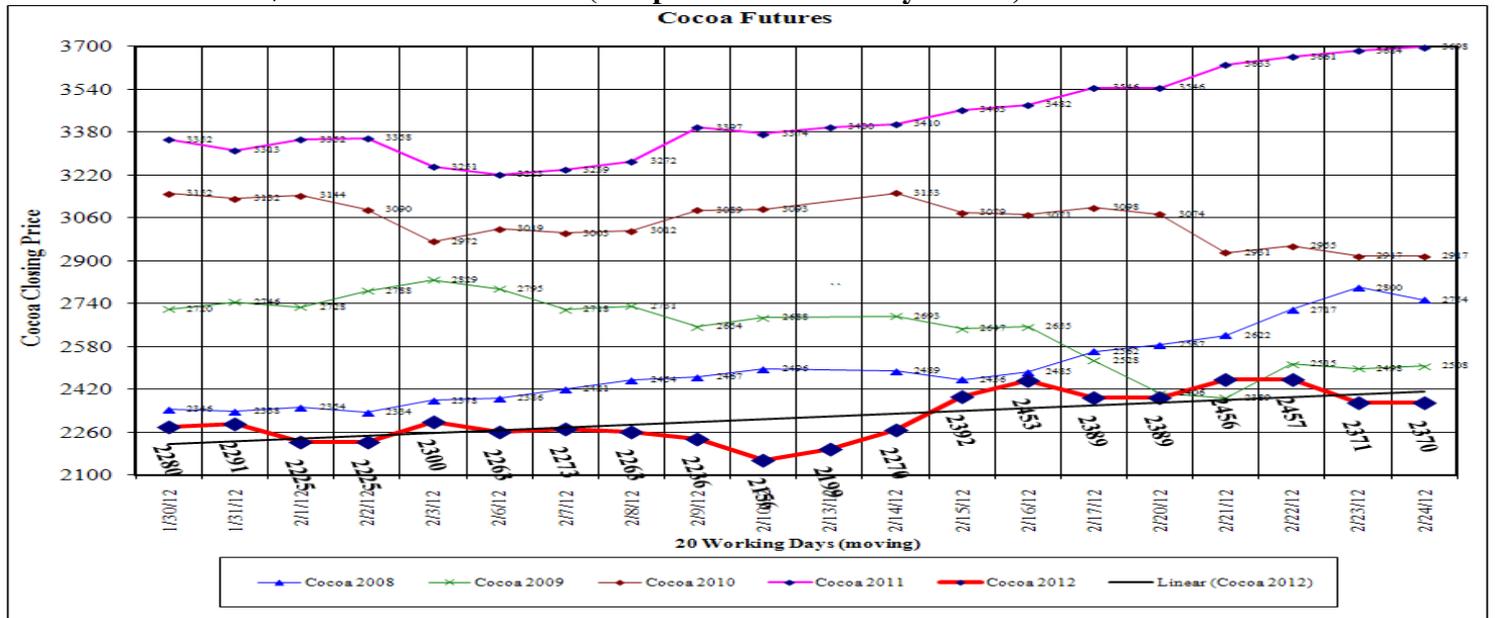
**Shortening closed up \$0.48/50# cube (\$0.34/35# pail of oil, \$0.0097/lb. for bulk oil) for the week.**



**Cocoa Market:**

The cocoa market has been exhibiting some strength as of late. That could be attributed to improvement in the Eurozone's economic situation. However, the expected shortfall in cocoa yields and short covering by non-commercial traders are the real drivers behind the rally. Weather conditions in the Ivory Coast's cocoa growing areas continue to have cocoa farmers particularly concerned. Spotty rainfall interspersed by hot dry periods has stressed the country's cocoa trees. Rain is needed at this time to strengthen the trees and assist in producing new foliage in advance of the flowering period. Farmers are uncertain how their April-September mid-crop harvest will fare. Coastal regions were blessed with some heavy downpours, but the balance of the cocoa belt remained dry. The weather is very hot and at least one good soaking is required each week to ensure proper development of the mid-crop. The extended drought and strong Harmattan winds have slowed the development of cocoa in the world's number one producer. Earlier this growing season, there were forecasts that this season's cocoa crop would be larger than the record main-crop of the prior marketing season. Some rain over the last two weeks had raised hopes for the smaller mid-crop. At this point in time the soil is dry and hard. Farmers said the weather remains very hot and that at least one good downpour is needed every week to ensure adequate growth for the mid-crop. Production forecasts and estimates are helpful, but just let the weather throw a curve ball and all bets are off. Nigerian Cocoa farmers are faced with a shortage of insecticide. Actara is the only insecticide permitted for use on Nigeria's Cocoa crop. Without it the control of insects called mirid bugs (think leafhopper) is nearly impossible. And this pest can reduce cocoa yields as much as 75%.

**Cocoa closed down \$19.00/ton for the week (compared to last Friday's close).**



### **Sugar Market**

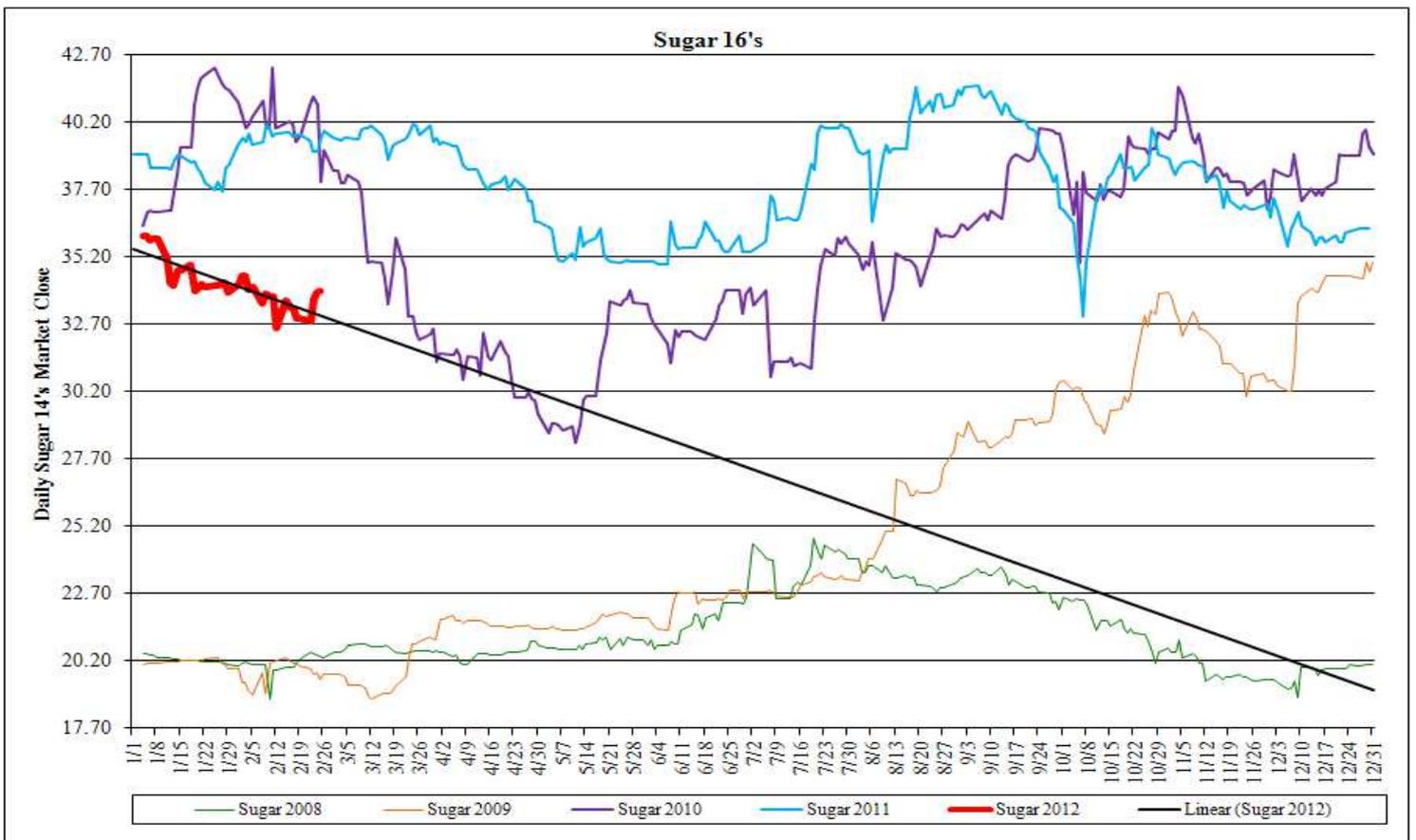
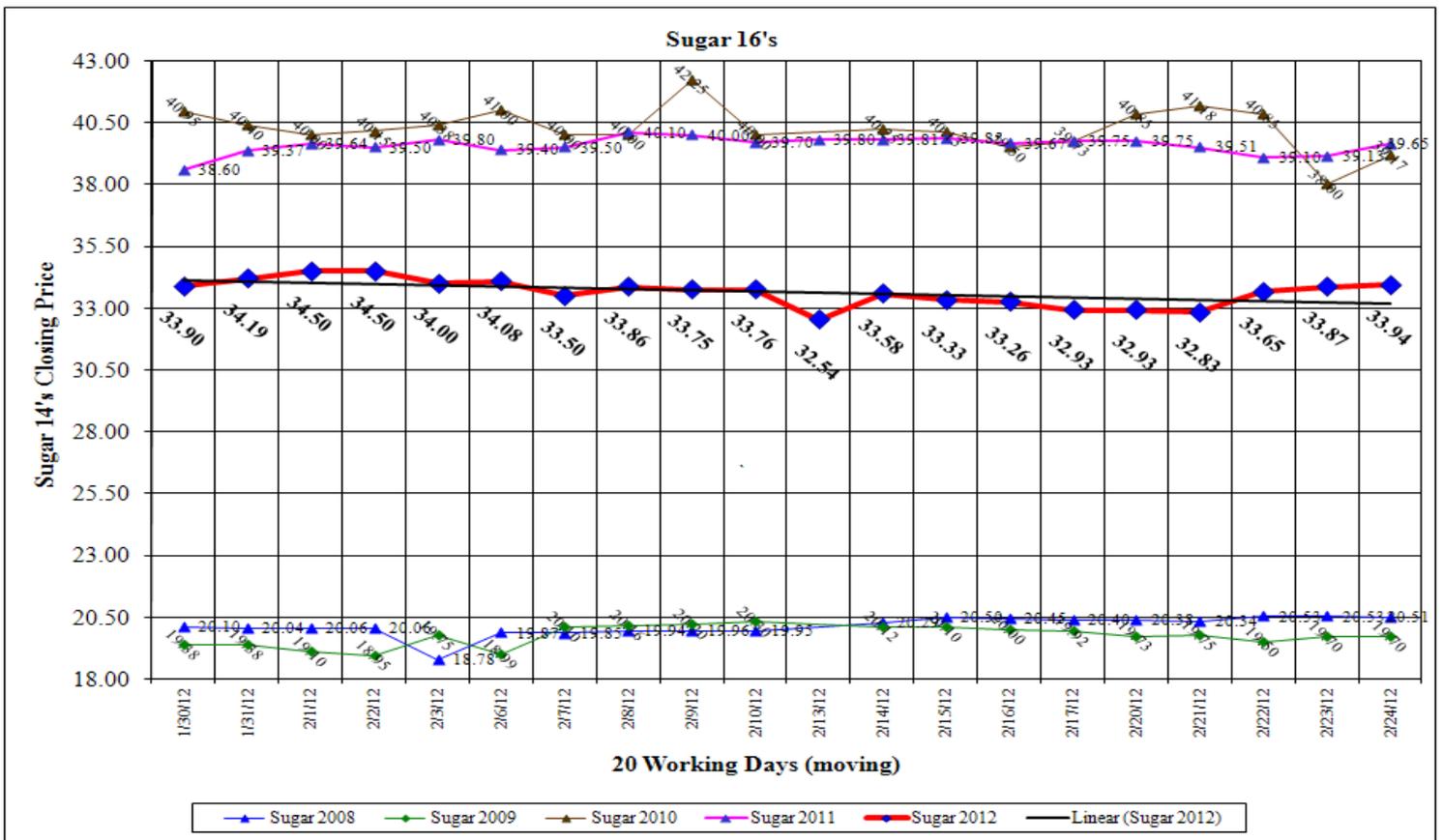
The sugar market is waiting for the center-south sugar crop in Brazil—along with the Thai and Indian crops—all of which expected to weight on world sugar prices in the second half of 2012. Currently, the market perception is that there is shortage of export available world sugar.

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 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.

