



THURSDAY, JUNE 06, 2013

Morning Summary: Stock investors have become a little more nervous about the strength of the US economy, especially after seeing ADP's latest payroll report of just 135,000 jobs being added in May. Remember, the trade was thinking we could see 160,000 to 170,000 new jobs in tomorrow's government report. There is also some concern due to the fact the Institute for Supply Management (ISM) services index in May was reported at just 53.7, still well below the 56 number reported in February. Factory orders were also somewhat disappointing, and the Federal Reserve's Beige Book showed a slower growth rate. As a result of "uncertainty" the Dow traded back below 15,000 for the first time in a month, and the S&P 500 is now close to seeing its first 5% drawdown since November 2012. Keep in mind the S&P 500 has not seen a 10% setback since the fall of 2011. In other strange occurrences, I should point out the 30-year mortgage rate has now pushed back above 4% for the first time in a year. Bottom-line, I believe the Fed is finding that getting the "Genie" back in the bottle is much tougher than they anticipated... investors on all sides remain nervous!

Commodities are trailing equities for the longest stretch in almost 15 years as Goldman Sachs Group Inc. and Citigroup Inc. predict the end of the decade-long bull market even as the global economy expands. Investors pulled a record \$23.3 billion from commodity funds this year as global equities attracted \$182 billion, according to EPFR Global, which tracks money flows. Prices that more than doubled in 10 years spurred expansions at mines, farms and oil fields. Gluts are emerging as the International Monetary Fund predicts global growth of 3.3 percent this year, from 3.2 percent in 2012. The group cut last week its estimates for China, the top consumer of metals, grains and energy. "There are times when you probably should be avoiding commodities, and I think this is one of them," said John Stephenson, who helps oversee about C\$2.7 billion (\$2.61 billion) at First Asset Investment Management Inc. in Toronto. "Anytime you have a whole lot of inventory and visible supply, prices are going to be under pressure. (source: Bloomberg News)

Weather forecasters are starting to indicate a possible change in the current "pattern." With hotter, drier conditions and a more typical summer "ridge" possibly on the horizon, "weather bulls" are starting to reconsider their long positions. I am still seeing rain in the forecast, but temps in the lower US Plains, expanding to the north, the Delta and the western corn belt areas may soon start to see 100 degree plus days right around the next corner. I suspect eventually summer will arrive, the question however is, how much damage has already been done?

Corn traders who have been questioning "demand" are now digesting more mixed ethanol

numbers. EIA data released yesterday indicated weekly ethanol production rose by more than 2.5% to 885,000 barrels per day, basically our biggest weekly production number this year. The problem is this still isn't enough to reach the current USDA estimate of 4.6 billion. I am guessing we will soon be seeing the USDA trim this estimate back just a touch. From a "supply" perspective the bulls were excited to see Lanworth cutting their world production estimates by 4 million metric tons on continued delays in US planting and potential yield losses. However, before you get too overly excited, even after their cuts, they still have US production at 13.8 billion bushels. Lets also not forget Informa bumped their Brazilian corn production estimate to 78.5 million metric tons vs. the current USDA estimate of 76 million, and now the European Commission is thinking they will harvest 66.2 million metric tons of corn, a number well above the current USDA forecast of 63.8 million metric tons (personally I question this estimate considering the recent flooding in many parts of the EU). Moral of the story, increasing global production could offset some of the concerns regarding the number of acres and condition of the crop here in the US. I am going to continue moving forward with a short-term neutral to bullish bias.

Wheat "production" here at home abroad continues to be closely monitored. Informa now has their all winter US wheat production number at 1.494 billion bushels just slightly higher than the USDA. Surprisingly their HRW wheat production number is at 778 million. I am thinking that number should be closer to 750 million or maybe even lower. Their SWR wheat number might also be a little high at 505 million compared to the USDA estimate of 501 million. I am just not hearing near as much talk about better than expected yields. I realize the "negative" producers often make much more noise than the quiet producers who are trying to bank profits and fly under the radar. Regardless of analyst estimates, I am going to take a wait-and-see approach in regards to US yields and harvested acres. I just have this strange suspicion "total production" might be less than may are estimating. Remember, insurance guarantees were extremely high this year. On a global scale, I should point out, Lanworth bumped it's Australian estimates higher to 24.8 million metric tons, while at the same time lowering their Canadian wheat production estimates to 27.9 million tons. Yes, increasing global production is going to provide stiff headwinds in the months ahead, but as for right now, I still think US production problems can potentially drive the market a little higher.

