



BUYERS, BUBBLES, AND BUTTERFLIES

Senior Analyst Darin Newsom

DTN/The Progressive Farmer
2010 Ag Summit
December 10, 2010

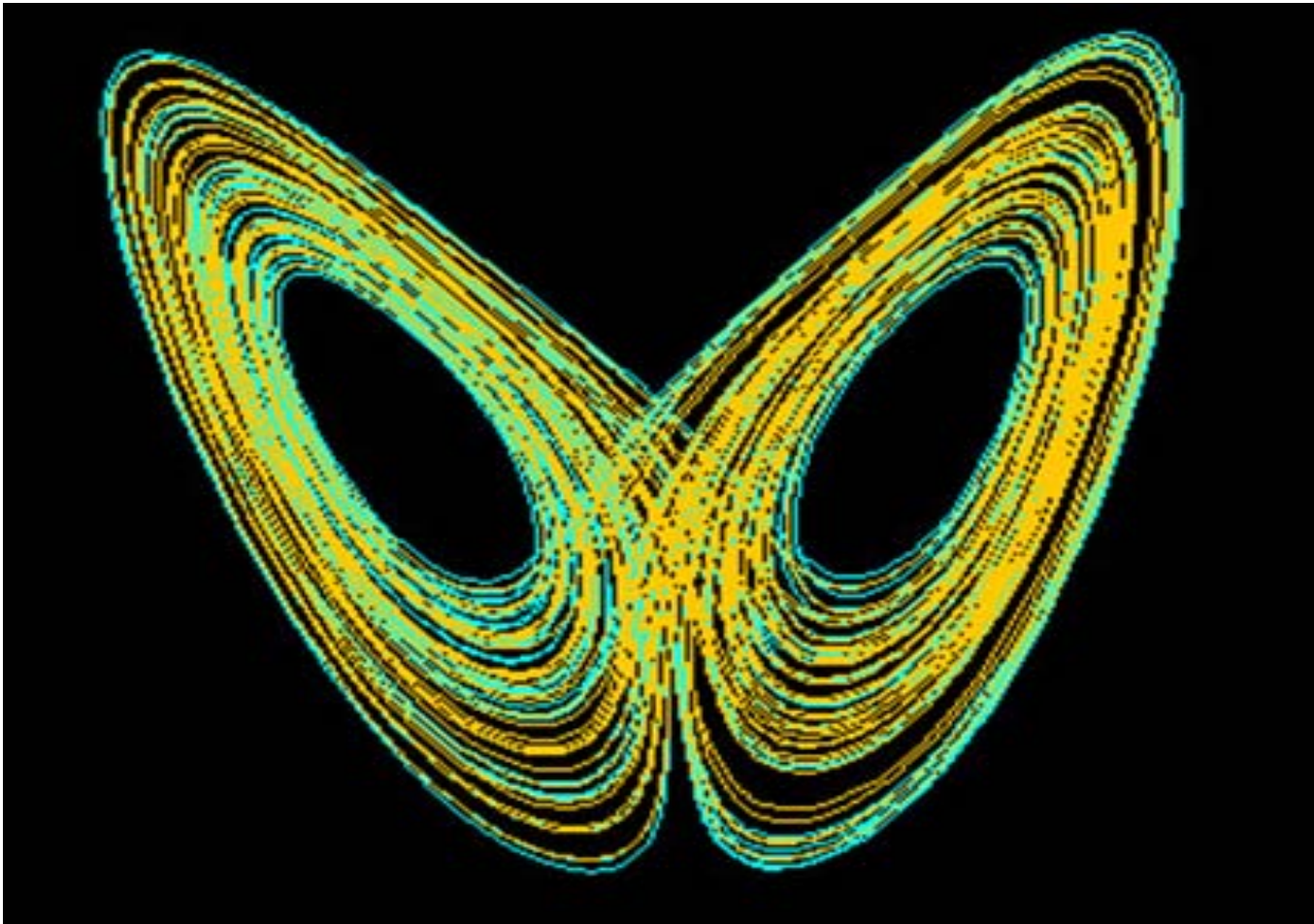
Buyers -

- In other words, demand driven markets
- Demand driven markets: Increased demand pulling on stable to growing supplies. Tend to be long lasting.
- Examples in 2011:
 - Crude oil
 - Corn
 - Soybeans

Bubbles -

- Markets that go “Pop” when they break
- In 2011, this could also mean some older supply driven markets
 - Supply shortage leads to a spike rally that is generally short-lived, coming to an end when the market grow comfortable with the next year’s crop.
- Examples in 2011:
 - Cotton
 - Wheat
 - Corn (?)

Butterflies -



Butterflies (cont.) -

- The Lorenz Butterfly – Symbol of the Butterfly effect aka “Chaos Theory”
- Butterfly effect: A butterfly flapping its wings in Beijing can create an unforeseen storm in New York.
- Chaos Theory: A small unforeseen change at a critical point and at a key time can lead to a large change in events.

2011 Introduction:

■ What we know (or think we know):

- Chinese demand for commodities remains strong
- World supplies of most agricultural crops continue to tighten
- Crops will be planted in the US

■ What we do not know:

- Global economy
- Stability of the US dollar (safe haven?)
- Fate of blenders credit
- How acres might be split among the four major ag crops in the US

Introduction (cont.) -

- 2011 Situation:



A QUICK REVIEW

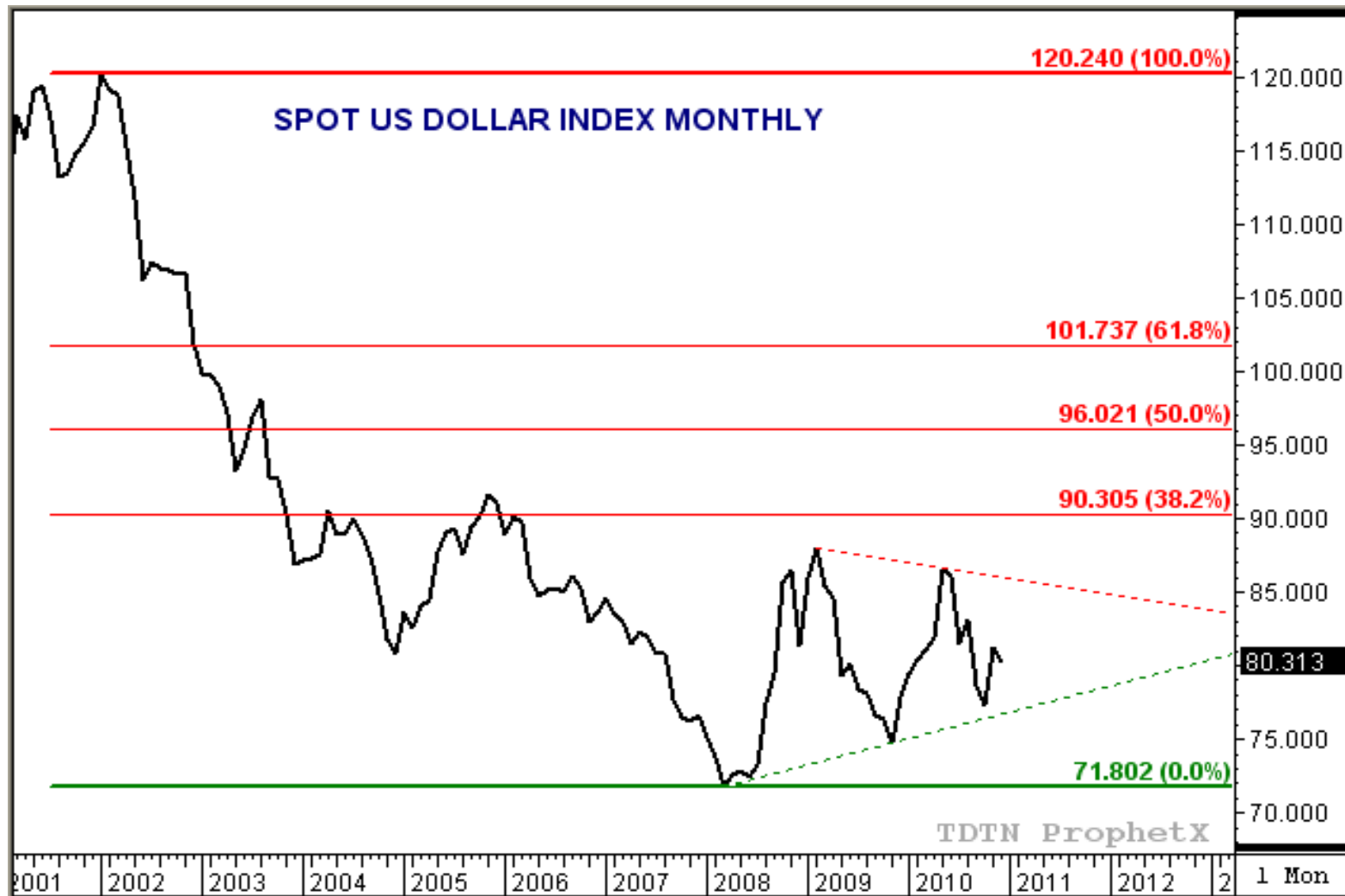
- Outlooks based on Market Structure
- Structure:
- Trend – Price direction over time
- Futures – Ebb and flow of money (noncommercial, speculative, investment) in markets
- Futures spreads (price difference between contracts) – Reflects the commercial outlook in market
 - Carry/contango = bearish
 - Inverse/backwardation = bullish

