Global View **Oct 7, 2008**

The commodity and stock markets have been under serious pressure. First, we believe that there is a massive move to risk aversion. Many worry the slowing US and World economy will reduce demand for feed grains and commodities. Massive redemptions from investors in commodity funds, equity funds, and almost any investment vehicle has forced these funds to get out of a large piece of their holdings so they can pay investors.

People are getting conservative and looking to build cash in uncertain times. This has pushed Short Term 30 day Government backed Treasury bills to only yield 0.13% on September 24th. People literally are giving their money to government for a negative real return because they are afraid of not getting it back from banks or other financial institutions. There is a general lack of trust in the system.

Furthermore, the tide has effectively gone out on the American dream of house, car, and I-Pod ownership for every American. In 1990 less than half of American households owned their own home. By 2000 that percentage increased to 66%. The best guesses for 2008 are that 70% of households own their home. The lowest percent of home ownership this century was around 44% after the great depression in 1940. The 4% increase from 2000 through 2008 is equal to about 7 million homes. People were able to get house and car loans with no money down, no proof of income, interest only payments, or even payments that did not cover the interest payment betting that the price of their house would go up forever. But as the economy has made a turn for the worse in the USA we have had median house prices fall by about 7% in the last 12 months, but much more in the higher-end and more extreme markets.

"Only when the tide goes out do you discover who has been swimming naked." Warren Buffett

This has forced a margin call on the leveraged American homeowner and they are having a hard time finding the cash or equity to cover it. They can't make the mortgage payment because they lost a job do to illness or misfortune, or the budget suffered from credit card debt or higher gas and food prices. Households are defaulting on loans, and they are trying to sell their homes in a weak housing market. This is just hard proof that home ownership is not the best option for many of these marginal homebuyers. A better financial decision for these households would have been to rent an apartment or buy a modest house, rather than buy the "bigger" house and the SUV. Mortgage brokers pushed the subprime loans to earn the commissions, the demand for housing and prices pushed higher and the investment bankers repackaged the toxic loans and the financial institutions bought them with insurance. The house of cards crumbled. The assumption that housing prices can only go higher was proved false. It's not a surprise to those involved in agriculture as we watch prices go up and down each year.

Nonetheless, the default rates have put a huge crimp on many banking institutions that made these loans to these individuals. We recently have had many of the largest banks in the country go into bankruptcy or were purchased by stronger institutions for pennies on the dollar. Business' that were seemingly successful less than a year ago are now insolvent. Washington Mutual, Lehman Brothers, Bear Sterns, Wachovia, AIG have wiped out trillions in stock and bond holder equity in a fortnight. This has produced a "run on the bank" mentality from depositors or those holding insurance policies.

Are banks are going to pull in their horns and become very conservative with whom they loan? Why bail out Wall Street? Yet, Main street America is worried that they will not be able to obtain loans to cover day to day operating expenses to finance their businesses. Business owners may be forced to lay off workers or cut capital expenditures because of increased borrowing costs or the absolute inability to borrow. The economy is seizing not because of the loan price or interest rate; rather, there is a complete lack of confidence and trust. A snowball effect.

A man from Omaha named Warren Buffet seems to think that there is value at these levels. Where the world sees Armageddon; Buffett is putting his huge cash position to work buying stocks like Goldman Sachs, General Electric, Constellation Energy, Dow Chemical, Rohm & Haas and others in the form of preferred stock, common stock, and warrants. Cash is king in times of panic and he has it.

Stansberry Research suggests that the housing market is no longer in a bubble and rather affordable, as median housing prices have adjusted lower and are more in line with median income. They also argue that the Dow, with a 12 price/earnings ratio, is the cheapest in 25 years, hardly a bubble.

Fortunately production agriculture is one of the only business plans that is really working right now. Farmers have seen unprecedented appreciation in the value of the ground they own, great yields, and record high prices. This has put many of the farmers in the Midwest in a great financial situation. This also puts many of the banks in the Midwest tied to ag lending in great financial condition. Working capitol and liquidity are at all time highs for many banks and producers.