USDA export sales data just released this morning shows very disappointing corn sales, better than expected wheat sales and soybean sales inline with expectations. Below are the details of this mornings numbers:

- *Corn export sales: 12-13 reported at 107,200; 13-14 reported at 51,600. Trade was looking for a combined number between 500,000 and 800,000. Last week there was 85,700 metric tons old-crop sales reported and 789,600 metric tons of new-crop sales.*
- *Soybean export sales:12-13 reported at 48,000; 13-14 reported at 589,900. Trade was looking for a combined number between 300,000 and 700,000. Last week there was (-)108,000 metric tons of old-crop sales reported and 756,600 metric tons of new-crop sales.*
- *Wheat export sales: 12-13 reported at 33,200; 13-14 reported at 664,900. Trade was looking for a combined number between 300,000 and 600,000 tons. Last week there was 35,900 metric tons of old-crop sales reported and 728,300 metric tons of new-crop sales reported*



> Producers telling me they would much rather take "Preventive Plant" option on corn rather than soybeans. Taking the insurance vs. the corn simply makes more sense for many producers. Several more saying they are not wanting to risk the opportunity to collect the insurance and tile the fields. Many producers also saying this a great opportunity to give fields a break after several years of poor corn-on-corn yields. Not saying any of this is right or wrong, but it certainly makes you wonder how many acres will actually go unplanted.

> There is some talk that many larger operations (5000+ acres) take the "GRIP" insurance policy, which to my understanding is only subjective to county yield & doesn't provide "Preventative Plant" protection. Producers we spoke with who take "GRIP," said this was correct. GRIP does NOT go off of your personal farm yields. Its based off of county average yield at year-end. Many producers like it because it can really work to your advantage if you typically out yield the county average. Several producers saying they have come out ahead more years then not by taking "GRIP". The question now is how many acres are in GRIP with no "preventive plant?"

> FSA will more than likely keep the "Preventive Plant" numbers somewhat guarded until early-fall. If you remember, the USDA doesn't like to make a major move until they have given the FSA a chance to gather all of their data on claims. Simply put this means we might know the "real" acreage number for several more months.

> Yields??? Certainly US production is in question. As we move forward keep in mind Iowa makes up about 19% of our total production. With many fields under water and a larger than normal portion going in late, yields could actually see more serious "drag" than what is being factored in. I should also point out Production on states that are abnormally wet, with Iowa by far being the worst. Other areas experience excessive moisture: IL who produces 16% of our crop; MN who produces 10%; WI who produces 4.25%; and MO who produces 3%.

I have been hearing corn in Iowa that looked good 5 days ago is starting to go backwards, turning yellow and starting to look sick.

> Lanworth, despite what many believe will be 2-3 million MORE soybean acres, is actually reducing their most recent estimate by one million acres???

> Argentine producers continue to threaten a "stop sale" or "strike" if nothing is done in regards to profits being squeezed due to rising inflation (estimated at 22-32%), high taxes and export curbs placed by the government on both corn and wheat. The question isn't "IF" but rather "when" and for "how long" will a strike last?

> Harvest of 2013 corn has begun in southern Florida. The crop was planted in December,

and it will be double-cropped back to corn. Hard for us northern producers to imagine. Plus \$1.30 basis...WOW!

> Russian grain exports in 2013/14 now being projected at 24 million metric tons, basically up 50% vs. 2012/13. Inside the numbers it looks like: total grain crop at 91MMT's (+28%); 53MMT's of wheat (+40%); 17MMT's of barley (+21%); 9MMT's of corn (+10%). With only about a month left before the Russian wheat harvest, our window of exporting opportunities may be limited?

>EIA reporting that US crude oil production exceeded imports for the first time since 1997 last week. US energy boom continues!

