Weekly Commodity Markets Review

From: Joe Schmidt   Date: January 13, 2012

Moving into year end, Ag markets were trending lower and prospects were excellent for those trends to continue. The only thing to turn such a market higher would be a South American weather problem. Right on cue it seems to have arrived. There is a consensus that up to this point we have lost maybe an estimated 5 mmt of crop potential in Argentina, with another 4-5 mmt in Brazil. While one can never count on a weather market to prolong itself, the lost tonnage has probably resulted in trading ranges that are now a bit higher than before the holidays. Until the market sees a definitive break in the South American weather pattern and production estimates stabilize, we will be prone to market rallies off lows. Moral of story is - don't chase rallies but do buy setbacks of size under current lost production issues. Play the ranges for now, with close stops capping the high side in case something gets blown out of proportion to the upside.

With the South American rain event not measuring up to the original forecasts the market is pricing in further yield losses across Argentina and South Brazil. There's still time to stabilize the crop with timely rains but for now it doesn't appear that we've broken out of the hot/dry pattern that's set in over NW Buenos Aires and S Cordoba. Until the trade sees one of the forecast events follow through as expected look for setbacks to be well supported. Add in the strong equities markets around the globe and a rallying crude petroleum trade and it appears that Ag prices are ready to test last year's highs. The only bearish news came from the palm oil markets which showed higher than expected December production and ending stocks. But that won't be enough to keep oil prices lower given the strength of the South American weather market.

On Thursday U.S.D.A. released their latest World Agricultural Supply and Demand Estimates report:

- Corn stocks on December 1, 2011 totaled 9.64 billion bushels, down 4% from December 1, 2010. Corn use for 2011/2012 is raised with higher exports. Exports are projected 50 million bushels higher reflecting the strong pace of sales to date and reduced prospects for Argentina.
- Soybeans stocks on December 1, 2011 totaled 2.37 billion bushels, up 4% from December 1, 2010. Indicated disappearance for September - November 2011 totaled 905 million bushels, down 25% from the same period a year earlier.
- All wheat stocks on December 1, 2011 totaled 1.66 billion bushels, down 14% from a year ago. The September - November 2011 indicated disappearance is 490 million bushels, down 5% from the same period a year earlier. Reductions in expected domestic use mostly offset higher projected exports. Food use is projected 5 million bushels lower based on flour production data recently reported by the North American Millers' Association for July-September 2011.

Initial reaction to reports—**Bearish**. The report had more psychology impact on the market than fundamental impact. The numbers were below pre-report expectations, but actual impact to the balance sheet was minimal at best. The impact of today's report will short-lived as the market's attention will quickly turn to South American weather and U.S. spring wheat acreage.

In short, it was not a good week for the bulls. The market price action continues to feel heavy threatening to take out the lower levels of support for corn, wheat, and beans. Make no mistake about it, however, that we are in the midst of a weather market which may create price spikes from time to time.

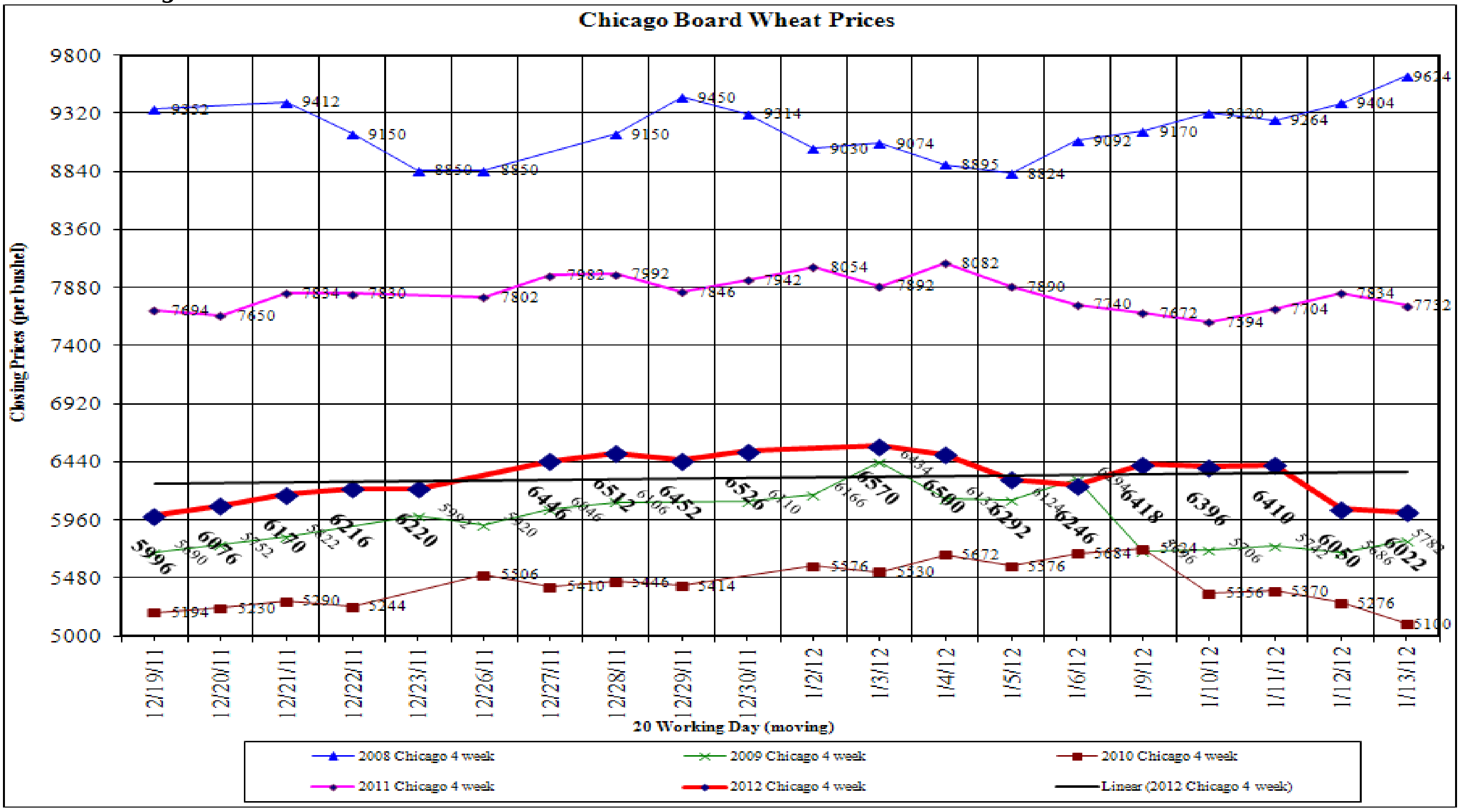
Flour Markets:

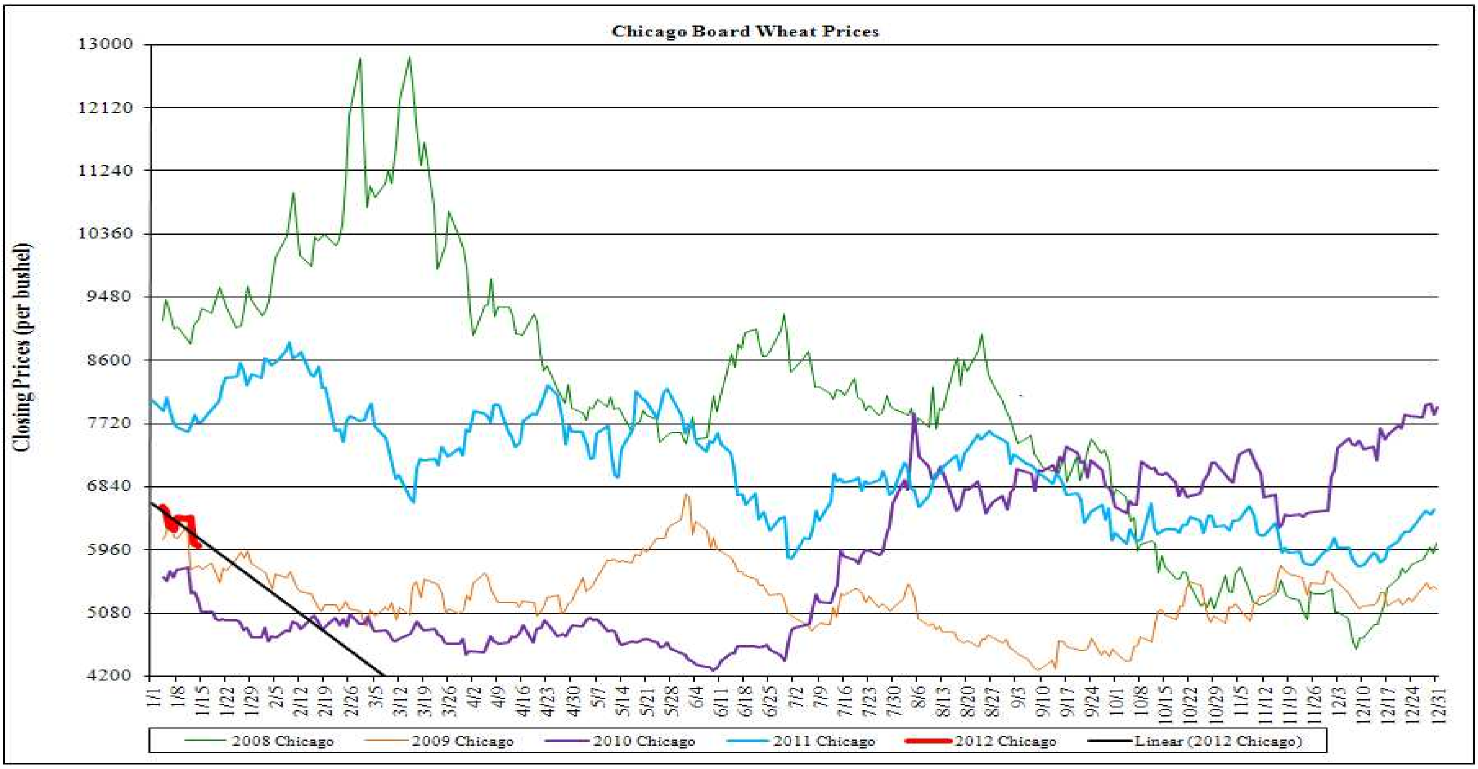
After holding relatively steady early in the week, wheat markets succumbed to the bearish report and followed all Ag commodities lower. Ukraine's wheat exports are likely to fall 17% in the 2012/2013 crop year to 6.3 mmt following severe drought. National Oceanic and Atmospheric Administration (NOAA) issued its monthly La Nina update late last week---they're are expecting La Nina to continue into the March-May time period which means more dry weather for HRW wheat growing areas. Kansas City March wheat has found good support in the $6.84 area—appears to be carving out a trading range between $6.84-$7.32.

World and U.S. wheat supplies are adequate relative to corn, and without weather issues the situation will remain benign during 2012. High wheat prices during 2011 resulted in more wheat acreage during 2011 – this trend is expected to continue again during 2012. With favorable yields, world wheat production rose to a record 689 MMT during the current 2011/2012 crop yields; a similar world wheat crop is projected for 2012/2013. Larger world wheat production has led to a sizable decline in U.S. wheat exports, from 1.3 B bushels to less than 1.0 B bushels during the current 2011/2012 crop year. With normal weather, U.S. exports of wheat are likely to remain below 1.0 B bushels during the 2012/2013 crop year. U.S. wheat production is expected to be roughly unchanged during 2012 at 2.0 B bushels. Increased acreage and higher yields are expected to lead to a rebound in production of HRW (+11%), HRS (+17%) and durum (+16%). This will offset an expected decline in SRW (16%), although supplies of SRW are projected to remain ample to excessive. Based upon a crop of 2.0 B bushels and continued weak export demand, total U.S. wheat stocks are projected to remain over 800 mm bushels through 2012/2013 – this equates to a stocks use ratio of 38%. The more ample wheat situation has resulted in Chicago wheat futures declining to the same level as corn futures during the last half of 2011. This weakness in prices (relative to corn) is expected to persist through 2012. Chicago wheat futures are forecast to decline 17% to an average of $5.93 during 2012 (versus $7.13 during CY11). KC wheat futures are forecast to average $6.46 during CY12, off 21% from CY11 ($8.10). Minneapolis wheat futures will remain at a notable premium to KC futures, particularly during the first half of 2012 – but are still forecast to decline 15% to a CY12 average of $7.66 (vs. 9.03). With normal weather, the tightness in the North American durum situation is also expected to ease, resulting in price relief during the last half of 2012.

In their report on Thursday the big surprise was the higher than expected winter wheat acreage. U.S.D.A. indicated that winter wheat seeded area for 2012 is expected to total 41.9 million acres, up 3% from 2011. Approximate class acreage breakdowns are: Hard Red Winter, 30.1 million; Soft Red Winter, 8.37 million; and White Winter, 3.49 million. More winter wheat acres were seeded this year due to higher prices and an acreage rebound in Kansas, Oklahoma, and Texas where dry conditions had limited 2011 planted acres. The winter wheat crop condition at the end of November was rated 52% good to excellent compared with 47% the previous year. Hard Red Winter (HRW) wheat seeded area is about 30.1 million acres, up 6% from 2011. Acreage is above last year's level in all States in the HRW growing area except California, Montana, Nebraska, and South Dakota. The dry fall limited planting in South Dakota, while winter wheat seeded area in Nebraska is a record low. Soft Red Winter (SRW) wheat seeded area is about 8.37 million acres, down 2% from last year. While large acreage increases from last year are estimated in the Southeast, large acreage decreases occurred in most States in the corn belt and Northeast, primarily due to a late row crop harvest. In Ohio, a record low area was planted due to wet soil conditions during the fall of 2011. The average farm price was lowered $0.10/bushel to $7.20 versus $5.70 last year.

a. Chicago Board Wheat Prices

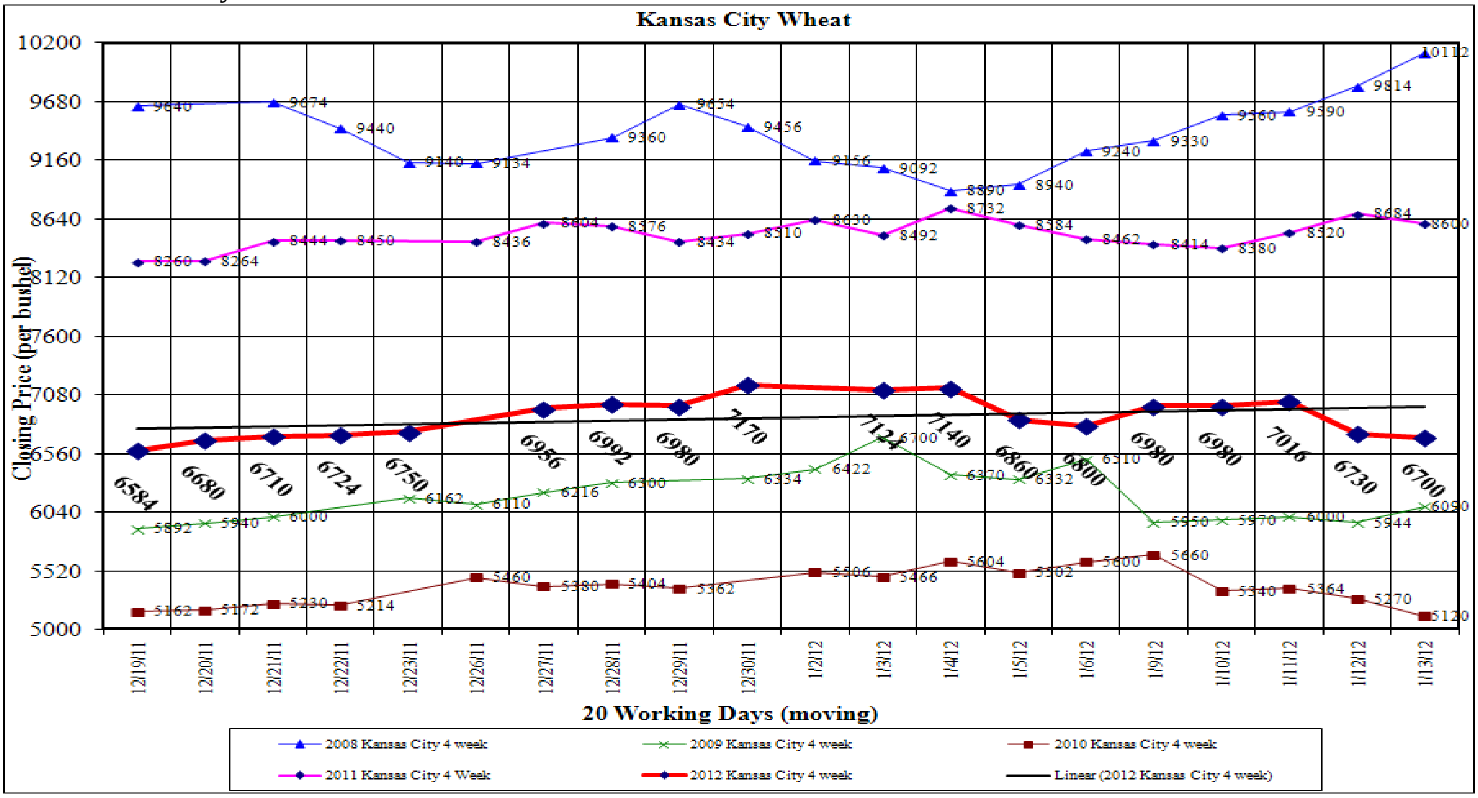


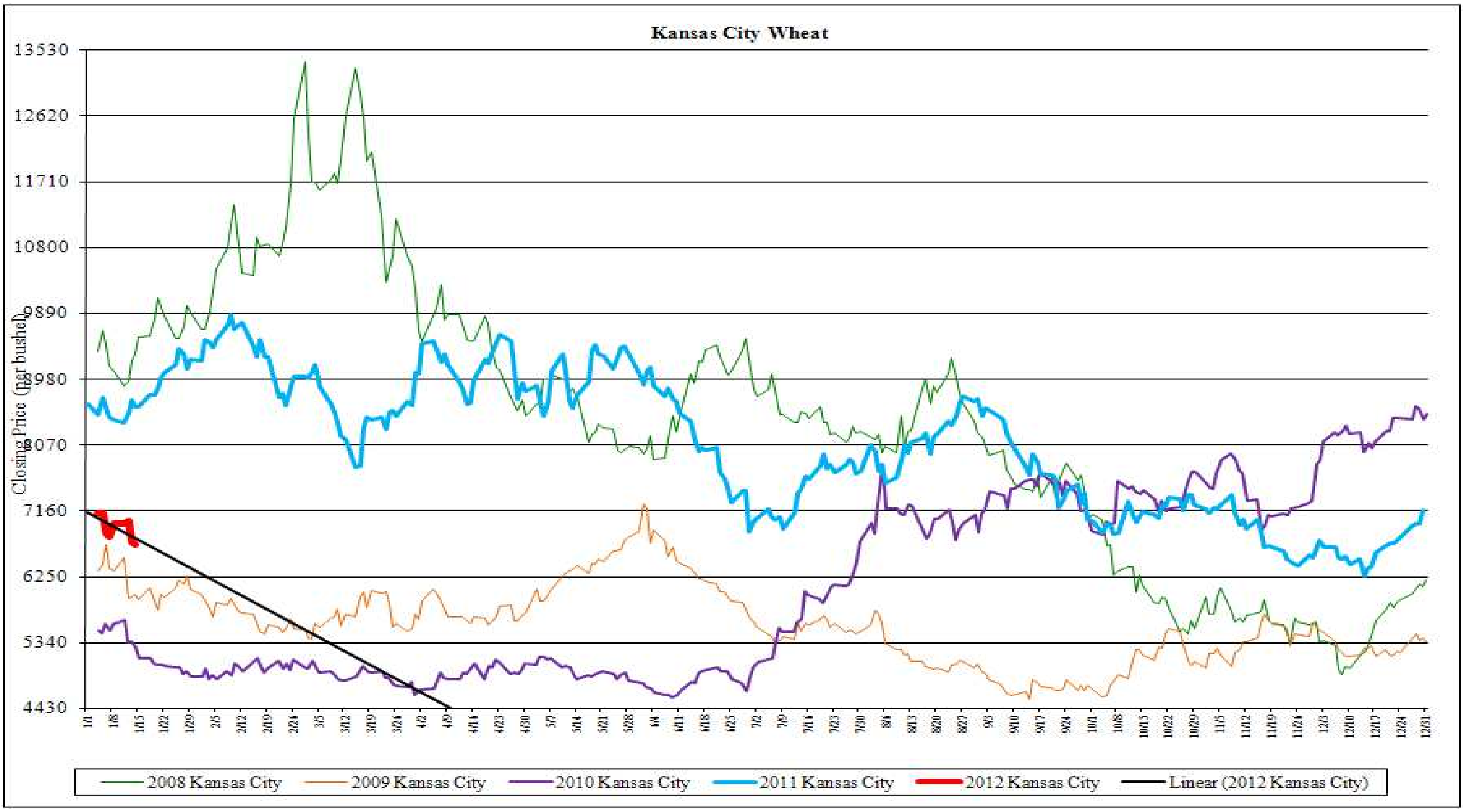


The Chicago Board chart above shows the price activity for the last 20 working days (one full period). Flour made from the wheat traded on this board includes **CAKE AND PASTRY** flours.