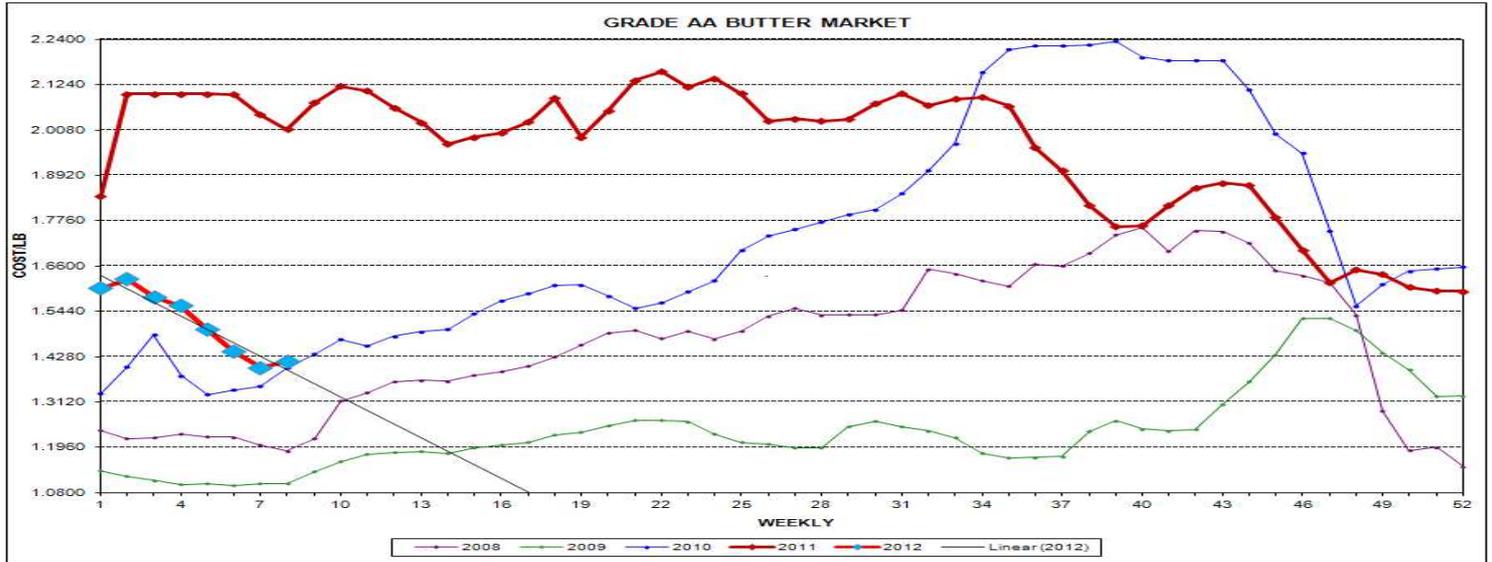
#### **Key results for 2012/2013 from U.S.D.A.'s Agricultural Outlook Forum 2012:**

- Beginning stocks are 876,000 short tons, raw value (STRV)—a decrease of 596,000 STRV relative to 2011/2012.
- Cane sugar production in Florida is projected at 1.770 million STRV. Normal weather and trend productivity increases are assumed to hold in 2012/2013.
- Consistent with the U.S.D.A. Agricultural Projections to 2021, it is assumed that additional sugar to meet the 14.5% stocks-to-use policy goal comes equally from U.S. sugar tariff-rate quota (TRQ) increases and imports from Mexico. Total U.S. sugar imports are projected to total 4.036 million STRV. Mexico is assumed to import sugar from the world market late in the fiscal year to assure sufficient supplies for meeting domestic consumption requirements. Historically, optimum ending-fiscal year stocks in Mexico have been at about 22.0% of total-year deliveries for human consumption.
- Consumption of high fructose corn syrup (HFCS) in Mexico in 2012/2013 is assumed to grow 4.5% to 1.708 million metric tons, dry weight.
- Deliveries for human consumption in the United States are projected at 11.070 million STRV, a 0.9% increase over 2011/2012 and consistent with expected population growth.
- Ending stocks total 1.672 million STRV to meet policymakers' assumed goal of a 14.5% ending stocks-to-use ratio, the same goal as assumed in U.S.D.A. Agricultural Projections to 2021.

**Sugar 16's closed down \$28.00/cwt for the week (versus last Friday's close)**



## **Butter Dairy Market**



Score AA butter closed up \$0.0025/lb on Friday, ending the week at \$1.4175/lb. The weekly average is \$1.4156/lb. up \$0.0151/lb from last week's average.

### **A. Butter Market**

Butter prices have leveled off at the CME Group over the past week and closed the week at \$1.4175. The steady pricing levels at the CME Group have also resulted in averages and basing points trending slightly above week ago prices. The trade is assessing what the effects the end of "old crop" butter trading (after February 29th) will have, when all butter made prior to December 1, 2011 can no longer be sold at the CME Group. The active butter output in the past three months and the end of January cold storage holdings, at 171.2 million pounds and a 64.3 million pound gain during the month, would indicate that butter supplies are available and there could be no or limited effects. Butter production is active at heavy levels across the country as cream supplies are heavy and building. Demand for both bulk and print butter is fair to good. For bulk, some buyers are in the market to establish inventories at what they consider favorable prices. For prints, buying interest has improved to position for upcoming feature activity. There have been some increases in cream usage in Class II product manufacturing for ice cream, sour cream, cream cheese, and dips, ahead of upcoming needs for Easter and Passover holiday needs. This is taking additional cream supplies and is a welcome reprieve for butter makers. Export activity continues to be reported, aided by CWT export assistance. For the fourth consecutive week, nearly 1 million pounds of butter received export assistance from the CWT program. These awards bring the total butter assistance to nearly 20 million pounds thus far in 2012.

### **Some observations coming out of U.S.D.A.'s Agricultural Outlook Forum 2012:**

Strong butter prices and low butter stocks going into 2011 encouraged production, with U.S. butter production increasing 15% in 2011 from the depressed level of 2010. The higher fat content of U.S. milk in 2011, up from the low levels in 2010, also contributed to higher butter production. U.S. butter exports continued to increase in the first half of 2011 and totaled 140 million pounds for the year. The slower export pace in the last half of 2011 is expected to carry over into 2012 with butter exports for the year expected to be down about 10%. A small increase in EU butter production is expected to be absorbed domestically and by continued strong demand from Russia. New Zealand's butter exports are expected to climb by 6% this year, pressuring U.S. exports. With butter exports likely to be lower in 2012, and U.S. stocks starting the year 29% above a year ago, butter prices are expected to continue the decline that began in September 2011. This decline is expected to last through early 2012. But, butter prices are expected to increase later in 2012 if lower farm income slows milk production and the value of cheese and whey relative to butter and nonfat dry milk favors production of the former products. U.S.D.A. forecasts the price of butter to average \$1.57 to \$1.67 per pound this year, down 17% from the 2011 average of \$1.9498.

The U.S. dairy industry enters 2012 in an environment of falling dairy product prices and rising feed costs. These high feed costs and the declining milk prices are pressuring returns to dairy farmers. Corn prices forecast to rise to \$5.80 to \$6.60 a bushel in the 2011/2012 crop year. Soybean meal prices are forecast to fall slightly to \$290 to \$320 per ton in 2011/2012. Consequently, the 16% protein ration, which averaged just over \$10.50 per cwt in 2011, is expected to climb to near \$11.00 per cwt in the first half of 2012.

Unfortunately, as dairy farmers' feed costs are rising, their milk prices received are falling. Increasing milk production has pressured milk prices since their peak in the third quarter of 2011 and milk prices are staged to fall further during the first half of 2012. The milk-feed price ratio—which was last above 2.0 in the first quarter of 2011—will likely average below 2.0 again in 2012. Lower corn and hay prices in the second half of 2012 are expected to bring some feed cost relief. Some modest recovery in the fourth quarter milk-feed price ratio is expected as feed prices fall with the next harvest. The milk-feed price ratio could decline to 1.6 during the first half of 2012, the lowest since 2009.

Despite high feed prices and a forecast decline in net cash income from record highs, incomes should be strong enough to buoy continued expansion during the early part of this year. However, based on expectations of weakening milk/feed price ratios during 2012, some decline in cow numbers by the end of 2012 is expected.

Average cow numbers for 2012 will be slightly lower than last year's 9.19 million head. Output per cow is expected to rise in 2012 by 1.4% because of milder winter weather and the leap year adding a day of production, compared to a 0.9% rise last year. Milk production is forecast to rise to 199 billion pounds in 2012.

Domestic demand expected to continue to improve economic recovery is expected to continue this year, but demand for dairy products is not keeping pace with production increases. Economic growth is forecast at about 2% for 2012. Real disposable income is projected to climb by less than 3% over the course of the year. The National Restaurant Association's Restaurant Performance Index has shown strength in recent months and should portend stronger dairy product sales. The general upturn in the economy supports increasing total domestic commercial use by 1.4% in 2012, on a fat basis, compared to 2011's 0.8% rise. On a skim-solids basis, domestic commercial use is forecast to climb by about 2.2% in 2012, with preliminary estimates showing growth of 1.8% last year. However, this increase in usage is expected to come only with lower dairy product prices.

World demand—especially in Asia—will be strong. In early 2011, China had absorbed a significant portion of the additional milk supplies on global markets through the substantial purchase of whole milk powder (WMP) thus underpinning international dairy prices. Chinese imports of WMP are forecast at 827 million pounds in 2012, a 7% increase from last year. This upward trend is likely to continue into the foreseeable future as China's expanding population enjoys a steady rise in disposable income. In addition food safety concerns (a residual of the Melamine disaster) and the subsequent decline in domestic production, have resulted in tight Chinese supplies. Chinese imports of skim milk powder (SMP) rose at an annual 22% rate from 2005 to 2009 and are expected to total over 300 million pounds in 2012, a 19% increase from 2011.

The 2012 fiscal year forecast value of dairy exports has recently been increased by \$400 million due to stronger than anticipated exports of cheese, whey, lactose and nonfat dry milk (NDM) due to strong import demand from Asia and Mexico. The \$4.4 billion dairy export total for 2012 is down slightly from the record \$4.5 billion reached in 2011.

### ***B. Dairy Powders***

Nonfat dry milk prices were mixed this week as spot sales lowered the low end of price ranges, while high end price increases were the result of index-based purchases. The undertone for the nonfat dry milk market remains weak. Increasing milk production continues to expand manufacturing milk supplies, which has ultimately added to dryer volumes. Dryer times favor low heat production and needed throughput. Many buyers are keeping inventories tightly coordinated with near term needs and expected contract loads. A dryer fire at a Western plant has created more condensed skim offerings in the region. Export interest is light to firm with new interest slow to develop. Dry buttermilk prices are unchanged to slightly lower. Production of dry buttermilk in the East and Central regions has marginally declined as ice cream mix manufacturers have increased production and their purchases of condensed buttermilk. Production levels of dry buttermilk in the West are active. Buying interest for dry buttermilk is light to fair for current, moderate to heavy producer offerings. The dry whey market continues to have an uncertain undertone, due to the increased availability of product in the Western region. The Western range continued to widen as numerous spot transactions at lower prices were reported. The market is operating on a two tier pricing structure for at least the short term. Index based prices are slower to adjust as the market reflects weaker prices. The lower spot prices are mostly reflected in bulk purchases. With cheese production moving higher as a method of clearing both farm milk and condensed skim, dry whey production is climbing. The price for whey protein concentrate 34% was unchanged in a mixed market. Lactose prices are unchanged for the mostly price range on a steady market.

### **Some observations coming out of U.S.D.A.'s Agricultural Outlook Forum 2012:**

Powder prices will also likely be lower in 2012 than last year. U.S.D.A. forecasts NDM prices averaging \$1.36 to \$1.42 per pound for 2012, 8% below the \$1.51 per pound price in 2011. Weaker world prices and a 5% drop in U.S. exports will pressure domestic prices for milk powders. Generally, the EU will be less of a factor in the powder market as its exports are expected to decline by 7%, as Australia and New Zealand increase market share. Imports of SMP by major importing countries are expected to expand by only 1% this year, following last year's record pace.

**Eggs**

Retail demand is unchanged, reported as “fair”. Buyers are taking supplies at average levels for this time of year, but better for those with feature activity in place. Promotions below the dollar mark continue to generate the best call, while those above are described with mixed results. Foodservice demand is slightly better than expected in most areas, as warm weather seems to be helping in areas where business is historically slowest during this part of the year.