> Say what you will about West Coast living, the survey says the "redder" the state the more "happier" the tweets... the bluer states less happy.



Northeast Missouri - *I would take a drought over a flood any day as I farm mostly bottom ground. I raised my best farm average soybean crop last year thanks to hurricane Isaac giving us a good rain in late August but being dry the rest of the summer and fall. This wet weather has put me in the poor house badly because most of my spring and summertime cash flow is dependent upon custom work, whether it be planting or chopping grass silage. With the wet weather it has been imposable to do any custom planting, and we have to dodge the rain to do any chopping all while tearing up fields and getting stuck. My wife and I drove to Kirksville Sunday evening and you could not believe all the erosion going on in this part of Missouri because of all the wet weather.*

Northwest Ohio - *I thought some of you might be interested in hearing how spring went in parts of Ohio. It was a worry at times, but turned out to be near perfect. It started out cold and wet but when that weather pattern changed things dried out in stages allowing an even flow to planting. The corn all got in by May 15th, stands are very good. Beans went in smoothly too. A lot of bean acres were planted in near bone dry soils, but weekly rains have helped immensely. We had a freeze on 18th and 19th of May and another light frost on 23rd and 24th. Some tomatoes got replanted but nothing else seems to have suffered. The biggest challenge so far this spring has been spraying - we have had a lot of days with very strong winds. So far things are looking great and on schedule! I am sorry to hear about the challenges that other farmers are having in other areas of the country! Best wishes to all you farmers, I hope some nice profits are made this year!*

West central Iowa - *We had the worst drought since 1977 and still raised 100 to 150 bushels corn and I didn't have drying bills, fungicide, added nitrogen, replanting, etc. Our corn will yield more this year but the margins will be more similar to last year than most think. Flooding does a lot of damage and at least in drought you accomplish work timely and simply. IMO flood is worse hands down. Erosion is horrible, can't get anything done,*

and takes longer going around spots. Then you can throw in emergence problems due to pounding rain and water standing. Do I need to continue? Well, you don't have much of a flood problem if your corn looks great. I'd take the drought of 2012 a hundred times over before choosing to relive the flooded mess of 2010. The stress thing works like this - In a dry year, you go plant your crop in pretty good conditions, without getting stuck, fertilize it, spray it, and if it burns up, there is really nothing more you could have done. In a mud fest, you spend every day making bad decisions. Do we try to work this field? Which tractor do we unhook to come and pull this one out? Do we spray this field even though there is water standing on it because severe storms are coming again tonight? Do we replant this crappy field of corn that may drown out again or go try to plant beans somewhere else? Do we side dress this corn or does it even have a chance of returning that money back?

West central Minnesota - *We are just like everyone else, later than normal, whatever that is anyway. Most of the planting was done that week of May 10th-15th. The stands are nice and even, just delayed (V2-V3). In 2010 and 2012 our corn was knee high by the 4th of June. But, as they say, an imperfect early stand usually out yields a perfect late stand. We will know when the combines roll and the scale tickets start coming back. I certainly don't expect a bin buster like everyone is talking. It sure would be nice but I just don't see it with everyone behind. I'd be happy with APH. I did have one variety "cork screwing". It is a number we use for the sand. I was too lazy to clean out seed between the "light" field and the next "heavy" field. I had probably 4-5 acres of this. Maybe 10-15% stand reduction. Where the variety belonged showed no such stress and a nice stand. You know you are the borderline of poor planting conditions when you get that going on. I had some of that going on last year but that corn was planted April 20th, not May 15th. Heck, there were still guys planting corn LAST NIGHT 3 days after the insurance date. I think I may switch professions to LP sales for the fall as long as its commissions based. The beans are just starting to come out of the ground for us. Mind you these were planted almost 2 weeks ago. I have seen beans in the ground for 3 weeks and they are about an inch tall finally. You can just start to row them. We need HEAT. The 10 day isn't looking favorable for anything but germinating weed seeds. The pre-emerge is going to pay off this year.*



- Farm Bill action in the Senate will be taken back up today. The Senate was adjourned yesterday for Senator Frank Lautenberg's memorial observances.
- Ag researcher Lanworth cuts its forecast for world corn production by 4 million metric tons to 961 million metric tons due to planting delays that is reducing expectations.
- Commodity Weather Group expects showery weather pattern over North Dakota for much of the next 30 days. We continue to talk to farmers that have a lot of unplanted acres up there.
- Agronomists out of LSU AgCenter are confirming that this is the earliest start to the Asian soybean rust season they have ever seen. The soybean rust that has been found so far has been found earlier than in the past and it's been found on young, volunteer

soybeans that grew from seed spilled last year. From what I understand, this year's outbreak is new and different from what has been seen in the past and is sending up red flags. We'll keep you posted...