The old saying that high prices cure high prices and low prices cure low prices definitely came true so far this year. The market could not sustain 8.00 corn and 16.00 beans for long and now as corn trades below $5.00 and beans below $10.00 we are seeing demand perk up. Commercial sources recently have said that the EU has been active sourcing US soymeal and China has booked a few cargos of US soybeans. South Korea has booked US and South American corn overnight taking advantage of plummeting ocean freight and flat price. CIF prices have reached levels that many end users could only dream of during the summer. Typically over half of the grain produced in the United States is sold at harvest time during periods of the lowest futures levels and the widest basis levels. We need to keep our focus on managing the risks that we can control. The market is offering record levels of carry. We have the prospect for favorable basis appreciation. We only need to put this crop in the bin and lock the doors shut. JL

The US Dollar has rallied from around $0.72 to $0.81 since mid-July, approximately12% on the right hand chart, but the $US is still in a long-term downtrend from the $1.20 high in 2002. The $US has had a counter-intuitive rally, if the confidence in the US economy is wavering? International money flows have been redirected to the US versus Europe and other countries, as they cut interest rates to stimulate their economies. The $US is still weak and the value of US commodities are relatively attractive price-wise. Demand is always a function of price and income. The break in prices coupled with relatively low exchange rates should be beneficial to exports in the coming weeks.

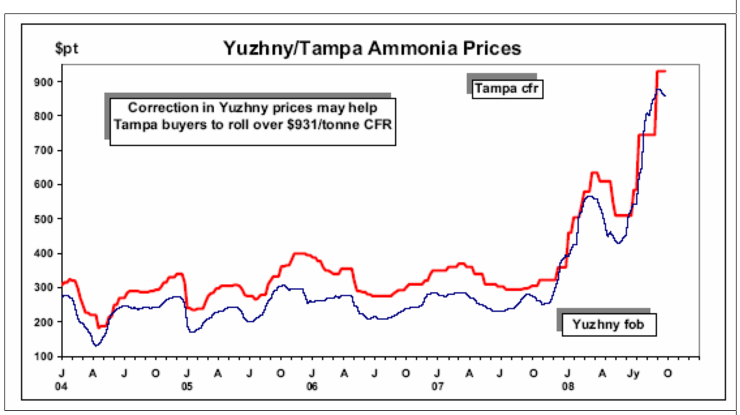
Corn Commentary

Selling pressure has come into the majority of the commodity markets in the past couple months and corn is no exception. In the month of September, Dec corn traded in a $5.25 to $5.75 range until the last couple days of the month when the market moved quickly below $5.00. There have been several macro conditions that have impacted the ag commodities over the past several weeks. Weaker crude oil, stronger US dollar, and a large sell off from hedge funds have all put pressure on the corn market.

USDA's September 1 report estimated final 07/08 corn stocks 1,624 Mil Bu which was a 48 Mil Bu increase over the last report and 83 Mil Bu above the average trade estimate. The increase in stocks is primarily due to wheat working into feed rations late this summer. Although this was slightly bearish, it seemed to have little impact on the market as the trade seems more concerned on the macro environment and new crop yield updates. Based on a 1,624 Mil Bu 07/08 carryout, the 08/09 carryout is estimated to be around 1,000 Mil Bu. Anything under a 1,000 Mil Bu carryout is obviously tight and encourages demand rationing in the long term especially if we have any production hiccups in 2009.

Month	Contract	Price	Basis	Spread	Carry
Dec-08	C Z8	$4.24	-0.30	Dec-Mar	0.18
Mar-09	C H9	$4.42	-0.30	Dec-May	0.30
May-09	C K9	$4.54	-0.30	Dec-Jul	0.42
Jul-09	C N9	$4.66	-0.30	Dec-Sep	0.50
Sep-09	C U9	$4.74	-0.30	Dec-Dec	0.57
Dec-09	C Z9	$4.81	-0.30		

The market historically seems to be the most bullish at the top and most bearish at the bottom. We have been telling clients for the past couple weeks that hopefully we are finding a bottom at these levels. These price levels should be good for long-term livestock demand and exports (especially considering the weakness in ocean freight). However, the market needs to find stabilization in our economy and energy markets before ag commodities will be able to find a solid floor and focus on future estimated tight carryouts. Trying to pick bottoms in a market in terms of price and time of year is impossible in the long run and is a waste of time in our opinion. We remind our clients that we have good hedges/sales on for a large percent of the 2008 crop. We will store as much of the crop as possible, capture record-high carry to spring or summer and eventually lock in good basis levels closer to delivery. In late April we advised hedging the first 10-15% of the 2009 corn production through a put/call strategy. We recommend keeping that strategy in place and marketing the balance of the 2009 crop on the seasonal average next spring.