Cake and Pastry flour closed down $0.52/cwt from last Friday's close.

b. Kansas City Board Wheat Prices

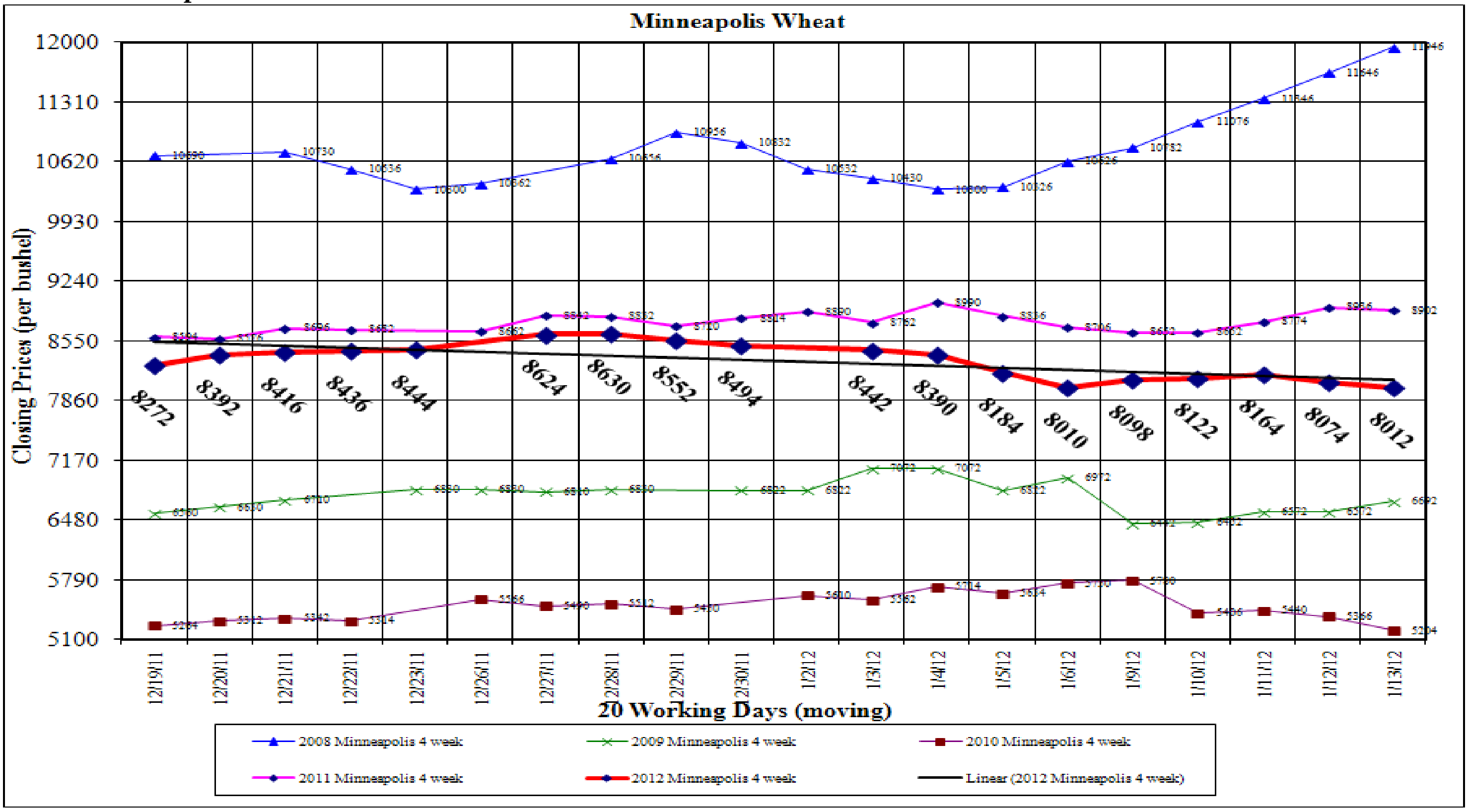


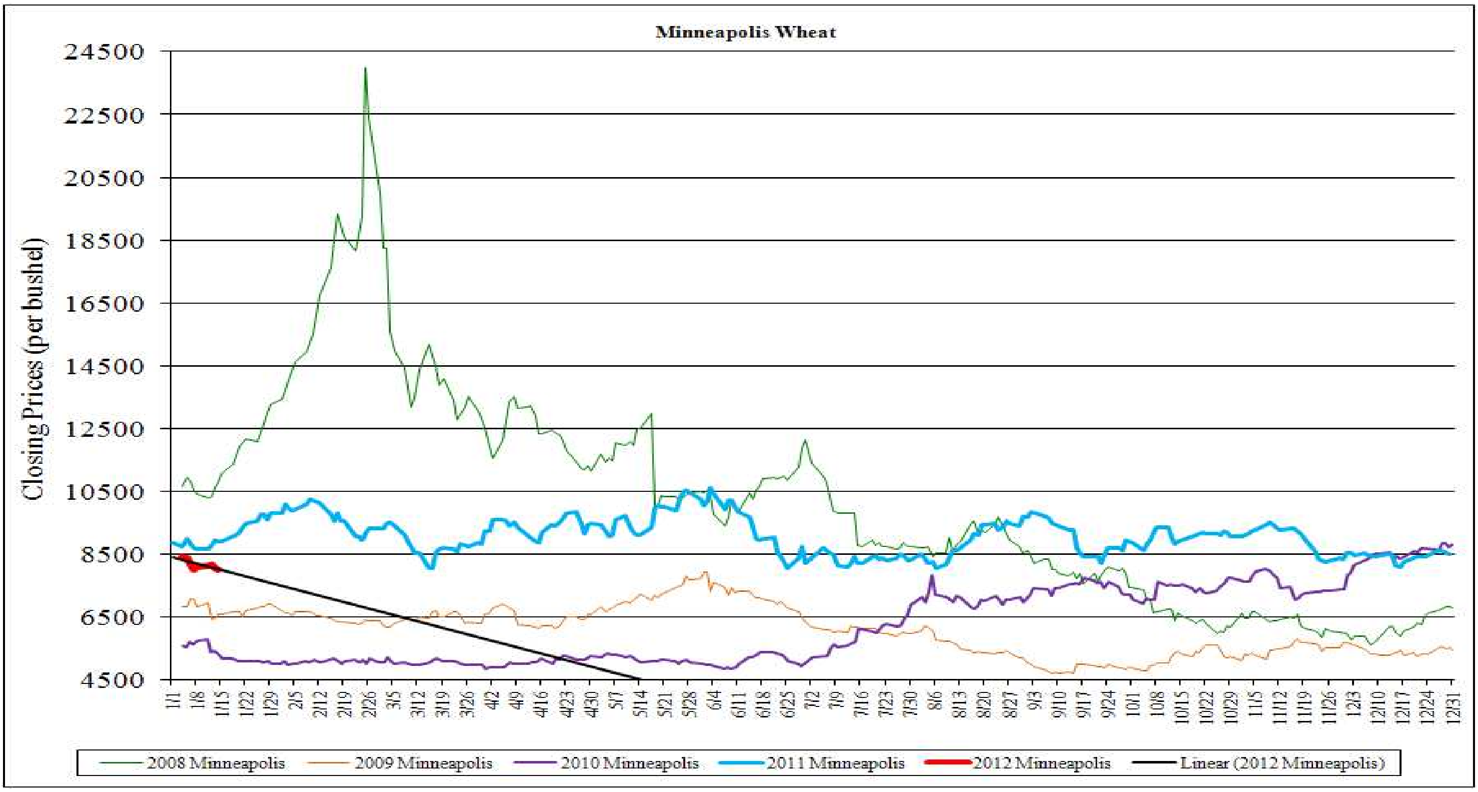


Kansas City Wheat is used to make **Hard Red Winter Patent flours (white pan bread) and H&R flours.**

Hard Red Winter wheat flour closed down $0.23/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 "no change" versus last Friday's close.

Shortening Market:
South American production prospects appear to be the main driver of price discovery. The bulk of Argentina, Brazil's RGDS province and portions of Parana have seen little in the way of rains since December 1st. In addition, temperatures in Argentina have been trending hot with 95-100 degree highs fairly common. Soybean prices had rallied 13% or $1.70 per bushel from mid-December as the market added production risk premium.

The soy market was pressured after the somewhat surprising release by Brazil's Conab for higher soy bean production. The other item of note was that a rain system did arrive in Argentina providing a further reason to pullback on market length. Good rains in South America could bring stability to production, and halt further declines. But further temperatures extremes and a quick return of hot and dry will send us back up towards the higher end of trading ranges.

As the South American growing season progresses, there are two things to remember. First, in the case of southern Brazil and Argentina, all of the important weather for soybeans is six to eight weeks in front of us. In other words, the soybean crop can still see dramatic improvement or further sharp deterioration. The second thing, (and probably more important) is that even considering the potential for South American production losses, it is pretty hard to make a case for a tight old crop (2011-12) soybean situation. The U.S.D.A. is currently using 75 million tons for Brazilian soybean production and 52 for Argentina. Most analysts are already lowering the combined two country production potential by 5 mmt (Brazil 72, Argentina 50), as some of the area will not get planted and lost production potential in places like Parana, where the crop is further advanced. Historically, South American production losses seem to have a larger impact on the following year's balance sheet. South America currently has a historically high level of soybean inventories which will help cushion against production losses. So even in the event of a 10 to 15 million ton loss, the U.S. could still see adequate old crop soybean stocks (220-250 million bushels). The story under severe scenarios really becomes the 2012-2013 marketing year, as soybeans can suddenly not afford to lose acres and the U.S. carryout is at pipeline levels with a trend yield. No matter what happens, it's really hard to argue that old crop will maintain a significant inverse to new crop.

The U.S. soybean supply/demand situation has moved into greater balance as we look into 2012. This balance reflects record South American soybean production; and should be adequate to meet continued growth in Chinese import demand. Brazil is forecast to harvest a 72 MMT crop in the coming months, matching last year's record level. Argentine soybean production is forecast to rebound to 50 MMT. Growth in harvested area in both Brazil and Argentina has been a key to meeting the rising Chinese soybean demand in recent years. Chinese soybean imports have doubled during the past five years, and are the dominant demand driver in world markets. China is forecast to import 56.5 MMT of soybeans during the current 2011/2012 crop year, a gain of 8% from a year ago. To put this in perspective, this represents 59% of world trade, and is the equivalent of 47 mm acres of production. The U.S. soybean situation in 2011/2012 is far from bullish thus far – U.S. soybean exports are forecast to decline 22%, and crush is forecast to decline 2%. YTD soybean export sales are down 33% from a year ago, and YTD soy meal exports sales are off 18%). The result of the decline in demand is a forecast of a sharp rebound in stocks at the end of the current 2011/2012 crop year to 337 mm bushels (13.4% of usage). This would be the largest stocks level in five years, and implies a need for less acres during 2012.

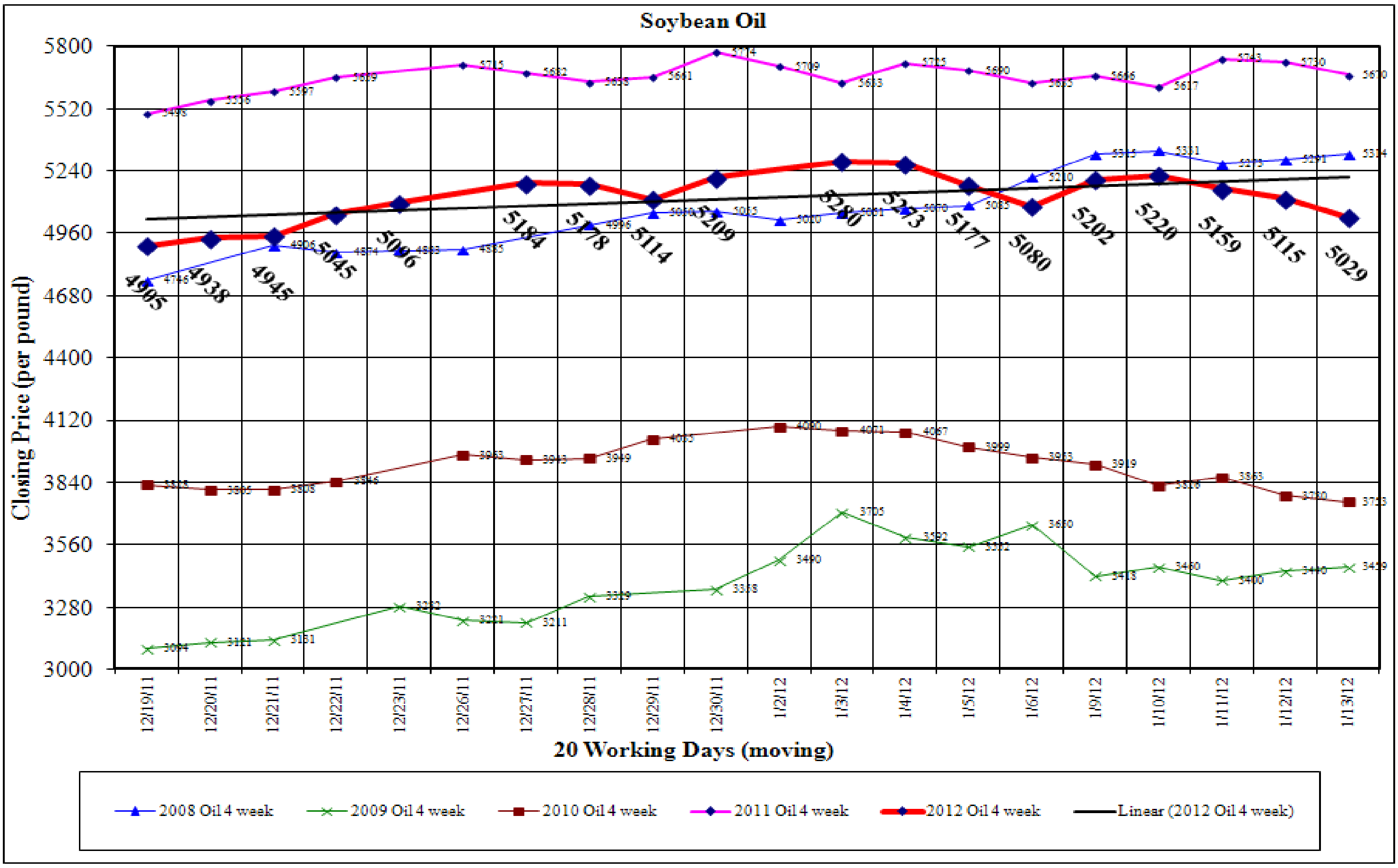
Soy oil stocks are forecast to tighten during the coming year, as rising biodiesel usage and reduced crush will more than offset reduced exports. This contrasts sharply with the buildup of soybean stocks. The key demand component that has been driving overall demand and prices in recent years has been biodiesel. The demand is primarily due to EPA mandates for the use of biodiesel in transportation. The mandate for 2011 was 800 million gallons, but increases to 1.0 B gallons during 2012. The EPA has floated a proposal to increase the mandate to 1.28 B gallons during 2013. As result of the mandates, soy oil use for biodiesel production is rising – without regard to the prices of soy oil and without regard to the removal of the $1 per gallon tax credit (which expired on 12/31/11). During the 2010/2011 (October-September) crop year, soy oil used to produce biodiesel increased 49% to 2.50 B pounds. Use of soy oil to produce biodiesel during the 2011/2012 crop year is forecast to increase 55% to 3.86 B pounds – this would equate to 20% of total demand. The strong demand from the biodiesel mandates has resulted in U.S. soy oil being “uncompetitive” in export markets – soy oil exports during 2011/2012 are forecast to decline 56% to 1.4 B pounds. Food use of soy oil is forecast to grow only modestly (+1%), primarily due to soy oil being displaced by canola in domestic food use. Stocks of soy oil at the end of the 2011/2012 crop year are forecast to decline to 1.57 B pounds, off from 2.54 B last year and the lowest stocks level in eight years. Soy oil prices have risen sharply over the past year, reaching a record $.552 per pound average during 2011. Despite the declining stocks and strong biodiesel demand, a 5% decline to an average $.523 is forecast during 2012.