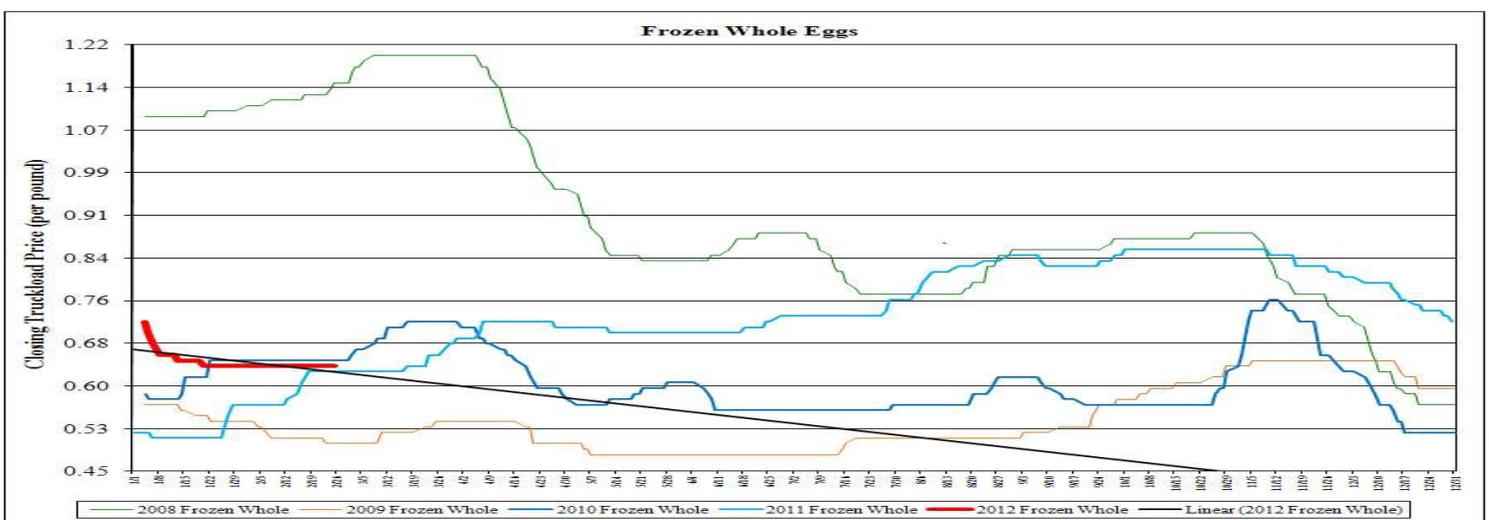
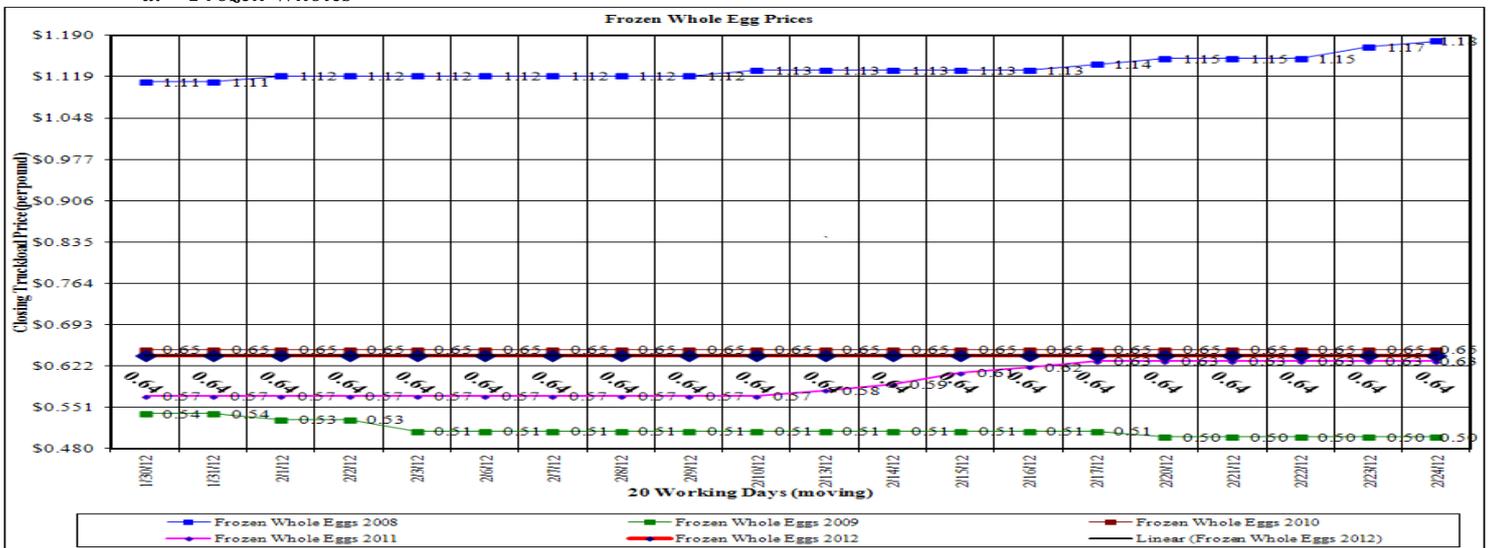
Wholesale traders are quiet for the most part again today, and are expressing minimal interest in spot market supplies with balanced inventories in house. Buying interest has picked up some from earlier in the week. Most sellers are comfortable with their supply situation at this time and are holding asking prices at current levels.

Broiler egg sets for the week were 94% of year ago levels down from 95% last week. Chick placements remained at 96%, unchanged from week ago levels.

Further processors are not overly motivated at the moment, but transactions are again completed toward the high side of current market ranges and sellers are holding asking prices firm. The market is steady.

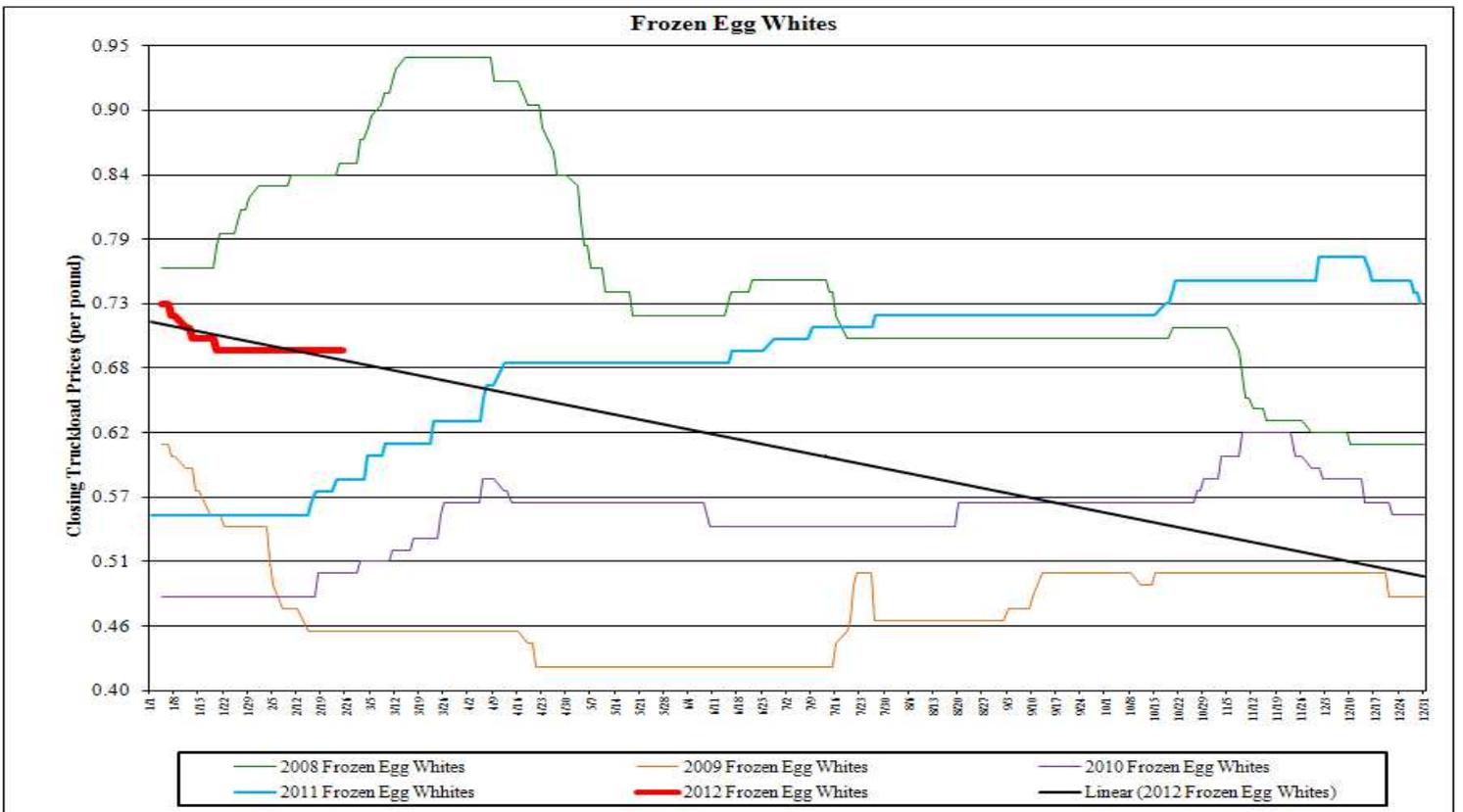
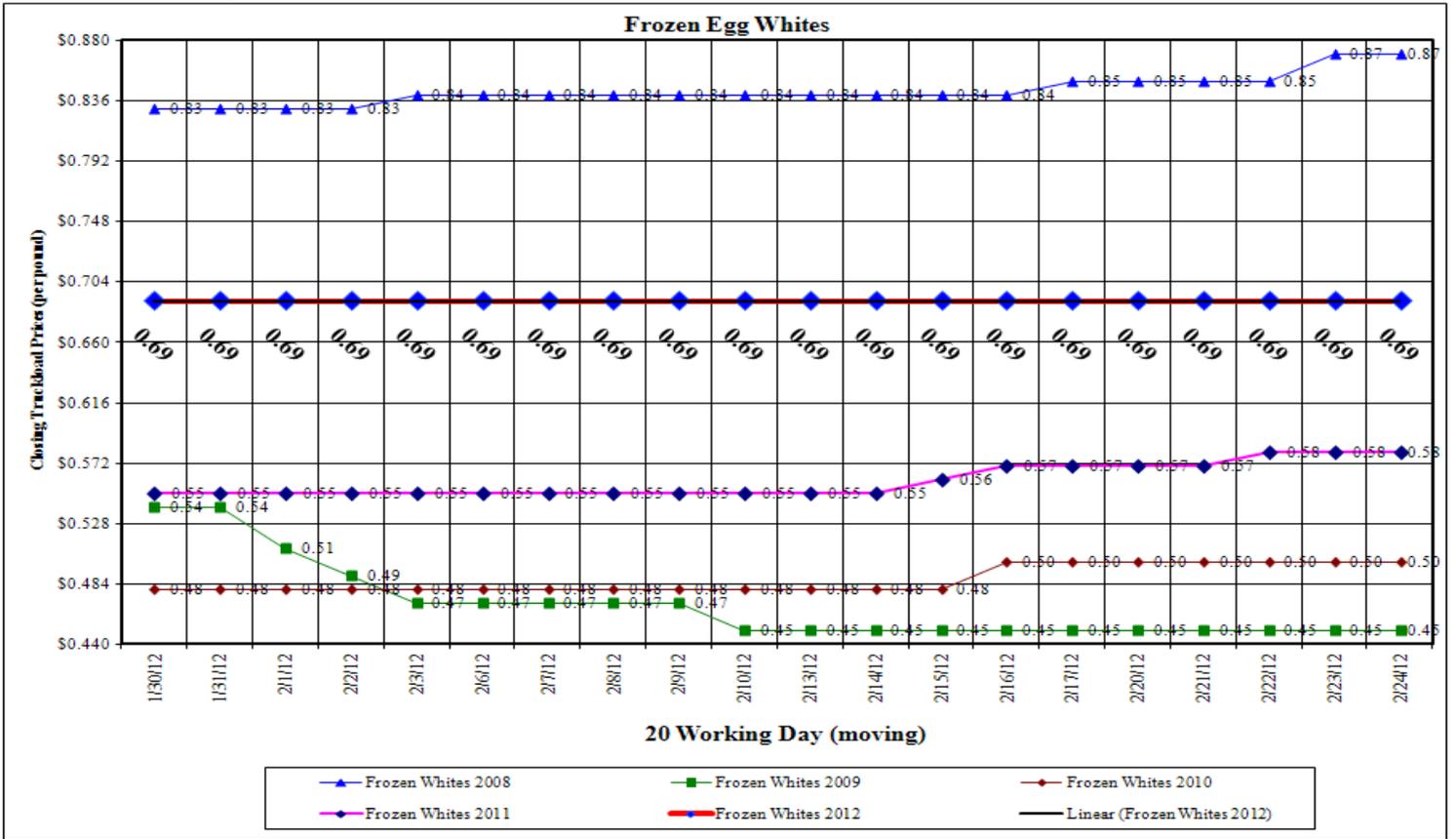
The domestic products market is mostly inactive this week. Interest is noted in all categories of liquid, especially for whole egg, but no transactions have been completed at this time. Export inquiry for finished product continues, especially in the yolk category. This call has recently resulted in sales through the 3rd quarter of the year, at or above current market prices.