- Argentine soybeans' reduction of protein content led grain exporters association CIARA to issue a statement saying protein basis will be 46.5% as of June 1.
- The Andersons, and Lansing Trade Group announced that they have entered into an agreement to acquire Thompsons Limited, a grain and food-grade bean handler and agronomy input provider, headquartered in Blenheim, Ontario and operating through 12 locations across the province and in Minnesota. The acquisition establishes a foothold in Ontario for both the Andersons and Lansing.
- An app has been designed by the International Plant Nutrition Institute to help producers more easily recognize and identify nutrient deficiency issues. The 'Crop Nutrient Deficiency Photo Library' shows a range of deficiency examples for 14 prominent crops, with text descriptions and diagrams included. It's available in the App store, or visit their website for more info: <http://www.ipni.net/ndapp>
- Private sector job growth increased by 135,000 jobs in May, up from 113,000 in April according to Automatic Data Processing. Private service-providing employers added 138,000 jobs in May, while goods producers cut 3,000 jobs. Small businesses added almost 60,000 jobs, while medium and large businesses each added almost 40,000 jobs. Basically, we see a slight pick up in May, but job growth remains in slow-growing territory.
- SEC has proposed sweeping changes to the structure of money market funds, hoping to reduce risks posed by the industry. Prime funds would be given a choice of adopting a floating-share value or suspending redemptions when the fund is under stress. In 2008, the \$62.5 billion Reserve Primary Fund collapsed and money funds required a government guarantee.
- Nasdaq is reinforcing its real-time monitoring of equity and options trades with a performance metrics tool designed to alert Nasdaq and its member firms of potential anomalies in trading and processing, as well as potential network and software issues. US regulators have been increasingly cracking down on exchanges' operations after several high-profile technical glitches. The Nasdaq got hit with a \$10 million fine last week for failures related to Facebook's opening trades.
- Gold sales through exchanges came to \$6 billion last month as investors dumped their bullion in favor of stocks and bonds. Gold outflows came on top of an \$8.8 billion cut in April when the metal slid to a two year low.
- IntercontinentalExchange's takeover of NYSE Euronext moved closer to completion after shareholders of both companies voted in favour of the merger that would create a global derivatives and equities powerhouse. The green light from investors leaves European regulatory approval as the only remaining hurdle for the cash-and-share deal that values NYSE at nearly \$12bn including debt.
- Black Rock, the world's largest fund manager, has plans to create a single market for exchange traded funds in Europe. The aim is to create a "US-style" unified ETF market that will deepen the liquidity, which is far thinner than in the US.
- IMF published a scathing report on how Greece's first bailout was handled, saying growth assumptions were too optimistic and that debt restructuring should have occurred earlier. It went on to say that the rescue went ahead even though Greece did not meet one of the IMF's four criteria for such a huge programme – a good chance of debt sustainability in the medium term – and may have failed two of the others as well.
- CFTC is suing US Bank over their use of Peregrine Financial Group's client funds as security for loans to founder Russell Wasendorf, who is currently in jail for fraud. The

CFTC claims U.S. Bank officials held Peregrine customer funds in an account the lender treated as though it was the firm's commercial checking account, enabling Wasendorf to transfer money out of it to pay for items including a private plane, a restaurant he owned and his divorce settlement.

