

CORN: Well it wouldn't be a USDA stocks report without some sort of surprise and the USDA gave it in spades in corn stocks and yield with both being much lower than expected (see recap from Rich Feltes and Randy Mittelstaedt). This caught the managed money crowd and many others leaning the wrong way and hence it's thought that 30k contracts of corn was bought in the space from 11 am to 1:15 pm close. March corn was able to settle above its 50 day MA tonight and likely will see some follow through short covering into Sunday night and Monday. While many analysts will argue with these numbers they are what they are until the March 31st report. US national yield of 158.8 was a drop from the 160.4 bpa in Nov with yield declines in IA and MN of 4 bpa, 2 bpa in IL and 8 bpa in SD more than offsetting the bumps of 1 bpa in NE and 3 bpa in IN/OH. The quarterly stocks number was 230 mln bu less than avg trade guess and implies a feed/residual number of 2.411 bln bu and the largest in history for Sept-Nov (up 16% from a year ago). Lots of excuses about the bigger residual number ranging from empty pipeline coming into Sept to heavier hog weights vs year ago to historically big crops have bigger "residual" error. So ending stocks of old crop corn, instead of increasing as expected by the crowd, dropped 161 mln bu to 1.631 bln bu. So nutshell this should keep March corn support above \$4.00 but toward the \$4.40-\$4.50 should find farmer selling, especially in the WCB. The sharply lower wheat market did act as a drag on corn though wheat is a long way from working into feed rations at this point. Ethanol values did firm with the corn rally though not to the same degree with Feb up about 4 cents/gal or about 11 cents/bu. Weaker corn basis levels for the Jan slot was seen in many areas of the Midwest due to the strong farmer movement prior to the report and then on this 20 cent rally. We would expect corn basis levels to stay on the defensive if March corn does trend toward the \$4.40-\$4.50 area. In other news USDA jumped China's corn production by 6 mmt (236 mln bu) and cut their import number by 2 mmt to 5 mmt. No major surprise there as traders expected a cut in exports after the recent ordeal over MIR-162 rejections. USDA did drop Argentine corn crop 1 mmt to 25 mmt but still above some private estimates. Argentine southern corn areas remain dry all next week and should provide some support Sunday night. Resistance for Dec corn toward the \$4.70-4.75 area.



SOY-COMPLEX: The USDA report was a letdown for the soybean market with production and stocks close to expectation of traders. Production at 3.289 bln bu was 10 mln bu larger than expected (up 30 mln bu from Nov report) while the Quarterly stocks was just 13 mln bu less than avg trade guess. Bumps in crush and exports of 10 and 20 mln bu respectively wiped out the production increase and kept ending stocks unchanged at 150 mln bu

(instead of dropping to 135-140 mln bu). No big surprises in the world numbers with USDA going to 89 mmt on Brazil (but less than 90-95 mmt estimates out there) and kept Argentina at 54 mmt. Going forward we would not

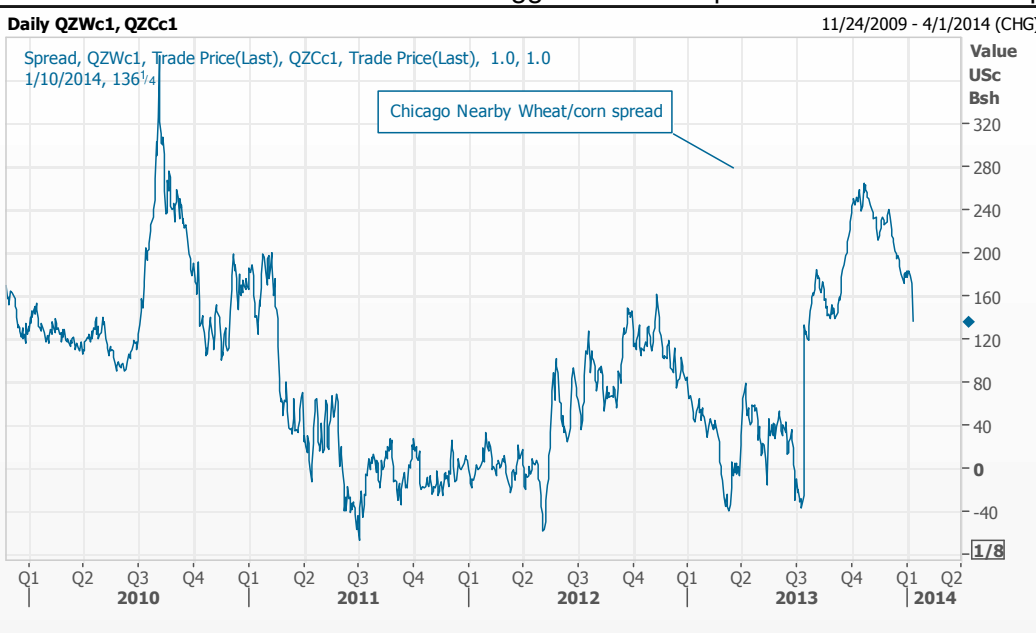


be surprise to see the US ending stocks number inch upward toward 160 mln bu with some private analysts thinking the import number of 25 mln bu could increase this summer as Brazil has a long extended export window into Aug/Sept. Chart below shows Jly/Nov bean spread tracking with year ago Jly/Nov.