http://www.fertilizerworks.com/html/market/TheMarket.pdf

Soybean Commentary Soybeans were nearly $1.50 lower last week, weighed by fund liquidation and the USDA bearish stocks. The big surprise on the September stocks report was the revision to last year's soybean crop, raising the final yield by 0.5 bushel to 41.7 bu/A and raising harvested acres 1.32 million acres to 64.1 million acres. This adds another 90.8 million bushels (mb), a record increase from the supposed January "final" to the September "revision." The 07/08 carryover, after adjusting production higher and adjusting the residual, is 205mb. This will boost 08/09 soybean stocks to 190 mb, versus recent estimates of a 100-140mb carryout, if you use USDA's yield.

We feel USDA's 08/09 yield estimate is generous, but the extra 65 million bushels on top of the previous stocks estimates will limit the need for price rationing. Each bushel in yield difference from the current estimate is 70+ million bushels. A 200 million bushel carryout for 09/10 assumes a 42.0bu/A yield and assumes no crop risk. An approximate 7.5 – 8.0% stocks to use ratio is still historically tight so we feel that beans are fundamentally supported at these levels. FC Stone recent yield estimate came in at 39.4bu/A, down 0.6 bu from USDA's recent report and on Friday, Informa dropped their yield by about 1/2 bu to near 40.8bu.

You can see on the commitment of traders report that open interest (the total contracts open) has dramatically decreased. Bean open interest lost nearly 5,000 contracts on Thursday, approaching 355,000 contracts. Soy OI peaked in Feb08 at 620k. It had faded to 500k OI when prices peaked in June. Interestingly enough, OI was 560k last Oct07, 400k in Jan07 and near 350k in Jul06. The debate rages on how much speculative length still needs to be purged. A financial rescue plan and infusion of liquidity is inflationary over the long-term, and would help businesses access capital and regain confidence.

Month	Contract	Price	Basis	Spread	Carry
Nov-08	S X8	$9.22	-0.30	Nov-Jan	0.16
Jan-09	S F9	$9.38	-0.30	Nov-Mar	0.29
Mar-09	S H9	$9.51	-0.30	Nov-May	0.40
May-09	S K9	$9.62	-0.30	Nov-Jul	0.49
Jul-09	S N9	$9.71	-0.30	Nov-Aug	
Nov-09	S X9	$9.59	-0.30	Nov-Nov	0.37

According to the famous economist John Maynard Keynes,
"In the long term, we're all dead."

Wheat Commentary KC Wheat was down $0.75 on the week , following corn and soybeans lower on massive fund liquidation. Fundamentally, the US Ag attaché in Australia lowered the Aussie crop to 21.6mmt. This is down from the current USDA estimate of 22.0mmt. Stats Canada increased their all wheat production estimate from 25.4mmt to 27.3mmt. This is 7.3mmt larger than their 07/08 production, based on a 15% increase in acres. The USDA stocks report on Tuesday was supportive to wheat as the lower than expected stocks correlated with higher wheat feeding during the 3rd quarter. Wheat moved into feed rations as cash wheat prices slid below corn prices.

HRW basis to Omaha/Fremont mills is +$0.30 KWZ8 for OND delivery @ 12% protein. Recommendations are the same, farm-stored wheat hedges should remain in place; however, a call spread could be purchased to protect against a corn/soy inspired rally. The frost scare is over.

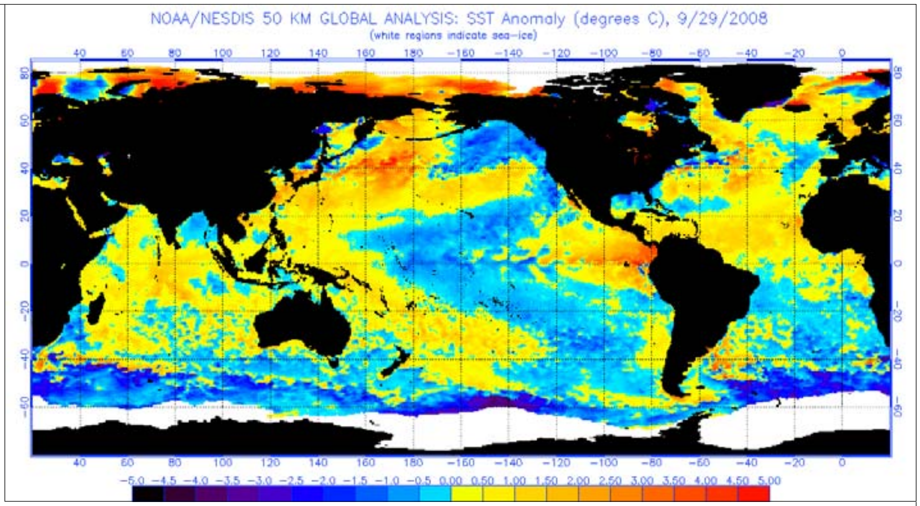
Month	Contract	Price	Basis	Spread	Carry
Dec-08	KW Z8	$6.28	-0.30	Dec-Mar	0.20
Mar-09	KW H9	$6.48	-0.30	Dec-May	0.32
May-09	KW K9	$6.60	-0.30	Dec-Jul	0.40
Jul-09	KW N9	$6.68	-0.30		