US DOLLAR INDEX

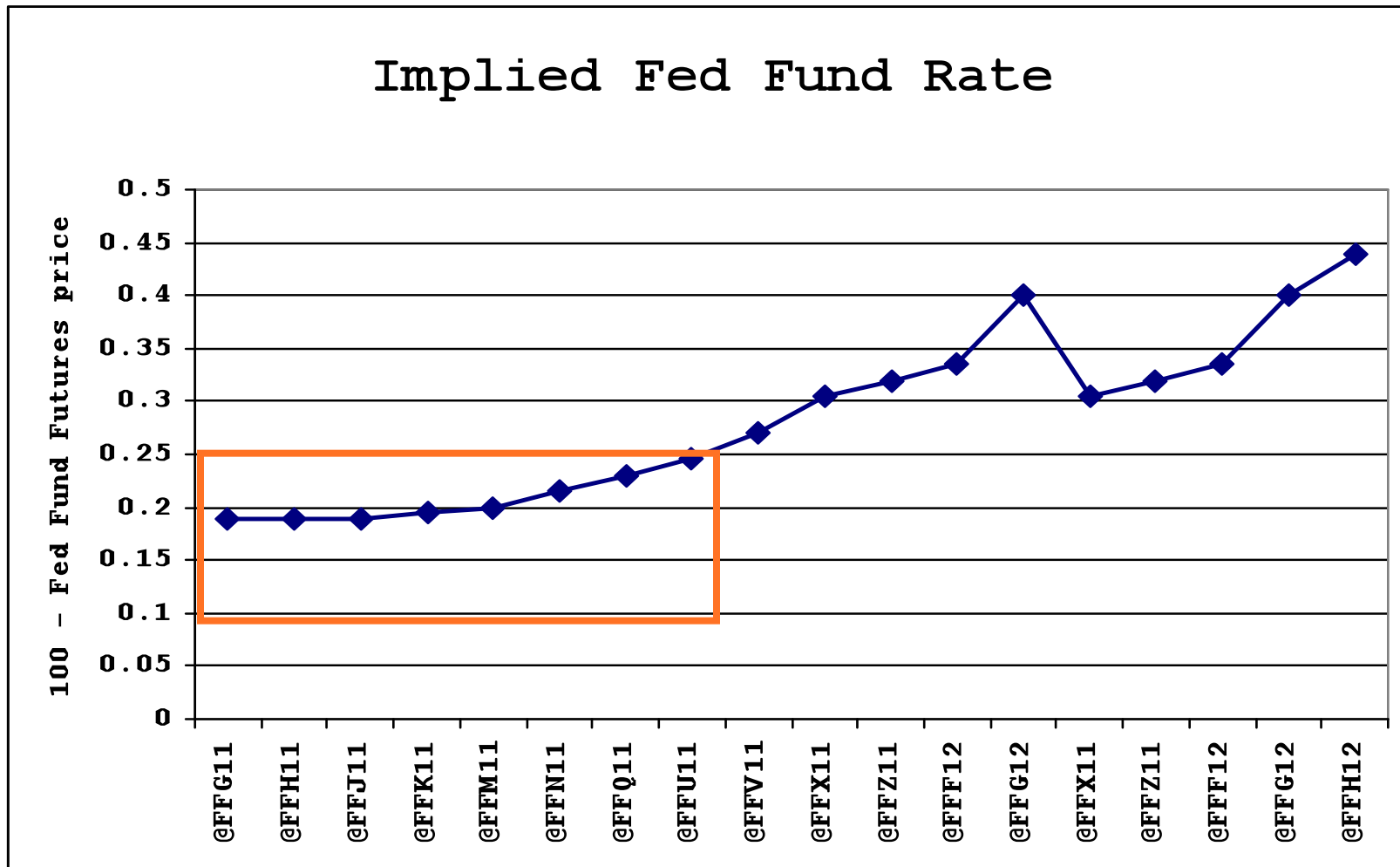
USD_X SITUATION

- As 2010 comes to a close, USD_X is viewed as a global “safe haven” market
 - Continued economic concerns in Europe
- This view could lead to continued support of the dollar from the investment side of the market
 - Weaker commodities
 - Weaker foreign currencies (in general)
 - Canadian dollar
- Fundamentally the USD_X remains bearish
 - Supplies outweigh demand

US DOLLAR INDEX TREND



USDX SPREADS/FUNDAMENTALS



USDX OUTLOOK

▪ Structure

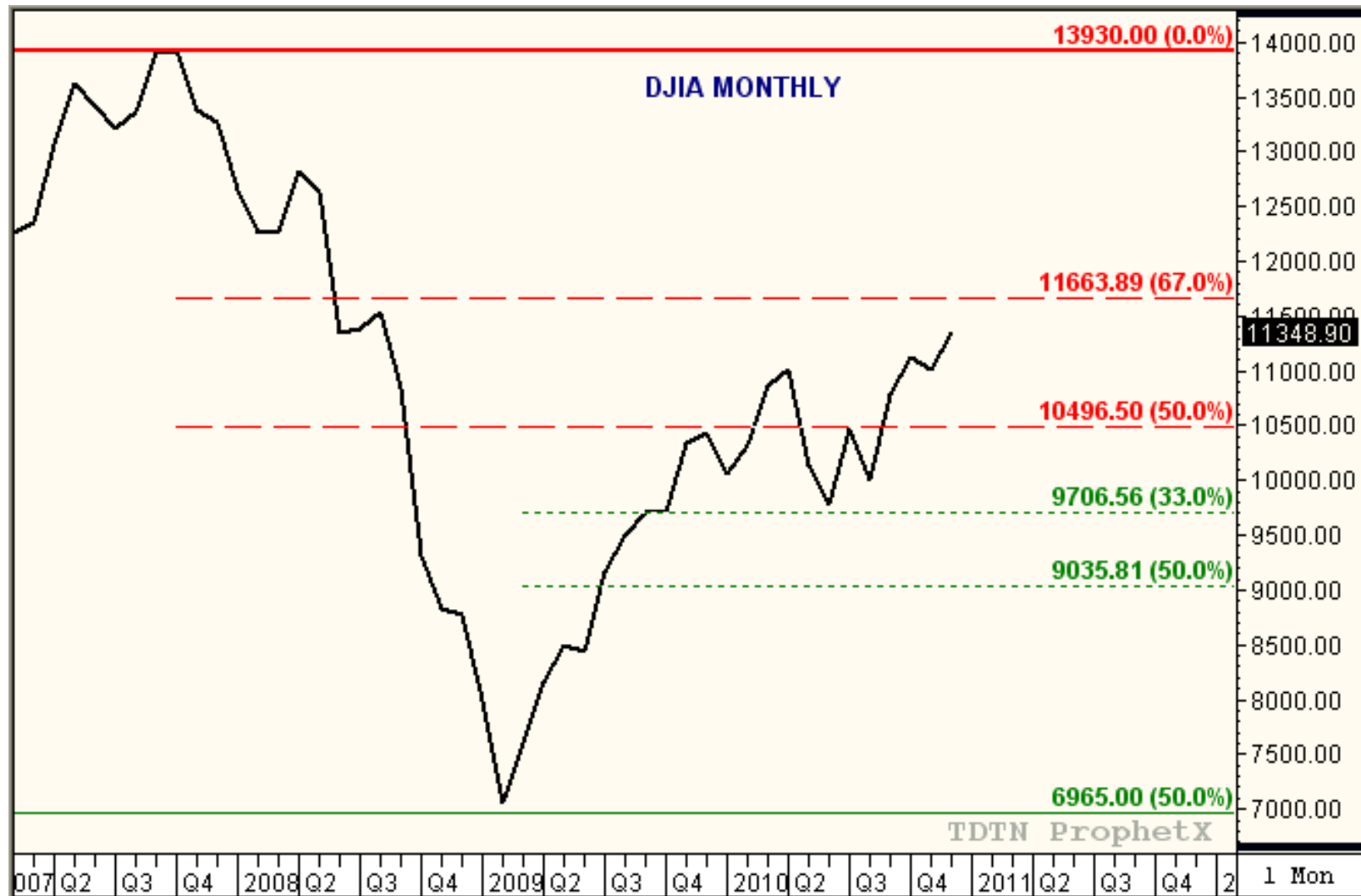
- **Trend: Sideways in a narrowing range. No indications this is set to change through much of 2011.**
 - **Meaning: investment money will continue to flow in and out of market depending on global economy headlines.**
- **Spreads (Fed fund futures): Neutral. Contracts are showing little movement in the Fed Fund rate until at least late 2011.**
- **Bottom line: Look for the USDX to trade in a range between 85.83 and 76.87 through much of 2011. Dollar backed commodities should continue to show a solid negative correlation as the year progresses.**

DOW JONES INDUSTRIAL AVERAGE

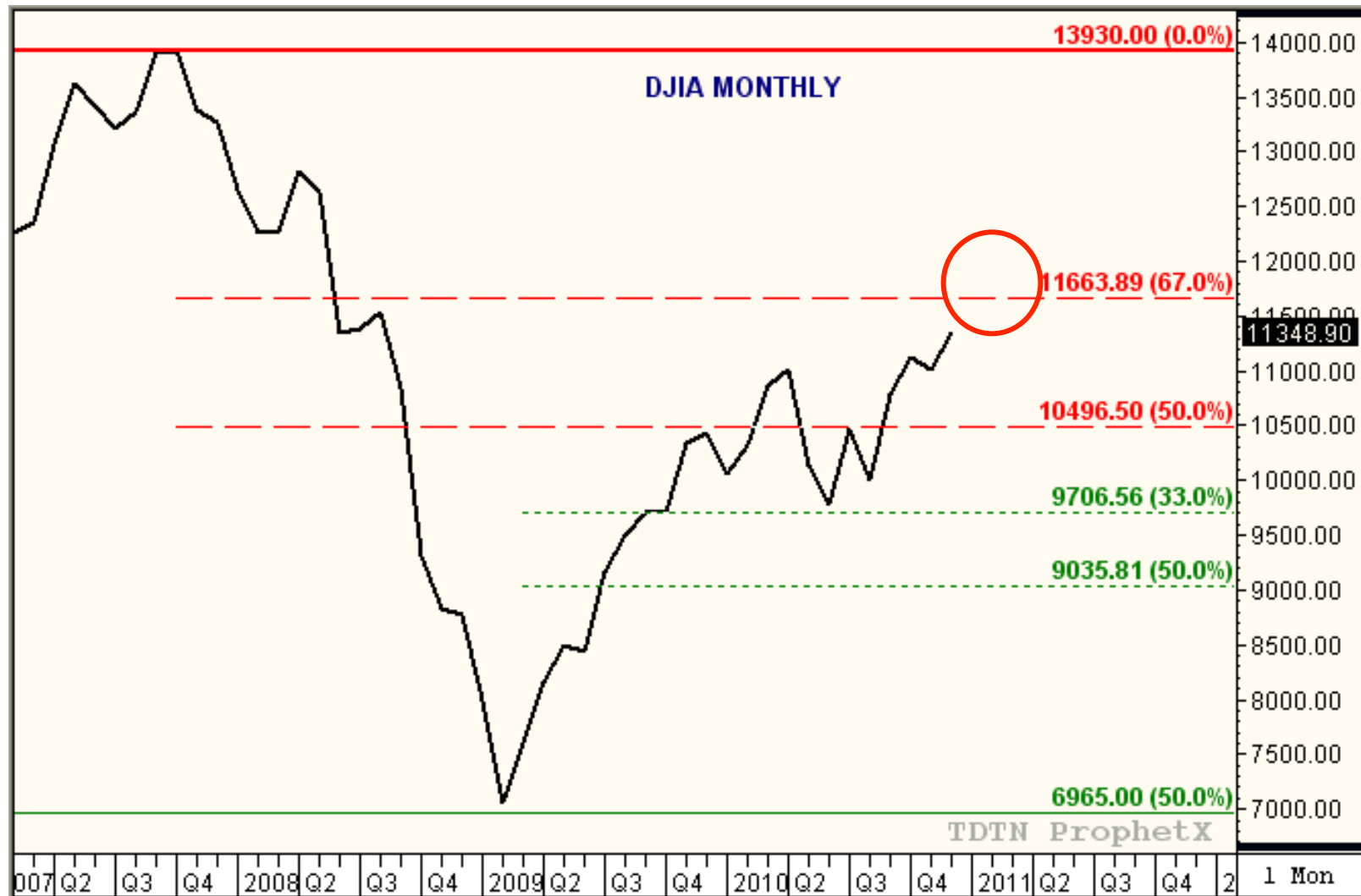
DJIA SITUATION

- While still mixed, domestic economic reports are becoming more consistently bullish.
- Long-term investment money is slowly making its way back into the market.
- Stronger overseas markets also providing support.