- Rates to ship dry bulk commodities including coal and iron ore extended a decline to the lowest level in three months amid a surplus of ships in the Panamax fleet, which are able to haul about 75,000 metric tons of cargo.
- Mortgage Bankers' Association purchase application index for the week ended May 31st came in at a 2.0% week on week reduction, as rising mortgage rates are keeping a lid on demand. The refinance index posted its fourth straight sharp decline, coming in down 15% week on week.
- Japan's farm minister has tried to calm concerns about possible shortfalls in the country's main source of flour for cake and other sweets after genetically modified wheat was discovered in the United States, saying the country has two months' inventory.



Drought Continues In Plain States Despite Recent Rains

You well know, much of the talk surrounding corn and soybeans is focused on the flooding happening across the Midwest. However, the latest Drought Monitor report shows Southwestern states weren't as lucky. As we have recently shown, parts of the midwest have gotten upwards of 6 inches in the last two weeks, but the same isn't true for parts of Kansas, Colorado, New Mexico, Oklahoma and Texas. Less than one-half inch of rain was reported for many of these dry areas.

Texas: While spotty areas of exceptional drought dot the southern half of the Lone Star State, the Texas Panhandle is by far the driest in the state. Nearly one-third of the state is in extreme or worse drought.

Oklahoma: Few states have as mixed drought conditions as Oklahoma. The drought has been erased in the eastern half, but the Oklahoma panhandle is a different story. Twenty-seven percent, mostly focused in the Panhandle, is in extreme to exceptional drought.

New Mexico: Few states now come close to topping New Mexico as the driest state in the Union. The majority – 82 percent – of the state is in extreme or worse drought. Just a few isolated areas remain under moderate drought.

Kansas: The drought has been greatly reduced in the eastern half, but western Kansas remains under intense drought. Forty-eight percent of the state – primarily west of Interstate 35 – is in extreme or worse drought.

Colorado: Nothing changed this week in Colorado's drought. Twenty-four percent is still in extreme to exceptional drought, centered in the southeastern corner. North-

central areas of the state have even reported abnormal dryness.

As for the entire nation, less than half the country is at 44% moderate or worse drought, down from 46% last week and 61% on January 1. It's also noteworthy that many of the national climatologists and meteorologists do not see the summer bringing much relief for these states or even the central Corn Belt. Most long-term forecasts show the current drought pattern will actually expand over the central and southern Great Plains and western Midwest by later this summer.

You Won't Believe Which Country Is Benefitting from Iraq's Oil Boom

Here's something you probably didn't expect. Since the American-led invasion of 2003, Iraq has become one of the world's top oil producers, and China is now its biggest customer. You read that correctly. The Chinese are now the biggest beneficiary of this post-Saddam oil boom in Iraq. Before the US-led allied invasion, Iraq's oil industry was sputtering, as it had been isolated from international markets because of sanctions against Saddam Hussein. His overthrow always carried the promise of renewed access to the country's immense reserves. Chinese state owned companies seized the opportunity, pouring more than \$2 billion a year and hundreds of workers into Iraq, and just as important, showing a willingness to play by the new Iraqi government's rules and to accept lower profits to win contracts. Isn't that interesting? The Chinese had nothing to do with the war, but from an economic standpoint they are benefiting from it, and it's our Fifth Fleet and Air Forces helping to assure their supply. Currently China buys nearly half the oil that Iraq produces, nearly 1.5 million barrels a day, and is angling for an even bigger share in one of Iraq's largest oil fields. I admit that upon hearing this news -- initially it didn't sit well with me that the US invasion and lost American lives ended up benefiting China. However, energy experts say the unforeseen turn of events is not necessarily bad for US interests. The increased Iraqi production, much of it pumped by Chinese workers, has also shielded the world economy from a spike in oil prices resulting from Western sanctions on Iranian oil exports. And with the boom in American domestic oil production in new shale fields is surpassing all expectations over the last four years, dependence on Middle Eastern oil has declined, making access to the Iraqi fields less vital for the US. In reality, the Iraqi government needs investment and oil remains at the heart of their political and economic future. Oil revenues finance their military and social programs. I know this is one of those stories where it could be easy to jump to conclusions. But it looks as if US oil companies had their fair shot at Iraqi oil and passed due to lower profits. A more true and realistic way of looking at this situation is that it is in everybody's best interests that more oil is getting produced.

America Has Huge Debt...But What About US Consumers???