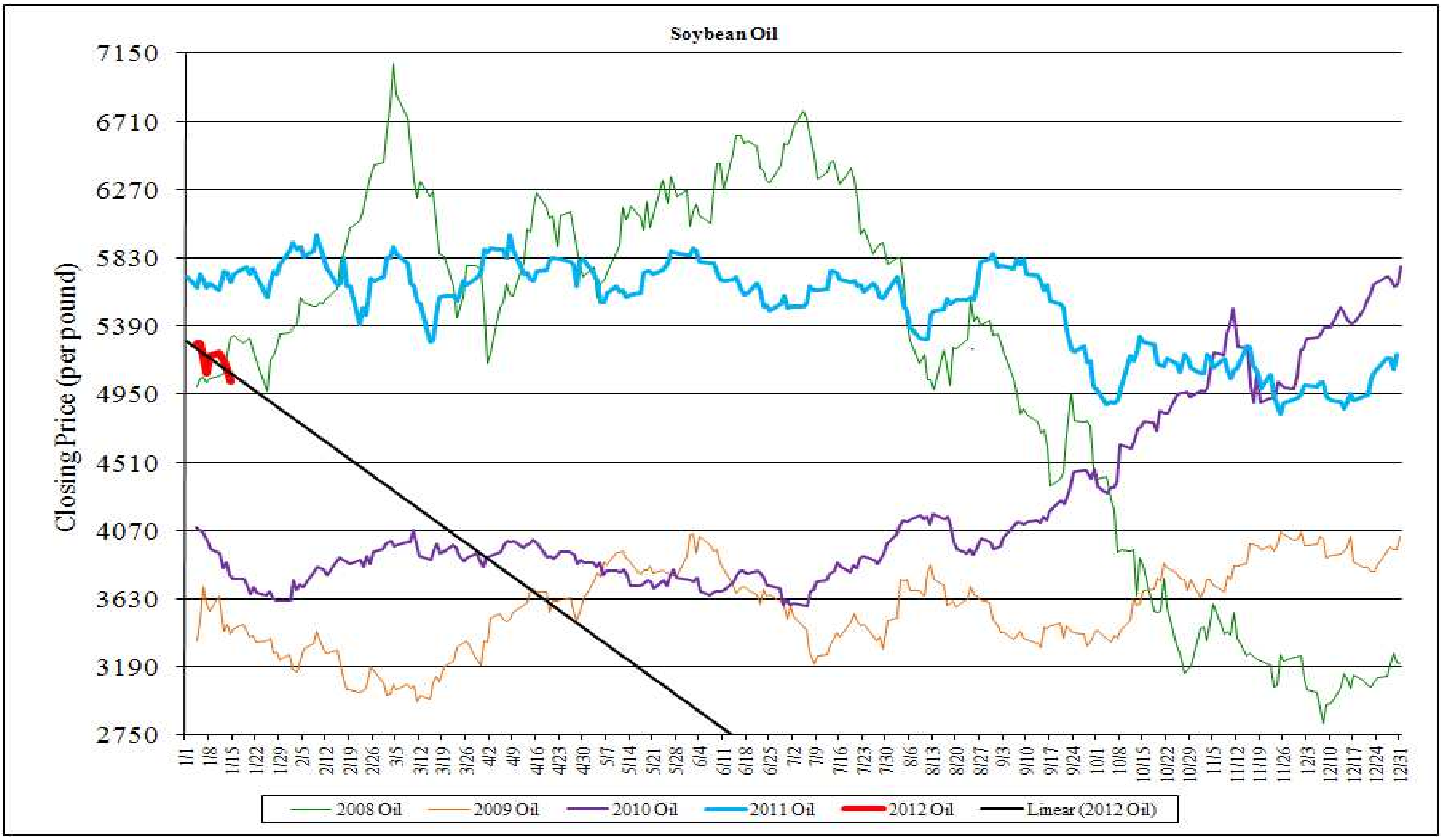
In their WASDE report, U.S.D.A. estimated U.S. oilseed production for 2011/2012 at 91.2 million tons, up 0.2 million tons from last month. Larger crops for soybeans and canola are partly offset by reductions for cottonseed, sunflower seed, and peanuts. Soybean production is estimated at 3.056 billion bushels, up 10 million based on increased yields. The soybean yield is estimated at 41.5 bushels per acre, up 0.2 bushels from the previous estimate. United States production is the sixth largest on record. Soybean crush is lowered 10 million bushels to 1.615 billion reflecting industry-reported data through the first quarter of the marketing year. Soybean exports are projected at 1.275 billion bushels, down 25 million from last month and down 226 million from 2010/2011. Soybean ending stocks are projected at 275 million bushels, up 45 million. Soybean product changes include a lower soybean oil extraction rate, lower projected soybean oil exports, and increased soybean oil ending stocks. The 2011/2012 U.S. season-average soybean price range is narrowed $0.25 on both ends of the range to $10.95 to $12.45 per bushel. The soybean oil price is forecast at $0.505/lb. to $0.545/lb., unchanged from last month.

Reaction to the Thursday’s report is that we should see oil trade back down to the $0.505-$0.495 area over the next couple of sessions—although soybean oil could trade up into a $0.54/lb.-$0.55/lb. range if soybeans rally. Expect a near term support for soy beans near $11.65, basis the March, with upside at $13.00, depending the market response to the U.S.D.A. reports. Support is seen at $0.50/lb.

Eventually, South American weather will return to the front burner. There is rain in the forecast for Argentina late next week and into the weekend—stay tuned. Temperatures remain moderate—80s to low 90s. Buyers should use the break to finish up your JFM coverage and to add ownership to the April-September period.

Shortening closed down $0.28/50# cube ($0.19/35# pail of oil, $0.0055/lb. for bulk oil) for the week.

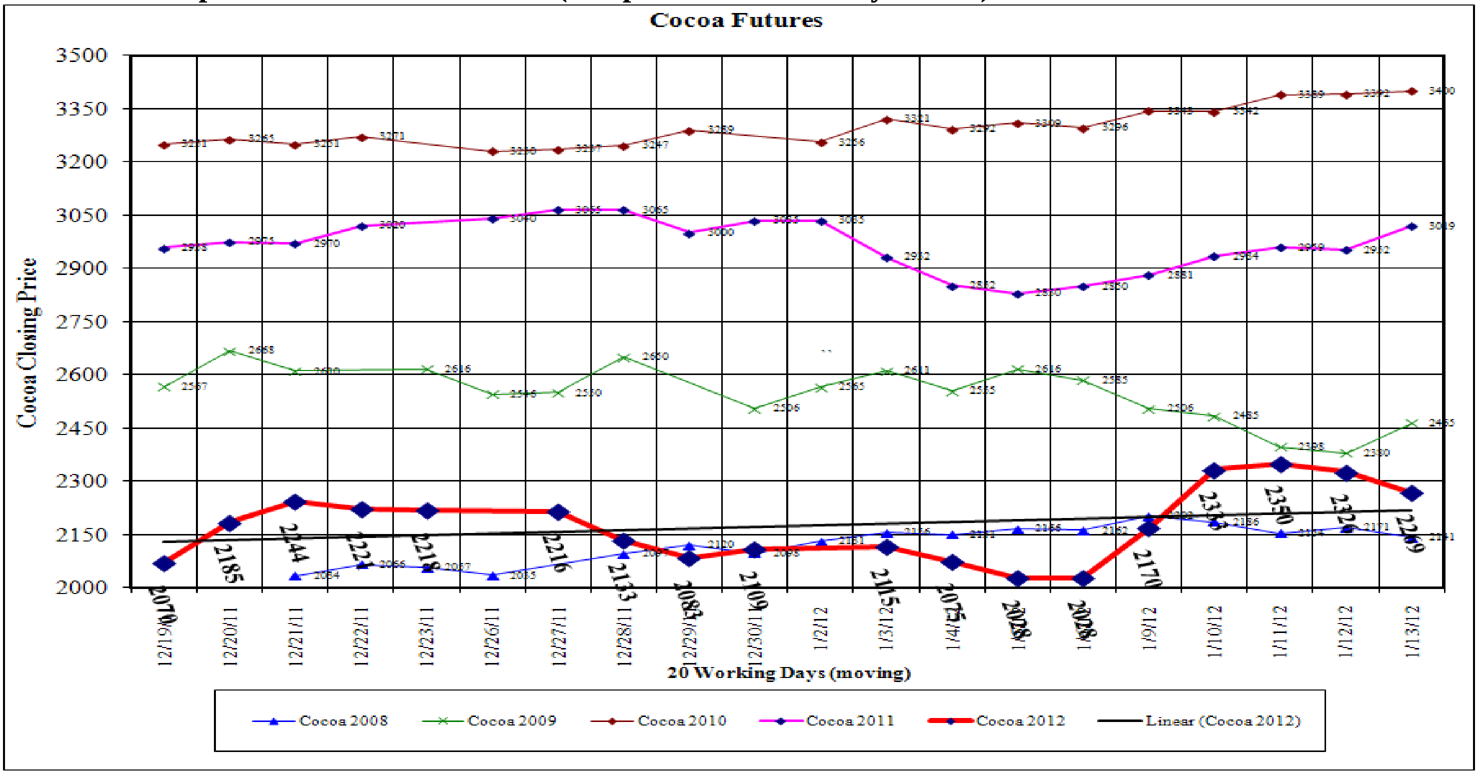

Soybean Oil
Closing Price (per pound)
20 Working Days (moving)
2008 Oil 4 week
2009 Oil 4 week
2010 Oil 4 week
2011 Oil 4 week
2012 Oil 4 week
Linear (2012 Oil 4 week)

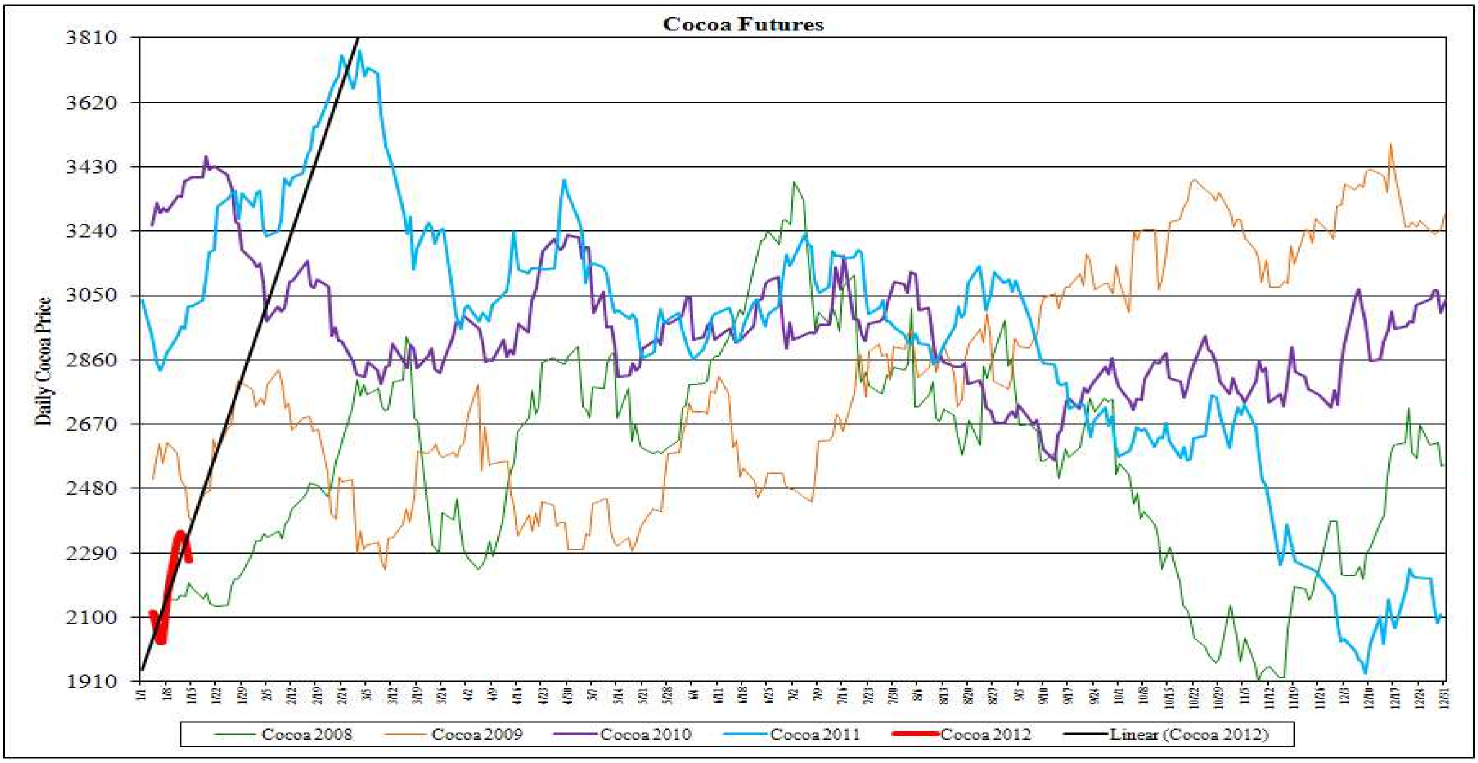

Soybean Oil
Closing Price (per pound)
2008 Oil
2009 Oil
2010 Oil
2011 Oil
2012 Oil
Linear (2012 Oil)

Cocoa Market:

Global output during 2011/12 is forecast to increase, led by a 10% increase in production from the Ivory Coast (the world's largest producer). The result is larger stocks, and weaker prices expected in the long term. This week's rally should be viewed as a correction to pricing that has been tracking significantly lower. With larger supplies, nearby cocoa futures are forecast to settle in at $2400/ton during 2012, (an 18% decline from a year ago). Even with this week's rally, cocoa futures through 2013 are currently at or lower than $2400.

Cocoa closed up $241.00/ton for the week (compared to last Friday's close).





Sugar Market

World sugar prices are likely to stay high in 2012 due to external factors such as government policies, oil prices and instability in the Eurozone, according to the U.S.D.A. The value of the Euro and increased demand from emerging market economies will likely have a strong effect on EU sugar markets. The report added that the likely enlargement of the EU to include Croatia and Serbia could also impact the sugar market. They (Croatia and Serbia) have been granted loans to improve their sugar infrastructure and could become more efficient producers that could add to greater self-sufficiency in EU sugar production in an EU of 30 member states. Oil price changes affect world sugar prices by influencing the trade-offs in producing either sugar or ethanol in Brazil. Brazil is the world's largest sugarcane producer and can choose to use it produce for either sugar production or ethanol production. When the world price of oil is high, Brazil has more incentive to produce ethanol and less sugar. Reduced sugar exports contribute to higher world sugar prices. Conversely, when world oil prices drop, less ethanol is produced and more sugar is available to the world, thereby lowering the world price.

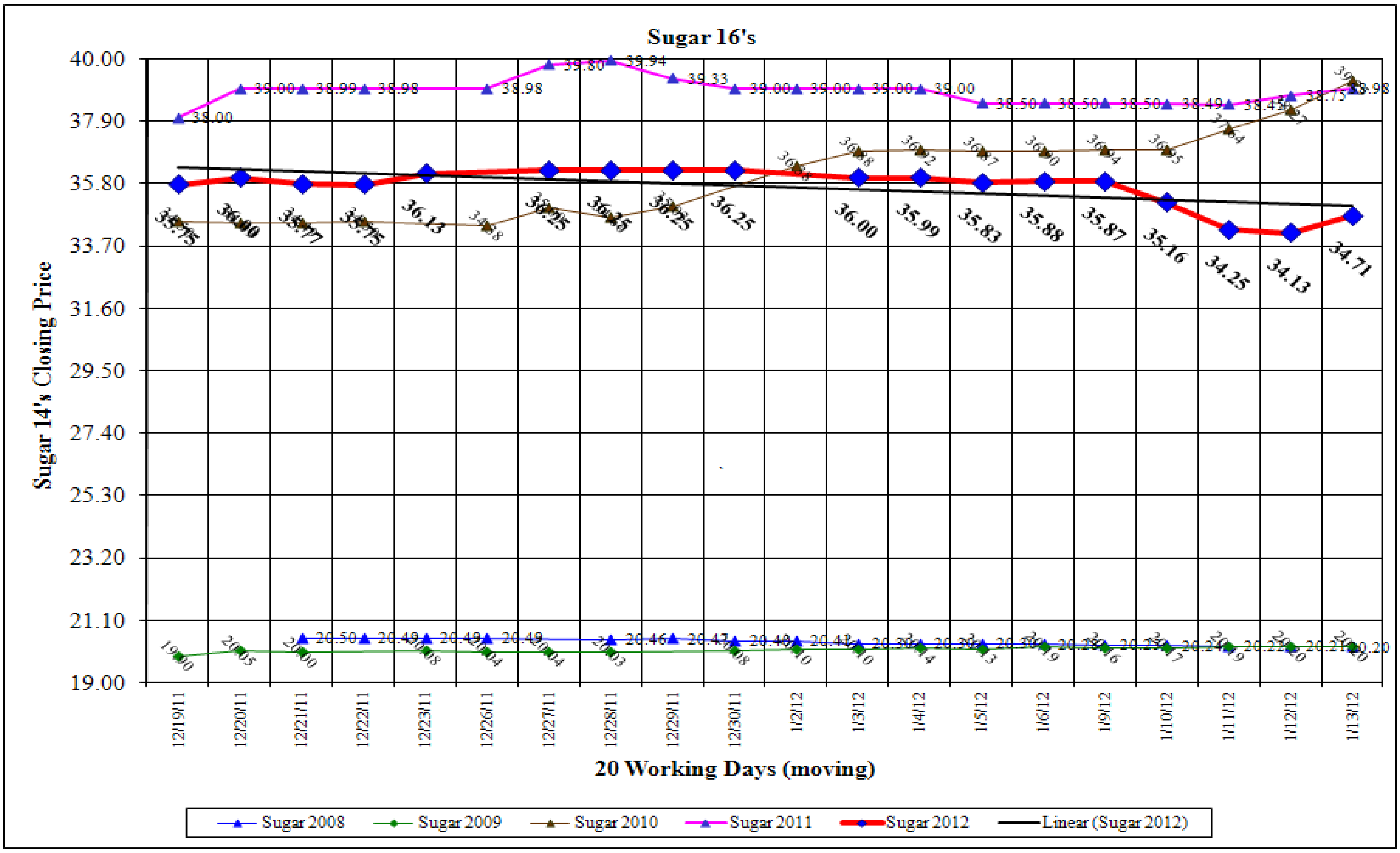
#11 sugar futures have established a pretty solid floor around $0.23 and settling into a trading range between $0.23-$0.24. Sugar futures are expected to strengthen on re-weighting by index funds. Large crops in Europe, Russia, Ukraine, Thailand and India will certainly keep a lid on prices. J.P. Morgan's global head of commodities was quoted as saying that #11 sugar futures had the potential to reach $0.38 per lb. this year.