**a. Frozen Wholes**



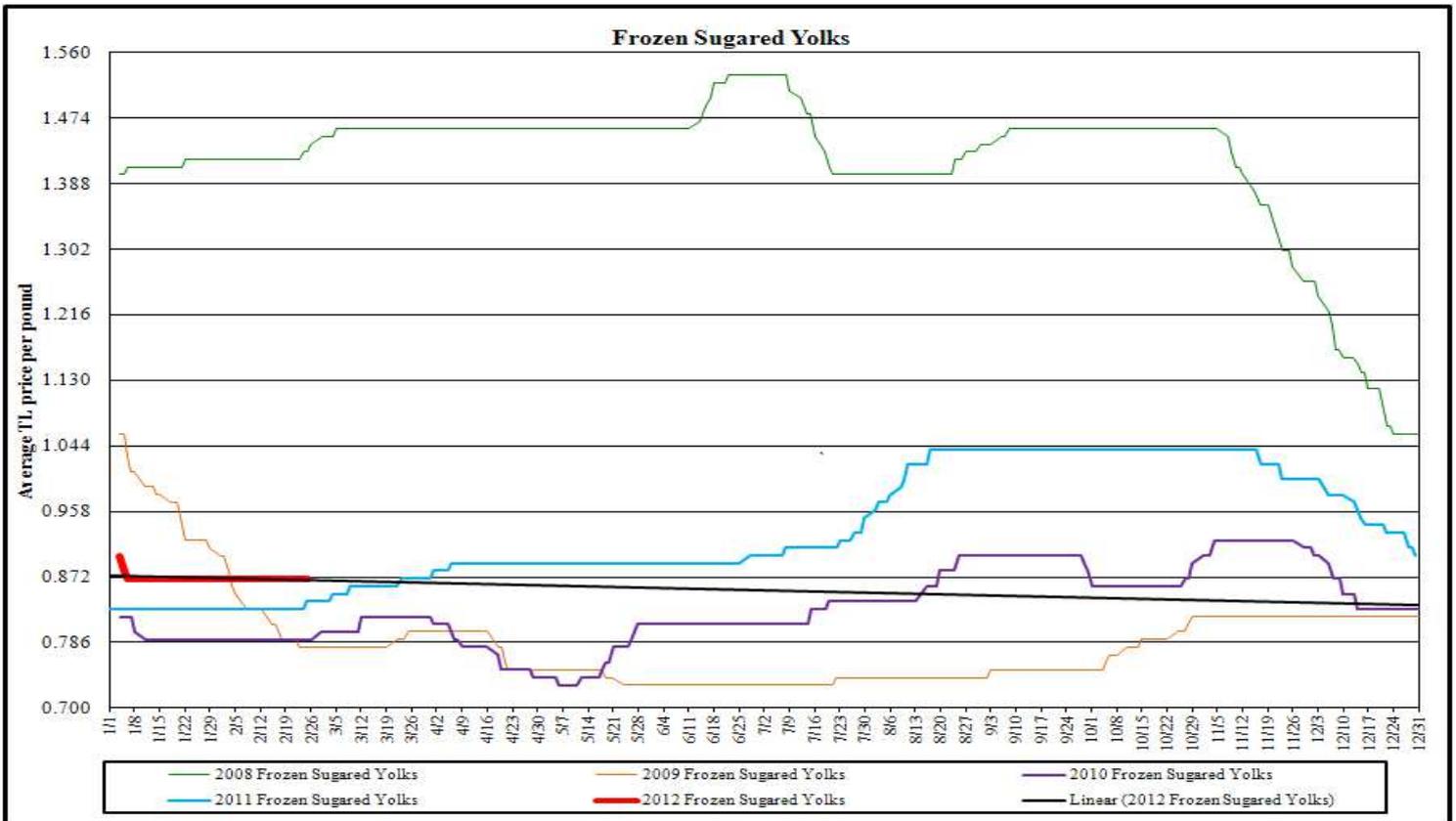
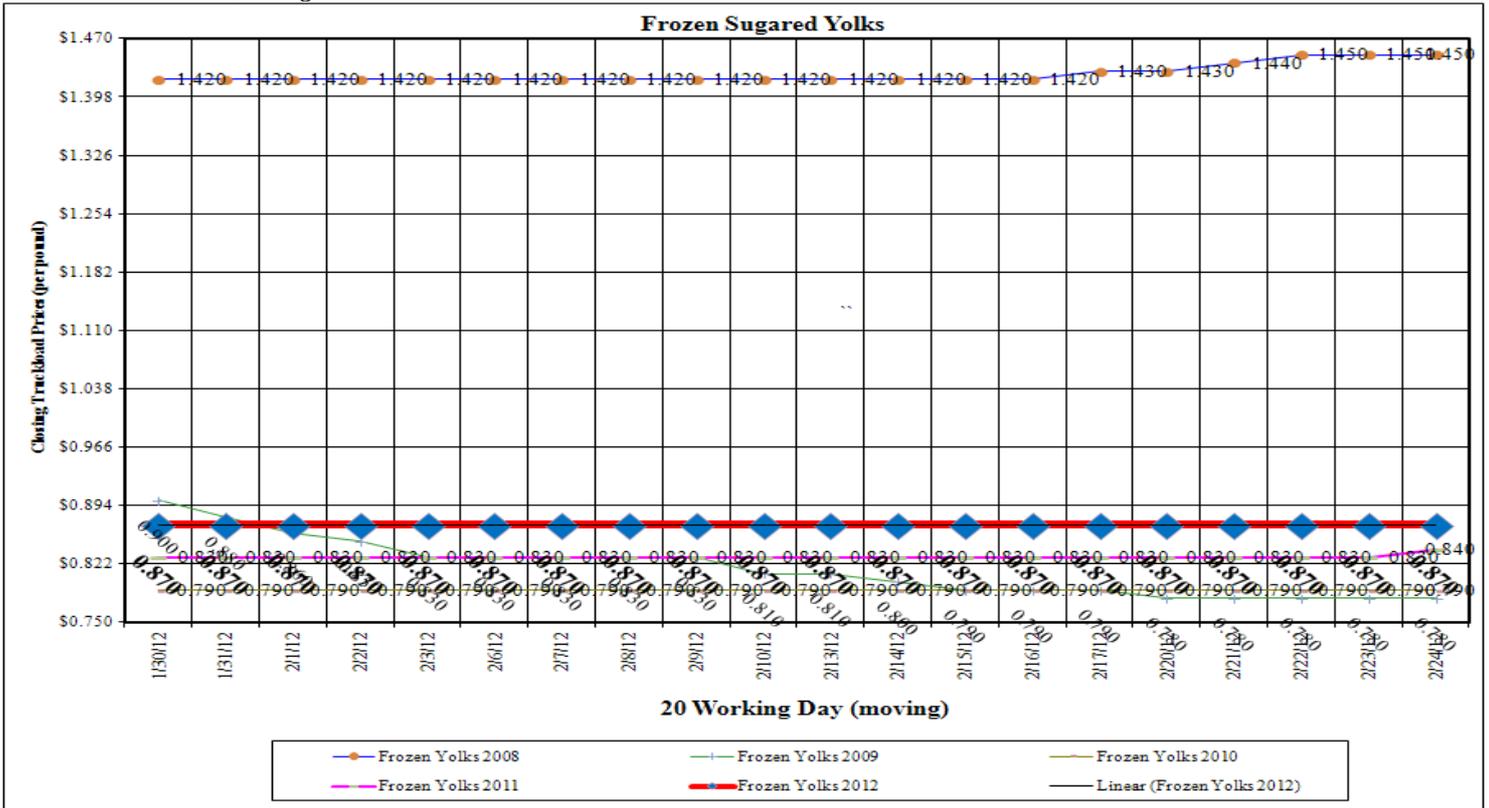
Frozen Whole Eggs closed “no change” for the week (compared to last Friday’s close).

**b. Frozen White**



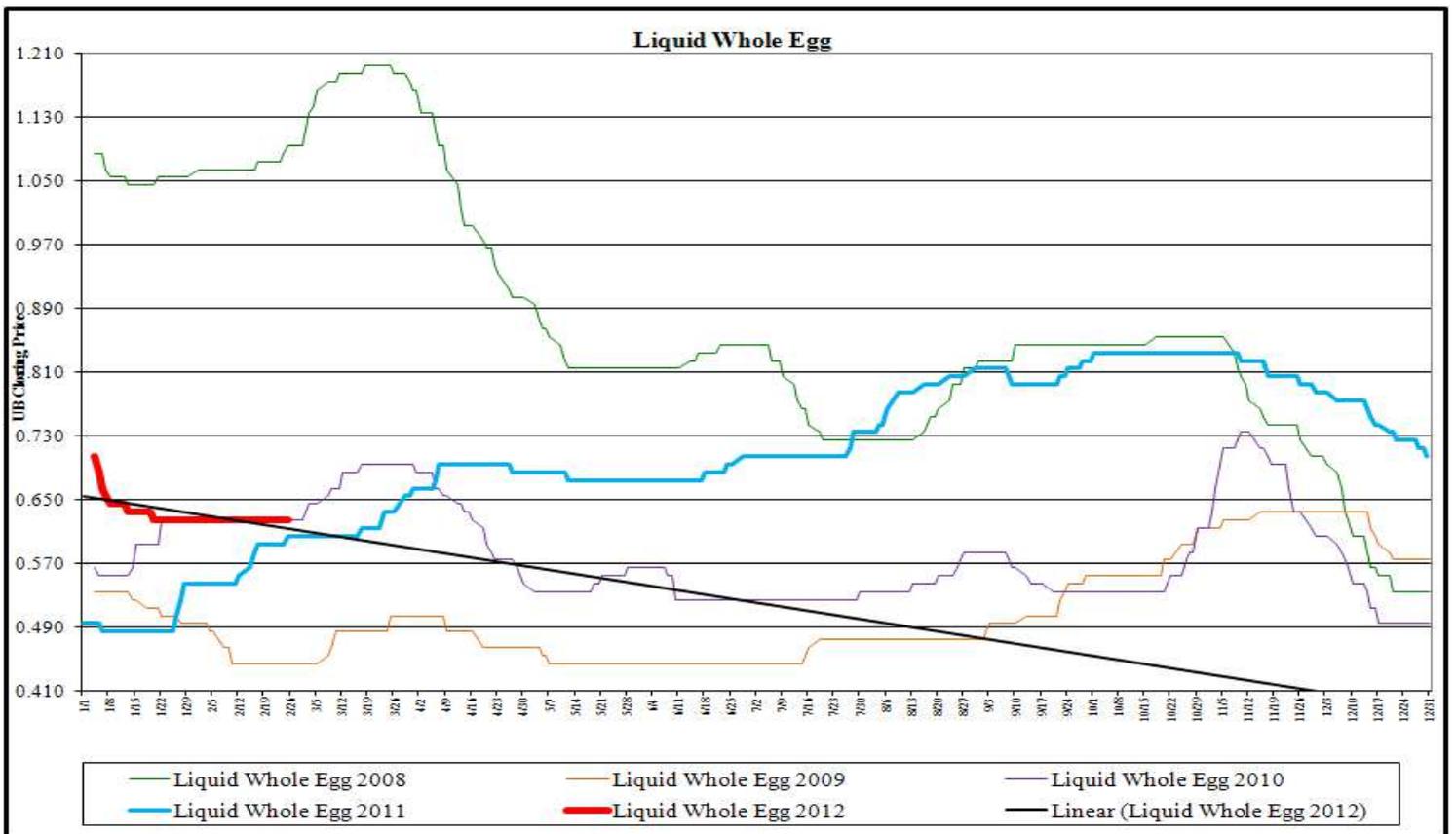
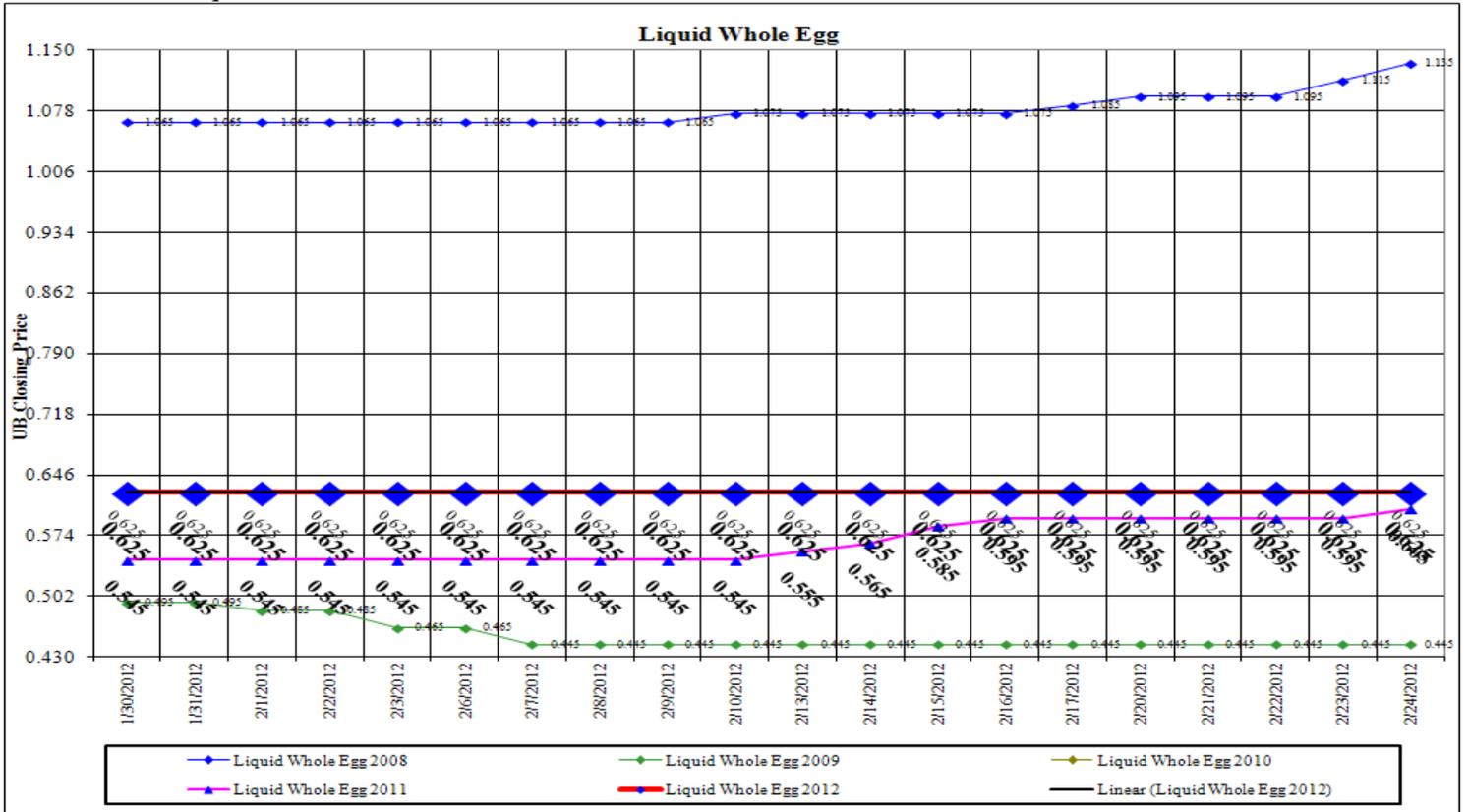
Frozen Egg Whites closed “no change” for the week (compared to last Friday’s close).