Weather & Crop Comments

Elwynn Taylor

Repeat of Past Winter Possible

9/12/2008 5:41:00 AM



Late season precipitation and extremes of winter temperature and moisture become a consideration for the Midwest. The active tropical storm season is likely to bring significant fall moisture into much of the Corn Belt. Additionally the atmospheric pressure condition of the Pacific Ocean indicates more than a slight chance of returning to La Nina conditions that dominated from December to February of the past winter. For the Midwest this can mean additional fall moisture. By September 12, 2008 some areas that were very dry during the months of July and August had become wet too late to aid crop yields and at a time that is potentially disruptive to harvest. The SOI (measure of El Nino / La Nina condition) has reversed its trend toward El Nino conditions and during the past 4 weeks has consistently trended sharply toward La Nina levels. The 90-day SOI was measured at 0.52 on September 12, 2008 having climbed steadily from the 2008 low value of -0.9 observed August 13, 2008. Under La Nina conditions the likely hood of unfavorable growing seasons is increased and the current trend will likely have a negative impact on the 2009 crop production risk computations that will be made in December. –Elwynn,

SOI (Southern Oscillation Index) numbers as of Oct 1, 2008 have climbed sharply to 0.81, clearly on the La Nina side and similar to values and patterns we witness last fall, firmly supporting Elwynn's conclusion from mid-September. The equatorial waters off Ecuador are very warm, more in line with El Nino. They were similar last year and then cooled into Christmas-time following the SOI toward La Nina. <u>The fundamentals and risks associated with 2009 crop year are of little concern today, but will gain prominence in the days ahead.</u>

Commodity	Month	Contract	Current Futures Price	Yearly Average Price	Seasonal Average Price	Crop Insurance Guarantee
KC Wheat	Dec-08	KW Z8	$6.28	$8.77	$9.70	$5.88
Soybeans	Nov-08	S X8	$9.22	$12.17	$13.05	$13.36
Corn	Dec-08	C Z8	$4.24	$5.51	$6.07	$5.40
Yearly Average to Date:		**100%**	**priced**			
Seasonal Average to Date:		**100%**	**priced**			
Seasonal Average: Feb 15 -Jun 15 average prices preceding harvest						
Yearly Average: 12 month price average preceding harvest						
See AgMas @ http://www.farmdoc.uiuc.edu/agmas/index.asp						

Do you have a loss on your soybeans this year??

Most of our clients have a crop revenue coverage plan of crop insurance on corn & soybeans which can protect your farming operation against both low yields and market swings to lower prices in the fall. A revenue assurance product is a combination of price & yield. The soybean spring crop insurance price was $13.36 bu and corn spring price was $5.40 bu. The fall price is established by the October average of the November CBOT futures contract for soybeans and the October average of Dec futures for CRC corn coverage and the November average of Dec futures for RA corn coverage. The current November futures are trading below $10 and Dec futures are trading below $4.50. We still have quite a few days left in October to establish that average price, but **if we stay at or below current levels most insureds will have a claim with little to no actual yield loss.**

Make sure you keep accurate records of your harvested acres either through scale tickets or bin measurements with dry land corners separated from irrigated. Below is an example of what yield would "trigger" a claim on soybeans and corn. Please call Clint Hoffman (ext 122) or Drew Jensen (ext 126) with any questions.

CROP	Coverage	SPRING PRICE	APH	$ GUARANTY	FALL PRICE	LOSS TRIGGER
SOYBEANS	70%	$13.36	50	$468	$9.50	49
CORN	70%	$5.40	170	$643	$4.60	140