Domestic sugar market remains relatively quiet since 2012 and majority of 2013 business has all been booked. American Crystal Sugar continues to operate with their workers locked out. However, with the market well sold, it is difficult to envision prices dropping off significantly in the foreseeable future. Nearby domestic prices has softened on "good" nearby supplies, mostly due to larger beet crop than expected, but long-term price outlook is still stronger due to tight U.S. soybean supply/demand situation and good demand.

Prices have remained at elevated levels since early 2010, reflecting reduced global and U.S. supplies of sugar, as well as the overall surge in commodity prices in recent years. U.S. stocks of sugar (as a percent of usage) are expected to decline to 10% at the end of the current 2011/2012 crop year, the lowest in decades. Even with a rebound in U.S. supplies during 2012, stocks will remain low and support prices for most of the year. U.S. sugar balance sheet is supportive to prices; expect domestic prices to firm. Midwest refined beet sugar could average $.566 during 2012—a modest 3% decline from the record 2011 levels.

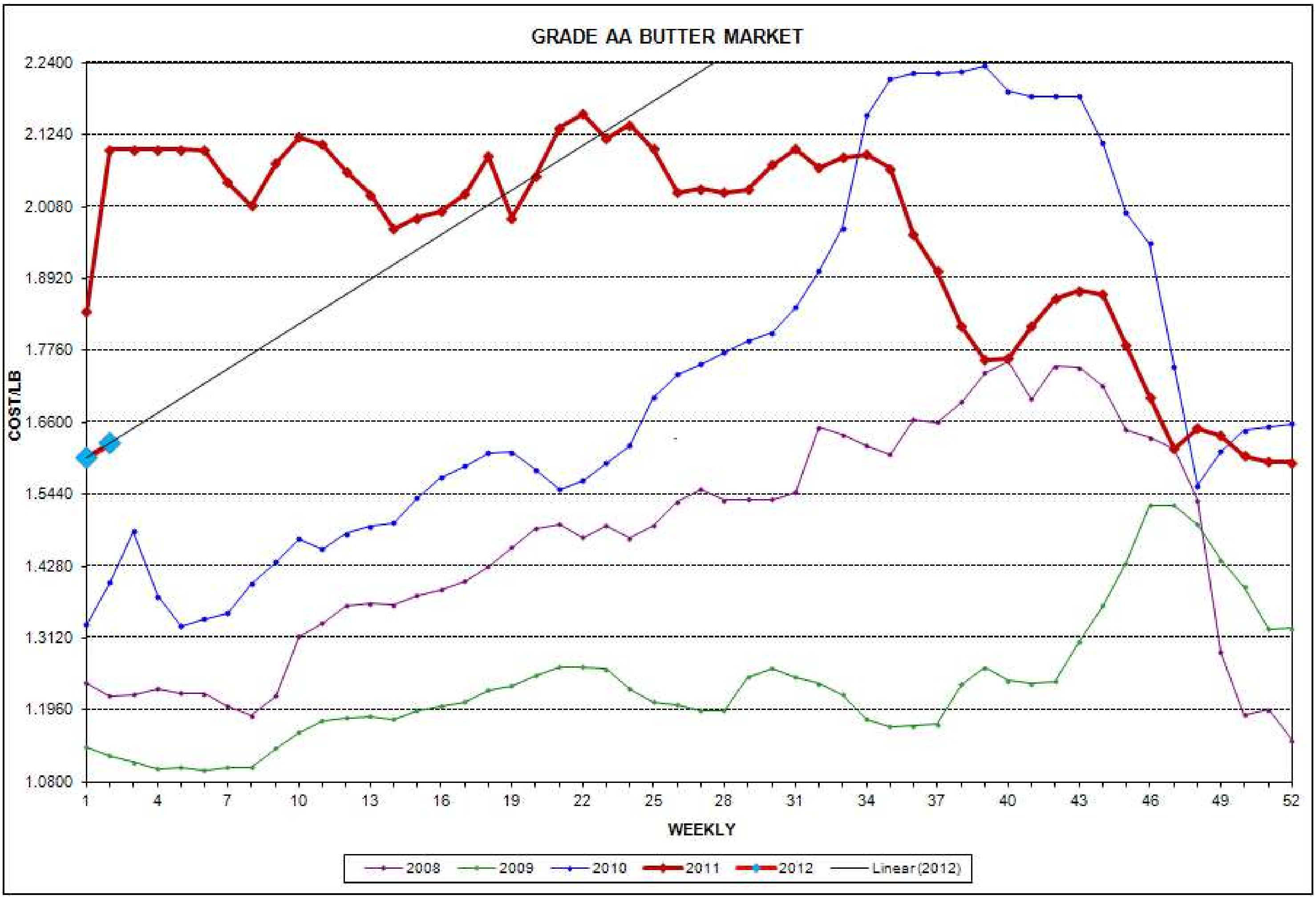
In their latest report, U.S.D.A. decreased the projected U.S. sugar supply for fiscal year 2011/2012 by 578,000 tons, raw value, from last month, mainly due to lower imports from Mexico. Mexico's sugar exports are reduced to reflect lower availability, as production is dropped based on lower-than-expected sugarcane yields and sugar recovery from harvested sugarcane for the season to date. Also, Mexico's sugar imports are lowered to reflect the slow pace of entries under two previously announced tariff rate quotas (TRQ). Other reductions in U.S. supplies include a minor reduction in production (Texas) and TRQ imports from Dominican Republic. Sugar use in the United States is unchanged from last month.

Sugar 16's closed down $1.17/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 "no change" on Friday, ending the week at \$1.6125/lb. The weekly average is \$1.6265/lb. up \$0.024/lb from last week's average.

A. Butter Market

The butter price firmed early in the week to \$1.6400, but eased later in the week to settle at \$1.6125 by week's end. Churning schedules across the country are active, but lighter than during the recent yearend holiday period. Cream supplies are often more available to the churn than anticipated. Class II operations are once again absorbing cream supplies that were surplus to the churn during the holidays. Churning schedules are generating bulk for future use and prints for current needs. Overall butter buying interest is fair at best. Orders being placed are for near term needs with upcoming Easter/Passover needs entering discussions. Most retailers are indicating that feature activity will be limited until possibly the Easter/Passover holiday in early April.

After two consecutive years of double digit percentage gains to both Class II and Class III milk prices, prices are forecast to decline in 2012 as increased milk production and a weaker export market (due to 3%-4% increase in New Zealand milk production) push prices to the downside. Class II is forecast to average \$17.28/cwt in 2012, down 11.9% from 2011. Class III is forecast to average \$16.95/cwt in 2012, a decline of 7.7% from 2011. Butter prices are both forecast to see substantial declines in 2012. Butter prices are forecast to average \$1.70/lb. in 2012, down 13.2% from 2011. Cash butter averaged \$1.96/lb in 2011, up 13.8% from 2010.

2011 was a year of strong gains to milk production, strong exports, and strong prices. Growth in both the dairy herd and per cow output drove production to outpace 2010 by a projected 1.7%. Despite these gains, strong domestic and export demand (along with some untimely supply interferences) drove prices to very high levels, especially in the summer. Dairy producers, who had adequate access to forage, enjoyed positive margins for much of the year. Those who did not have adequate access to forage (read southern drought) paid very high prices for hay, and there have been reports of some producers "hanging it up" this year as a result.

Although the export market is expected to ease somewhat compared to 2011, export demand poses upside risk to dairy prices in 2012. Global supply problems could increase demand for U.S. dairy, which could lead to prices moving higher than forecasted. Weather is the ultimate risk to dairy prices, especially in the spring and summer months. If we have another heat wave like the one we saw in 2011, per□cow output could temporarily suffer, which leads to pronounced spikes in dairy prices. Taking risk off the table where possible, especially in the summer months, is a wise strategy.

B. Dairy Powders

Dry dairy product prices continue to react to new Q1 contract pricing. Nonfat dry milk prices are uneven. East and Central prices were weak, while Western prices firmed slightly. The market tone is generally weak as buyers feel increased production will begin to show up in the marketplace. Buyers are purchasing for immediate needs and shopping for lower prices to build inventories. Dry buttermilk prices are weak as increased cream arrived at the butter churns. Some increased sales of condensed buttermilk to ice cream accounts have been reported. Dry whole milk prices are unchanged to weak with uneven production schedules. Dry whey prices continued their rise with tight supplies reported. Current prices are the highest since the summer of 2007. Production levels are reduced from year ago levels and spot buyers are looking to the resale market for supplies. Whey protein 34% prices are steady to firm. Tight supplies are holding prices well above nonfat dry milk prices and causing some concern to buyers. Lactose prices are firm with buyers looking for additional supplies.

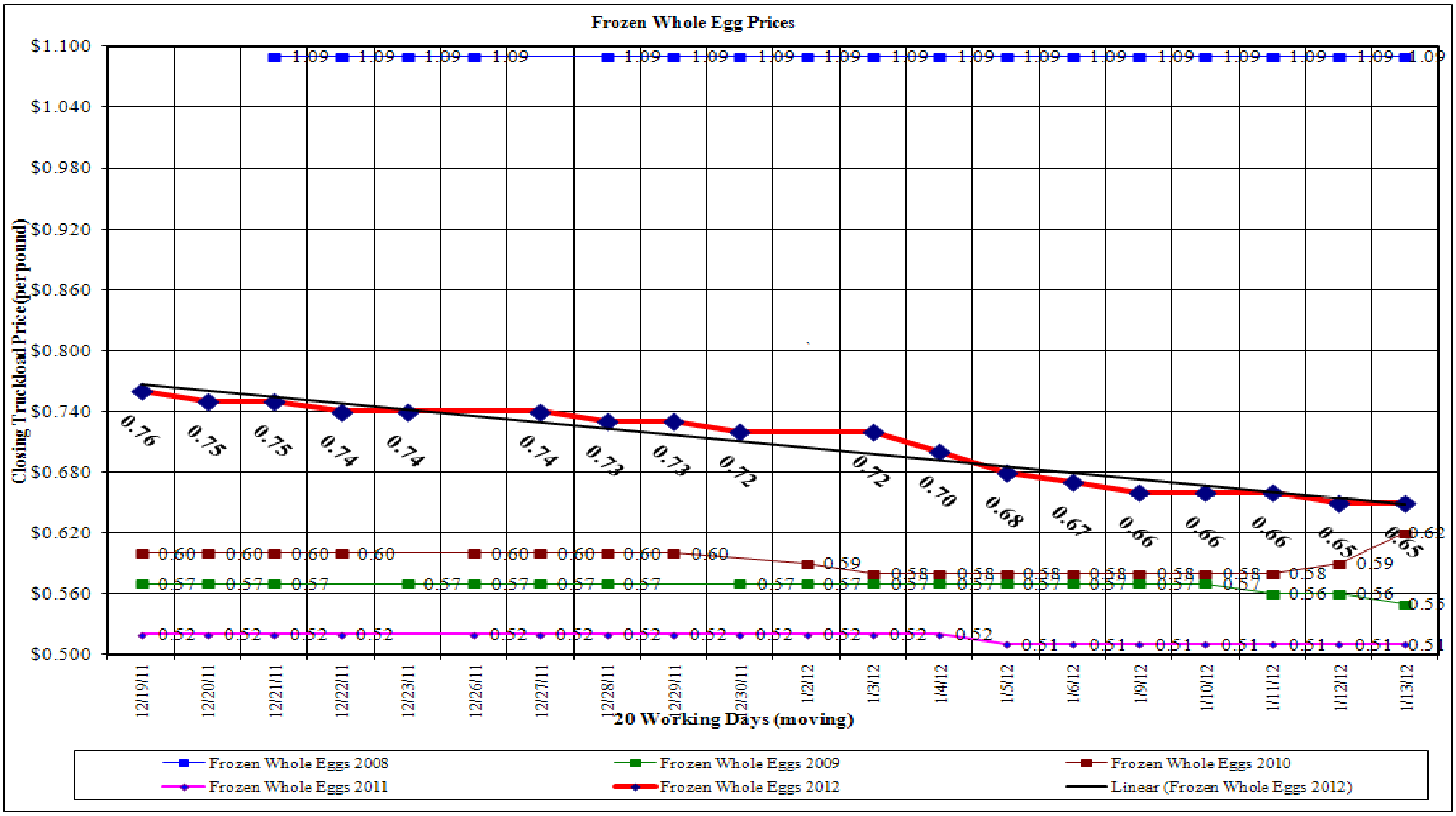
Dairy product prices will follow milk prices lower in 2012, although several factors alter the magnitude of change in some products. Whey, for example is forecast to average $0.52/lb in 2012, down only 1.5% from 2011 as strong domestic and export demand lend strength to prices. Depending on export demand in 2012, we could see whey prices move even higher than forecast.

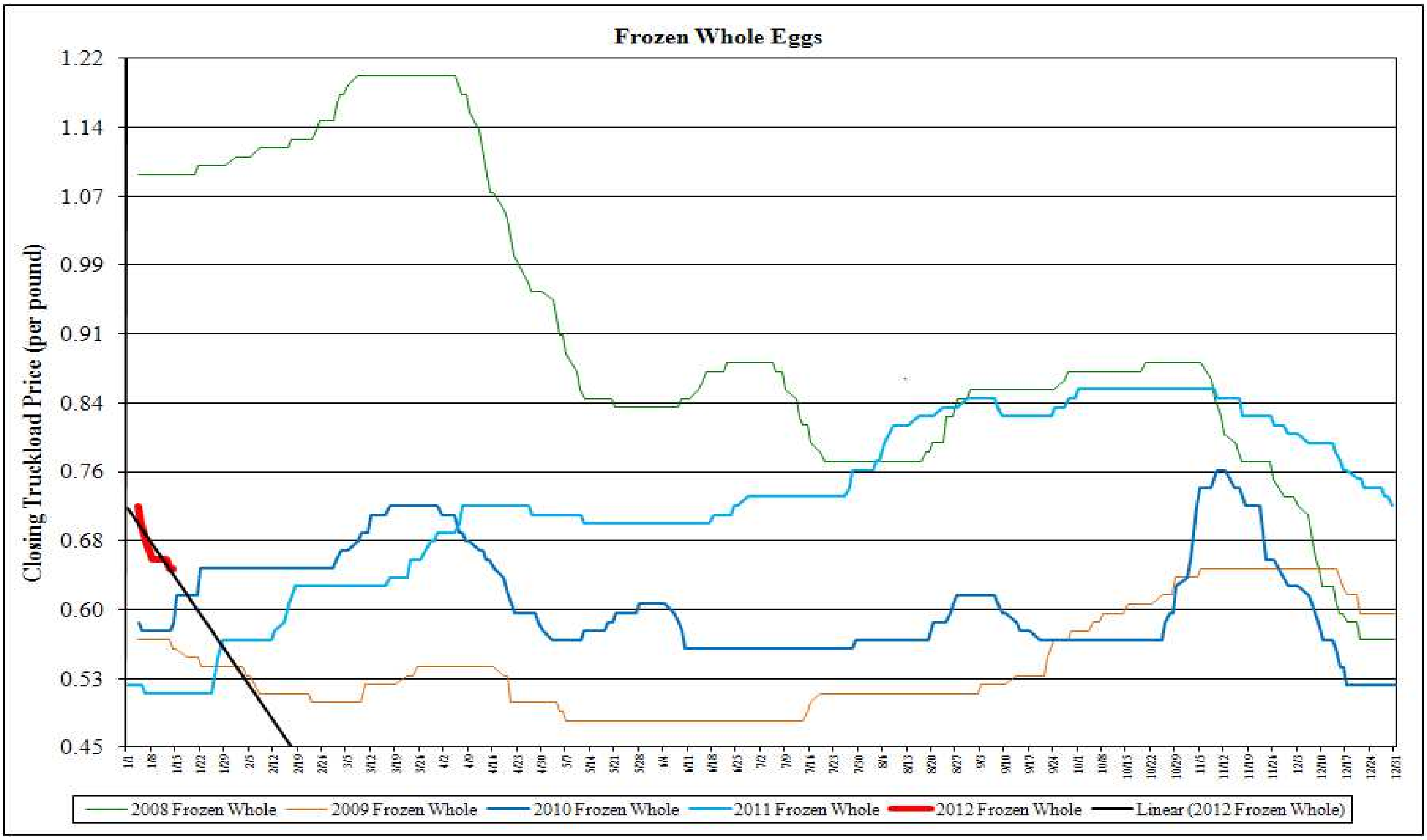
Eggs
Retail demand is reported fair at best, as most continue to buy at a hand to mouth pace. Buyers are patiently awaiting the bottom of the market, and in most cases, are ordering below expected levels with consumer interest lagging. This is at least partially due to the minimal volumes of retail features throughout the country as most await further declines before scheduling ads. Several however are planning promotions for later in the month, anticipating levels where aggressive features are possible. Call from the foodservice sector is meeting seasonal norms and is better in some areas where weather has been mild. Export interest is quiet, as our trading partners to the north have reportedly filled their quotas for the time being. Supplies of all sizes are readily available to long. This is true of both white and brown shell eggs, as some were late to make flock adjustments following a strong holiday season. Those looking to sell greatly outnumber willing buyers today, with the majority able to fill current orders and build inventory.

Further processors are uninterested buyers of breaking stock at this time, rendering our markets unchanged. Supplies are considered available however and there is some underlying pressure evident.

The egg products market was somewhat quiet, as this was the first full week of the New Year for some. Liquid whole egg is under pressure, with supplies burdensome at some plants. Most are able to cover their needs, with the current availability of breaking stock, forcing offerings to be discounted publicly. Liquid whites and yolk are mostly inactive, as sellers assess inventory before taking a position. Dried and frozen whole egg and dried white prices have responded to the changes in the raw prices and moved lower. Yolks are unchanged, with several attempting to hold their asking prices at these levels.

