



Diversified
Crop Insurance Services

Revenue Management Update

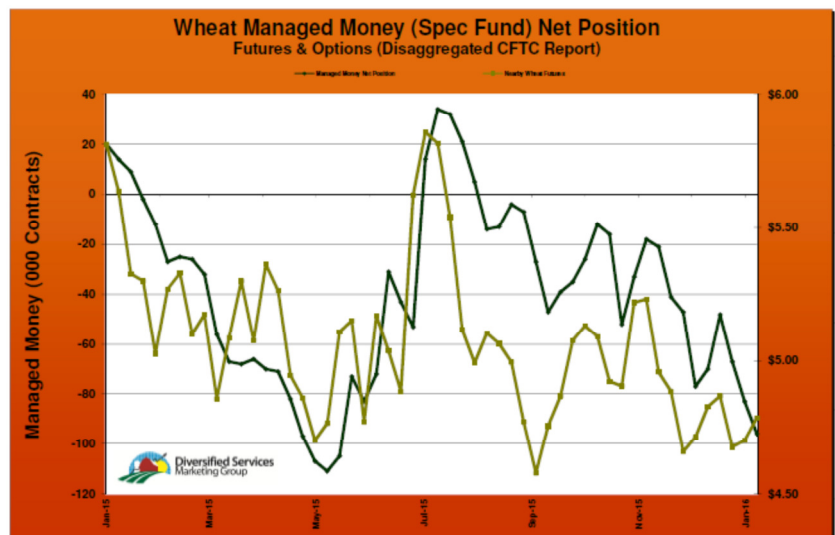
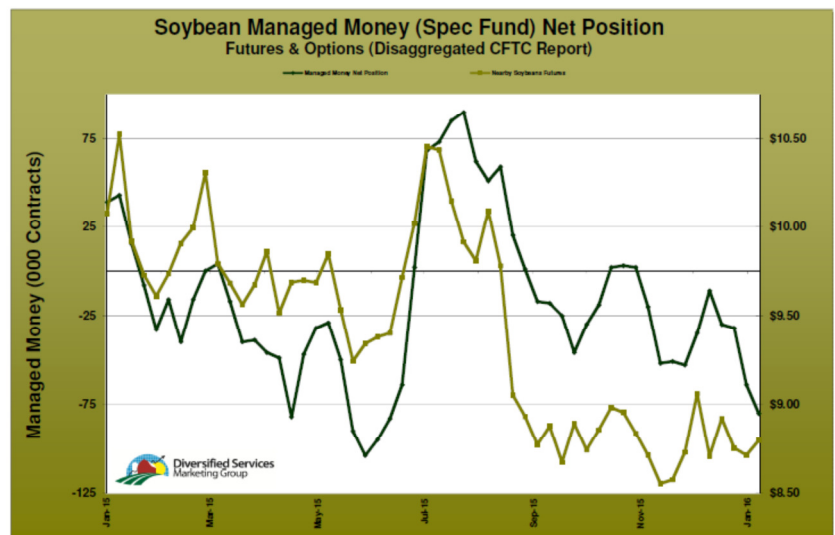
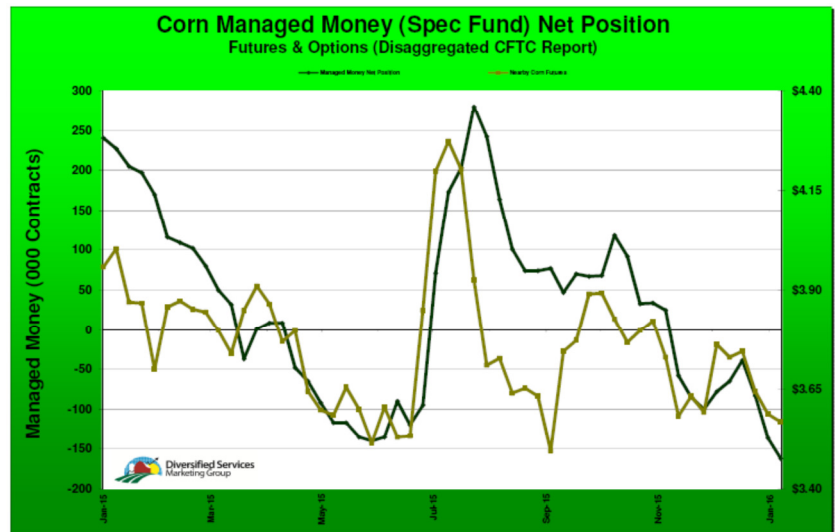
Tuesday, January 12, 2016

Reasons for Optimism in 2016?

I don't think I've ever met a farmer who wasn't an optimist. You have to have faith every year to plant an expensive crop and then hope weather is optimal enough to provide. 2015 was forecasted to be the lowest net farm income year since 2003, and crop prices are starting 2016 a little lower than last year. The Goldman Sachs Commodity Index (below) is lower than 2009's low, and the lowest since 2004. So why the optimism?



