January 14, 2013 **#1303**

LOOKING FORWARD WITH A BACKWARD GLANCE

A PRODUCT OF AG MASTERS MARKETING GROUP

Grain Recommendation: No change. No sales. ☺

Questions: We had a question concerning how often we say "No Sales" in our Grain Recommendation. Whereas many marketing groups say sell 10% here and 10% there (because they have no idea where price is going), Ag Masters does not. We don't because we do we have a very well informed and educated opinion of how high and how low prices will trade over the next year (See our Target Zone Charts). When we are in the upper third of our projected price range, we have no problem with producers making sales of 10% here or there, because any price at these levels would represent very high profits; whether we make a sales recommendation or not. Now don't just read our grain recommendation. Read our entire MNU. Information below the opening lines will at times, have information which may cause you to make sales. We don't put our entire recommendations in the first few opening lines of our MNU's! Sales and marketing strategies are discussed in each MNU as determined by going events and long term pricing forecasts. Where we put them will always vary. We like to keep you on your feet!

USDA: The end result was as expected, though how they arrived at the numbers was different. So many producers have complained about demand; citing exports. Little do those producers know that we hear about exports in three different ways every week? Why do so many put so much weight on exports which represents just 8% of the corn market? If you are focused on exports to make your marketing decisions, you are letting the tail wag the dog. The USDA increased 2012 corn and soybean production, as well as Brazil's 2013 soybean production and South America's total soybean production. So here we have all these extra bushels and the USDA's report is deemed bullish? Let us look at two categories; world stocks and demand. World stocks were reduced, month to month, for coarse grains, corn, wheat and soybeans. The real demand Ag Masters keeps pointing to was clearly shown in Friday's numbers. The USDA showed a 300 mb increase for corn demand to due to domestic feeding. They showed 35 mb increase in U.S. feed wheat demand, over 2 times the amount of wheat fed in 2011/12. They showed a 5 mb increase in the feed use of barley, a 50 mb increase in the feed use of sorghum, and a 5 mb increase in the feed use of oats. What should we have expected, knowing we have lost tens of thousands of tons of DDG's from reducing corn ground for ethanol by 500 mb, not to mention there is less hay and forage material available & little wheat to graze. Animals have to eat something. Looks like they were eating everything!

We are sure most of you surmised we were smiling after seeing USDA's numbers. They vindicated us once again. We firmly believe we are properly positioned moving forward. Just be patient and hold on for another ride. This is setting up to be very similar to 1996 where we did not have the corn stocks necessary to make it through the year. Many were caught with their pants down; on the wrong side of the market. They got squeezed big time by those who can. Weather concerns WILL drive prices wild. The USDA's carryover number for corn of 602 mb was the lowest we have seen since that year. Even at 602 mb, we believe the USDA has 'fudged" this number by at least 100 mb.

Late to the Table: With the USDA's report being released at 11 CST, our European friends were not able to dance with us on Friday. They came to the dance Sunday night. It was nice to see they agreed with us; that the price action we saw with soybeans on Friday was a joke. Ag Masters was very satisfied with the numbers. Look at our pre-report comments. All that good weather in South America and all they get is another 500,000 mmt boost? And where did all those bushels go? Those and more, were all ate up by demand. ***And every bushel got ate up in just one month?*** *Isn't it amazing how they never come up with new demand until they can find additional bushels of supplies to balance the books*? **Think about it.** Now is where it gets dicey. Weather from here forward in South America will not be so "production" friendly. Take off 2 mmts from Friday's numbers for South America and the fun will really begin!

Protein Demand: ***The story continues, unchanged.*** Less protein is available because of less DDG production. This is bullish beans. More beans are being crushed to feed the world's livestock; not just ours. Soybean crush rates for December are projected at 161 mb, a solid jump over our November pace of 157.3 mb. *(Are we having a really cold winter which demands increased feeding? Absolutely not!)* This increased crush rate is just shy of the record crush rate set in December 2009 at 164.4 mb; a crush rate near 100% of capacity. The USDA raised its estimates for annual crush rate by 35 mb to 1.605 bb, an increase which follows the USDA's 10 mb increase from last month. Are you noticing a pattern here? Exports for beans are running 192 mb ahead while crush is 60 mb ahead, totaling 250 mb more than projected. At this pace, we will run out of beans before 2013 harvest. We keep telling you that the USDA is always behind in estimating/projecting soybean demand in an increasing demand market. This has been a trend we have been pointing to for years. It is thee reason for our multi-year bullish stance on soybeans. Until production can keep up or surpass demand and/or demand is decreased through price/rationing, we remain long term bullish soybeans. If you need another explanation, just look at the trend. For the last several years what e continue to see is higher highs and higher lows will continue. Make the trend your friend!

So why this increase in demand? The USDA cited higher "projected" <u>domestic soybean meal consumption and increased soybean meal exports for the crush increase</u>. *(Would you believe it had to be so because* ***- WE WANT MEAT!*** *Oh yeah, protein!)* The boost in domestic soybean meal consumption was in line with projected gains in meat production, especially for pork and poultry. *(Who could have figured this?)* And soybean oil demand is also growing.

<u>Some Have Asked</u>: Is it time to buy soybeans? We have bought/hedged soybean sales already. We have recommended futures. We are long term bullish. We know new subscribers are jumping on board every week. If you missed our buy recommendations, you missed it. We are not like other firms. Ag Masters has "limited" buy or sell recommendations over a one year period. Ag Masters is not playing wave counts or jumping in and out every week, padding broker's pockets. We are seriously interested in re-owning past cash grain sales and hedging feed needs in the lower third and making cash grain sales in the upper third. Just to give you an idea where some of the other marketing experts are, one said you would be a fool if you did not go into the USDA report of last week 100% hedged on all your 2013 production. Yes, we were a fool to many once again. Ag Masters admits we recommended NO SALES going into this report - once again! We were also asked if it was wise to pick up some cheap puts before the report. First, we sure didn't find any "cheap" puts out there which had any value, and second, we never have any interest in purchasing puts in the lower third of the seasonal price range. When you are selling cash in the upper third, feel free to pile on the puts. That always works well near the highs, while feeding $ to Chicago if done near our lows.

<u>Buy December 13 Corn</u>: No year is exactly like the year before. New crop corn could not rally in the first half of 2012 with the fear of big acres and high yields being hung around its neck every day. 2013 is different from 2012 in a number of ways. The U.S. drought is more talked about now than last year. In 2012, it seemed like only Ag Masters was beating the weather drum. Not so this year. Also, wheat has a big problem this year, unlike last year. If current conditions exist when wheat comes out of dormancy, new crop corn will find support because of our rising wheat market. Another issue is our current corn stocks, which are nearly 25% less today than they were reported a year ago. Last year in April, we wrote that end users, and those wanting to hedge 2013 input costs, should purchase July 2013 corn futures between $5.50 to $5.60. Price wallowed for 2 months, until actual yield loss was accepted by the trade, which did not arrive until the last 10 days of June. December 2013 corn has double bottomed at $5.70, a penny above our stated level of support of $5.69. Though December 2013 corn is still in a down trend, all should begin putting on your hedges/ buying December 2013 corn futures. Whereas price may yet challenge $5.70 again, and even make lower lows, great value is afforded at this price level. When one can sell $7.50 corn today and replace that sell at a price under $6.00, why wouldn't you? Aggressive producers can pick up half your needs now and the other half when price moves and/or closes above $6.00. Less aggressive hedgers/traders can pick at the market on every dip. All purchases will be held until summer and lifted when we make cash sales, or until a definite change in our weather trends has developed.