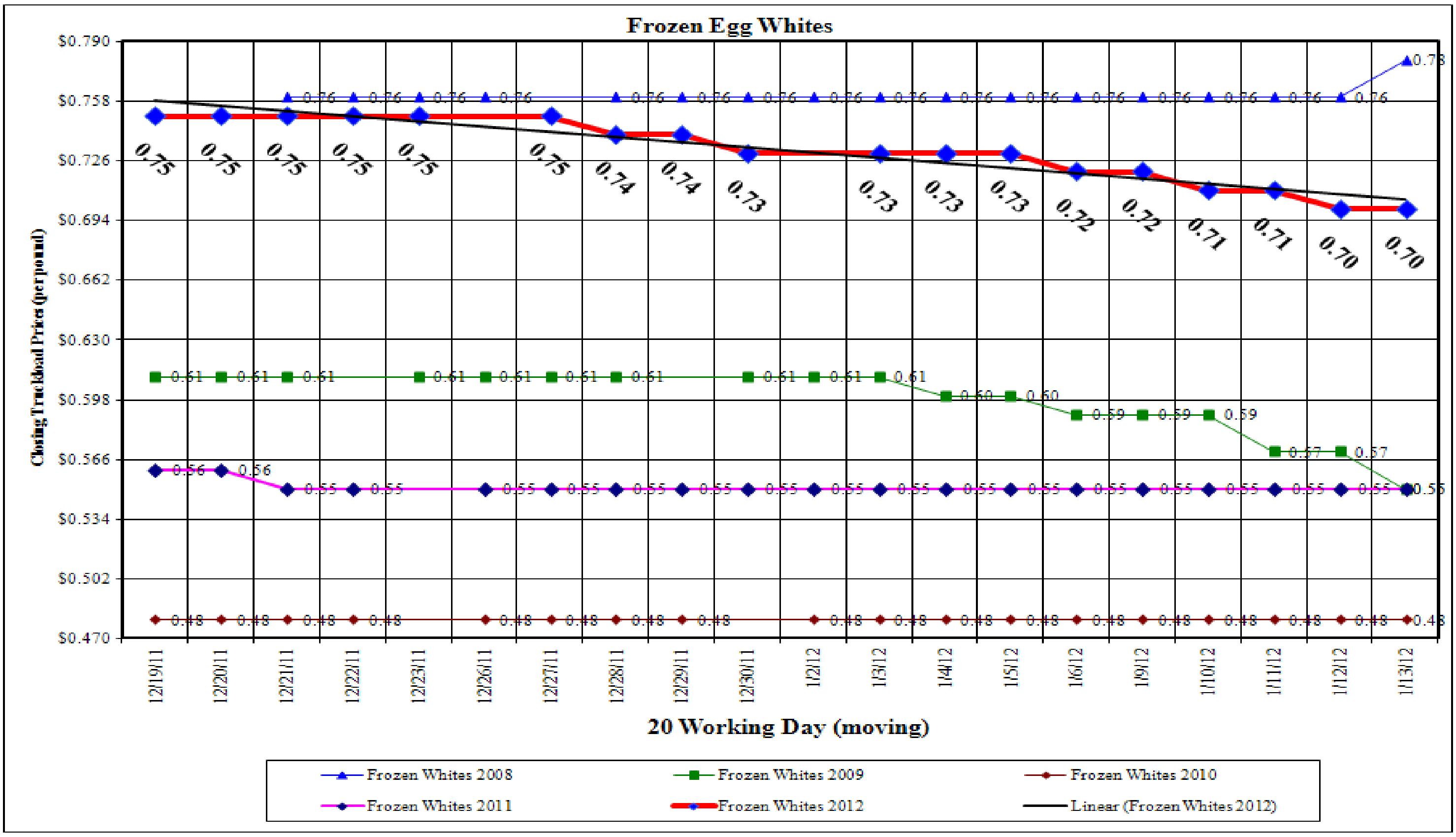
a. Frozen Wholes

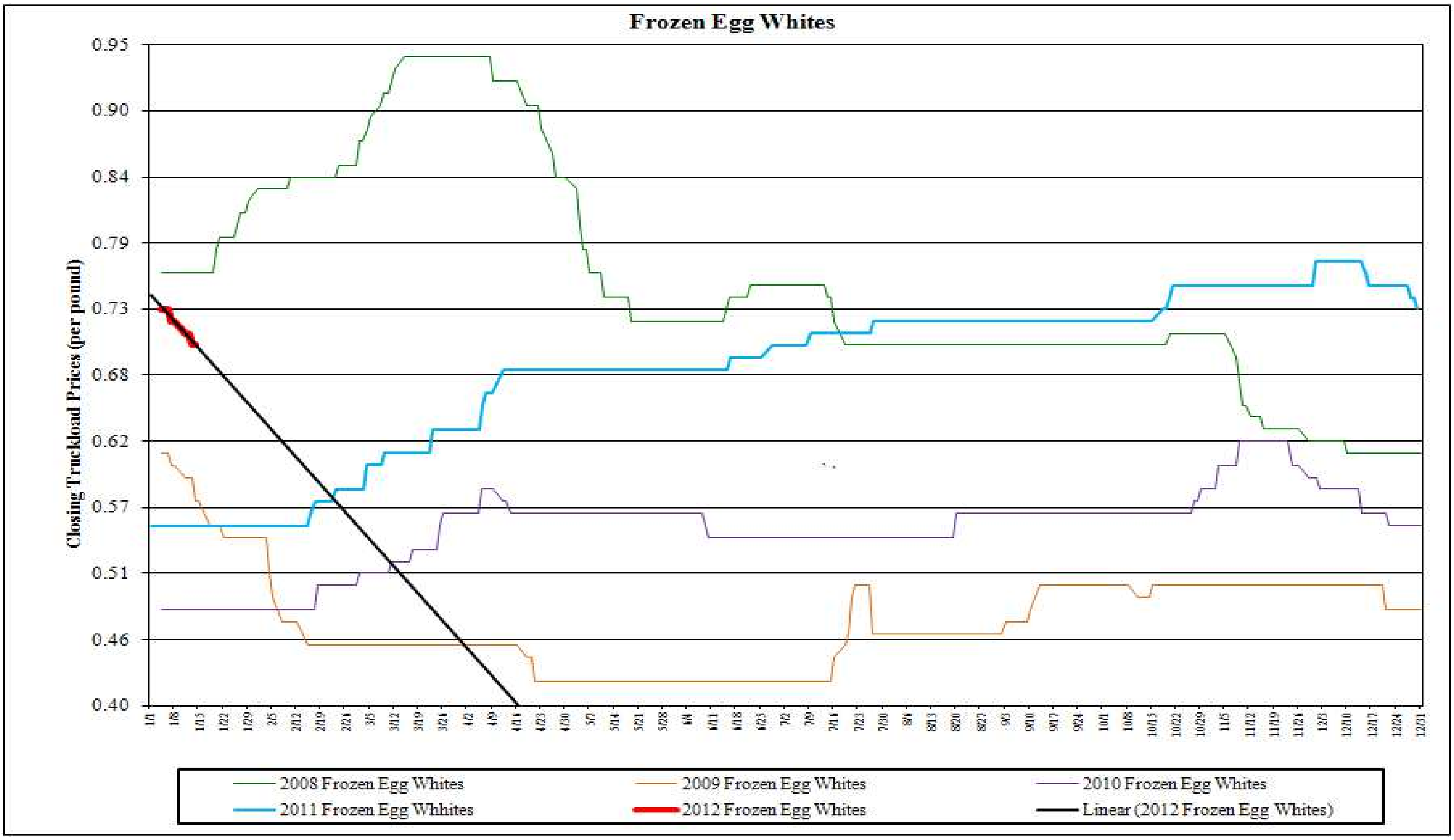




Frozen Whole Eggs closed down $0.02/lb. for the week (compared to last Friday's close).

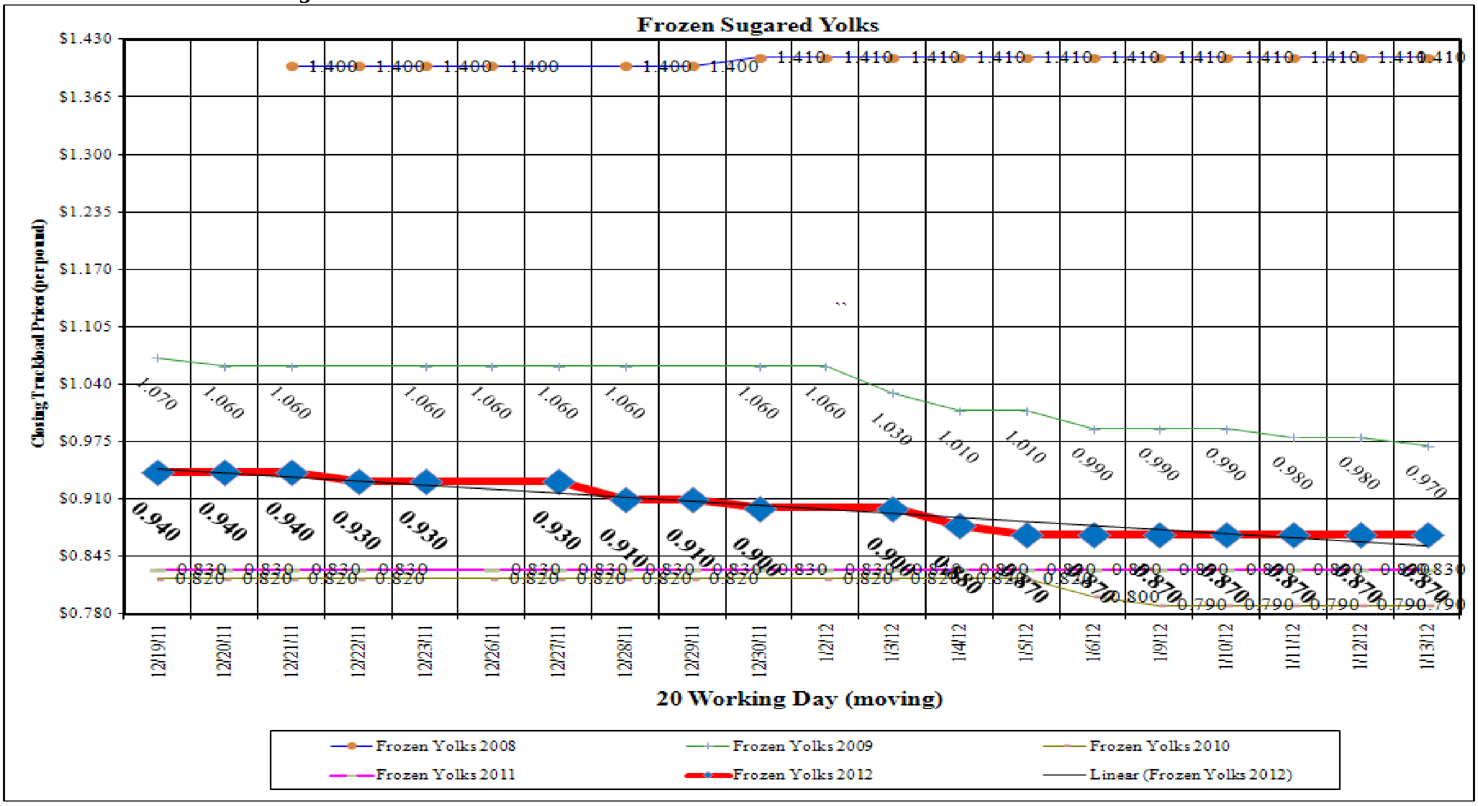
b. Frozen White

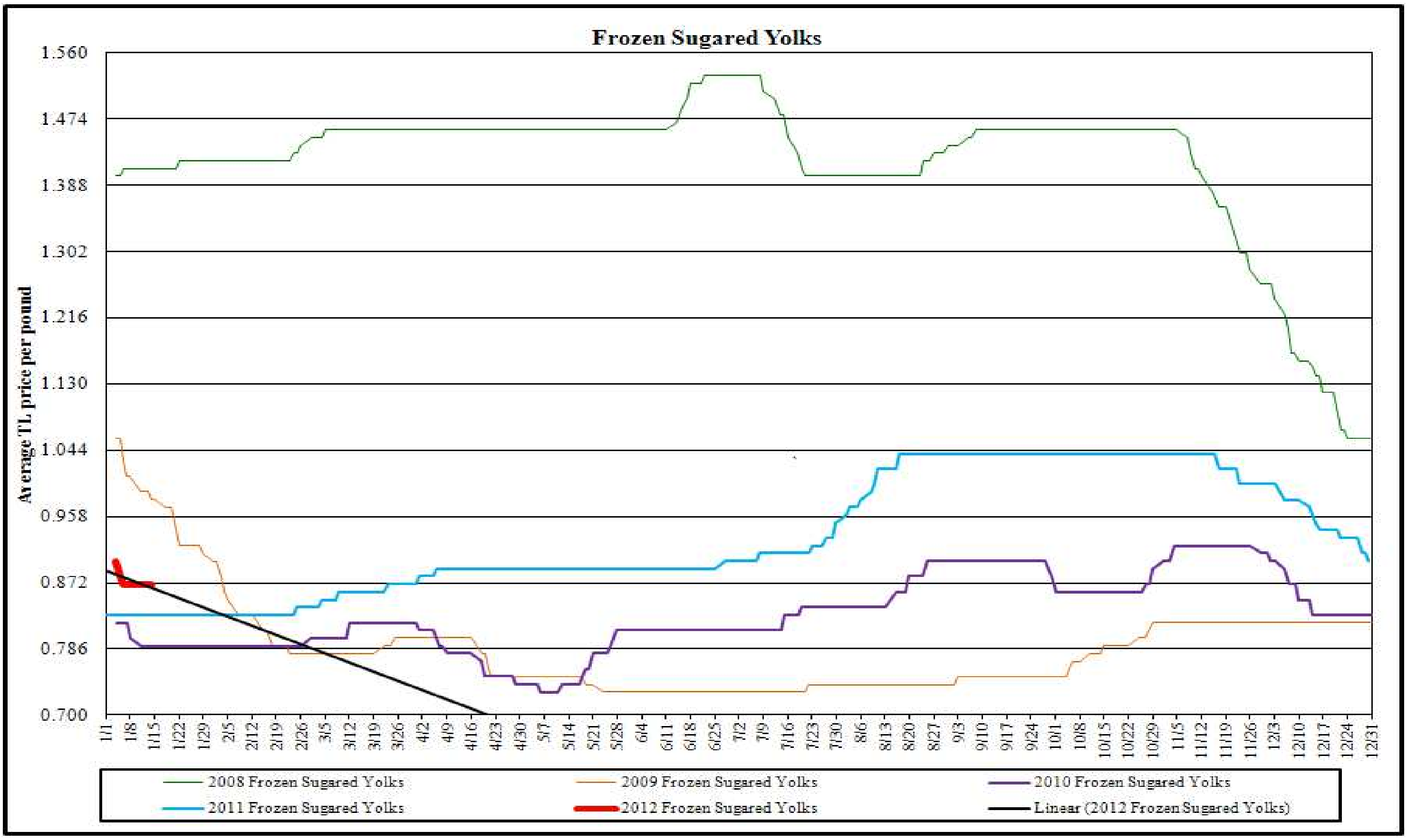




Frozen Egg Whites closed down $0.02/lb. for the week (compared to last Friday's close).