DJIA TREND



DJIA TREND



DJIA OUTLOOK

- The trend of the market remains up.
- Bottom line: On its monthly close chart, the DJIA should continue to work toward the 11,660 area. A stronger DJIA should provide support to commodities while keeping pressure on the USD.

AG COMMODITIES

I'M BULLISH*

I'M BULLISH*

ENDING STOCKS TO USE

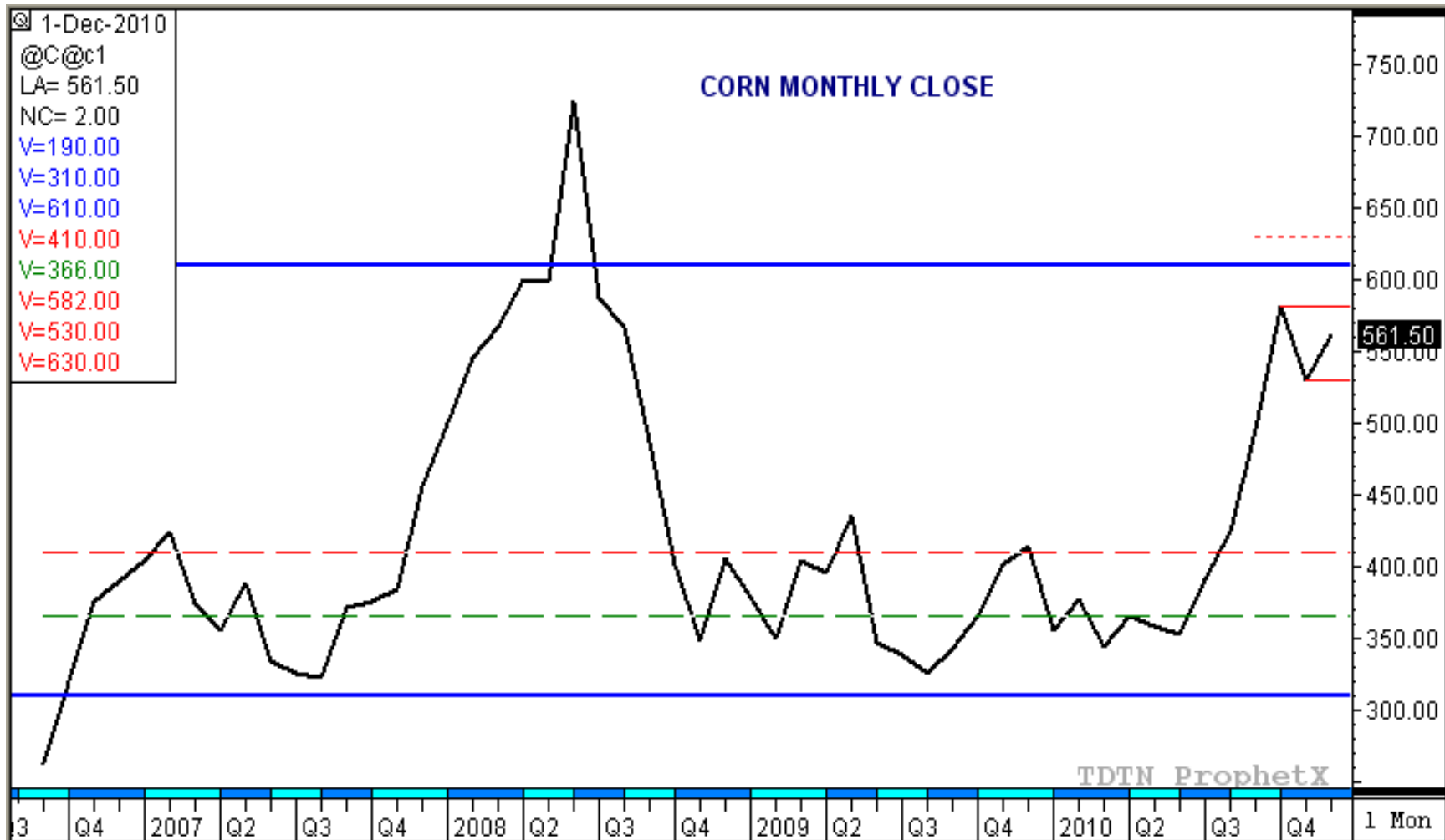
	US	WORLD
CORN	6.2%	15.4%
SOYBEANS	5.5%	24.1%
WHEAT	34.7%	25.9%
COTTON	11.5%	27.1%

CORN

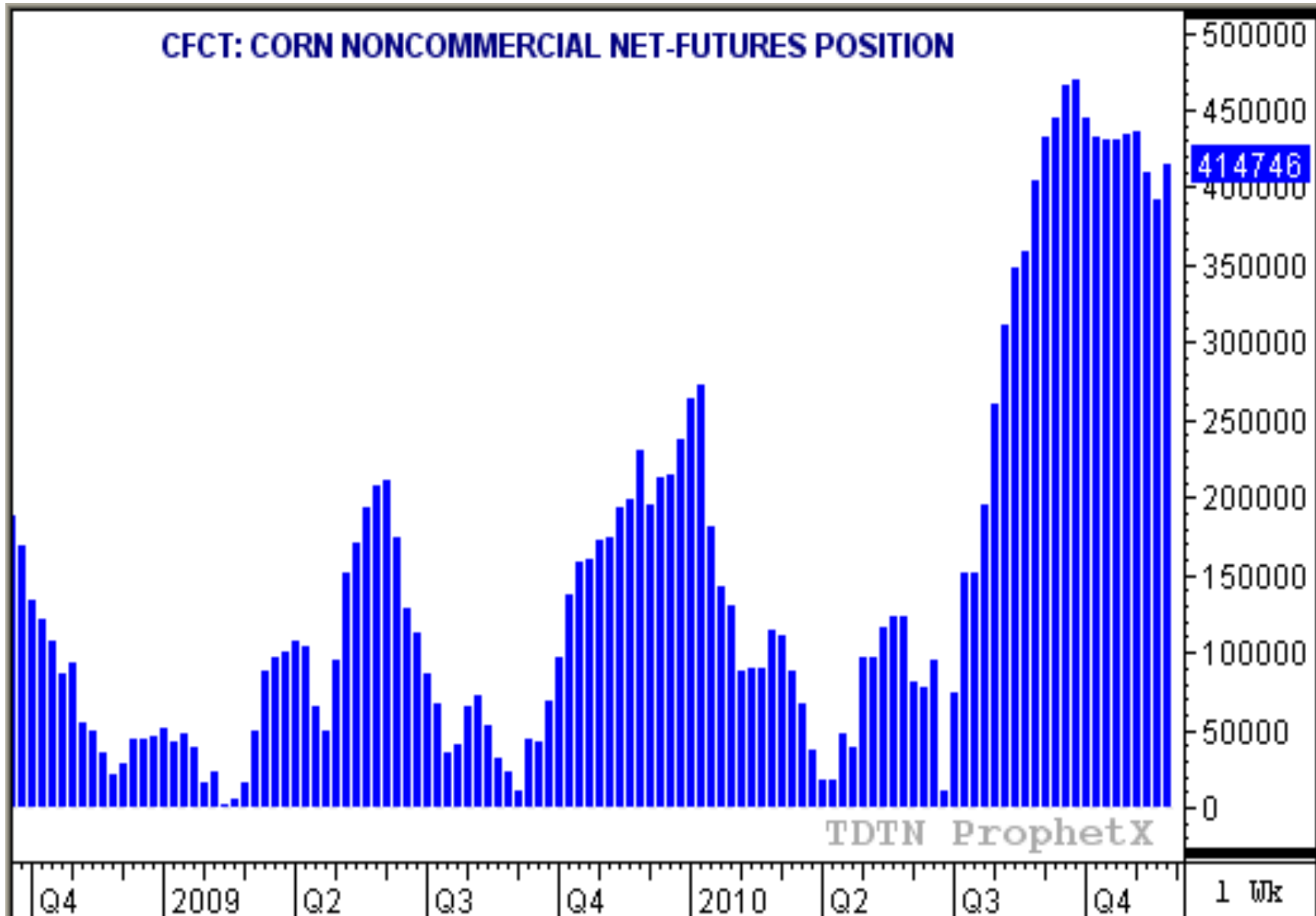
CORN SITUATION

- **Demand market still in place**
 - Has established a higher price range over time
- **Demand slows as futures market nears \$6.00**
 - 2008 – Market rallied above \$7.60
 - 2010 – Market rallied above \$6.00.
- **Ethanol demand in question**
 - Possible end of blenders credit in December 2010
- **US acreage 2011**
 - If demand market begins to show cracks, fewer acreage will be needed long-term
 - Production could fall for second year in a row
 - Hasn't happened since 2002-2003