In other news a barge accident has closed the IL River at

LaGrange with a tow hitting the gate. No word on when it could open. Also the Miss River at mile marker 92 (about 80 miles down from St Louis) was closed due to a grounding caused by low water. Last trading day for Jan bean futures is Tuesday at noon. Look for March bean futures to gravitate toward where Jan beans go off with resistance toward \$13.00-13.40 unless dryness in parts of Brazil becomes worse than expected. Nov beans after breaking almost 70 cents/bu since Christmas are short term oversold and should see some support from the rally in Dec corn today (give pause to producers thinking about a switch from corn to soybeans). Longer term though if S. American production is as large as USDA numbers today and with normal yield next year, then could see Nov beans erode below \$10.00

WHEAT: Wheat markets were hammered today as funds dumped 9,000 contracts in Chicago to add to their already large short position. Trade focused on the quarterly stocks number being 63 mln bu bigger than expected by the trade rather than focus on winter wheat plantings being 1.7 mln acres less than expected. The USDA implied that wheat feeding was much less than anticipated in Sep-Nov as they cut 60 mln bu from the annual feed/residual. Exports were bumped by 25 mln bu to offset some of this so that ending stocks were up only 33 mln bu but still a robust 608 mln bu. So this triggered some liquidation of wheat/corn spreads today. Chart at left shows



the last 2 years there is a tendency for corn to gain on wheat from Q1 into Q2.

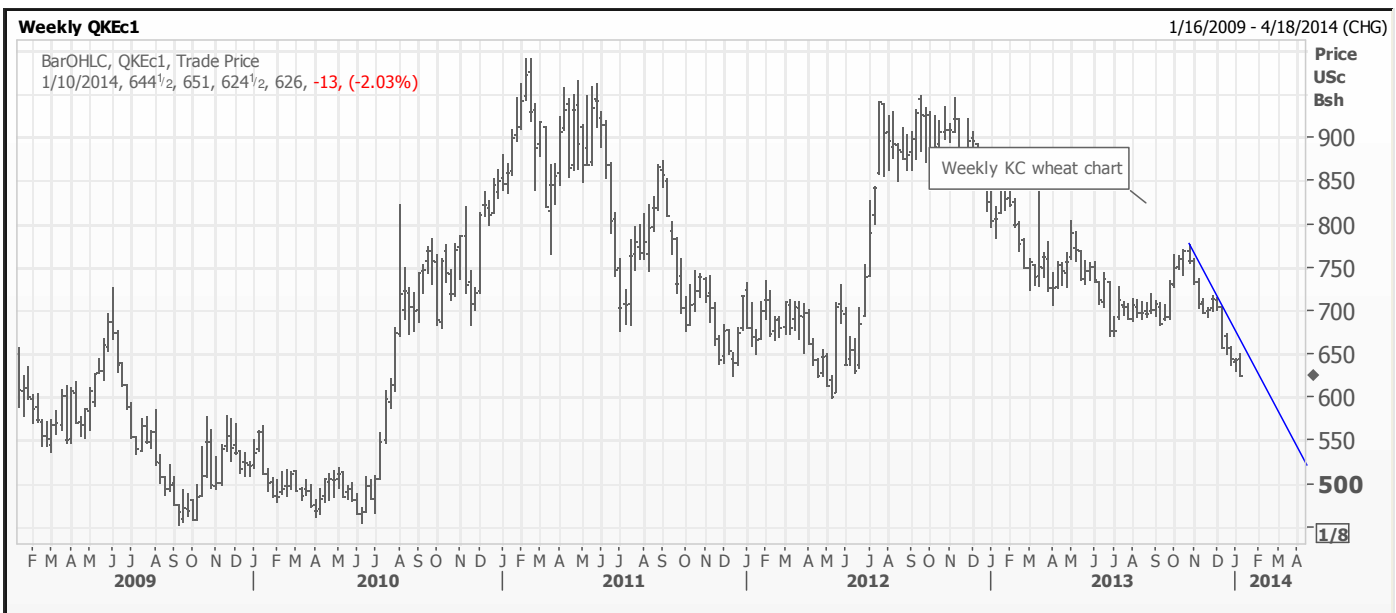
As for plantings the surprise was SRW plantings coming in just at 8.5 mln acres, 1 mln below expectation and down 1.5 mln from last year. Some believe a wet fall hampered progress this year. HRW plantings at 30.1 mln was close to expectation and up 0.5 mln from last year. So focus now going forward is if we saw any winter kill from the recent cold snap and if panhandles of TX and OK can get some much needed moisture (contacts

report conditions are as bad as 2011 in that region).

On the export front, Egypt tenders for option origin wheat for LH Feb shipment this afternoon with bids due by tomorrow. Since its for LH Feb ship, it will be hard to get execution out of the US Gulf. The bulk of the business should still get done out of France and Black Sea region.

Technically the wheat market doesn't have much support in the Chicago nearby until the \$5.00 level while KC tries to find support toward \$6.00. Would look for basis and spreads now to do the work of pulling cash into the pipeline for mills and to meet any additional South American export business (USDA announced 79k HRS and 46k HRW sold to Venezuela today). KC lower protein levels 12% and below were off 5-20 cents today while 13% held firm. Expect a small dead cat bounce Sunday night in front of the Egyptian tender.

Have a great weekend!



This material has been prepared by a sales or trading employee or agent of R.J. O'Brien and is, or is in the nature of, a solicitation. This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an

experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions.

DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION.

The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that R.J. O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.