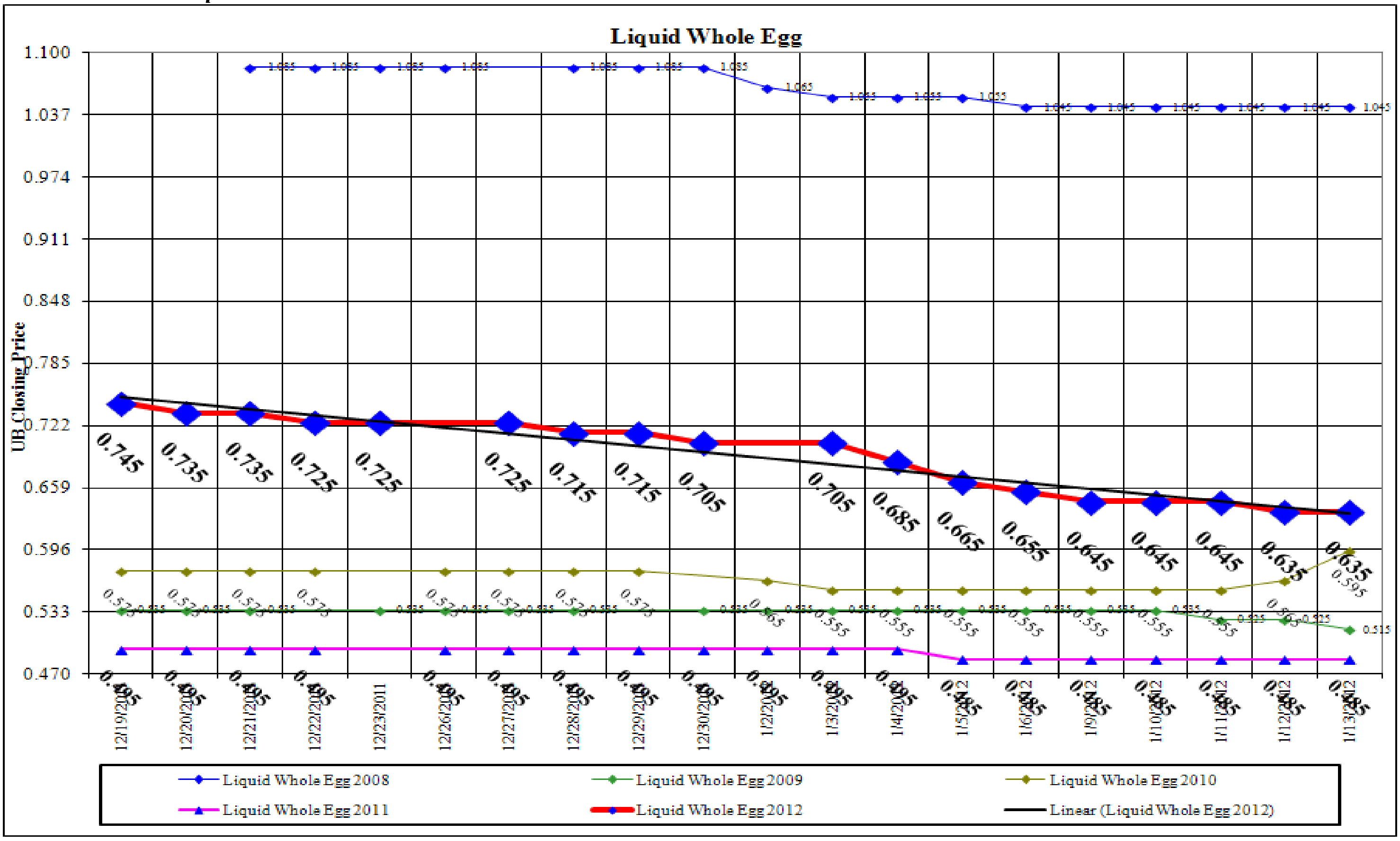
c. Frozen Sugared Yolks

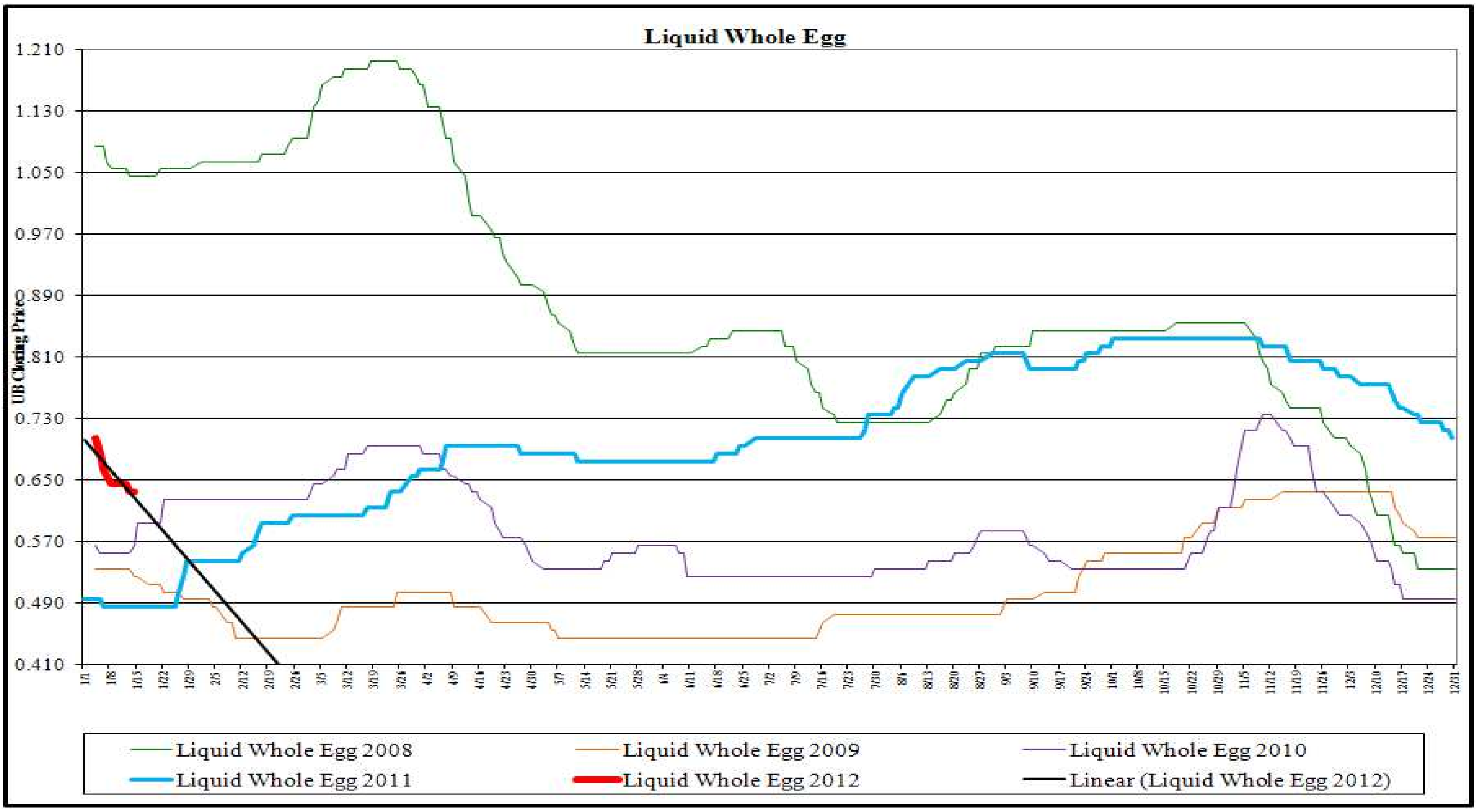




Frozen Sugared Yolks closed "no change" for the week (compared to last Friday's close).

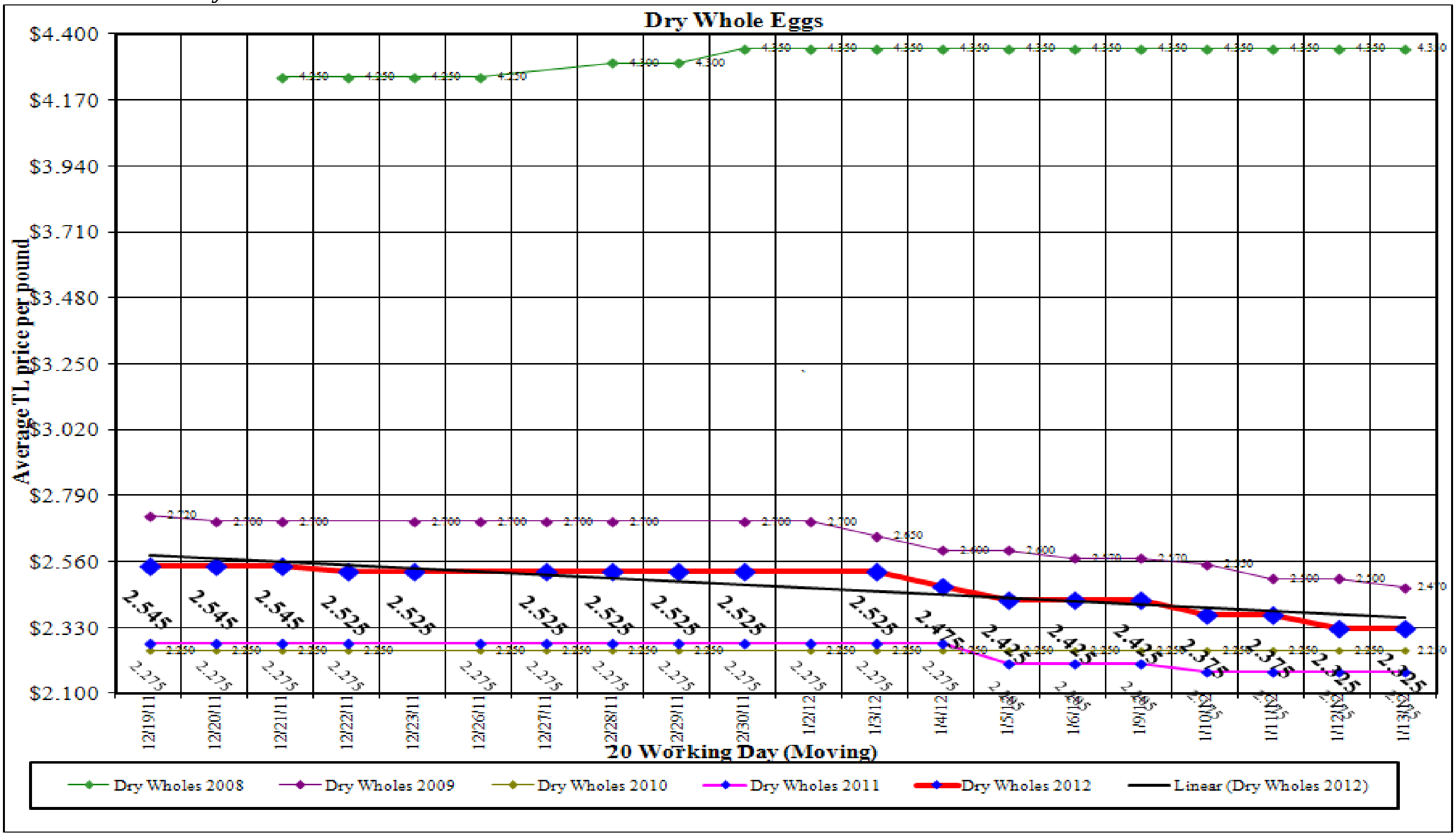
d. ***Liquid Wholes***

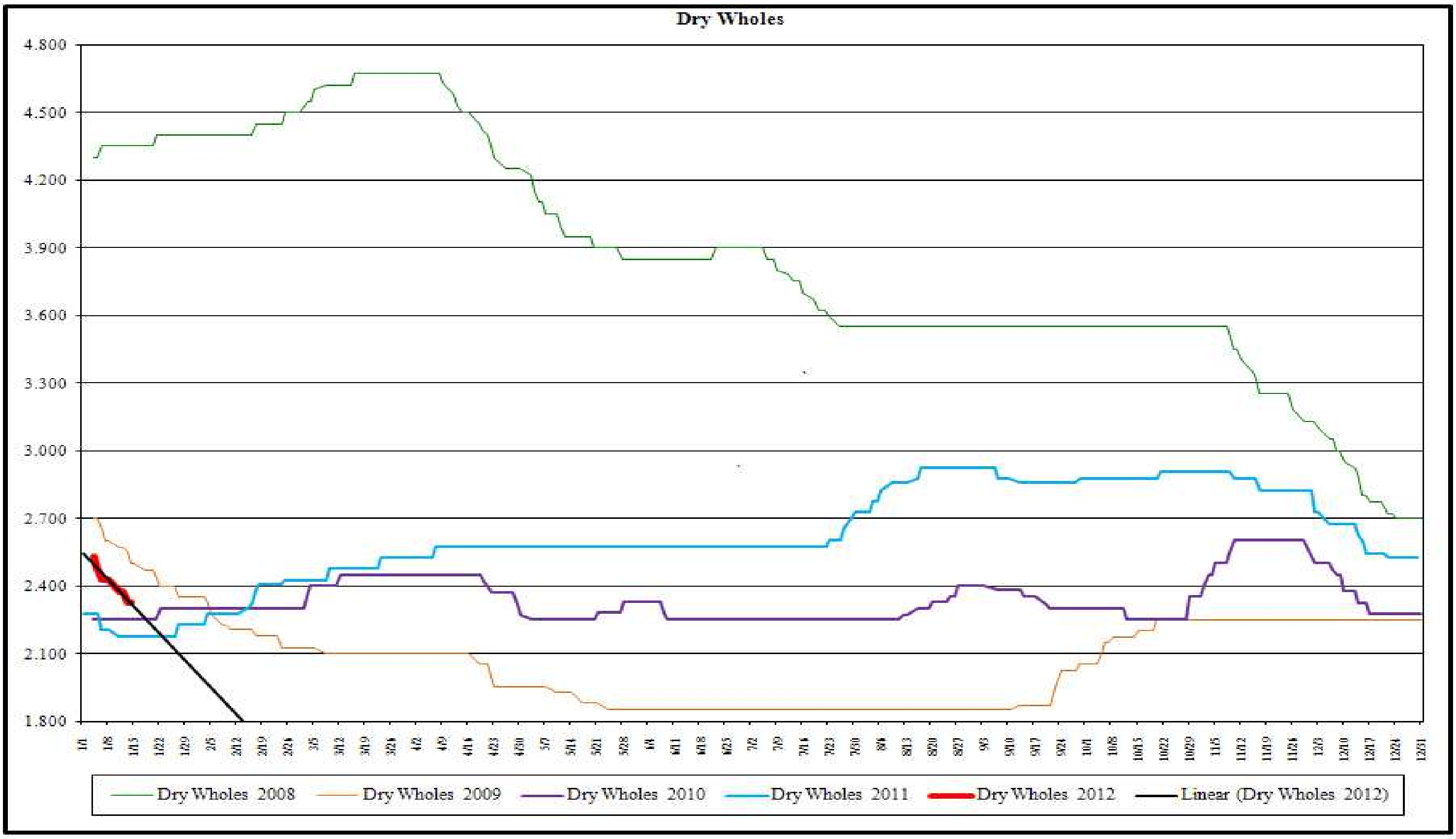




Liquid whole eggs closed down $0.02/lb. for the week (compared to last Friday's close).

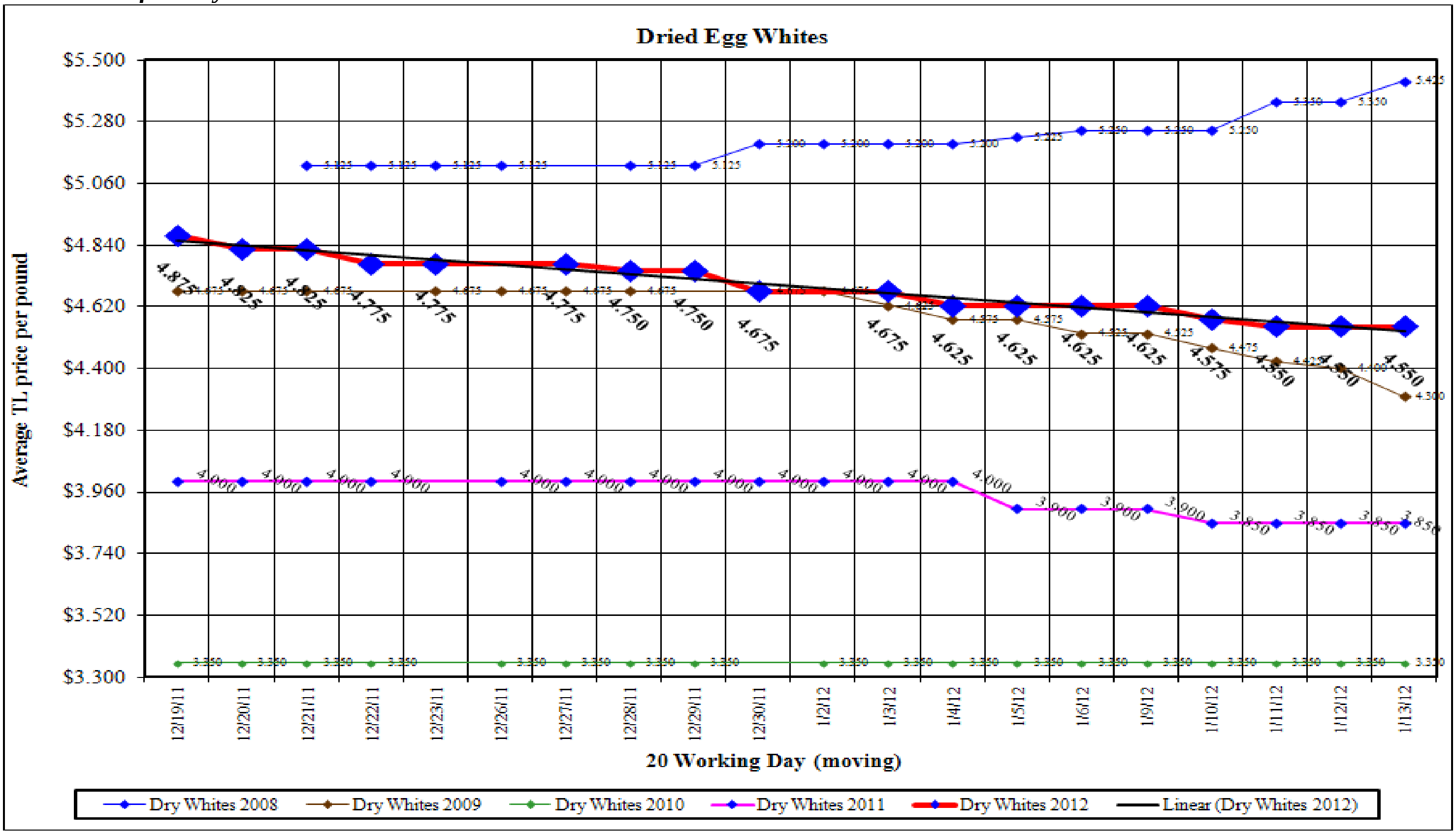
e. Dry Wholes

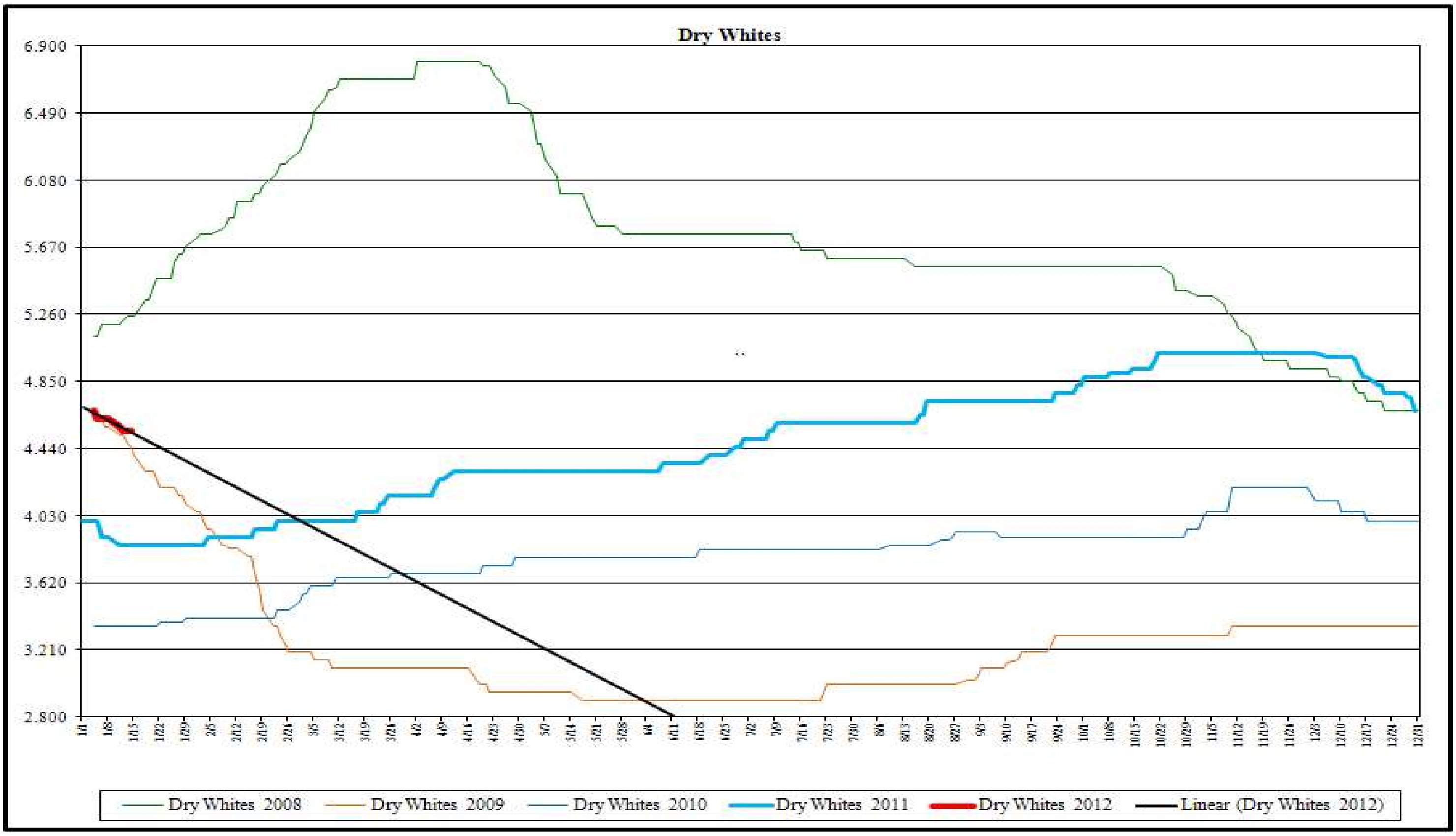




Dried Whole Eggs closed down $0.10/lb. for the week (compared to last Friday's close).

f. ***Dry Whites***





Dried Egg Whites closed down $0.075/lb. for the week (compared to last Friday's close).