c. Frozen Sugared Yolks



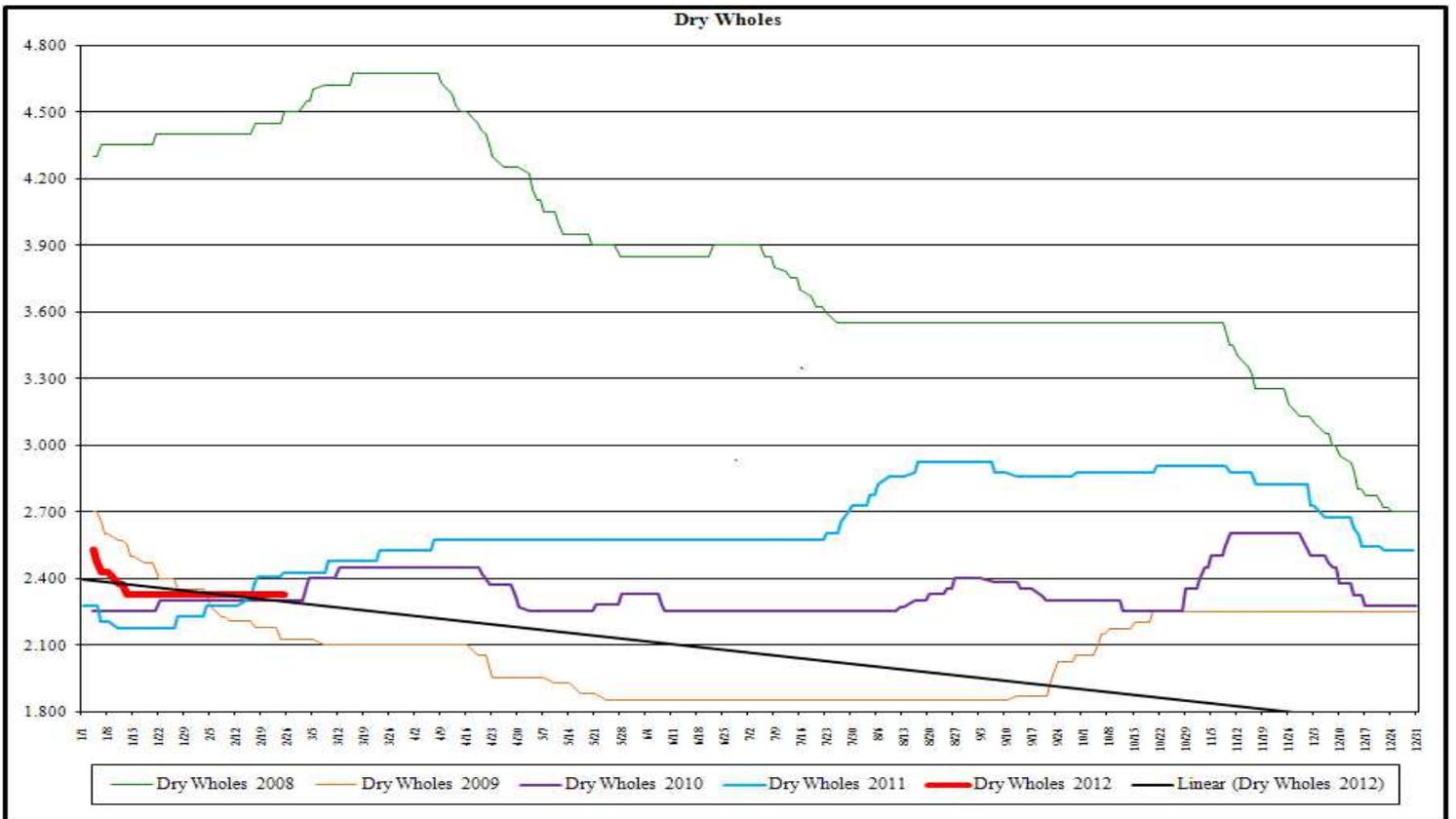
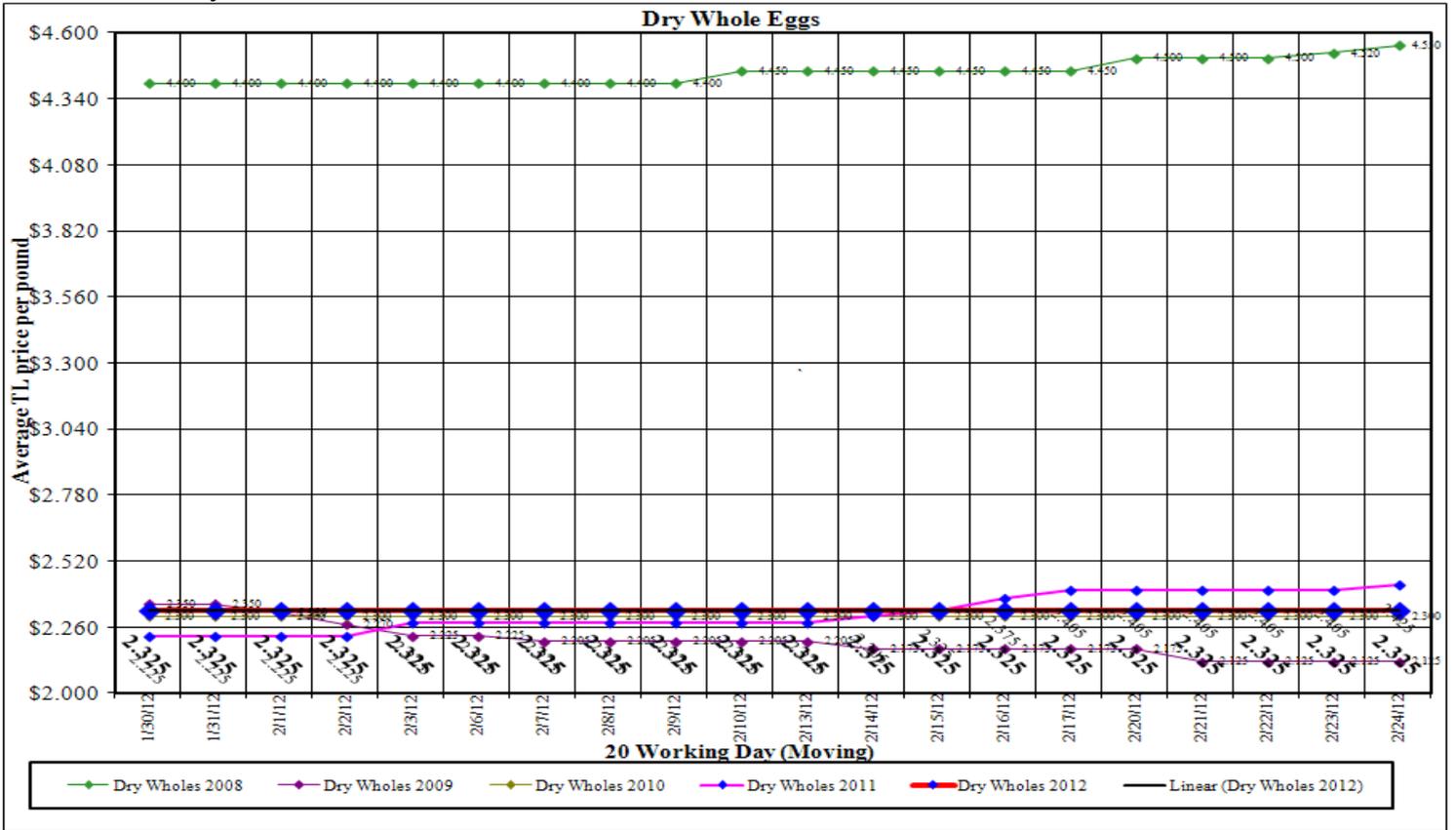
Frozen Sugared Yolks closed “no change” for the week (compared to last Friday’s close).

