



February USDA S&D Report

Whatever negative vibe we got from the January USDA report, which triggered (along with a rising Dollar) the fund liquidation we saw afterward, seemed to be steadied or even reversed with the February report. The only changes we saw were in demand estimates; the *final* final production estimates will be out in the March 10 report. USDA announced that they would re-survey some corn producers in Illinois, Michigan, Wisconsin, Minnesota, North Dakota, & South Dakota and soybean producers in Georgia, North Carolina, South Carolina, & Virginia in February to determine if changes to their production numbers need to be made. So where we ordinarily are done talking about production following the January report, we could get a market surprise from 2009 production on March 10.

2009-10 US Ending Stocks (million bushels)			
	February USDA	January USDA	Change vs Previous
Corn	1719	1764	- 45
Soybeans	210	245	- 35
Wheat	981	976	+ 5

The February report on corn featured an increase in ethanol use of 100 mln bu and a decline in exports of 50 mln bu – both changes we’ve discussed as likely in our winter meetings. The net of all the changes was a cut in corn stocks of 45 mln bu to a workable 1.719 billion bushels. If that number holds, then we can likely afford to pick up a couple million more corn acres this spring without impacting ending stocks much next year (see back page). Soybean crush was increased another 10 mln bu, following a record December crush, and soybean exports were increased 25 mln bu to a new record 1.400 bln bu. This took our ending stocks down to just 210 million bushels, and it gives us a tight stocks to use ratio of just 6.3%.

2009-10 World Ending Stocks (million metric tons)			
	February USDA	January USDA	Change vs Previous
Corn	134.04	136.19	- 2.15
Soybeans	59.73	59.80	- 0.07
Wheat	195.86	195.60	+ 0.26

Increased world demand for corn led USDA to cut the world corn carryover more than 2 mmt, despite an increase in Argentina’s production of 2.2 mmt to 17.2 mmt (still below record 22.0 mmt). USDA kept the world soybean ending stocks near unchanged despite an increase in Brazil’s production of 1 mmt to 66.0 mmt (Argentina unch at 53.0 mmt). USDA adjusted world wheat ending stocks to an even higher record of 195.86 mmt, showing why we and other countries can afford to plant less wheat in 2010.

Good News for Revenue Policies!

We are a third of the way into the month of February and a third of the way done setting the spring prices for revenue crop insurance policies. As of this writing, those averages are running:

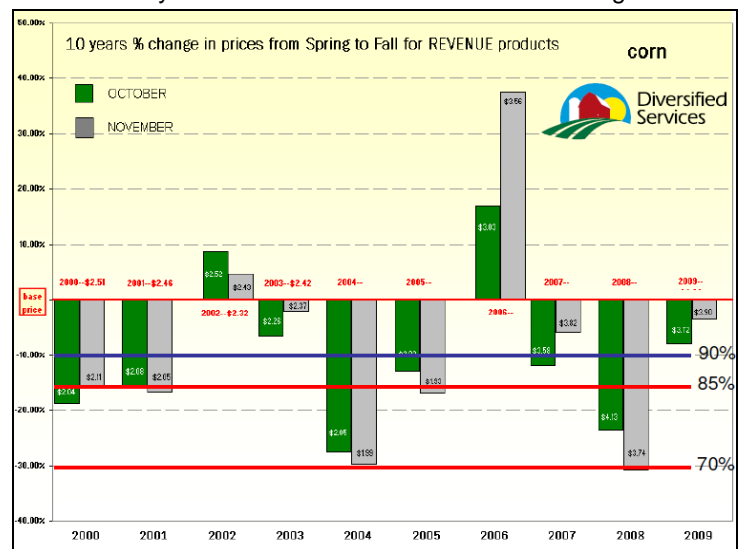
Corn - \$3.93 Soybeans - \$9.12

The corn price would be 11 cents below last year’s spring price, while the soybean price would be 32 cents above last year’s level. And the markets seem to be trying to make a push upward, which would certainly help give us higher revenue floors.

So far, the good news is that the **volatility factors** that are used to determine the premiums for insurance are down significantly from where they’ve been the last couple years. This gives us what would be the equivalent to a “safe driver discount” in car insurance. Because the futures markets haven’t seen the extreme market moves this month that we’ve seen in past years, the option volatility – what is used in the formula to determine rates – is lower. Thus, rates for CRC, RA, and GRIP policies *right now* would be down sharply from last year, even though for many of you your revenue triggers will be *higher* than last year!

Keep in mind that while the prices are averaged over the entire month of February for revenue policies, the volatility factors are determined based on the readings *during the last five days of the month*. So if we were to see an extreme market move – or not – during those days, it could have an impact on the premium you’d be paying for insurance this year.

