



December USDA S&D Report

The market was generally disappointed by the **lack of bullish news** from the December Supply/Demand Report. Most traders assumed we'd continue to see US corn, soybean, and cotton stocks tighten, corn stocks due to record ethanol grind pace, soybean stocks due to continued strong export pace, and cotton due to lower production and increased exports. Granted, USDA did increase the soybean export number by 20 million bushels, which cut the ending stocks to a tight 165 million bushels. But it appears that the trade was looking for more. Keep in mind that there

2010-11 US Ending Stocks (million bushels or bales)				
	December USDA	November USDA	Change vs Previous	Avg Trade Estimate
Corn	832	827	+5	803
Soybeans	165	185	-20	167
Wheat	858	848	+10	849
Cotton	1.90	2.20	-0.30	

were not any updated yield/ production estimates for corn and soybeans from USDA in December. They skip December while they're accumulating data from farm surveys, and then put together their final US and state production figures for the January S&D Report. That report on January 12 this year will be of great interest to all of us! Until then, we will have to watch the *Weekly Export Sales*, *NOPA Crush*, and *Weekly Ethanol Grind* reports for fundamental leadership of these markets.

2010-11 World Ending Stocks (million metric tons)			
	December USDA	November USDA	Change vs Previous
Corn	130.00	129.16	+0.84
Soybeans	60.12	61.41	-1.29
Wheat	176.72	172.51	+4.21
Cotton	43.39	42.20	+1.19

World stocks increased in the December report on everything but soybeans. Corn stocks were higher due to an increase in the Canadian and Ukrainian production estimates. Wheat stocks were up sharply on raises in Canadian, Australian (big ?), and Pakistani wheat production. Despite a cut in US cotton stocks, world stocks rose due to better production estimates from Brazil and Australia. USDA kept South American soybean production estimates unchanged, with Brazil at 67.5 mmt and Argentina at 52.0 mmt, even as some private analysts are beginning to cut their estimates of those countries' crops. Weather produced by the strengthening La Nina will continue to be under close scrutiny in coming weeks as countries like China wonder whether they need to buy more soybeans from the US or whether they can wait for cheaper supplies from S.A.

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Where are prices headed?

Those of us with old crop bushels at the elevator or in farm storage are really wondering that question. The fundamentals still remain cautiously bullish, but concern still lies with the fact that spec funds are still holding huge long positions in corn and soybeans. The harvest prices have been set on our 2010 revenue insurance policies, so now we're on our own to manage the price risk. Fortunately prices have steadily risen, though by any means not without plenty of hiccups. Here are charts for **March corn** and **January soybeans**, along with **Dan Hueber's technical comments** on these markets as of Friday, December 10th.



"Even though we have punched into higher highs and have held reasonably stable on a closing basis, **March corn** has really been unable to close above the high posted last Friday. I believe we have room to extend this move higher into the 180 calendar day cycle count on the 27th but it may be a slow grind higher as it occurs. Cycle dates ahead between the 13th and 15th and a couple days for pressure next week could position us for a buy. Support should good between 5.69 and 5.57." (closed @ \$5.75)



"(January) Beans are seeing a minor amount of follow-through pressure and we should have potential yet for another day or so next week. My next cycle dates do not line up until the 15th/17th and while it is hard to imagine prices tracking lower that entire time, we could continue to chop sideways through then. Ideally such action would position us for a rally into the end of the month where we will complete the 5th cycle of 90 calendar days from the low in October 2009."



"Don't Let The Big One Get Away!"

That's the message we want to share for 2011. With futures prices for next year trading more than a dollar for corn and three dollars for soybeans higher than what folks were actively selling for 2010 crops, and with most inputs in line with last year's levels, profit potential for next year may be the best we've ever seen at this time of the year. Our **DS Profit Matrix** is the best tool available to show this!