d. Liquid Wholes



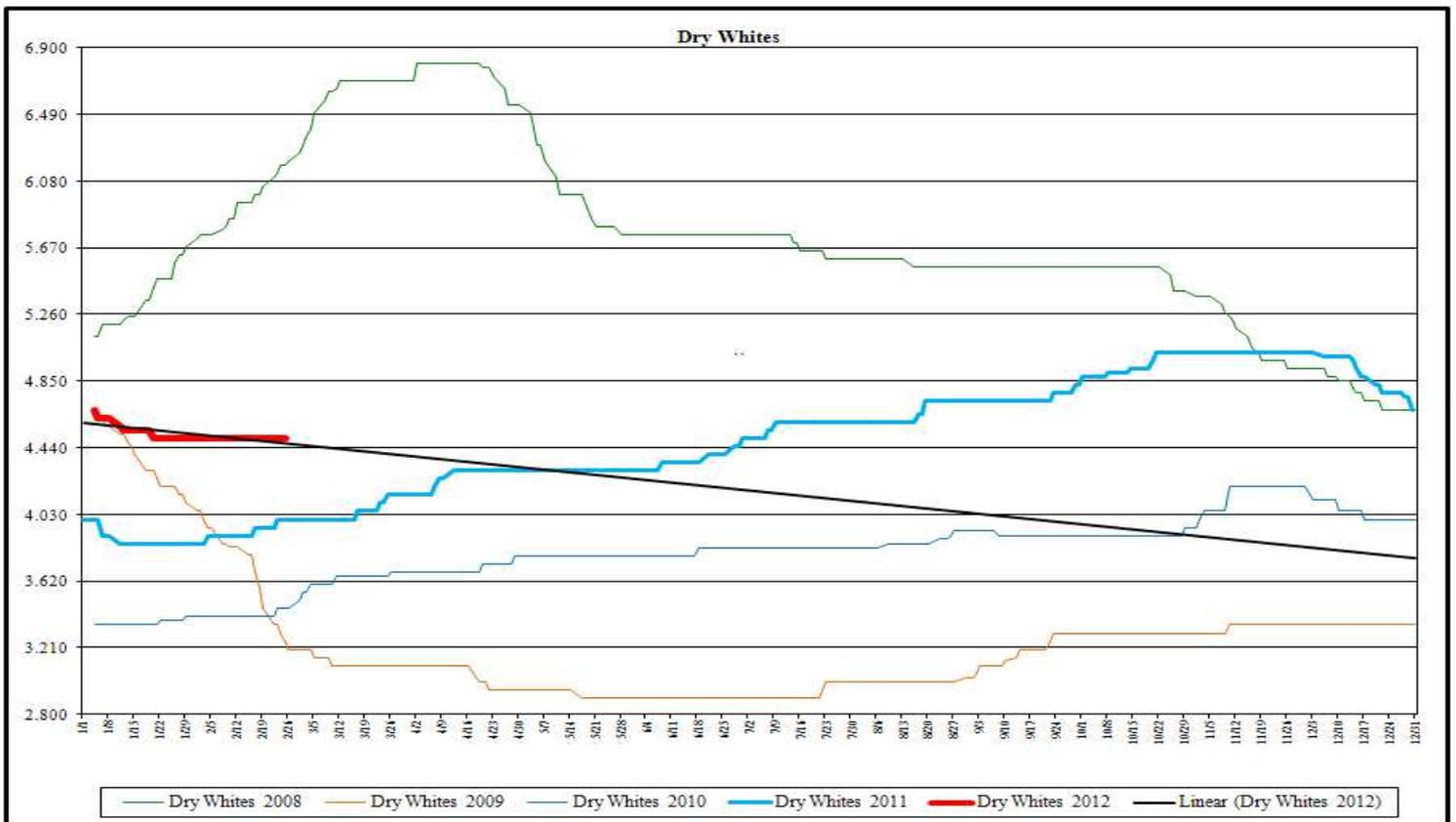
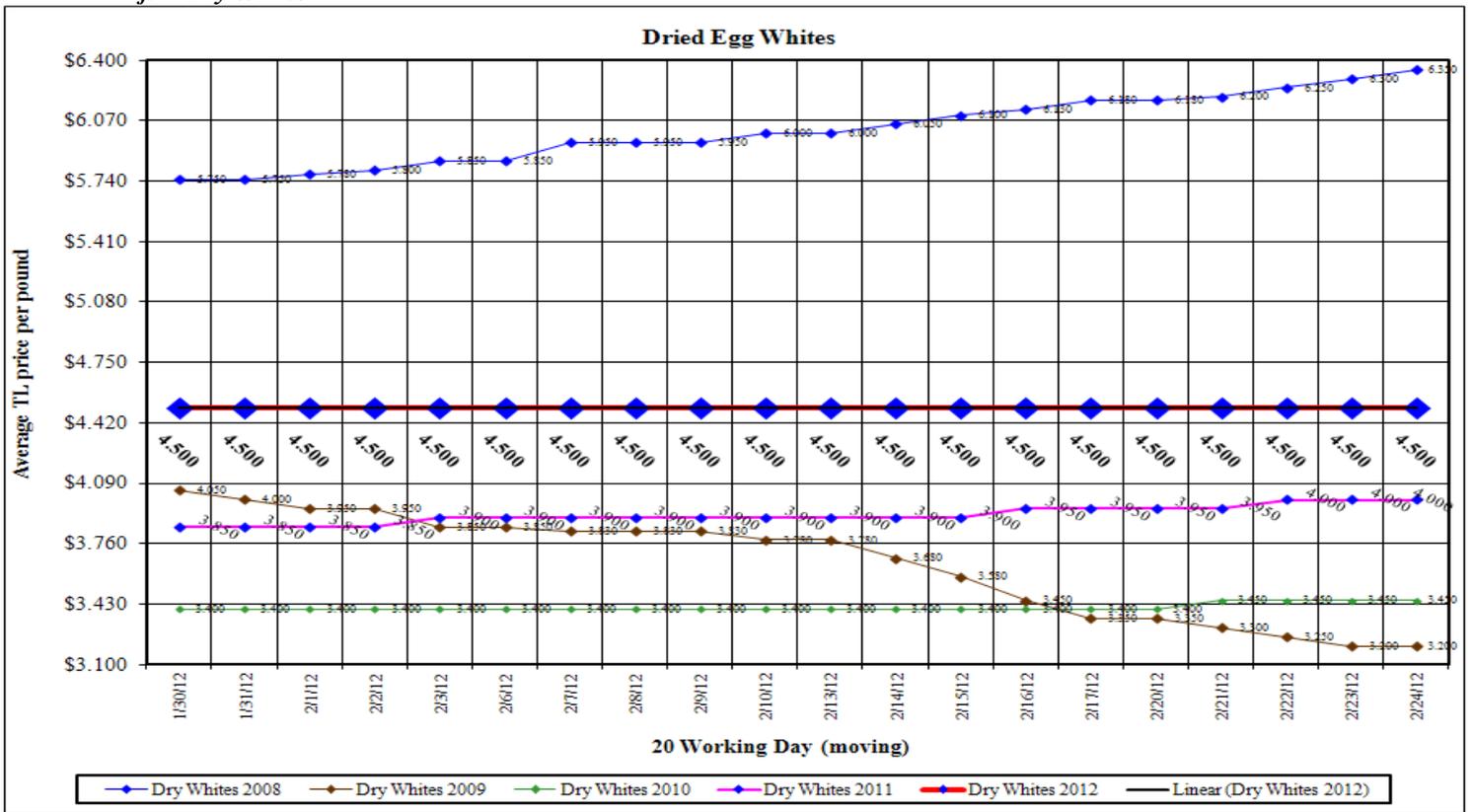
Liquid whole eggs closed “no change” for the week (compared to last Friday’s close).

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

The U.S.D.A. Ag Forum showed the expected increase in corn acres for 2012/2013. Corn plantings for 2012 are projected up 2.1 million acres from last year at 94.0 million acres. At this level, 2012 planted area would be the largest since 1944 and exceed the 2007 area by nearly 0.5 million acres. Strong new-crop prices in both the futures and cash forward markets support a favorable net returns outlook for corn again in 2012/2013. New-crop futures during the first half of February have averaged \$5.70 per bushel and bids for fall delivery at Central Illinois elevators during the same period have averaged \$5.35 per bushel. Expected net returns were more favorable last year during this same period with new-crop futures and forward prices 20-30 cents per bushel higher, but last year's plantings fell far short of what farmers would have planted as evidenced by unusually large prevented plantings. This year's projected expansion in area is supported by an expected return to more normal spring weather and strong revenue guarantees provided through crop insurance.

Corn production in 2012 is projected at a record 14,270 million bushels, up 15% from 2011 and well above the previous high of 13,092 million reached in 2009. The corn supply in 2012/2013 is projected to rise 12% to a record 15,086 million bushels on the strength of the large prospective crop. The outlook for a large increase in the corn crop is driven by both higher acreage and higher yields. Yields are projected at 164 bushel per acre, reflecting the 1990-2010 trends. Favorable summer weather pushed the average yield to a record high in 2009, while extremely adverse growing conditions resulted in below-trend yields in both 2010 and 2011. Underlying the upward trend in corn yields over the last several years has been a steady increase in plant populations, supported by improved genetics and producer investment in machinery and equipment.

Corn stocks at select export elevators and terminals were down 2.336 million bushels from last week to 62.2 million versus 86.4 million a year ago. Corn inspections for the week ending 2-16 were 34.778 million bushels. YTD shipments are about 3 million bushels behind year ago. Ethanol futures followed corn lower, despite higher prices in the other energy contracts. EPA removed some more of the regulatory barriers to E15 use, but companies must still register to offer the product. Beans have been rallying against corn over the past couple of weeks trying to buy acres away from corn.

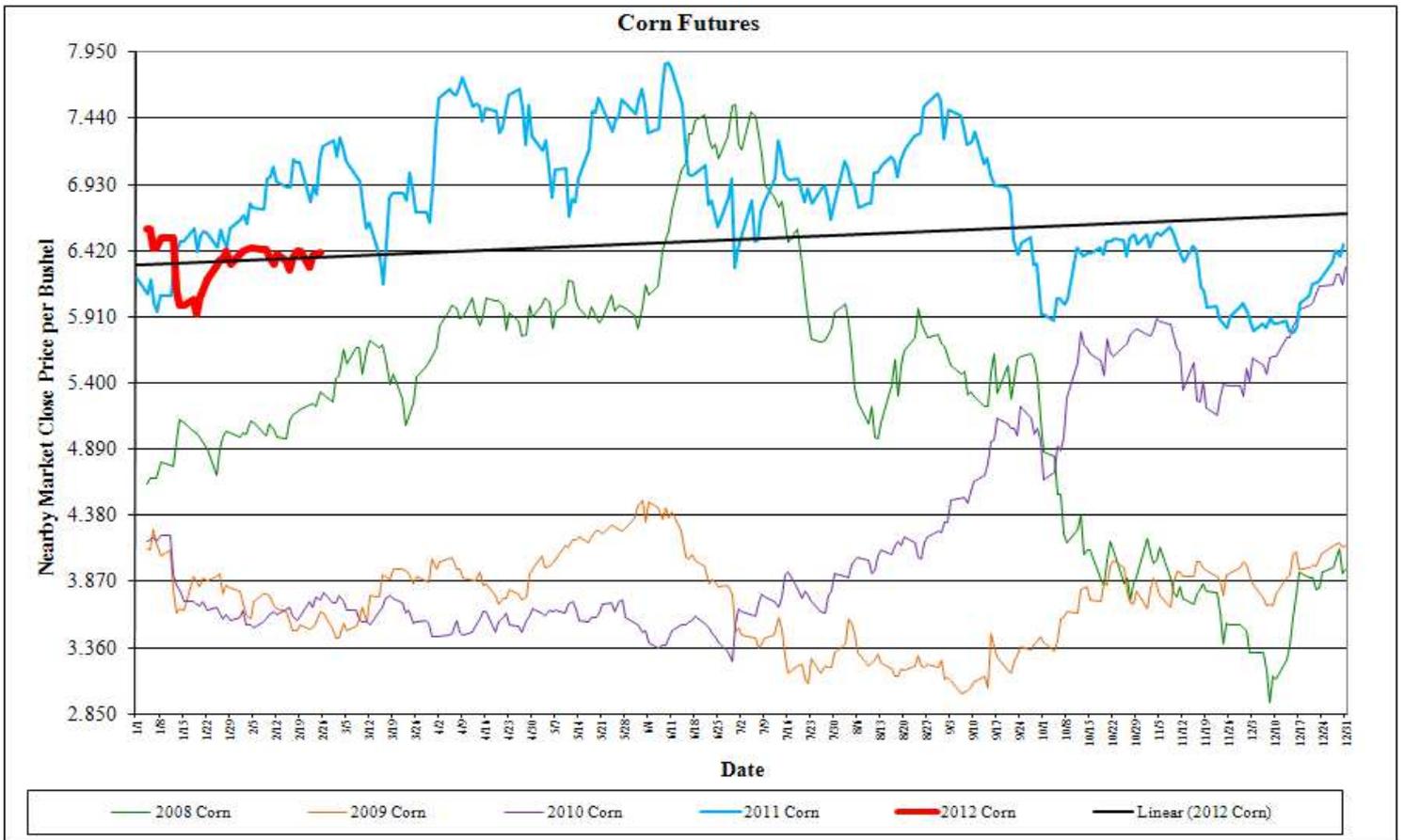
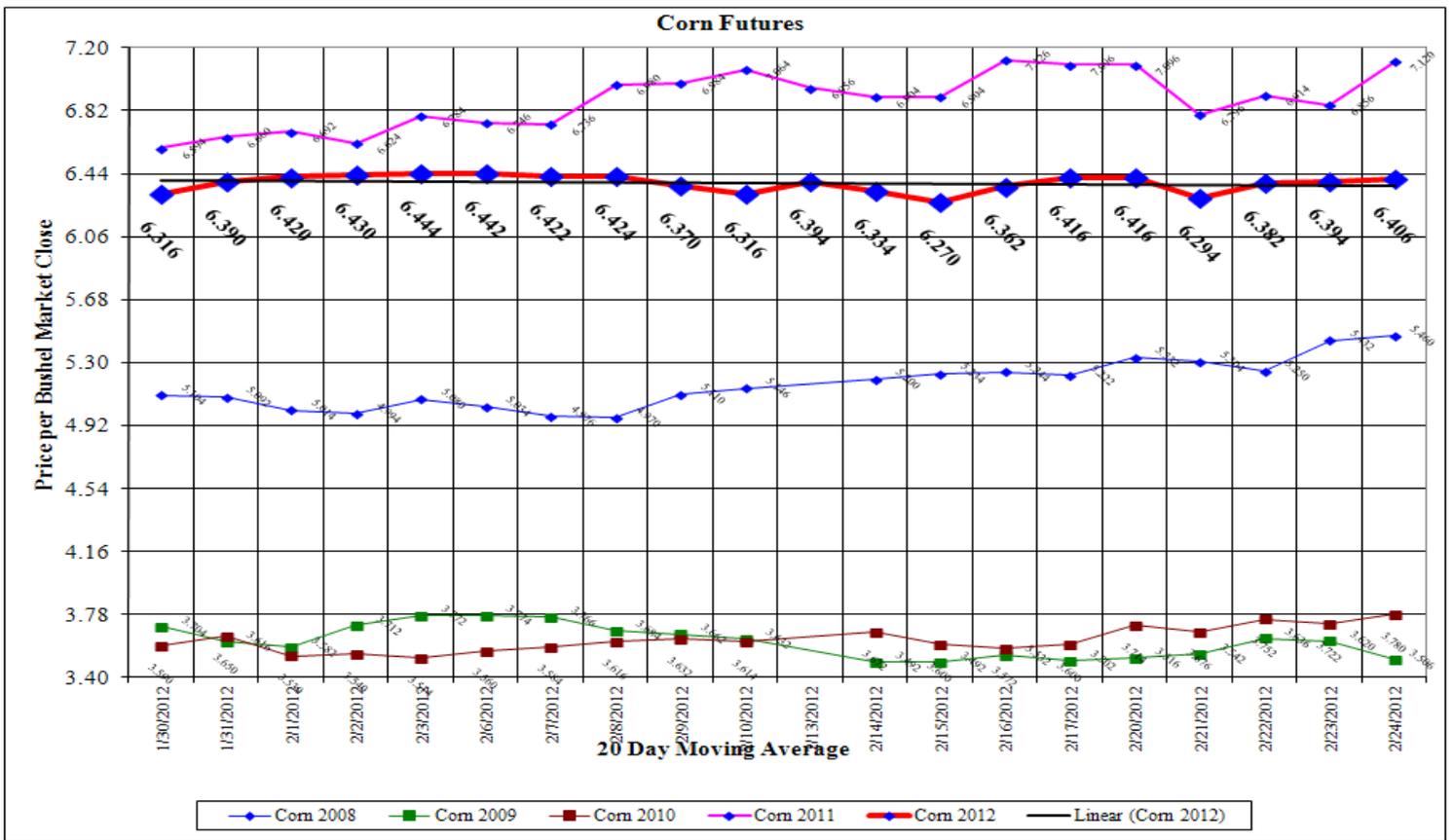
The U.S. corn outlook has been caught in tug-of-war between bulls still focused on very tight old crop supplies and continued robust demand, while market "bears" focus on prospects for a jump in both acreage and yield that could double ending stocks for 2012/2013. Most of the Midwest will see precipitation over the next week.

