

December 17, 2012

LOOKING FORWARD WITH A BACKWARD GLANCE

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Grain Recommendation: No change in what we see as major market moving trends. As long as they stay in place, we prefer and advise against sales except for raising cash or for tax purposes. If you fear the downside risk or flat markets for the next 3 to 6 months, make sales and re-own via July 13 futures when we move above major resistance.

In Your Face: We were discussing last week about how clear we are at times. What we work to do is provide the facts and you act accordingly. But if we don't state things clearly, we create problems. It is great to have calls from Subscribers who let us know when clarity is an issue; or when we just state things wrong. For those who have January soybean futures, do not roll them at a 30 cent discount January to July. Let's wait until the end of the month. With January being the strongest now, it would benefit you \$\$ to do nothing right now.

Now about hedging. The term hedging does mean different things in different situations. To a livestock guy on the grain side, it means he needs to buy. But for the livestock guy and the grain producer, hedging grains or meat means selling. That would confuse anyone if we are not clear. The last text we sent out we did not use the hedge word correctly. It was brought to our attention, and we thank you. Hedging for grains does mean to sell. We sometimes have used the hedge word to re-own grain previously sold. That may not be the correct usage of the hedge word in that situation; clarity we will be working on. It is always a challenge as how we think is not necessarily how you understand, and vice versa.

Year End: It is a tough thing to call. Will grains move higher into year's end or will they struggle with the issues Congress puts on the table for us? No matter what you hear from others, our markets central focus will be on demand for all three grains, or lack thereof, and weather in South America. Weather will overshadow demand if/when it moves front and center.

Weather Trends: Weather trends, whether here or elsewhere, have not been conducive for crop production these last 3 years. These trends have produced declining corn yields in the U.S. for the last 4 years from our record crop in 2009; 2009 - 164.7 bpa, 2010 - 152.8 bpa, 2011 - 147.2 bpa & 2012 - 122.2 bpa. Other trends strongly support below trend line yields in 2013. In fact, comparing similar drought years, of which there are 12 from 1895, with 30's and the 50's drought periods being the most comparable, one could forecast a full recovery will take upwards of 4 years. What we refer to with this comment is bringing our moisture conditions back to neutral. The comment which we believe holds the most value is the one which recognizes the expansiveness of this drought. The drought area is so vast; it would be a near impossibility (near 100%) to receive sufficient rains during any one year period of time to neutralize soil moisture.

The epicenter of our current drought appears to be near Omaha, Nebraska and spreading out to affect parts of, if not all of Kansas, Missouri, Iowa, Minnesota, South Dakota and Nebraska. What we see as having the greatest impact in pushing this drought is our sun and its increased solar activity; sun spots. How often have you heard the experts connect a "hotter" sun to a warmer earth? Too difficult for the average mind to put together; you think? They can come up with "global warming"; though their premise is wrong because they have it reversed. Their argument is that CO2 levels rise causing global warming. Take a long term study and the truth is the earth begins to warm during increased solar activity and then, years after this starts, CO2 levels begin to increase. We digress. Let's look at our summer solstice. Our longest day, the day of the most sunlight and thus, the most heat shed on this planet from our sun, usually occurs around June 22. Yet, our hottest days of the year normally fall a month later. As you can summarize, the planet kept heating up for weeks after our heating days were growing shorter. The same is true about our winter solstice where our planet cools for several weeks even after our heating days become longer. Let's apply this to our solar activity, which is currently projected to peak around May 2013. As we pass our peak of solar activity, our planet will continue "heating" for months. *(This event is much different than our normal "seasonal" heating and cooling cycle. Look back at when this drought began and how it has been building into 2013. Then just reverse the process.)* Using this analysis, one would conclude 2013 will be worse for drought conditions than was 2012. Now ponder this thought. If we begin March 2013 with the conditions we currently have, how bad does bad have to be to have conditions as bad as this last year? The answer is "Not as bad." Consider how bad next year would be if we had rainfall and heat conditions as bad as this year? We consider that a scary thought/possibility. We are left repeating ourselves again; something we tend to do when we get stuck into a trend. In 2013, we will need above normal rainfall on a timely basis to achieve trend line yields. Since our corn crop takes about an additional 8 to 10 inches from the soil, along with normal precipitation to achieve trend line yields, then we only need our normal rainfall, plus an additional 8 inches or so, all falling on a consistent and timely basis, condensed into a 5 month to 7 month period, along with no excess heat, to obtain a "normal" yield. We can get that done in 2013 under current weather trends, can't we?

Setting Records: We continue to post records. Omaha set a record for the most days between snow fall events. That number was around 296 days. It was interesting because the last snowfall event was last February, which was .2 inches of snow. This weekend's snowfall event tripled that one, coming in at .6 inches. Makes you think; yes? 2012 will go down as the warmest year on record. That is unless the next two weeks set record lows each and every day!