CORN TREND

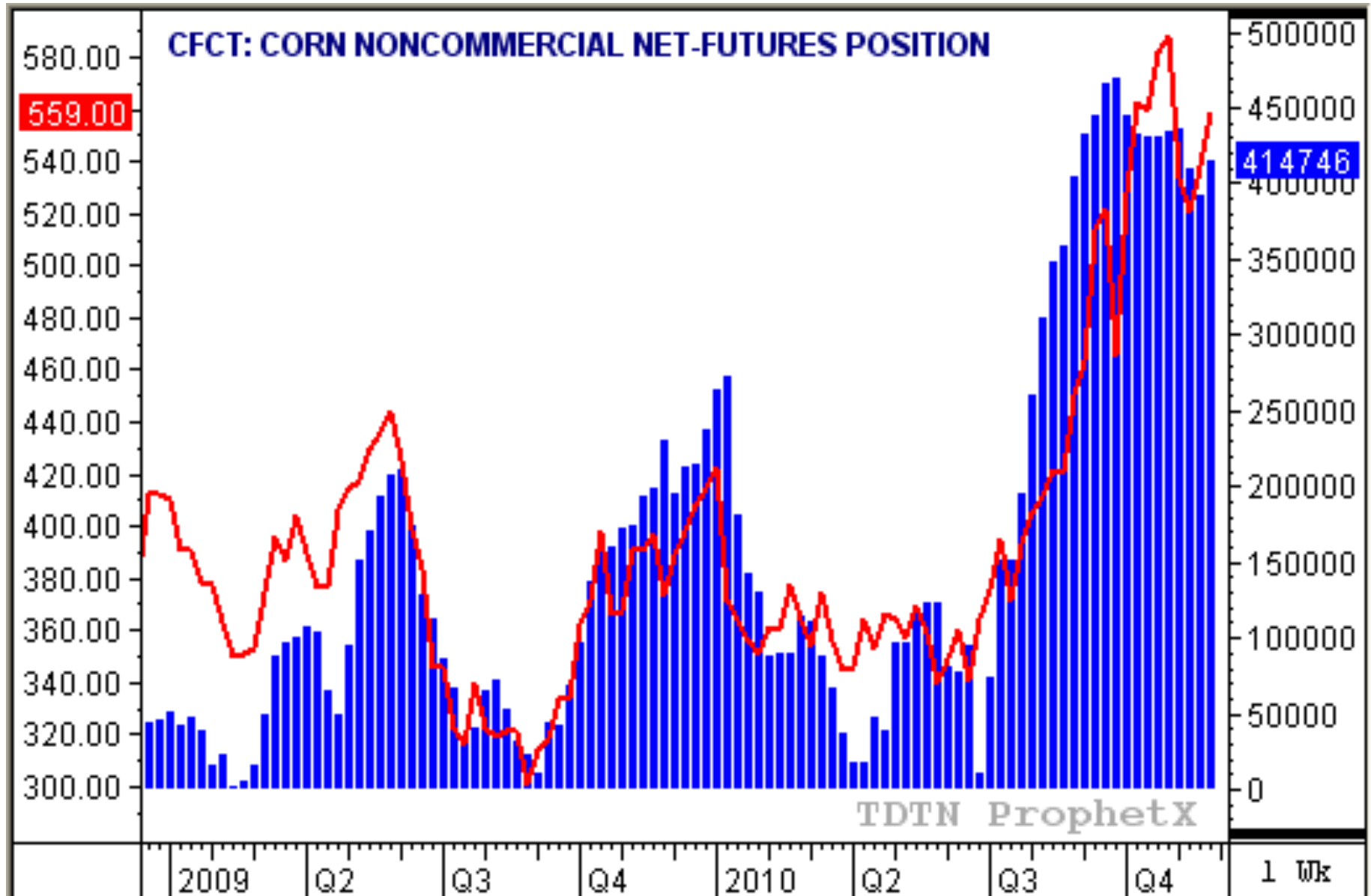


CFCT: CORN NONCOMMERCIAL NET-FUTURES POSITION



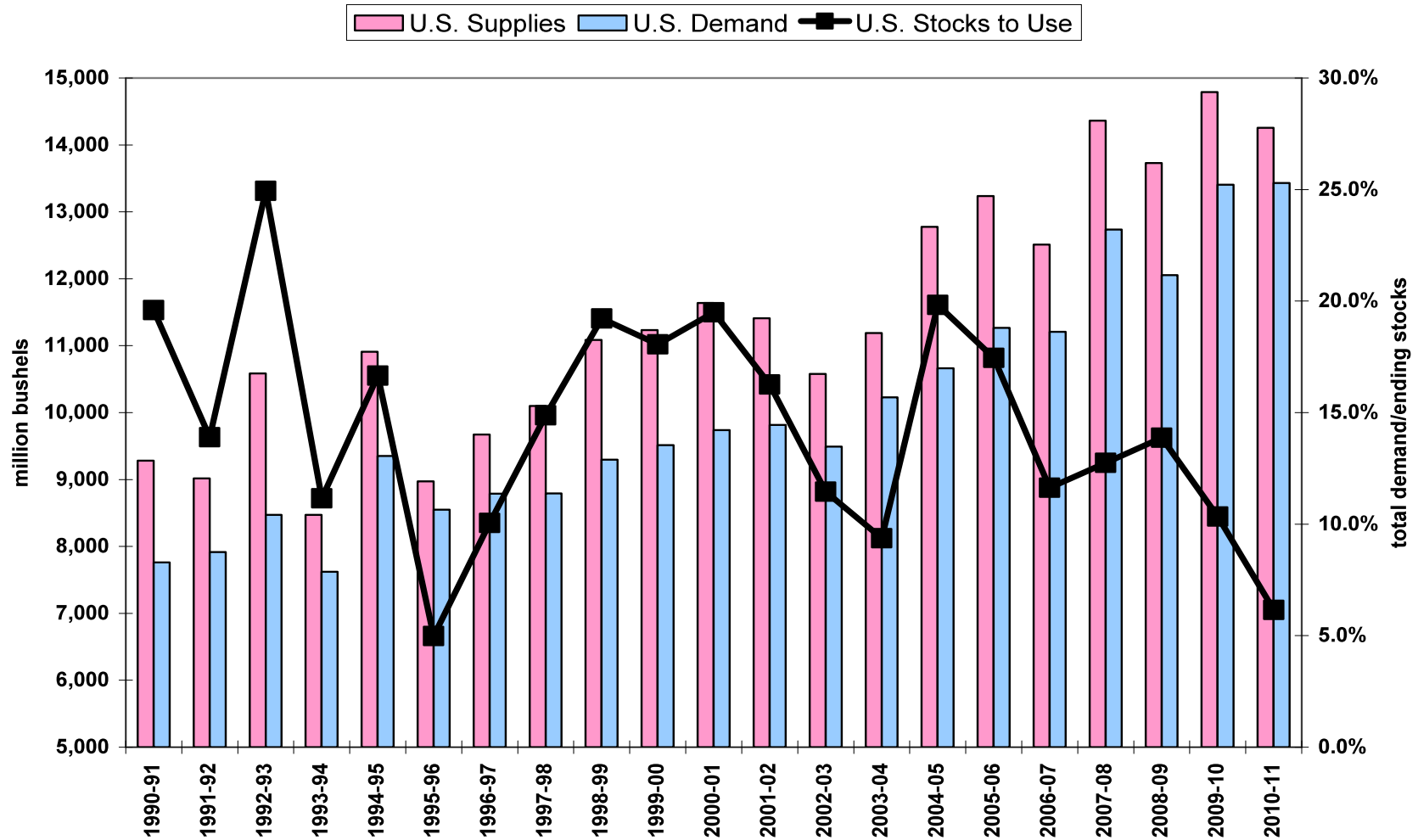
414746

1 Wk



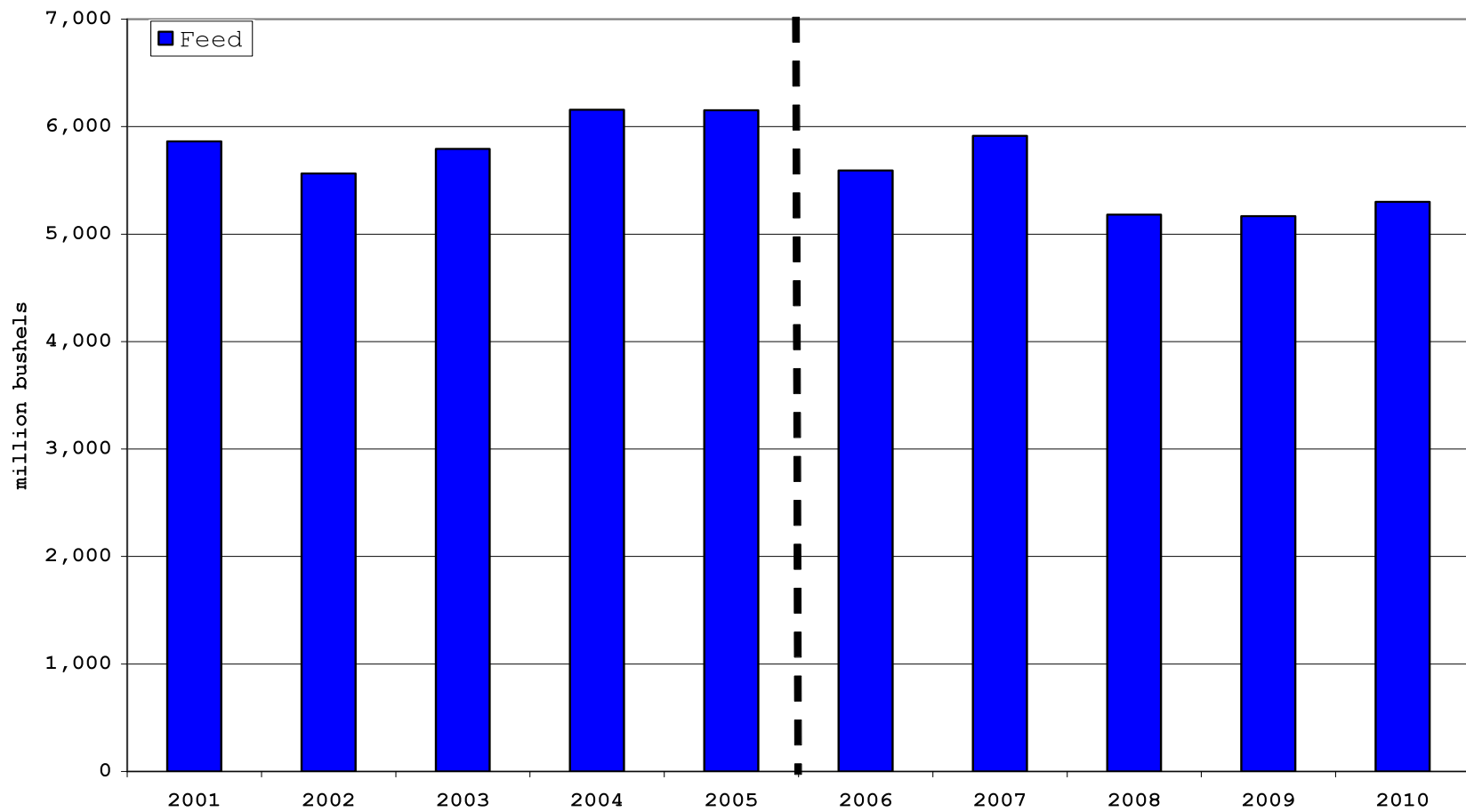
Corn Fundamentals

CORN: U.S. Supply/Demand and Stocks to Use



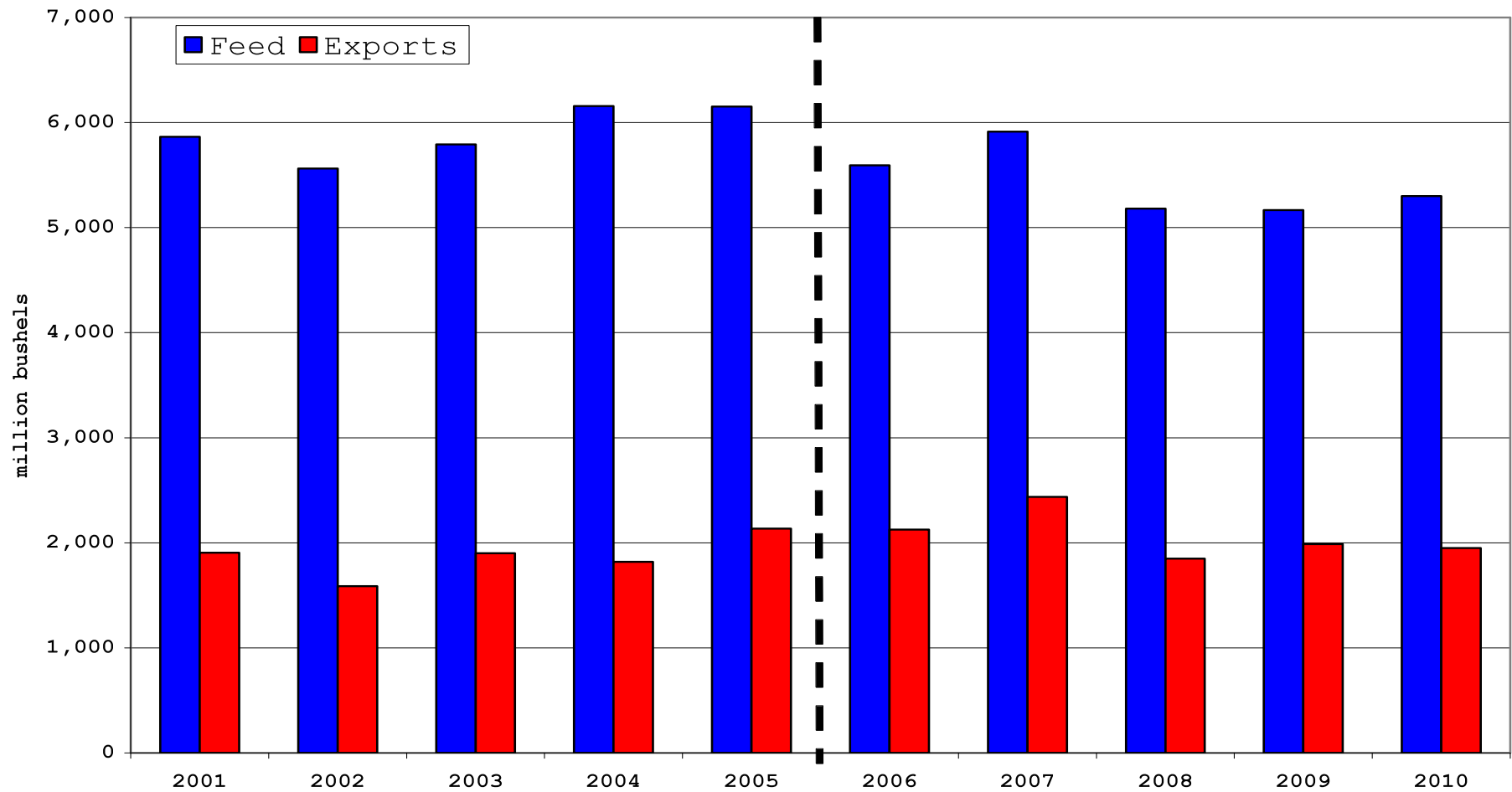
Corn Demand

DOMESTIC DEMAND: FEED