You may find it hard to swallow but US debt payments are at their lowest level in decades. Reports are now circulating that US households spent just a little more than 10% of their after-tax income on debt payments during the 4th Quarter of 2012. This is the 15th straight decrease and the lowest level since government tracking started in 1980. If you include other payments that aren't classified as debt, like rent and auto leases, the figure rises to 15.5%, but that's still the lowest since 1981. I don't have to tell you that smaller debt payments mean more available cash for consumers to spend in the economy. Below is a list of a few other items and the percentage of income the average American spends on each:

- Groceries 8.9%

- Restaurants, delis, etc. 5.9%
- Utilities, phone 5.7%
- Gasoline 5.1%
- Furniture and other household items 4.2%
- Doctors, dentists, etc. 3.0%
- Tuition and Child Care 3.0%
- TV, music, cable, etc. 1.9%
- Medications, drugs, etc. 1.7%
- Hospitals, nursing homes, etc. 1.7%
- Movies, concerts, gyms, golf, etc. 1.7%
- Car repairs, parts, etc. 1.6%
- Women's clothes 1.5%
- Alcohol 0.9%
- Mens Clothes 0.8%

A few interesting side notes: US consumers now spend much less of their income on food as compared to previous years. Example: in 1949 US consumers spent 40% of their income on food, now it is closer to just 12-15% being spent on food. Just the opposite is true for housing, where spending has seen a major jump since 1949. People are buying (and renting) much bigger homes today. In 1950, the average new house was less than 1,000 square feet; in 2000, the average new house was over 2,000 square feet. We are also spending a lot more on transportation. In 1950, there were only three vehicles for every 10 Americans. By 2000, that had risen to eight vehicles for every 10 Americans. With greater "demand" has come higher prices. *Source: Bureau of Labor Statistics

CASH SALES & HEDGING TOTALS

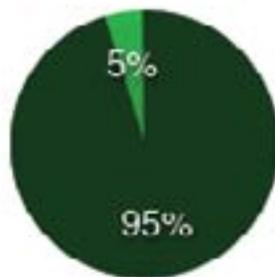
CORN 2012 CROP

100% SOLD
0% HEDGED



SOYBEANS 2012 CROP

96% SOLD
5% HEDGED
5% Cash Remaining



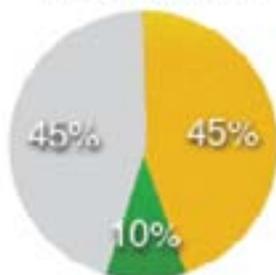
WHEAT 2012 CROP

100% SOLD
0% HEDGED



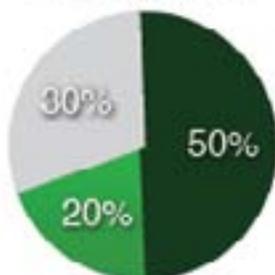
CORN 2013 CROP

45% SOLD
10% HEDGED
45% UNPROTECTED



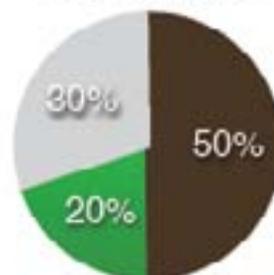
SOYBEANS 2013 CROP

50% SOLD
20% HEDGED
30% UNPROTECTED



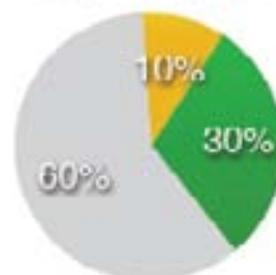
WHEAT 2013 CROP

50% SOLD
20% HEDGED
30% UNPROTECTED



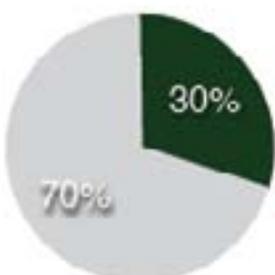
CORN 2014 CROP

10% SOLD
30% HEDGED
60% UNPROTECTED



SOYBEANS 2014 CROP

30% SOLD
70% UNPROTECTED



WHEAT 2014 CROP

30% SOLD
5% HEDGED
65% UNPROTECTED