Corn
Prior to yesterday's report, corn prices were tracking an impressive 85 cent recovery off the lows, which were established in the middle of December. Recall that corn prices topped in late August and spent the entire month of September working lower. The market then spent 40 days in recovery mode and managed to recover about 90 cents off the lows. Prices then began working back down in mid-November and by mid-December managed to bottom after posting fresh lows. The latest recovery, which appears to have just been completed last week, managed to recover 85 cents off the lows. While not conclusive yet, it appears highly likely that corn prices have now established another meaningful high.

In light of this week's report, it is most likely that the corn market has forged a major top and generally speaking will work lower in the months ahead—at least until U.S.D.A. releases the inevitable correction to their corn numbers in their stocks report on March 30.

The bearish corn factors are:

- The perception that corn demand is on the decline due to historically high prices.
- Expectations for reduced livestock numbers over the next year.
- Huge supplies of feed wheat available on the world market.
- The fact that wheat prices in the Black Sea are priced $20/ton lower than corn prices.
- Increased acreage devoted to corn production outside of the U.S.
- Widespread expectations that U.S. producers will expand acreage devoted to corn production.
- Ethanol margins have narrowed recently.
- The firming tone to the U.S. dollar.

Whereas, on the other side of the coin, the bullish factors in the corn market are:

- Historically tight U.S. corn projected ending stocks.
- Back to back years of corn yields falling below trend line.
- Reports that the Chinese are looking to build their corn reserves in the months ahead.
- Drought in South America adversely impacting their corn crop.
- Fears of upcoming drought in the U.S. this Spring/Summer.

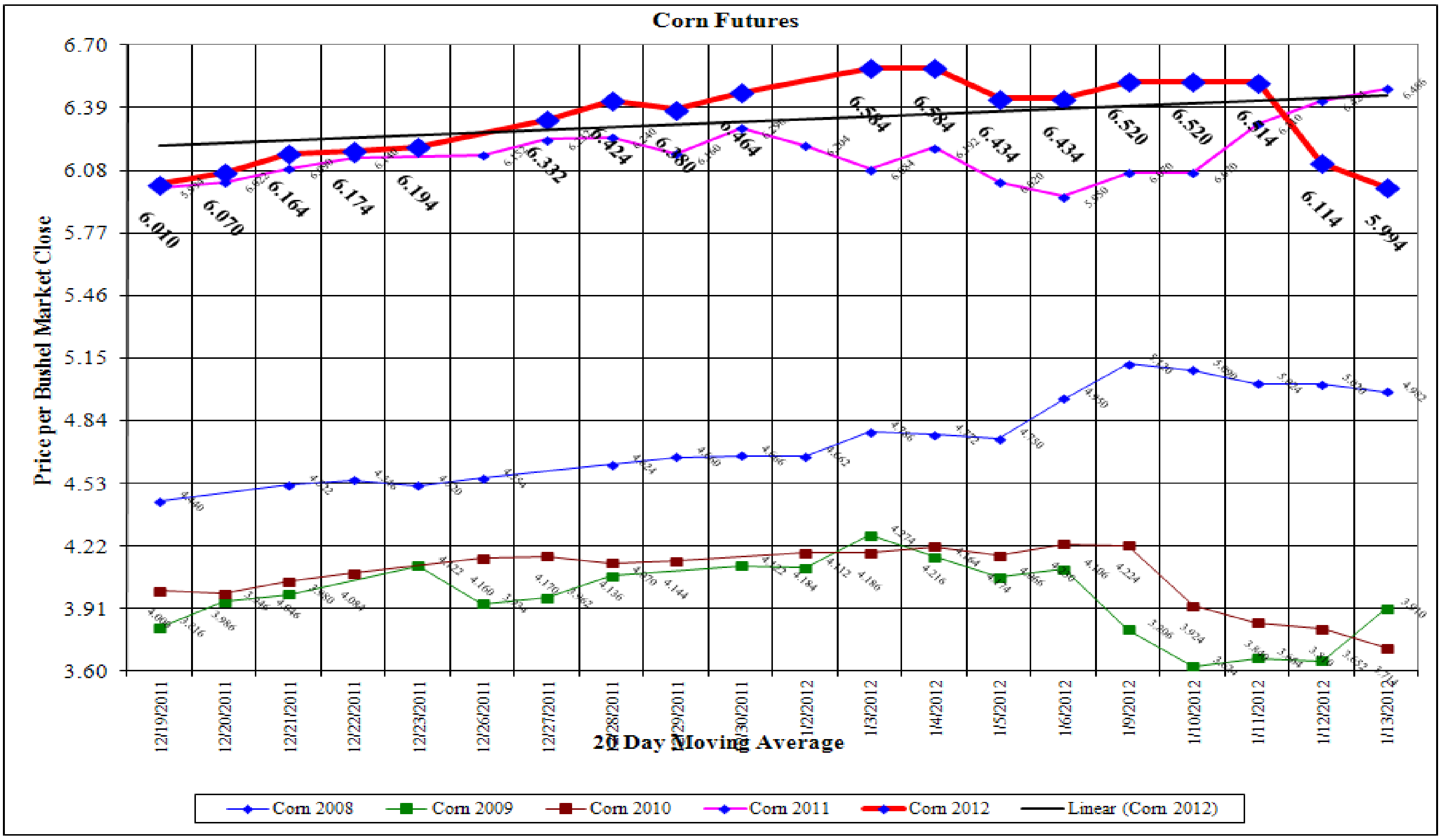
If prices indeed work lower, expect major support to develop in the $4.70-$4.90 range. It will likely take a major price changing event to drive corn prices back above $6.80.

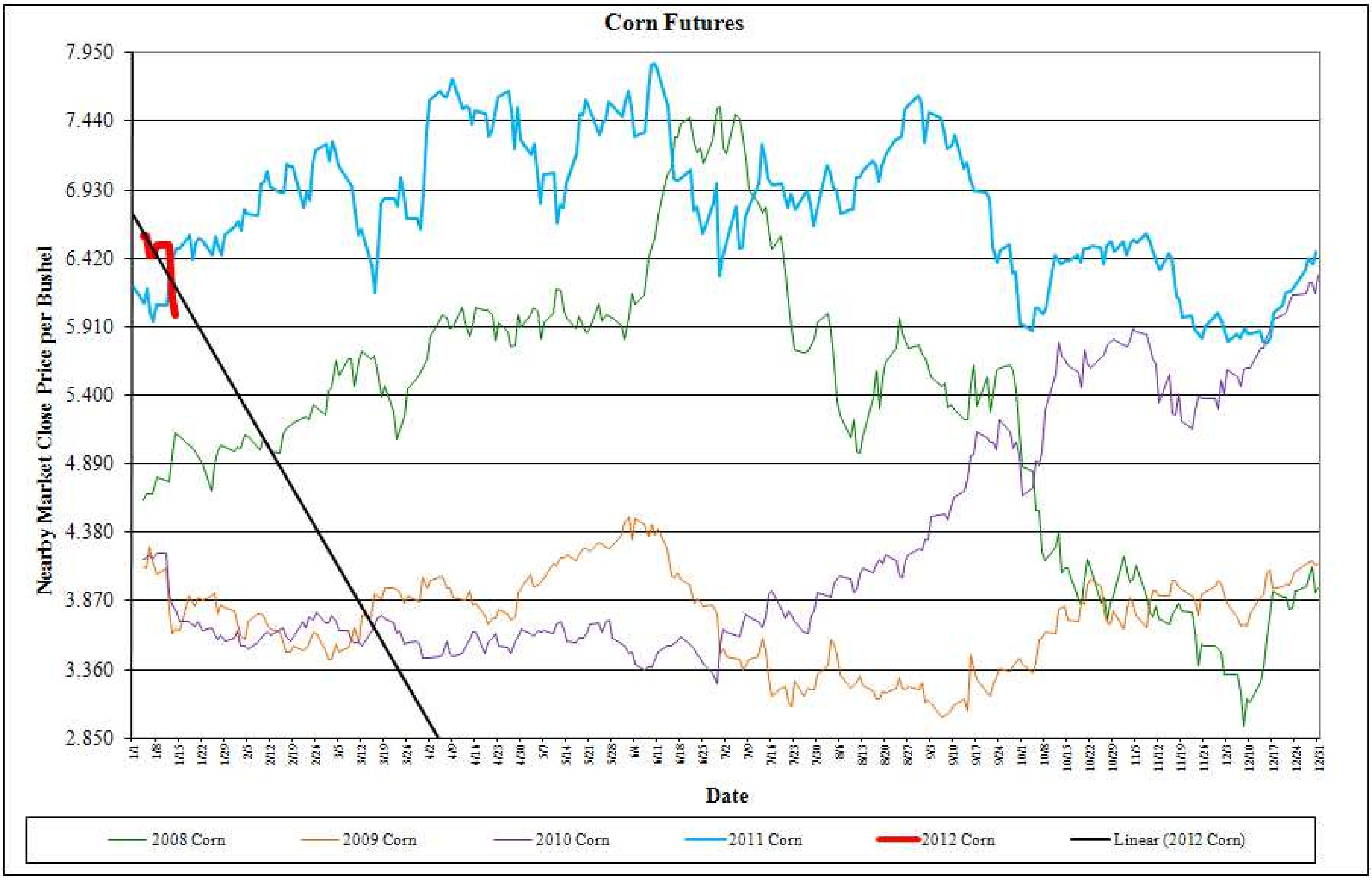
In their WASDE report released Thursday, U.S.D.A. lowered their projected 2011/2012 season average corn pricing $0.20/bushel on each end of the range to $5.70 to $6.70 per bushel. Prices received by producers to date have remained well below prevailing cash bids limiting the upward potential for the season-average farm price. They estimated corn for grain production at 12.4 billion bushels, up slightly from the November 1 forecast but 1% below 2010. The average yield in the United States for 2011 is estimated at 147.2 bushels per acre. This is up 0.5 bushel from the November forecast but 5.6 bushels below the 2010 average yield of 152.8 bushels. Area harvested for grain is estimated at 84.0 million acres, up slightly from the November forecast and up 3% from 2010.

In February, the market will be focused on subsoil moisture conditions in the western corn belt and on acreage estimates. On March 30th, the U.S.D.A. will issue their prospective plantings report.

The bearish U.S.D.A. report coupled with slowing domestic demand for gasoline, caused a sharp drop in ethanol prices on Thursday. Nearby prices are expected to set back into the $2.05-2.10 range by the second quarter.

Corn futures closed down $0.44/bushel for the week (versus last Friday's close).


Corn Futures
6.70
6.39
6.08
5.77
5.46
5.15
4.84
4.53
4.22
3.91
3.60
Price per Bushel Market Close
6.010
6.070
6.164
6.174
6.194
6.332
6.424
6.380
6.464
6.584
6.584
6.434
6.434
6.520
6.520
6.514
6.114
5.994
12/19/2011
12/20/2011
12/21/2011
12/22/2011
12/23/2011
12/26/2011
12/27/2011
12/28/2011
12/29/2011
12/30/2011
1/2/2012
1/3/2012
1/4/2012
1/5/2012
1/6/2012
1/9/2012
1/10/2012
1/11/2012
1/12/2012
1/13/2012
20 Day Moving Average
Corn 2008
Corn 2009
Corn 2010
Corn 2011
Corn 2012
Linear (Corn 2012)


Corn Futures
7.950
7.440
6.930
6.420
5.910
5.400
4.890
4.380
3.870
3.360
2.850
Nearby Market Close Price per Bushel
Date
2008 Corn
2009 Corn
2010 Corn
2011 Corn
2012 Corn
Linear (2012 Corn)

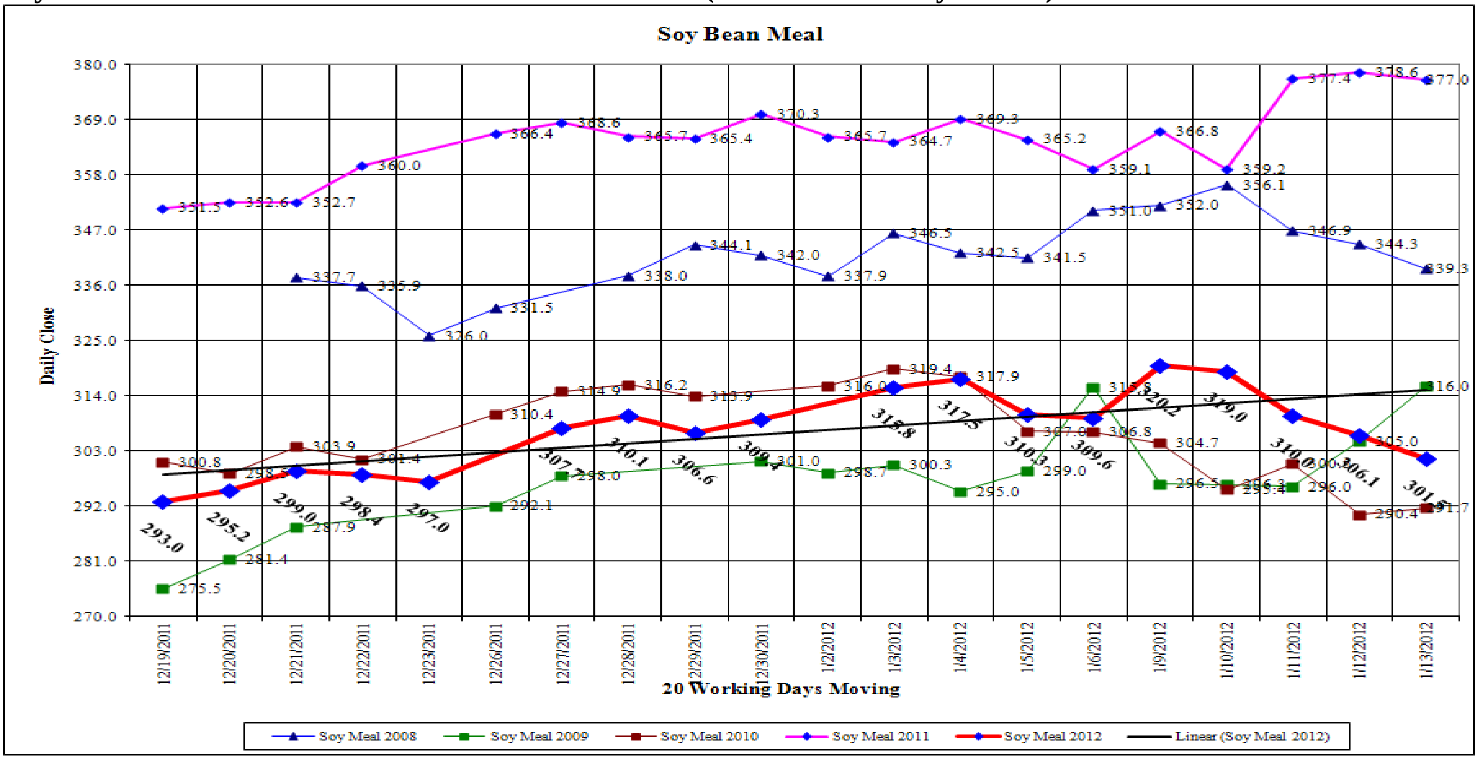
Soy Meal

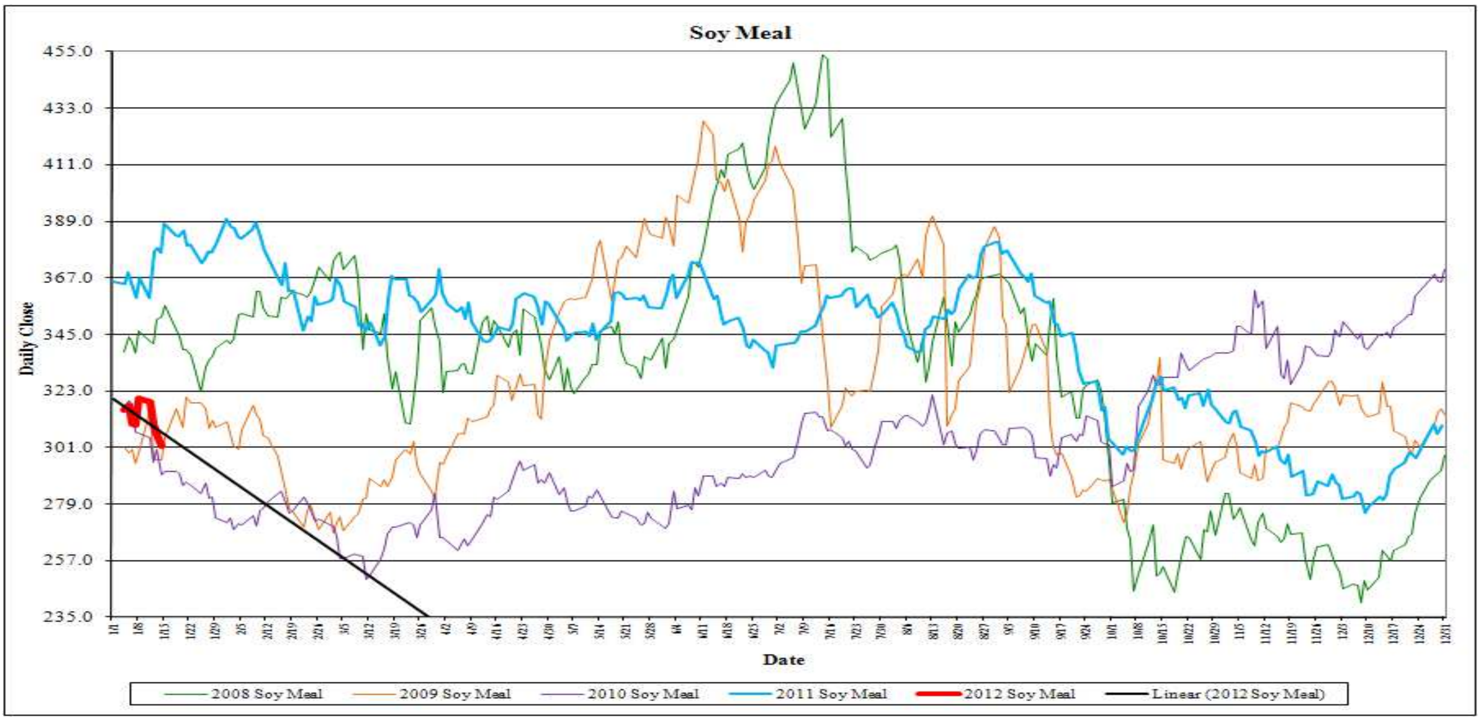
March soybean meal is expected to trade up into the $335 area and potentially $340, depending on the direction in soybeans and potential increase in export demand. Support is seen at $300. Tonight, the March futures closed at $301.5

Taking a longer view of the 2012 marketing year, U.S. soy meal exports are expected to decline 8% during 2011/2012, while domestic use is expected to be flat – sharp cutbacks in chicken production are leading to reduced demand. After averaging $345/ton during 2011, nearby soy meal futures are forecast to decline 18% to an annual average of $283 during 2012.