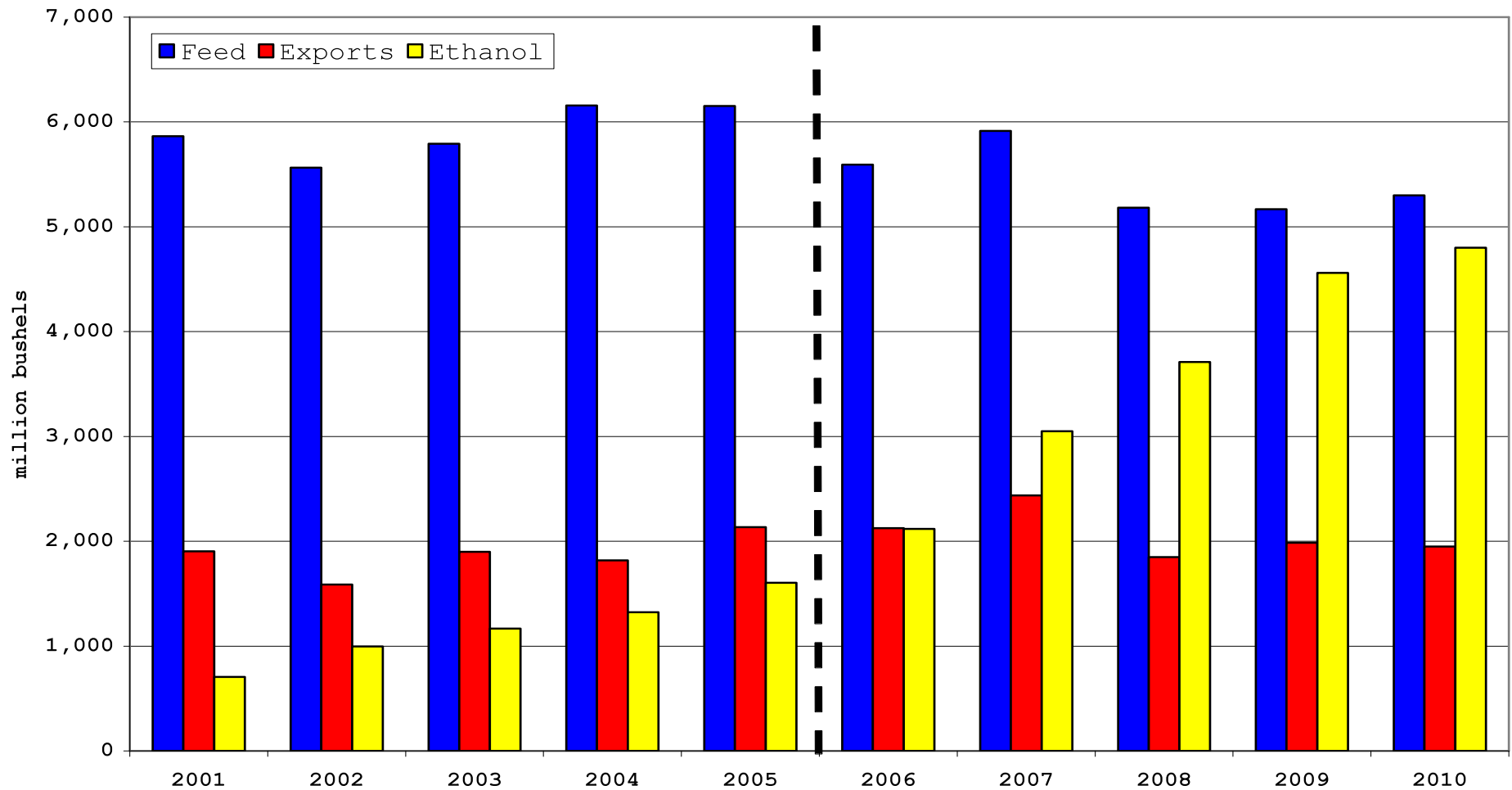
Corn Demand

DOMESTIC DEMAND: FEED, EXPORTS



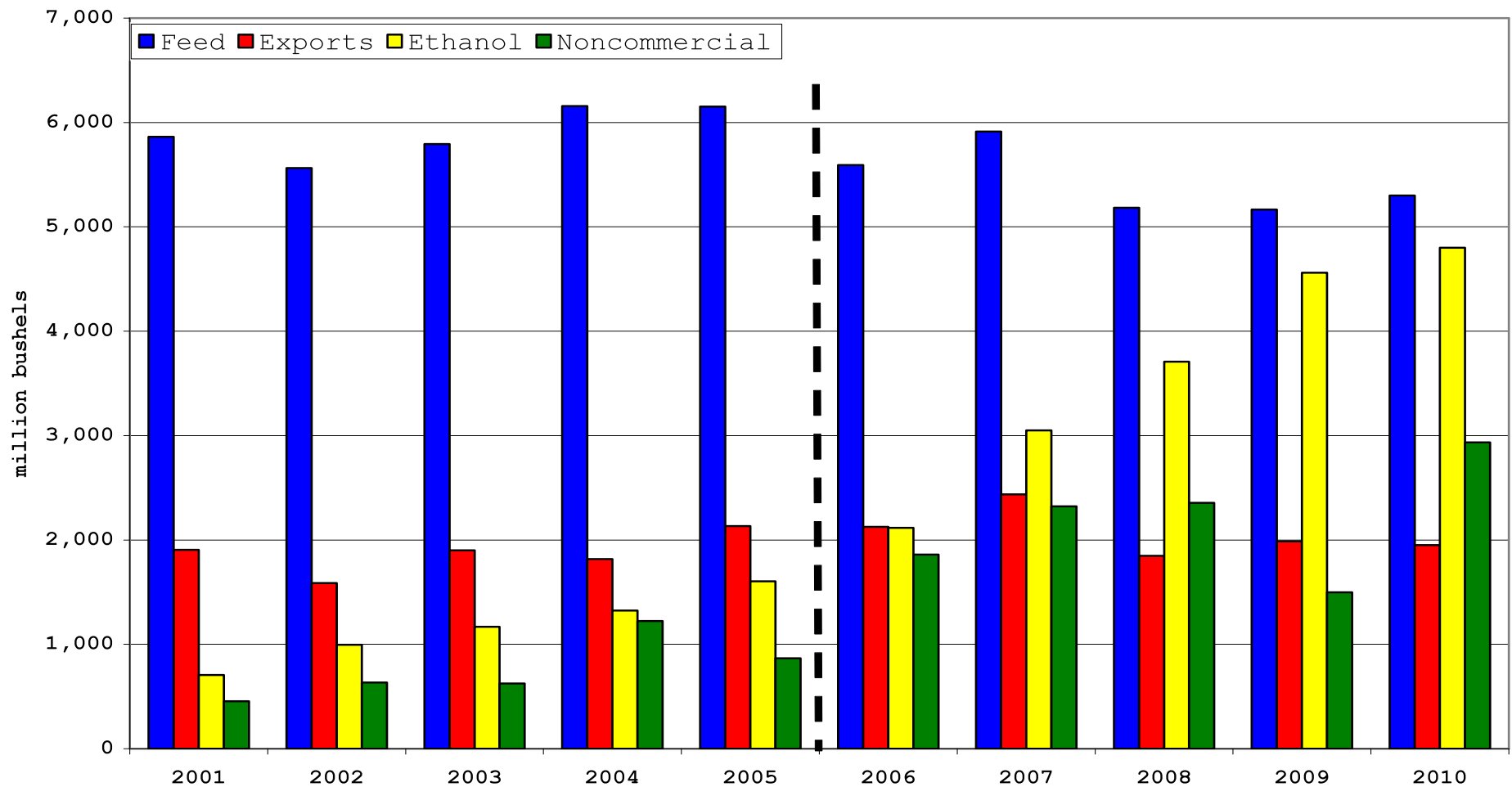
Corn Demand

DOMESTIC DEMAND: FEED, EXPORTS, ETHANOL



Corn Demand

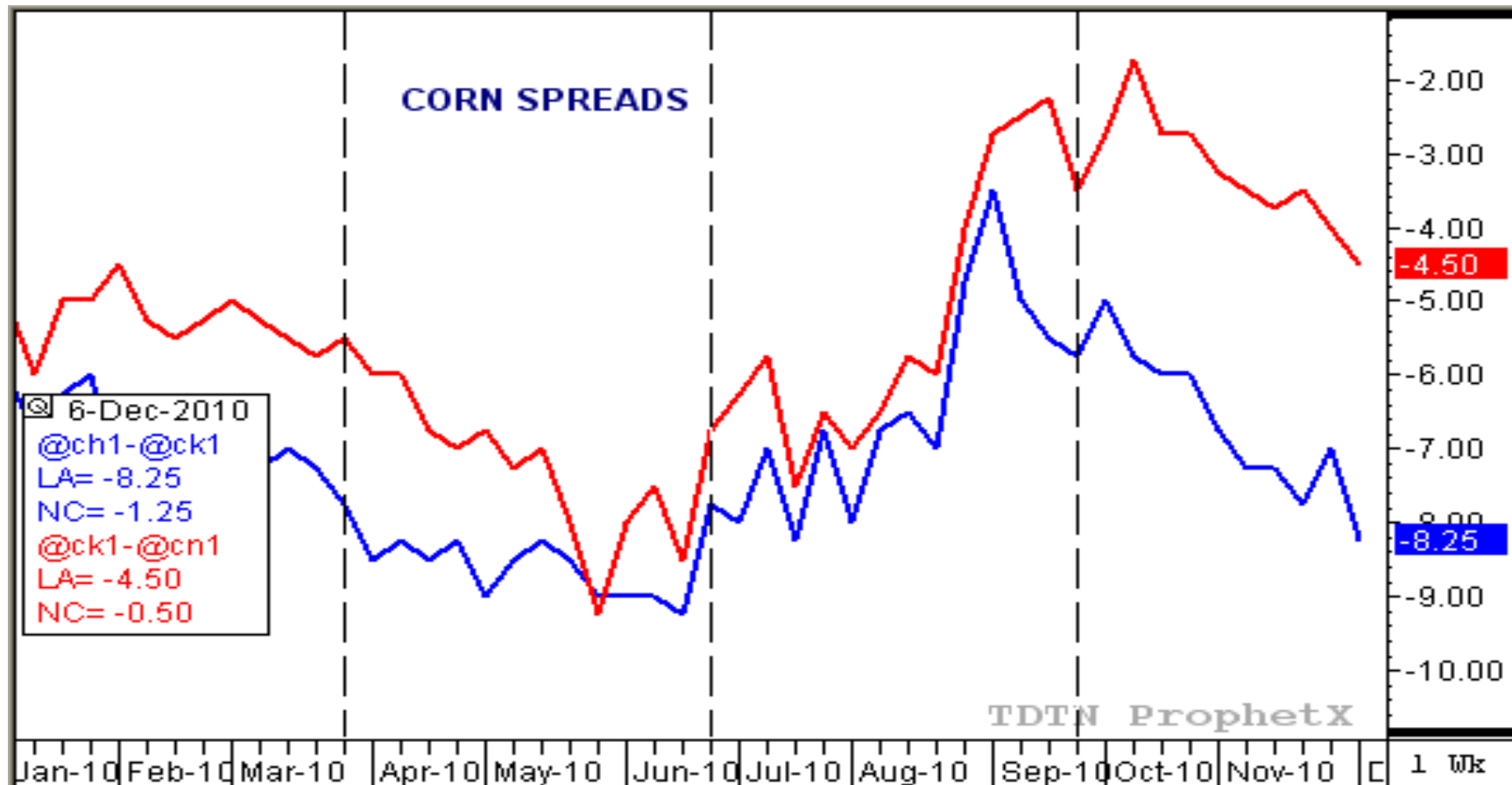
DOMESTIC DEMAND: FEED, EXPORTS, ETHANOL, And NONCOMMERCIAL LONGS



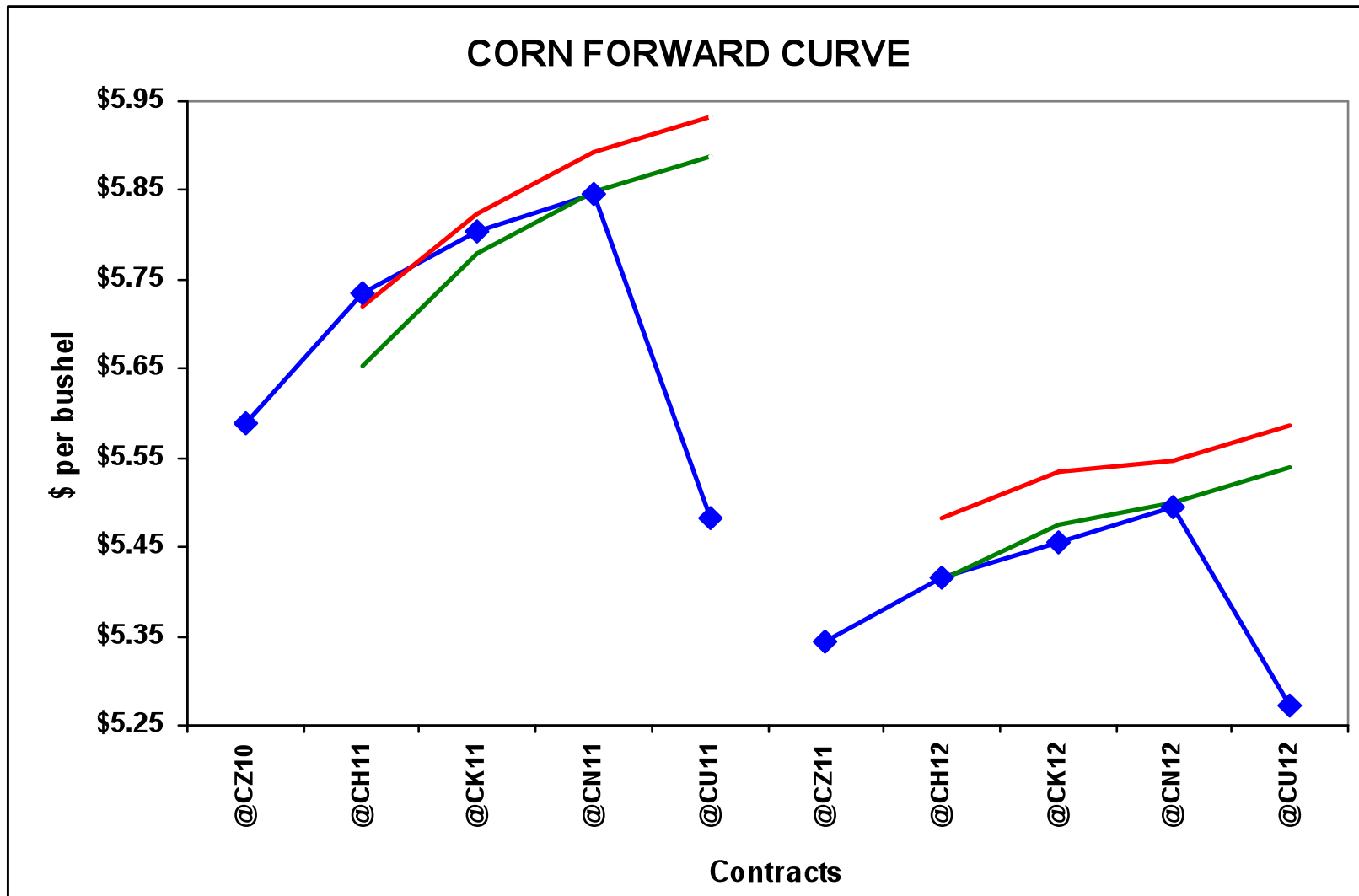
Corn: Demand Recap

	Feed	Exports	Ethanol	Noncommercial Longs
2001	5,864	1,905	706	455
2002	5,563	1,588	996	634
2003	5,793	1,900	1,168	624
2004	6,157	1,818	1,323	1,222
2005	6,153	2,134	1,603	866
2006	5,593	2,125	2,117	1,860
2007	5,914	2,437	3,049	2,321
2008	5,182	1,849	3,709	2,355
2009	5,167	1,987	4,560	1,498
2010	5,300	1,950	4,800	2,935
2001-2010	-10%	2%	580%	545%
2005-2010	-14%	-9%	199%	239%