The top graph at right, the profitability graph, shows the result each day of that day's closing new crop futures price minus the expected basis for next year's delivery times expected yield minus expected expenses. The line near the bottom of the graph is the break-even cost of production. You can see that from last February through early July this producer would have been penciling in a return just above break even. But since then, the rally in futures has taken expected net returns to as high as \$307 an acre (using \$700/acre expenses)!! To my knowledge, we've never had a year which we could lock in a return of that level at this point in the marketing year! Since then, the drop of nearly a dollar in corn, followed by a 60 cent rally, has taken profitability down over \$125 from the high and then back up \$75 since. What a ride!

The bottom tables to the right show the possibilities for next year given different "plans". The first plan is doing nothing – just selling the bushels grown (top) at the harvest price (left). With good production at a decent price, we can certainly make money (green boxes). But with much of a loss of bushels or price or both, we could easily be in a position of losing money! The second plan is ultra aggressive – **buying an 85% Revenue Protection (RP) policy, selling 100% of guaranteed bushels (85% x farm APH), and buying a \$5.50/7.00 December call option spread** on half of the bushels, providing \$1.50 upside window if corn were to rally. With this plan, the producer is assured of making money no matter what happens to yield or price, and *potentially making a lot of money* if price goes down, if price goes up, and with good yields.

We agree that it's pretty easy to be bullish this year, with corn and soybean stocks starting out tight, with Southern Hemisphere weather uncertainty, etc. But it's also prudent to lock in profits – especially big profits – when the market offers you a chance, while still having the ability to add to those profits. Visit with your DCIS agent or your DS marketer to use the DS Profit Matrix yourself and make sure you **Don't Let The Big One Get Away in 2011!**



Enrolled in Acreage	% of APH	50	70	80	90	100	110	120	130
Farm Yield		108	126	144	162	180	198	216	234
Cash Price (Ration)	7.00	\$196	\$222	\$248	\$274	\$300	\$326	\$352	\$378
Cash Price	6.70	\$194	\$219	\$245	\$271	\$296	\$322	\$347	\$373
Cash Price	6.39	\$193	\$218	\$244	\$270	\$295	\$321	\$346	\$372
Cash Price	6.08	\$191	\$216	\$242	\$268	\$294	\$320	\$345	\$371
Cash Price	5.77	\$189	\$214	\$240	\$266	\$292	\$318	\$343	\$369
Cash Price	5.46	\$187	\$212	\$238	\$264	\$290	\$316	\$341	\$367
Cash Price (Now)	5.15	\$185	\$210	\$236	\$262	\$288	\$314	\$339	\$365
Cash Price	4.91	\$183	\$208	\$234	\$260	\$286	\$312	\$337	\$363
Cash Price	4.67	\$181	\$206	\$232	\$258	\$284	\$310	\$335	\$361
Cash Price	4.43	\$179	\$204	\$230	\$256	\$282	\$308	\$333	\$359
Cash Price	4.19	\$177	\$202	\$228	\$254	\$280	\$306	\$331	\$357
Cash Price	3.95	\$175	\$200	\$226	\$252	\$278	\$304	\$329	\$355
Cash Price	3.71	\$173	\$198	\$224	\$250	\$276	\$302	\$327	\$353
Cash Price	3.47	\$171	\$196	\$222	\$248	\$274	\$300	\$325	\$351
Cash Price	3.23	\$169	\$194	\$220	\$246	\$272	\$298	\$323	\$349
Cash Price (Low)	3.00	\$167	\$192	\$218	\$244	\$270	\$296	\$321	\$347
Weighted Avg Cash P/B Break-even		\$6.11	\$6.24	\$6.38	\$6.51	\$6.65	\$6.78	\$6.92	\$7.05

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Cash Price	3.23	\$124	\$150	\$176	\$202	\$228	\$254	\$280	\$306
Cash Price (Low)	3.00	\$119	\$145	\$171	\$197	\$223	\$249	\$275	\$301
Weighted Avg Cash P/B Break-even		\$6.48	\$6.56	\$6.64	\$6.72	\$6.80	\$6.88	\$6.96	\$7.04