In their report Thursday, U.S.D.A. projected the soybean meal price at $290 to $320 per short ton, up $10 on both ends of the range.

Soy meal futures closed down $8.10/ton for the week (versus last Friday's close).

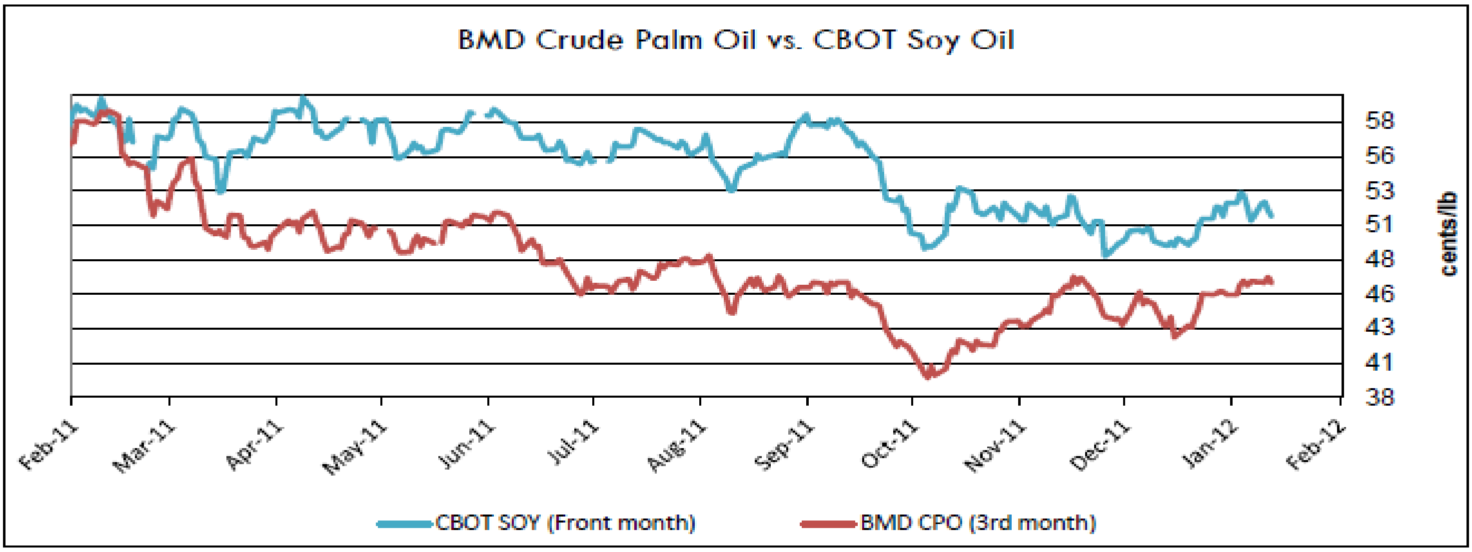




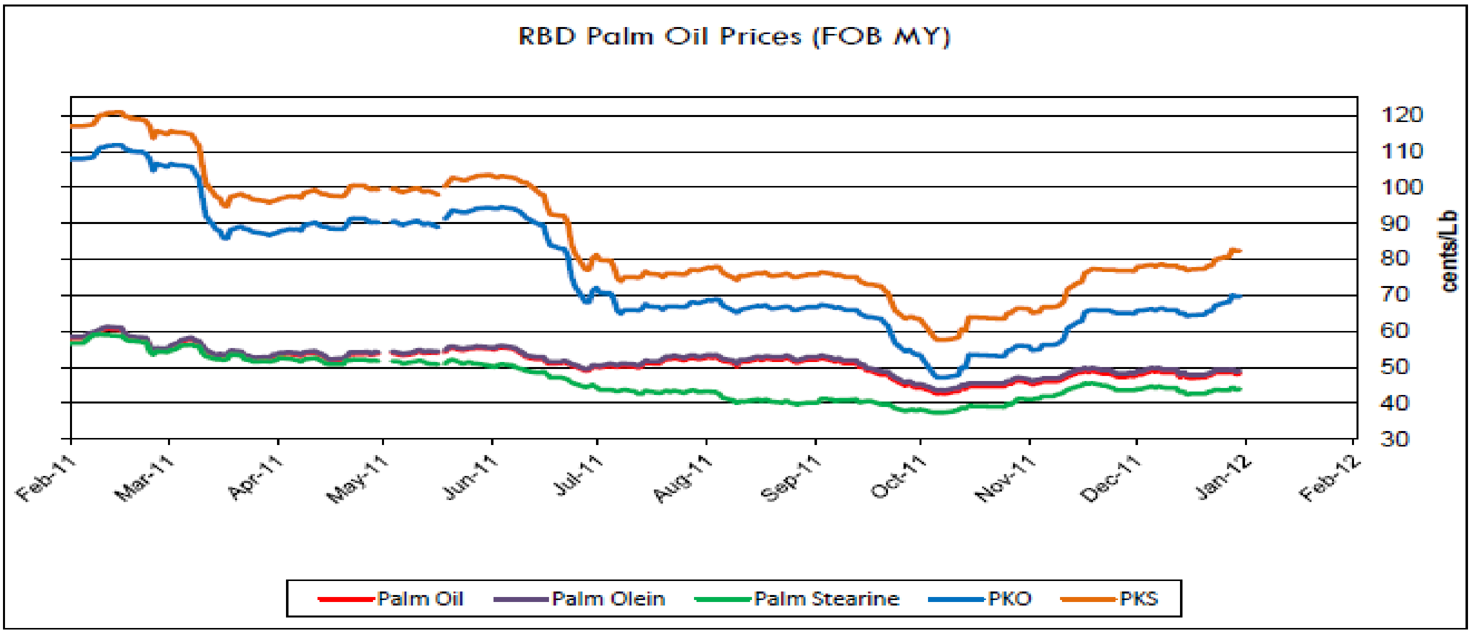
Palm Oil

Malaysian crude palm oil futures slipped as a much-anticipated U.S. crop report showed a higher-than-expected forecast of oilseed supplies, temporarily overshadowing prospects of lower production due to erratic weather. The U.S.D.A. January crop report painted a rosier picture for global supplies on Thursday, while the MPOB (Malaysian Palm Oil Board) said this week that December stock levels were higher than expected. Traders suggest that with both the highly anticipated reports disappointing the bulls, the market will henceforth look at fundamentals. Benchmark March palm oil futures fell 51 ringgit to close at 3,151 ringgit ($1,007) per ton. Technical analysis suggests that palm oil futures will clear a support at 3,176 ringgit per ton to head towards 3,140 ringgit thereafter. While the bearish U.S.D.A. report sent the markets lower, weather concerns should continue to provide support for oilseed prices. Soybean losses were smaller than those for corn or wheat as it found underlying support from continued worries about damage to Argentina's soybean crop due to hot, dry weather.

Similarly for palm oil, traders are keeping a close watch on wet weather in key exporter Malaysia as floods could disrupt production, adding pressure to tightening stocks. Cargo surveyors ITS and SGS reported a 14% and 19% drop in Malaysia's palm oil exports for first 10 days in January.



(Graph source: Loders Croklaan)



(Graph source: Loders Croklaan)

Energy Markets

This week's rally is based on a couple of headlines – rumors that China will once again loosen reserve requirements in the near future, another Merkozy meeting claiming "progress" and better than expected industrial output data from France. Another element is the lack of headlines – no new saber rattling (for the moment) from Iran. Developments in Iran are supporting prices at current elevated levels but have not priced in an actual confrontation such as an interruption of oil supply out of the Persian Gulf. The U.S. is applying extreme pressure on Iran by trying to cut its oil revenues (its life's blood) and Iran is trying to reverse the pressure by unsettling the oil markets and raising prices on the oil dependent West. It's a proverbial game of chicken! Can Iran close the Strait? Maybe temporarily – but it would be at great cost in terms of equipment and resources, to the Iranian military. Iran would only resort to this if backed into a corner – which is possible at the current rate of escalation in the tension between the two sides. Should Iran actually attempt to disrupt transit through the Strait (the more likely option to closure) – oil prices will immediately spike. It looks like the IEA is organizing a contingency plan for this scenario where they would coordinate a release of members' strategic reserves to dampen the price hike.

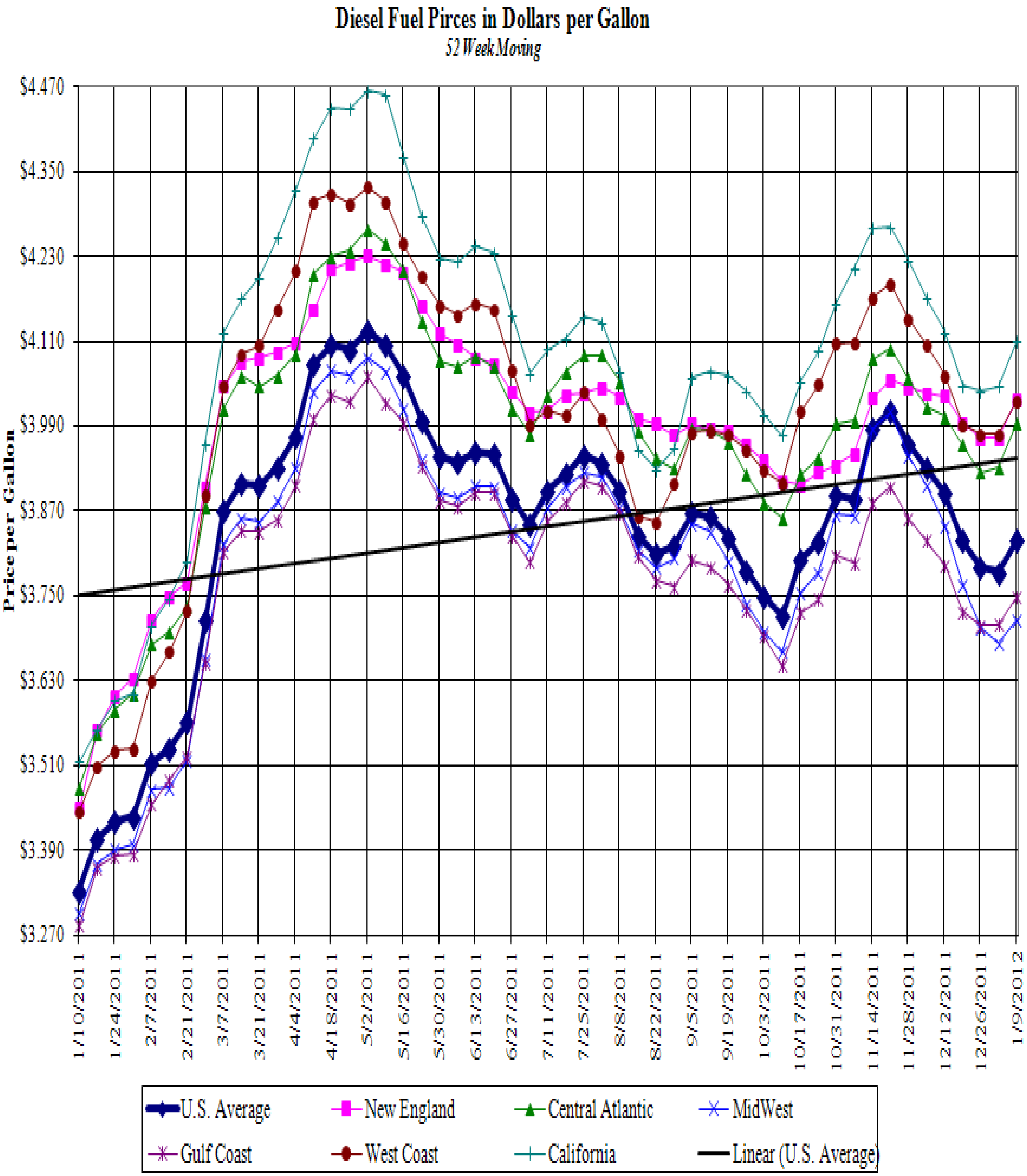
Current fundamentals do not support today's prices. Prices today are being supported by extremely loose monetary policy and increased geopolitical risk. Strip these away and global economic activity looks very weak – U.S. growth is anemic, EU is either in or on the verge of a recession and China is slowing down. If a deal were struck with Iran on the nuclear issue – prices would drop $5-$10 quickly. Should the markets believe that there will be no more quantitative easing for the near future; prices would drop another $5 to $10 over a few months. The question remains: what is the likelihood of these scenarios? Barring a geopolitical event, the next resistance level will be $105-$107 per barrel for WTI.

The crude oil market has been characterized by uneven growth in demand, supply interruptions out of North African energy markets, and volatility in financial markets. The result has been continued wide price swings and crude oil prices trending higher over the past three years. The annual average of crude oil prices (West Texas Intermediate) rose 20% during 2011 to $95 – this is on top of a 28% gain during 2010. Prices are forecast to remain well supported in 2012, and are expected to average $99 this year. Crude oil prices averaged $79 per barrel during 2010, but ranged from $64□92. During 2011, prices averaged $95 but ranged from $75 to $115. The extremely volatility in crude oil prices is likely to continue during 2012 and beyond. On□road diesel fuel prices rose to a record $3.84 during 2011, but are forecast to decline 3% to an annual average of $3.73 during 2012.

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
1/10/2011	$3.3330	$3.3640	$3.4500	$3.4780	$3.3080	$3.3020	$3.2840	$3.3340	$3.4450	$3.5160
1/17/2011	$3.4070	$3.4480	$3.5600	$3.5560	$3.3920	$3.3710	$3.3660	$3.3740	$3.5090	$3.5620
1/24/2011	$3.4300	$3.4800	$3.6090	$3.5900	$3.4210	$3.3920	$3.3820	$3.3880	$3.5310	$3.6020
1/31/2011	$3.4380	$3.4940	$3.6330	$3.6110	$3.4320	$3.3990	$3.3840	$3.3960	$3.5330	$3.6120
2/7/2011	$3.5130	$3.5650	$3.7170	$3.6820	$3.5010	$3.4750	$3.4550	$3.4590	$3.6300	$3.7070
2/14/2011	$3.5340	$3.5870	$3.7490	$3.7000	$3.5240	$3.4790	$3.4890	$3.5110	$3.6710	$3.7470
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



Diesel Fuel Pirces in Dollars per Gallon
52 Week Moving
Price per Gallon
$4.470
$4.350
$4.230
$4.110
$3.990
$3.870
$3.750
$3.630
$3.510
$3.390
$3.270
1/10/2011
1/24/2011
2/7/2011
2/21/2011
3/7/2011
3/21/2011
4/4/2011
4/18/2011
5/2/2011
5/16/2011
5/30/2011
6/13/2011
6/27/2011
7/11/2011
7/25/2011
8/8/2011
8/22/2011
9/5/2011
9/19/2011
10/3/2011
10/17/2011
10/31/2011
11/14/2011
11/28/2011
12/12/2011
12/26/2011
1/9/2012
U.S. Average
New England
Central Atlantic
MidWest
Gulf Coast
West Coast
California
Linear (U.S. Average)

Fruits/Nut Markets

***Apples*—US (WA): Short crop, high demand for Washington apples**

Coming off a year in which Washington apple producers grew a particularly large crop, this season has seen lower volumes. Coupled with increased demand, market prices for apples have been strong. "Last year, crop volume was high," says Todd Fryhover, President of the Washington State Apple Commission, "but this year, it has been down to a manageable volume." Fryhover notes that although last year's volume was high at 109 million boxes, there was still success in moving the crop. This year's volume is projected to be down to 104 million boxes, and with good consumer demand, market prices have been strong. "We've seen increased demand due varietal diversification that's more aligned with consumer tastes," says Fryhover. Demand has been driven by increasing alignment between consumer tastes and apple flavors. "Apple flavor has been improving over the last decade," he notes, "and there's also been growing awareness that you can spend more on fresh produce." Such demand, coupled with a smaller crop, has resulted in good prices for growers. "Demand, combined with a slightly short crop, has been pushing the market up in price, and that's playing out very nicely for growers."

***Blueberries*— US: Invasive fruit fly threatens Maine blueberry crops**

University of Maine researchers say an invasive fruit fly that poses a threat to the state's blueberry crop has been found in five locations in Maine. The UMaine Cooperative Extension services says the Asian Drosophila suzukii fruit fly is also a threat to strawberry, raspberry and other soft-skinned fruit crops, and possibly vegetable crops as well. "Our concern is if you get the spotted wing drosophila in low-bush blueberries -- 50,000 acres -- it would be disastrous, just devastating to our current Integrated Pest Management program and the crop," says Jim Dill, a pest management specialist with the extension service. "And it's a question of when."

Maine's blueberry harvest this year topped 80 million pounds and was valued at about $190 million. Dill and other researchers have been monitoring fruit fly traps around the state for the pest, which originated in Asia and has spread from California to New England over the past four years. The fly was found in a tomato greenhouse in Berwick, raspberries in Limington, Newcastle and Monmouth and strawberries in Farmington, Dill says. It also likely infested some high-bush blueberries in Clinton, though that hasn't been confirmed. State officials say the pest is especially destructive because it can attack unripe, as well as ripe, fruit. It can be controlled with pesticides, but Dill says applications are expensive and must be done frequently.

***Walnuts*—US: Walnuts healthiest among the nuts**

Scientists have discovered that walnuts are loaded with antioxidants and snacking on as few as seven a day could help ward off disease and lower cholesterol. They found that walnuts contain very high levels of polyphenols, an anti-oxidant which can protect the body from molecules which damage tissue. Tests carried out on nine commonly eaten types of nuts showed that walnuts contained the most polyphenol than others. Brazil nuts and pistachios were close behind, and cashews and hazelnuts had slightly lower levels of antioxidants, said the researchers from the University of Scranton, Pennsylvania. Walnuts had the highest free and total polyphenols in both the combined and roasted samples. Despite the "super food" potential of walnuts, peanuts are the favorite with consumers and account for 45% of the nuts bought in Europe. According to the researchers, the antioxidants found in raw walnuts were 15 times as powerful as Vitamin E, which can protect the body against damaging natural chemicals. Roasted cashew nuts contained just double the level found in Vitamin E, while the antioxidants in peanut butter were considerably lower than in roasted peanuts, the study found.

According to the researchers, pecans contain around a sixth of the recommended daily allowance for zinc, which is vital for the functioning of white blood cells that fight bacteria and viruses, including colds and flu. A couple of handfuls of shelled pistachios have more potassium than a banana. This can help control blood pressure, as part of a healthy diet, because potassium blunts the effects of salt. And the Brazil nut is the richest source of selenium, a nutrient that helps protect cells. Higher selenium levels have been linked with a reduced risk of certain cancers such as bladder and prostate.

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