CORN SPREADS

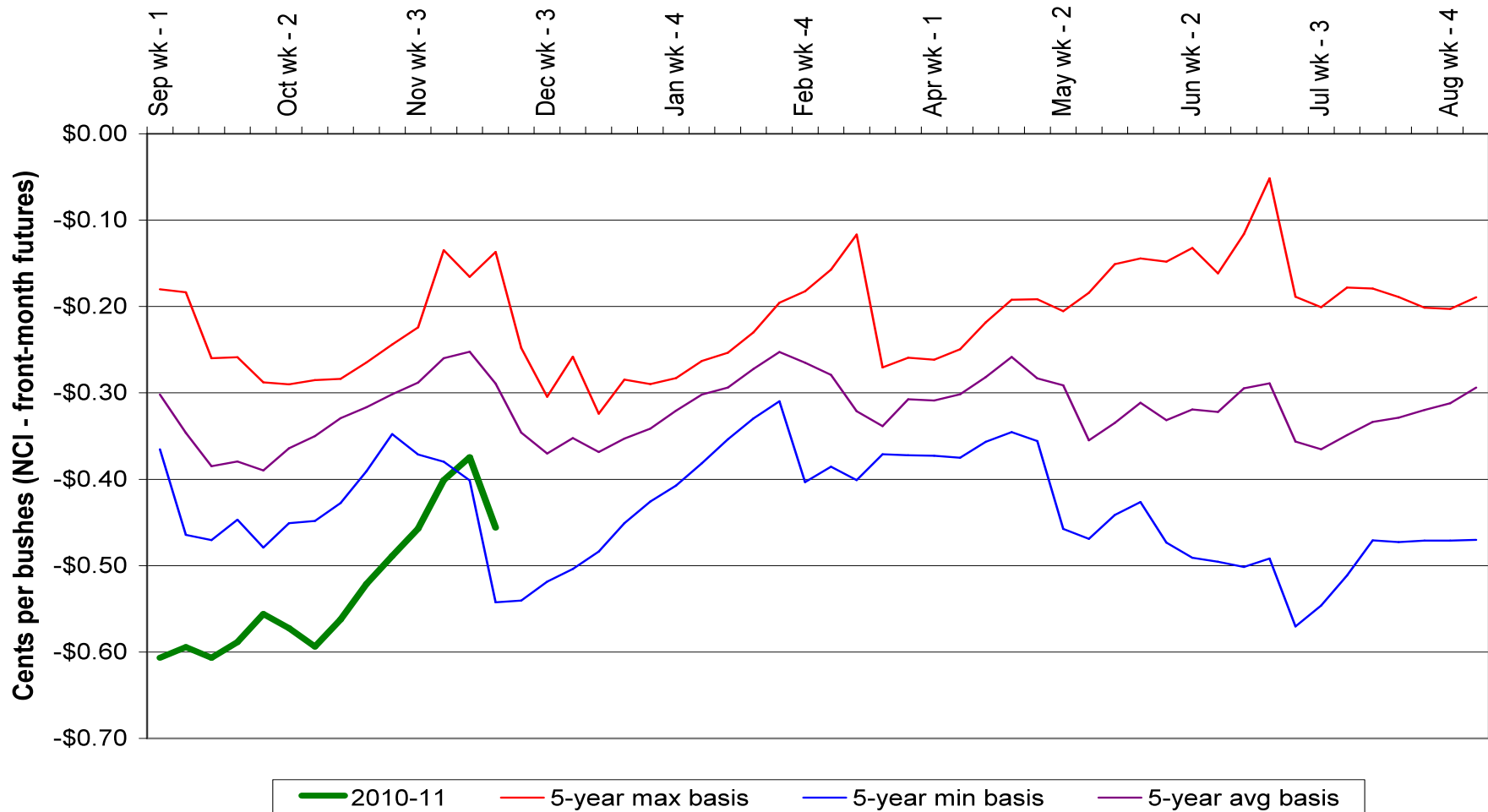


Corn: Forward Curve



Cash Corn Market

NATIONAL AVERAGE CORN BASIS
(DTN National Corn Index - front month futures)



CORN 2011 OUTLOOK

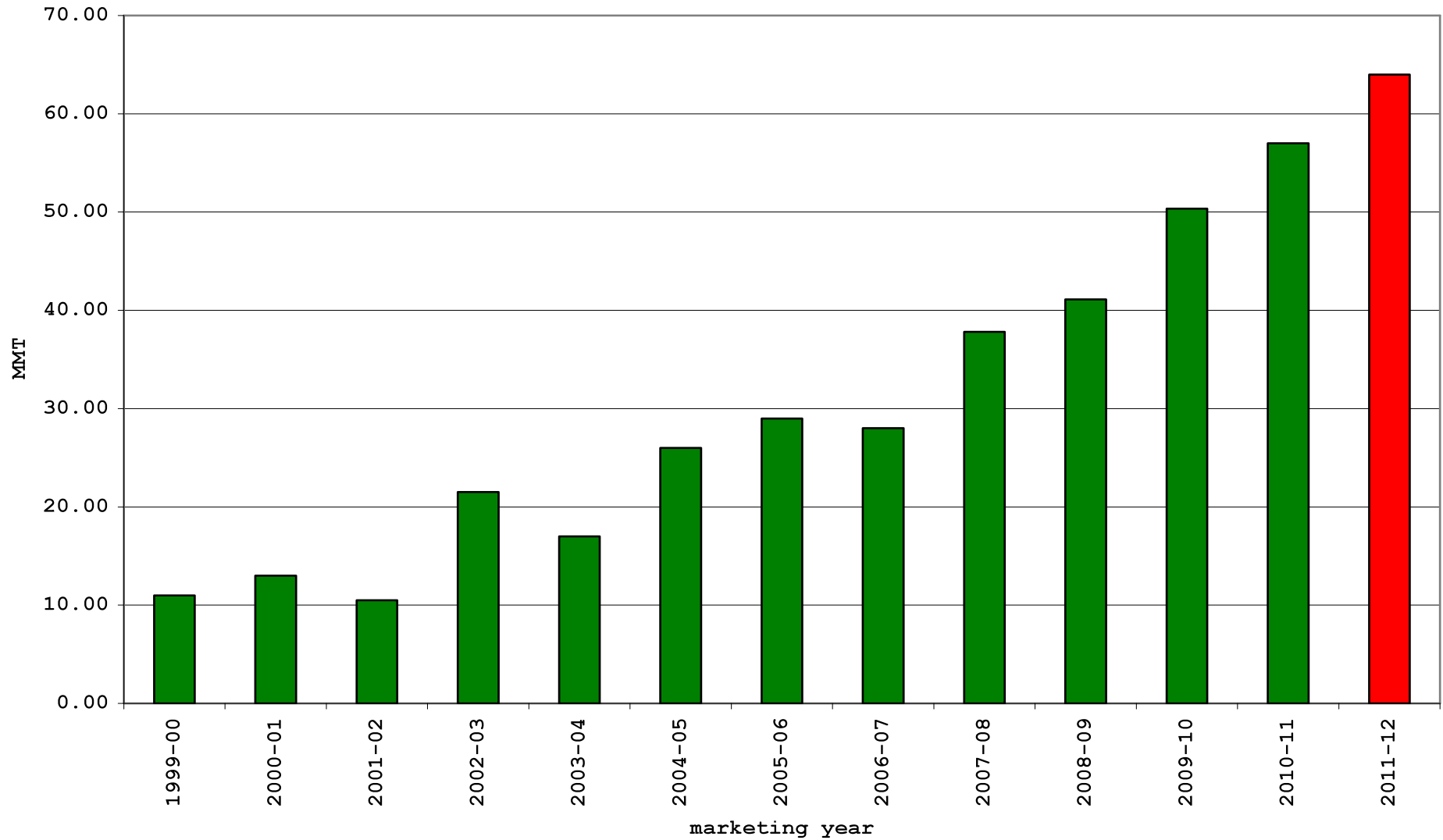
- **Structure**
- The long-term trend of the market remains up with the intermediate-term trend sideways between \$5.80 and \$5.30 (monthly close).
 - Bullish breakout = \$6.30
 - Bearish breakout = \$4.80
- The commercial outlook is neutral
 - As indicated by the carry in both the March to May and May to July futures spreads.
 - The weaker carry in the new-crop spreads indicates a neutral to bullish outlook.
- **Bottom line: The corn market is neutral heading into 2011, almost as if traders are taking a wait and see approach. Longer-term it looks like the market could find commercial support, but if the spreads continue to trend down (strengthening carry) then the nearby futures contract will be hard pressed to move much past the \$6.10 to \$6.30 area.**