The weekly EIA report showed ethanol stocks were the same as the prior week at 21.5 million barrels but up from a year ago when stocks were 19.3 million barrels.

Rain relief in Argentina halted yield deterioration which, in turn, kept corn futures in a sideways trend. Meanwhile, analysts debated just how much the crop will actually decline. Despite dryness, Brazil's 2012 corn crop could still reach a record 60 million tons, up 7% on the year. Early signs show that second crop corn plantings are significantly expanding to make up for the southern drought. If realized, this could ensure Brazil's corn exports will reach 10 million tons. U.S.D.A.'s corn estimate is 61 million and exports 8.5 million.

Ukraine's 2012-2013 corn exports will likely reach a record 14-15 million tons versus an estimated record 12.5 million this season, an official with the State Food and Grain Corporation said. Ukraine's 2012 maize output could climb to a record 25-27 million tons versus last year's record 22.8 million, which was almost double the prior year. Ukraine is forecast to export 2MT more corn than U.S.D.A.'s forecast for 2011-2012 and remain a dominant exporter of corn in 2012-2013. Farmers are expected to sharply expand corn plantings on abandoned winter wheat fields.

**Corn futures closed down \$0.01/bushel for the week (versus last Friday's close).**

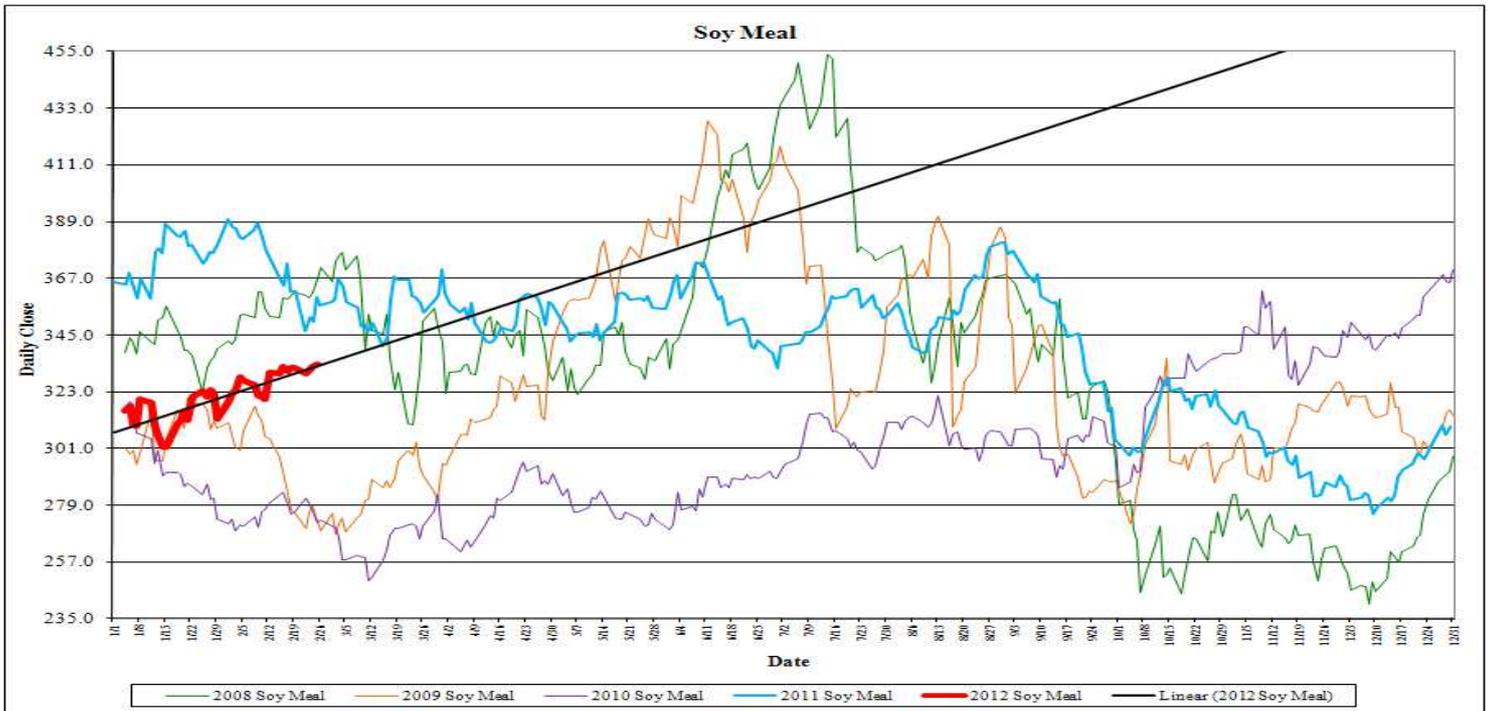
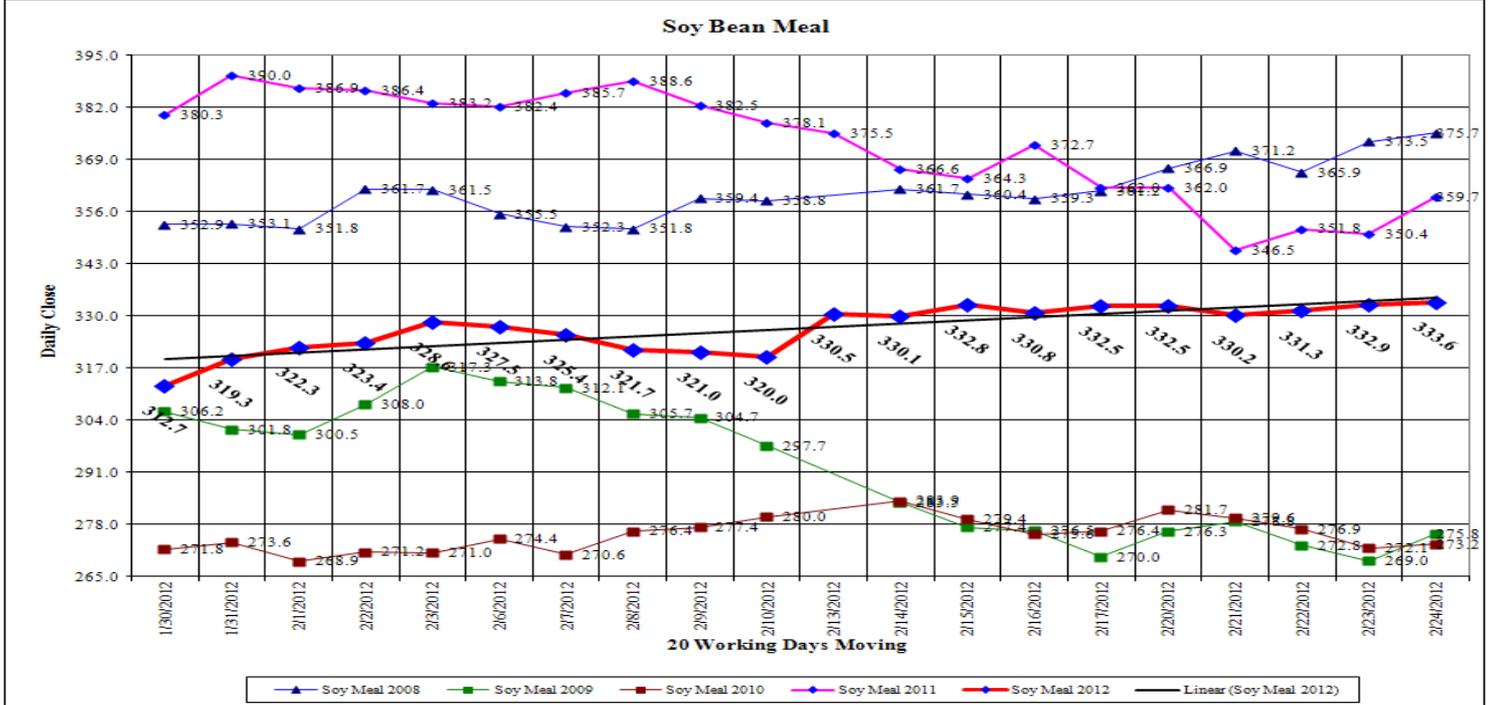


**Soy Meal**

In their report released Friday, U.S.D.A. had soybean meal exports projected slightly higher—supported by reduced competition from India. Projected gains in domestic soybean meal feeding are less than 1% due to limited expansion in the pork and poultry sectors in 2012. Soybean meal prices for 2012/2013 are projected to average \$295 per short ton, down \$10 from the midpoint of the projected range for 2011/2012.

Modest growth is expected for world trade in soybean meal supported by stronger demand in the EU and Southeast Asian countries. U.S. exports are projected to grow 5% in 2012/2013 to 9.2 million short tons. Soybean meal exports by Argentina also are likely to expand, while exports by India are expected to decline due to strong growth in domestic consumption.

**Soy meal futures closed up \$1.10/ton for the week (versus last Friday's close).**



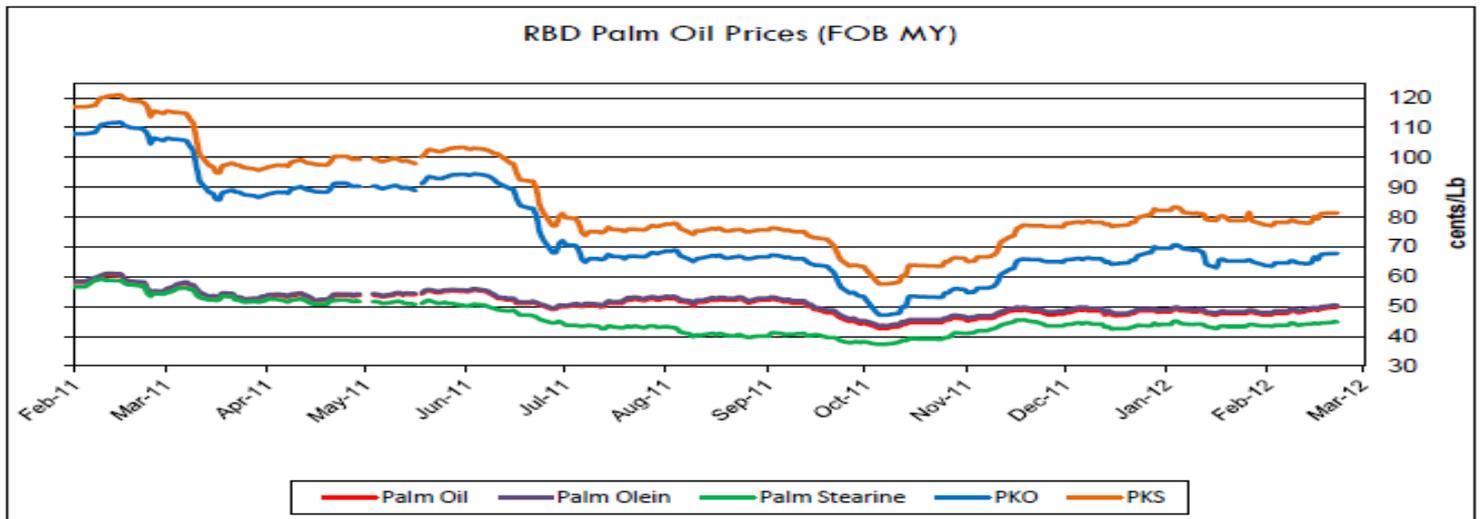
**Palm Oil**

May Malaysian palm oil settled higher on Friday, not far from this week's 8-month high. Overall volume was thin. Traders see February production slipping up to 9% and exports growing 1%, suggesting another drawdown of stocks. Still, worries persist that high crude prices may slow global growth and thus demand. Indian vegoil imports are expected to increase due to its lower rapeseed crop and higher rupee. The rupee has risen about 11% versus the dollar since touching a record low on December 15. But Pakistani demand for Indonesian palm oil is expected to jump at the expense of Malaysian demand, and Chinese soy oil/palm oil stocks are high. Traders estimate Chinese palm stocks at nearly at 1 million tons versus a more normal 400,000-500,000.