One of the reasons we’ve been a proponent of using revenue policies, and in particular the higher level revenue policies, is the strong seasonal tendency for prices to go down from February to October. This chart shows the change in



December corn futures from February to harvest each of the last 10 years. In 8 of the 10 years the price dropped, and in 6 of the 10 years it dropped at least 10%. A chart on soybeans would show a similar trend.

A revenue policy is the only input you can purchase this year that will give you a dollar guarantee for what you intend to plant this spring. And unlike seed, the revenue policy looks to be a cheaper input than last year. So make plans to visit with your Diversified Crop Insurance Services representative today to get this important input working for you.



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What will we sow?

What can we expect to see in 2010? In January USDA report told us that we **planted 6.2 million fewer winter wheat acres** last fall, so the trade is now trying to guess how many of those acres would have been double crop soybeans, or will be corn, cotton, or grain sorghum. The consensus around the trade seems to be that we could pick up 3-plus million new corn acres, maybe a couple million new soybean acres, and a million acres split between cotton and grain sorghum. But prices and spring weather will certainly have their say in what *really* does get planted this spring.

Our **DS Corn Stocks Matrix** (top) and **DS Soybean Stocks Matrix** (bottom) are very useful to look at various yield and prices combinations for 2010. Starting with beginning stocks estimates (yellow box) then multiplying different harvested acre and yield combinations, and then subtracting estimated demand (blue box), the matrix shows us what ending stocks would be next year. The ovals represent what I feel to be the area of most likelihood. For corn, there's a lot to be determined! Even with a couple million acre increase, yield has got to reach near 160 bpa in order to keep stocks about the same. For soybeans, however, any increase in acres would appear to mean an increase in ending stocks next year, maybe a big increase, especially do to the fact that a huge South American crop will be competing for export business.

We will study these updated matrixes for 2010 crops at each of our **Third Thursday Marketing Meetings** (next one is February 18th @ 9 am) and in the daily **Grain Market Outlook**.

2010-11 Diversified Services Corn Stocks Matrix

USDA 2010-11 Beginning Stocks:	1.719 billion bushels	1.624 bln bu in 2008-09
USDA Estimated 2010-11 Demand:	13.030 billion bushels	12.065 bln bu in 2008-09

Corn Ending Stocks Based on Possible Scenarios: Diversified Services

Planted Acres	Harvested Acres	Yield per Acre											
		2007 151.1	152	2008 153.9	156	158	160	162	164	2009 165.2	168	170	
CIS	81.0	83.7	1.357	1.432	1.591	1.767	1.935	2.102	2.270	2.437	2.538	2.772	2.939
Allendale	90.8	83.6	1.329	1.404	1.563	1.738	1.906	2.073	2.240	2.407	2.507	2.741	2.908
GSC	90.0	82.8	1.218	1.292	1.450	1.624	1.789	1.955	2.121	2.286	2.386	2.617	2.783
Informa	89.6	82.4	1.162	1.236	1.393	1.566	1.731	1.896	2.061	2.226	2.325	2.556	2.720
	89.0	81.9	1.079	1.152	1.308	1.480	1.644	1.808	1.971	2.135	2.234	2.463	2.627
Baseline	88.0	81.0	0.940	1.013	1.166	1.337	1.498	1.660	1.822	1.984	2.081	2.308	2.470
	87.0	80.1	0.801	0.873	1.025	1.193	1.353	1.513	1.673	1.833	1.929	2.154	2.314
2009	86.5	79.6	0.731	0.803	0.954	1.121	1.280	1.440	1.599	1.758	1.853	2.076	2.236

Dark Red < 1 billion Red < decreased stocks Green > increased stocks Dark Green > 2.50 billion

2010-11 Diversified Services Soybean Stocks Matrix

USDA 2010-11 Beginning Stocks:	210 million bushels	205 mln bu in 2008-09
USDA Estimated 2010-11 Demand:	3043 million bushels	3069 mln bu in 2008-09

Soybean Ending Stocks Based on Possible Scenarios: Diversified Services

Planted Acres	Harvested Acres	Yield per Acre											
		2008 39.6	40.5	41.0	2007 41.7	42.0	2006 42.7	43.0	43.5	2009 44.0	44.5	45.0	
	81.0	79.9	340	412	452	507	531	587	611	651	691	731	771
GSC	80.2	79.1	308	380	419	475	498	554	577	617	656	696	735
	80.0	78.9	301	372	411	466	490	545	569	608	648	687	727
Allendale	79.2	78.1	269	340	379	433	457	511	535	574	613	652	691
	78.5	77.4	242	312	350	405	428	482	505	544	583	621	660
Informa	77.9	76.8	219	288	326	380	403	457	480	518	557	595	633
2009	77.5	76.4	203	272	310	364	386	440	463	501	539	577	616
Baseline	76.5	75.4	164	232	270	322	345	398	420	458	496	534	571

Dark Red < 100 million Red < decreased stocks Green > increased stocks Dark Green > new record (574 mln previous)

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