This Week in Agriculture:

News That Could Make a Difference: May 18, 2012

- **What a difference a week or two can make in a volatile marketplace. Just a week ago wheat couldn't buy a rally, this week it was the leader, while soys struggled to keep up. Overall for the week old crop corn was up 52 cents, new crop corn was up 29. Old crop soybeans were up 2, while new crop beans were down 33. Wheat outperformed itself adding an astonishing 98 cents in just one short week. With the vast amount of driving factors behind current commodity market moves it's hard to cover them all in a cohesive and easy to read format, but we'll try!**

- **In the beginning of the week negative economic data out of Europe weighed heavy on buying enthusiasm. The lack of a solid Greek government combined with the ousting of French Conservative president Sarkozy has the world on edge. At this point most traders feel it's more the case of when, not if the Greek economy is going to collapse—or at the very least make a dramatic exit from the Euro. In this instance several billion dollars injected from surrounding countries (strapped for cash themselves) will likely go down the drain.**

- **The one shining side of this debacle—for commodities at the very least, is the Fed will likely find a way to inject cash back into the United States economy either through QE3 or through further bond purchases. This type of move is likely to increase inflation and traders hedge against inflation by buying something tangible, ie: commodities.**

- **Mid-week the first weather market of the year emerged. A ridge is anticipated to build into the Eastern Corn Belt late next week and into the middle part of the following week. With some locations already experiencing semi-dry conditions, a forecast of much above normal temperatures (highs in the 90's are being actively discussed) will likely stress young plants. Some meteorologists are already discussing a long-term pattern shift where conditions like these will be the norm throughout June.**

- **Traders have also been quick to shrug off the incredibly bearish new crop corn numbers released by the USDA just a week ago. They question the extremely high 166 bushel to the acre yield estimate, considering the 20 year trendline yield is closer to 160.5 bpa. A 5 bushel to the acre drop in nationwide yield would quickly drop ending stocks by nearly 500 million bushels without any adjustment to demand.**

- **The demand projected by the USDA has come into question as well. With 16 weeks left in the old crop marketing year China has already nearly booked all of their import bushels projected by the USDA. New crop purchases have been huge for both soys and corn as well. Any sort of production dip in China could drastically change our supply and demand matrix as we move ahead.**

- **Traders are also closely monitoring Japan's import situation as Tokyo based execs say only 25% of their feed corn needs are locked in through September. With contract suspensions due to quality issues out of the Ukraine the majority of the new Japanese business is likely to be sourced out of the U.S. or South America.**

- **Wheat turned into the leader this week as dry conditions in Southern Russia and the Ukraine has led to significant production estimate declines. Issues with freezing conditions and dryness in Europe has led one well-followed industry group to drop their production estimates by 360 mln bushels from their original projections. Hot and dry conditions are likely to reduce yields in Kansas and parts of the Soft Red Wheat Belt. Production issues combined with a record short fund position has prompted significant buying.**

- **Beans have had trouble finding support as of late. Their significant rally through March into April led to record long fund positions making them prone to sell-offs. A few well followed agronomists also feel due to the early maturation of the wheat crop we'll see more double crop acres than originally expected. Some feel we could see as much as 2.5 million additional acres of soys planted. Of course any sort of yield hiccup would negate these extra acres, but we have a long time before we enter the critical soy production period.**

Even though it doesn't seem possible we're likely to see volatility increase even more as we move ahead. European and other global economic issues will keep traders on their toes, while weather forecasts will tend to lead the markets by their nose one way or another. When it comes to looking at pricing opportunities keep in mind where

we've come from as the market moves higher. Any sort of 10% plus gain in prices is a solid rally and worth paying attention to—target orders will allow you to capture these quick price bursts without having to be glued to the markets 24/7.

Starting Sunday night the CME will begin using new trading hours opening at 6pm Eastern and trading through 3pm Eastern. It will be interesting to see how this changes the trade as we move ahead, as the markets will now be open and actively trading during the release of any USDA report. In fact 21 hours of daily trade will likely make target orders that much more vital as we progress. Give us a call with any questions, we're here to help! Until next week, have a great weekend and stay safe!

All the Best!
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