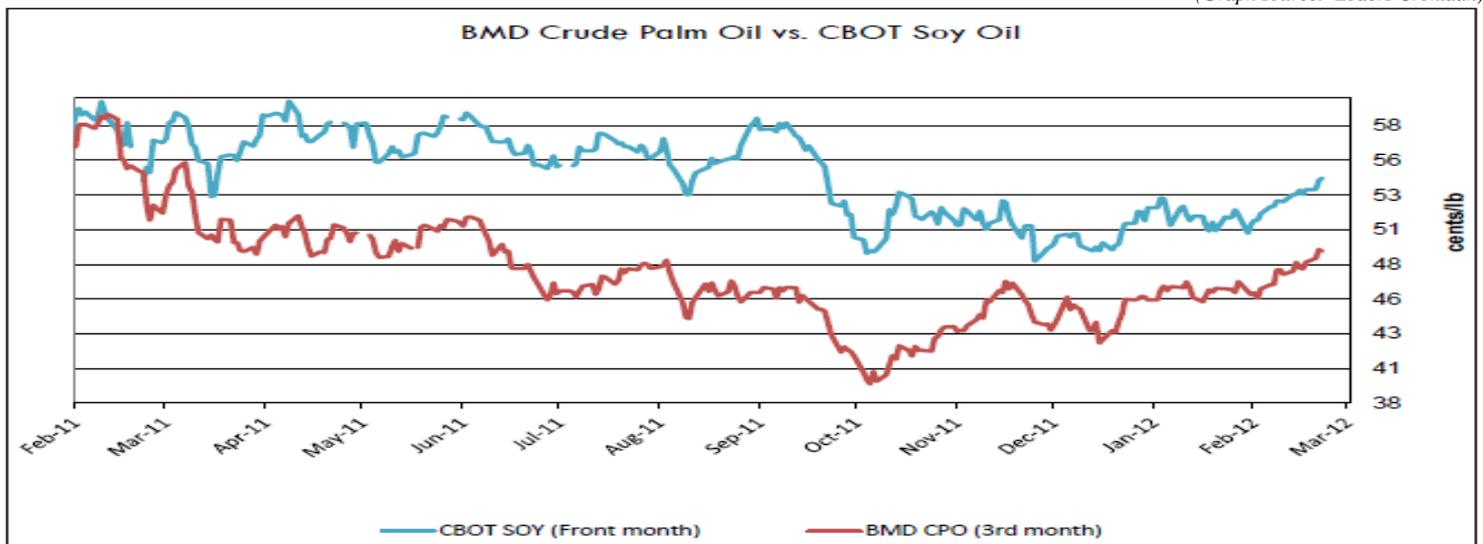
Prices rallied to new highs earlier this week as the second bailout deal for Greece boosted investor confidence, but worries have now set in on a longer-term growth outlook as fresh data showed the euro zone may slip into a recession.

Global palm markets eased slightly as China's manufacturing sector shrank for a fourth straight month, but CPO rallied on stronger Malaysian exports. Prices eventually eased as the long-term risk of a default in Europe cast doubts on the health of the global economy and commodity demand. Reuter's analyst Wang Tao said a price of 3,292 ringgit per ton remains intact for palm oil, as it is still firm on an uptrend. Market players expect exports to pick up for the rest of the month but cautioned that the lingering euro zone debt crisis may weigh on demand. Malaysian palm oil exports from February. 1-20 eased just 2% and 0.6% from a month ago, according to cargo surveyors IITS and SGS, which indicated an improvement in demand prospects compared to a 14% decline for the first 15 days of the month. Top producer Indonesia will export more palm oil to Pakistan, with volumes expected to more than quadruple to 800,000 tons over the next three years, said an executive at an Indonesian industry group.

**Oil World** sees rising soy oil/palm oil prices in coming months on South American crops, but large sun seed crops could cap gains.



(Graph source: Loders Crokiaan)



(Graph source: Loders Crokiaan)

## Energy Markets

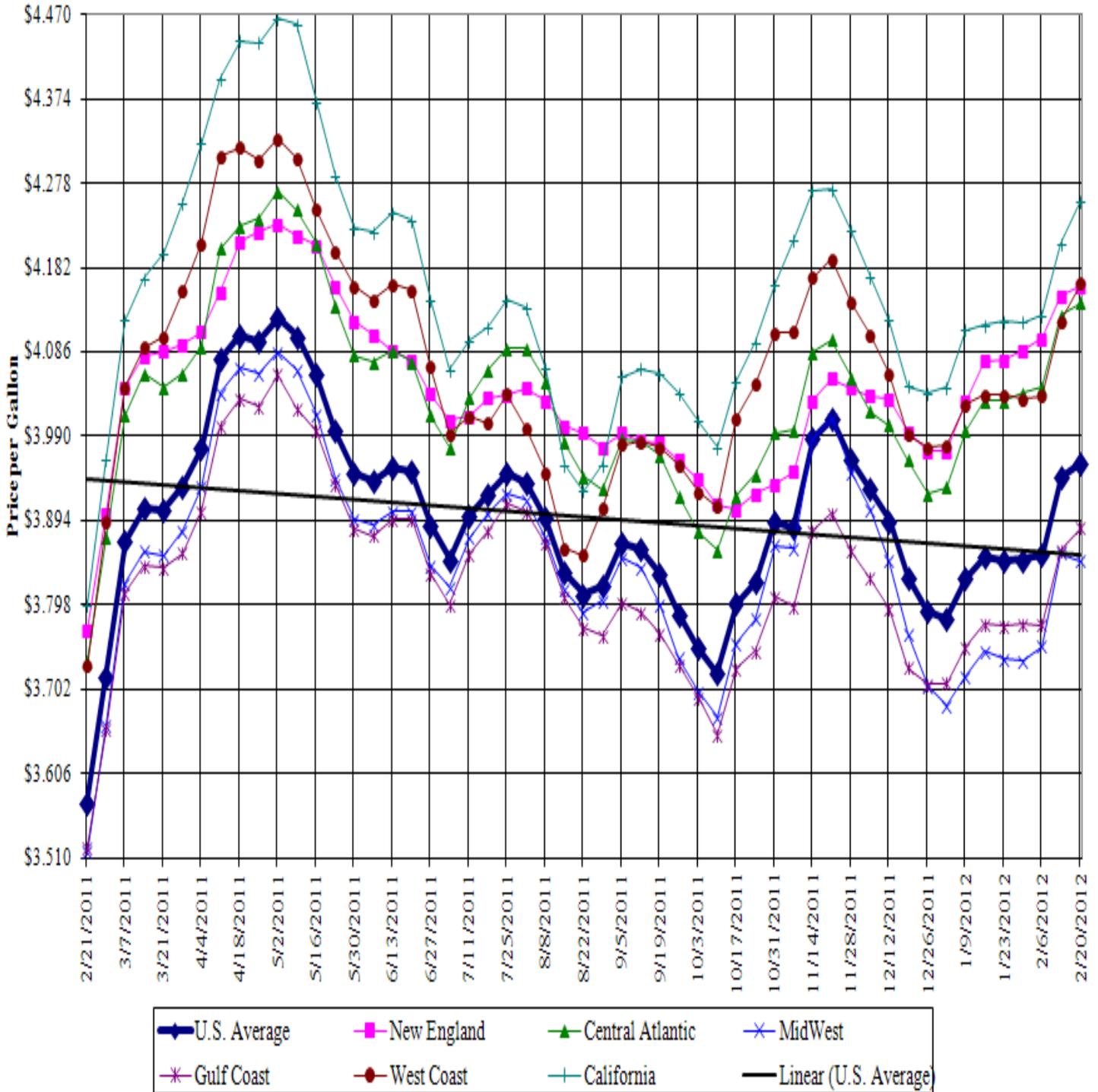
Brent crude oil rose towards \$124 a barrel on Friday, heading for a fifth straight weekly gain, as concern over cuts in Iranian supply offset worries that high oil prices could restrain demand.

### 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
2/21/2011	\$3.5730	\$3.6200	\$3.7690	\$3.7340	\$3.5570	\$3.5170	\$3.5220	\$3.5680	\$3.7290	\$3.7990
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
2/13/2012	\$3.9430	\$4.0280	\$4.1500	\$4.1280	\$3.9300	\$3.8570	\$3.8600	\$3.8410	\$4.1210	\$4.2090
2/20/2012	\$3.9600	\$4.0530	\$4.1610	\$4.1420	\$3.9660	\$3.8480	\$3.8860	\$3.8570	\$4.1640	\$4.2580

**Diesel Fuel Prices in Dollars per Gallon**  
52 Week Moving



## Fruits/Nut Markets

### Blueberries—US (FL): Blueberry crops suffer 20% damage, prices up 20%

Despite the freezing weather destroying somewhere in the region of 20% of their crop, Florida blueberry growers are remaining optimistic. A shortage of Florida blueberries, coupled with even worse damage to crops in Georgia is estimated to increase prices by an equal 20%, thus offsetting the loss. Florida is the only U.S. supplier of blueberries between late March and early May and, in that window, growers can usually generate a profit. Once the other states enter the market starting mid-May the prices usually drop to below the breakeven point for Florida growers.

### Walnuts—US: Diamond looks to patch up relations with growers

Diamond Food has made moves to patch up its flagging relations with California walnut growers. Last week the company sent a letter to the growers in question stating, "Recently, this long-standing important relationship has been strained and now needs to be addressed." The letter did seem to suggest that Diamond has come to the understanding of the need to pay competitive rates. "We realize that our growers are looking for us to be competitive with the other alternatives available to them," the letter said. The letter comes just as some growers had stated that they would not be continuing their relationship with Diamond after their current contracts came to a conclusion, after they alleged that they had been underpaid by the company for years. Diamond stated in the letter that it was pushing back the contract renewal date by three months to give the company time to convince growers to stay with them. The company appears to be trying to set things straight after an internal investigation last week found the company had been impropriety accounting for payments to growers. The CEO and Chief Financial Officer were removed from their positions as a result. Some growers, however, remain unconvinced and are not impressed by recent payments, ever after the finding of then internal investigation.

### Almonds—US: Innovative new method for pasteurisation of almonds

The U.S. Department of Agriculture's Agricultural Research Service has developed a new method for the pasteurization of almonds, called sequential infra-red and hot air (SIRHA). The new method, it is said, is fast, effective and relatively economical. According to the researchers, giving almonds a burst of infra-red heat, followed by a stint of hot-air roasting, offers a simple, safe, energy-efficient and environmentally friendly way to reduce *Salmonella enterica* populations to levels generally recognized as safe. Tests suggest that the tests do not alter the taste or appearance of the nuts at all.

For the studies with shelled, roasted almonds, for example, the team targeted a "medium roast," during which almonds' naturally light shade deepens somewhat. The scientists compared the effectiveness of three approaches: conventional hot-air heating, infra-red heating or SIRHA. They found SIRHA was more energy efficient than either infra-red or hot-air heating alone. With the combined infrared and hot-air heating, a pasteurized product can be made in addition to significantly reducing roasting time. That should help processors save on their energy bills.

For this work and their newest study with raw almonds, the team used the bacterium *Enterococcus faecium* as a research model and substitute, or surrogate, for *S. enterica*. The roasting studies showed, for instance, a more than 5.8-log reduction in *E. faecium* levels—exceeding the required 4-log minimum. That target was met handily by heating the almonds with infra-red until they reached a surface temperature of 140°C, then roasting them with hot air at the same temperature for about 11 minutes. The infra-red step took about 1 minute, using emitters—positioned above and below the almonds—that produced 5,000 watts of energy per square meter.

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