1. **Speculative funds** are holding near record short positions in corn, soybeans, & wheat as of Friday's Commitment of Traders Report. The green line on the charts (right) show their current net positions. As an optimist, I view these as positive, since any surprise, like a drop in the US dollar or weather concerns, could trigger immediate short-covering.
2. Speaking of the **US dollar**, it's at the highest mark since 2003, but struggling to stay above 100 pts. A correction downward could help US exports *and* could trigger fund short-covering.
3. Somebody's due. Since the US drought of 2012, many countries have had **record production**. China, France, & Canada have all posted record wheat yields in the last three years. Brazil is looking at its 4th straight record soybean crop, while the US and Argentina have posted near record crops this year after records a year ago. And various countries, including the US, have turned in record feed grains production numbers the last three years. No major producing country has had a poor crop in 3+ years. That's unprecedented.
4. **Weather** cycles appear to be changing. The biggest world producers have enjoyed cooler and wetter weather, with credit recently given to the record El Nino. But the transition to La Nina is expected to change things – check out NOAA's latest US growing season forecast (warm & dry). Let's see if the market decides to add at least *some* weather risk premium this spring.





Diversified Services

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USDA January Reports Benign

On Tuesday USDA released their annual swarm of reports to start the year: US Crop Production, December 1 Grains Stocks, January US Supply & Demand, World Production/Supply & Demand, & US Winter Wheat Seedings. Here are some of the highlights from those reports.

Corn - mixed

Final US yield down 0.9 bpa to 168.4 bpa (3rd largest ever).

Final US production down 53 mln bu to 13.601 bln bu.

US exports cut 50 mln bu.

US ending stocks up 17 mln to 1.802 bln bu (largest since 2006).

World ending stocks dropped 3.6 mt to 208.9 mt – lower than expected.

US Average Farm Price dropped 5 cents to \$3.30-3.90.

Soybeans – slightly friendly

Final US yield down 0.3 bpa to 48.0 bpa (record).

Final US production down 51 mln bu to 3.930 bln bu (record).

US exports cut 25 mln bu.

US ending stocks cut 25 mln bu to 440 mln (3rd largest ever).

Brazil & Argentina production unchanged.

World ending stocks cut 1.3 mt to 79.28 mt – lower than expected.

US Average Farm Price dropped 10 cents to \$8.05-9.55.

Wheat – slightly friendly

US feed use down 30 mln bu; US ending stocks up 30 mln bu.

Winter wheat seedings @ 36.6 mln acres, about 3 mln less than expected, & most from HRW acres.

World ending stocks up 2.18 mt to 232.04 mt (record high).

US Average Farm Price unchanged at \$4.90-5.10 (50 cents below PLC reference price of \$5.00).

| | | 2015 US Production (million bushels, bales, or cwt) | | | |
|----------|-----------------|--|-----------------------|--------------------|-------------------|
| | January USDA | December USDA | Change vs Previous | 2014 Production | Change vs 2014 |
| Corn | 13,601 | 13,654 | -53 | 14,216 | -615 |
| Soybeans | 3,930 | 3,981 | -51 | 3,927 | +3 |
| Sorghum | 597 | 594 | +3 | 433 | +164 |
| Cotton | 12.94 | 13.03 | -0.09 | 16.32 | -3.38 |
| Rice | 192.3 | 190.8 | +1.5 | 222.0 | -29.7 |

| | | 2015-16 "Big 4" Soybean Export/Import (million metric tonnes) | | | | |
|-----------|-----------------------|--|-----------------------|---------|---------|-----------------------|
| | January Production | December Production | Change vs Previous | Exports | Imports | 2014-15 Final Prod |
| US | 106.95 | 108.35 | -1.40 | 45.99 | 0.82 | 106.88 |
| Brazil | 100.00 | 100.00 | unch | 57.00 | 0.30 | 96.20 |
| Argentina | 57.00 | 57.00 | unch | 11.80 | 0.00 | 61.40 |
| China | 12.00 | 11.50 | +0.50 | 0.20 | 80.50 | 12.15 |
| Total | 275.95 | 276.85 | -0.90 | 114.99 | 81.62 | 276.63 |

| | | 2014-15 & 2015-16 USDA MYA Farm Prices (\$ per bushel, cents per pound, \$ per cwt) | | |
|----------|---------------|--|----------|----------------|
| | FINAL 2014-15 | | 2015-16 | |
| Corn | \$3.70 | N/C | \$3.60 | down 5 cents |
| Soybeans | \$10.10 | N/C | \$8.80 | down 10 cents |
| Wheat | \$5.99 | N/C | \$5.00 | unchanged |
| Cotton | 60.5 | N/C | 59.0 | unchanged |
| Sorghum | \$4.03 | N/C | \$3.30 | down 20 cents |
| Barley | \$5.30 | N/C | \$5.25 | up 5 cents |
| LG Rice | \$0.1190 | N/C | \$0.1150 | down .05 cents |