SOYBEANS

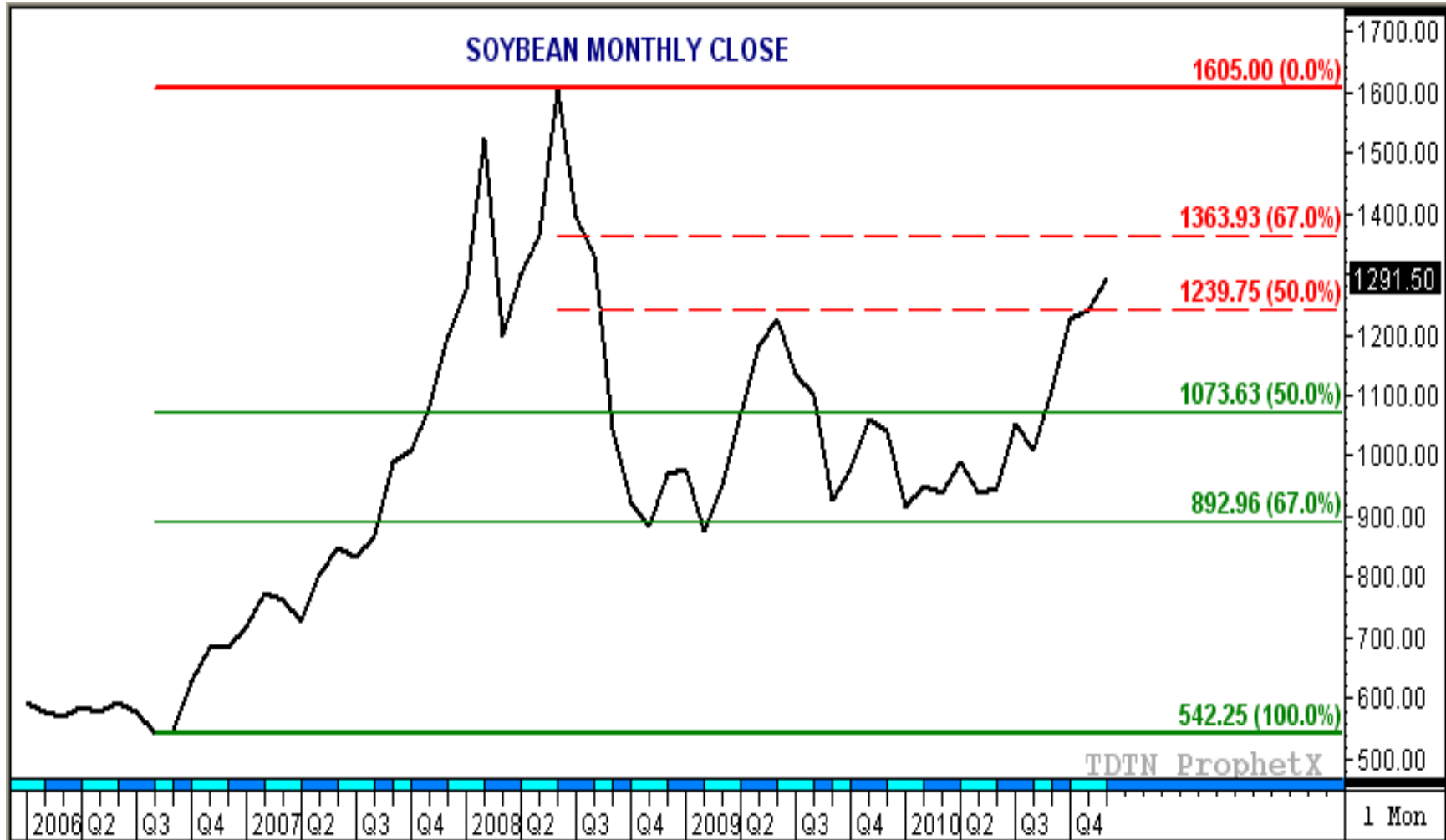
SOYBEAN SITUATION

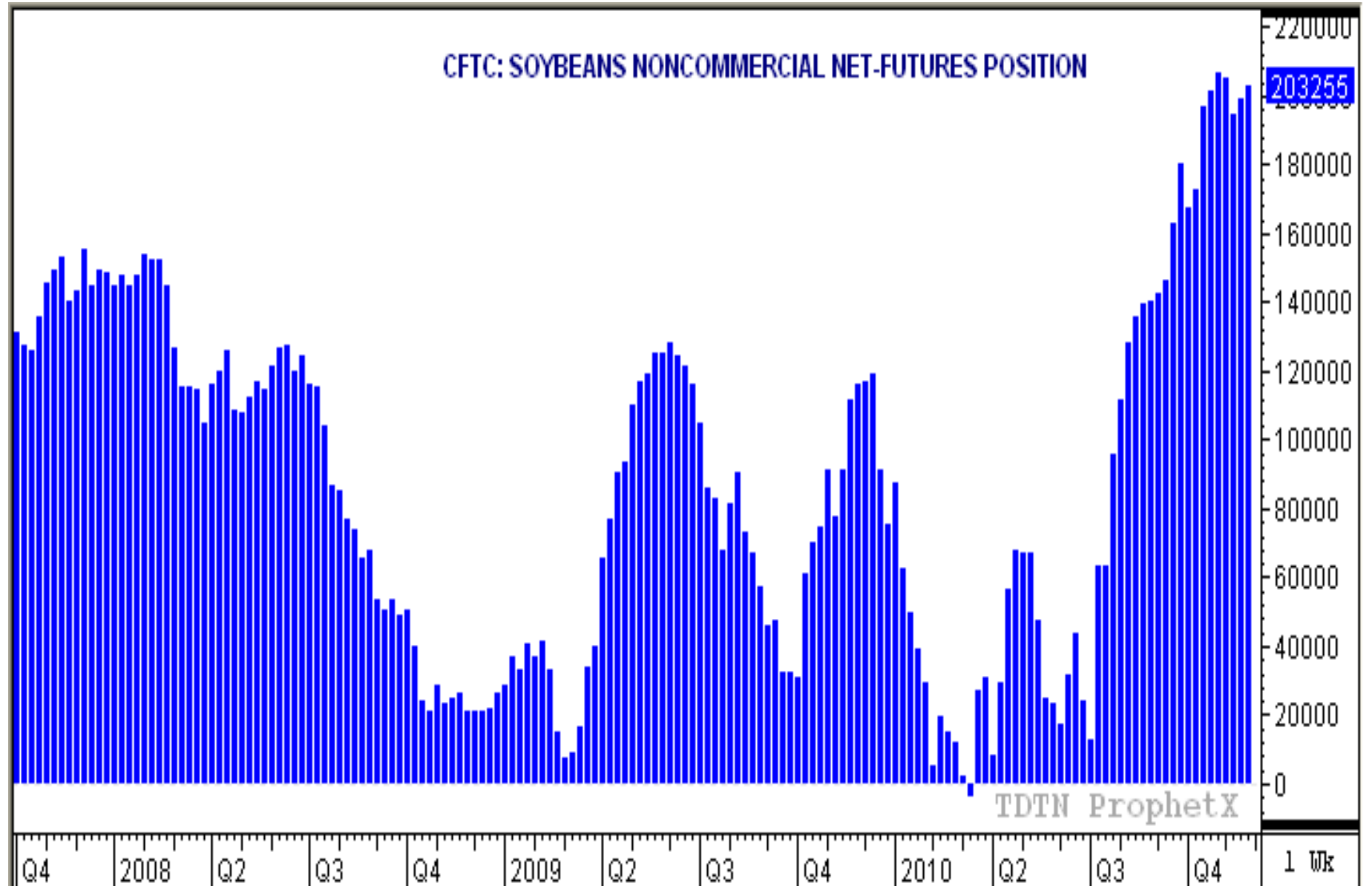
- **Chinese Import Demand**
 - Could increase to 64 mmt*
 - 2010-11 import demand projected at 57 mmt
- **US exports**
 - Projected at 1.57 bb in 2010-2011
 - A 7 mmt increase in Chinese import demand could equate to an increase in US export demand of roughly 180 mb.
- **South American production**
- **US acreage 2011**
 - If trendline yield for 2011-2012 roughly 44 bpa
 - Then US needs additional 4 million acres to meet increased Chinese demand

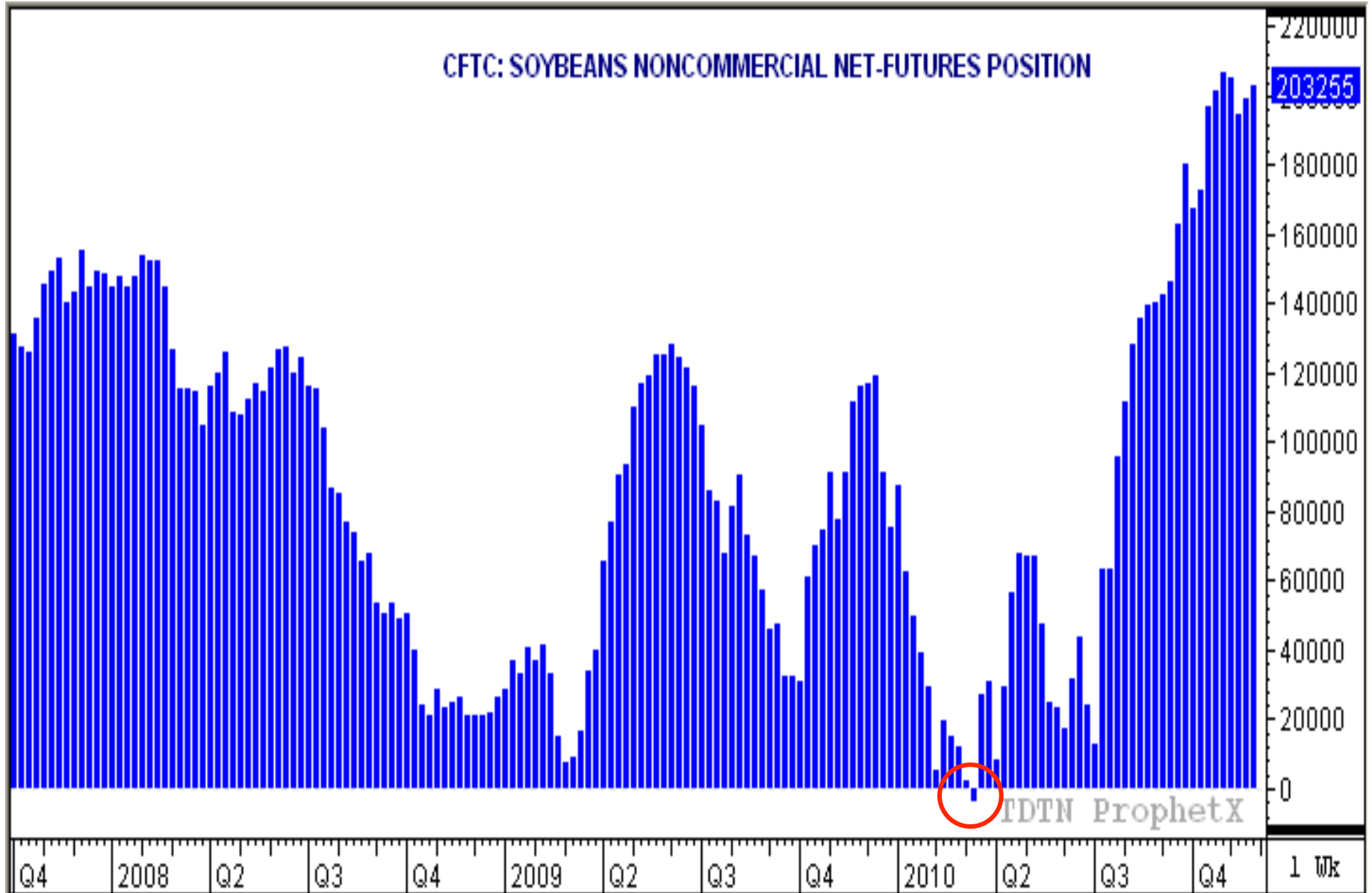
CHINESE SOYBEAN IMPORTS



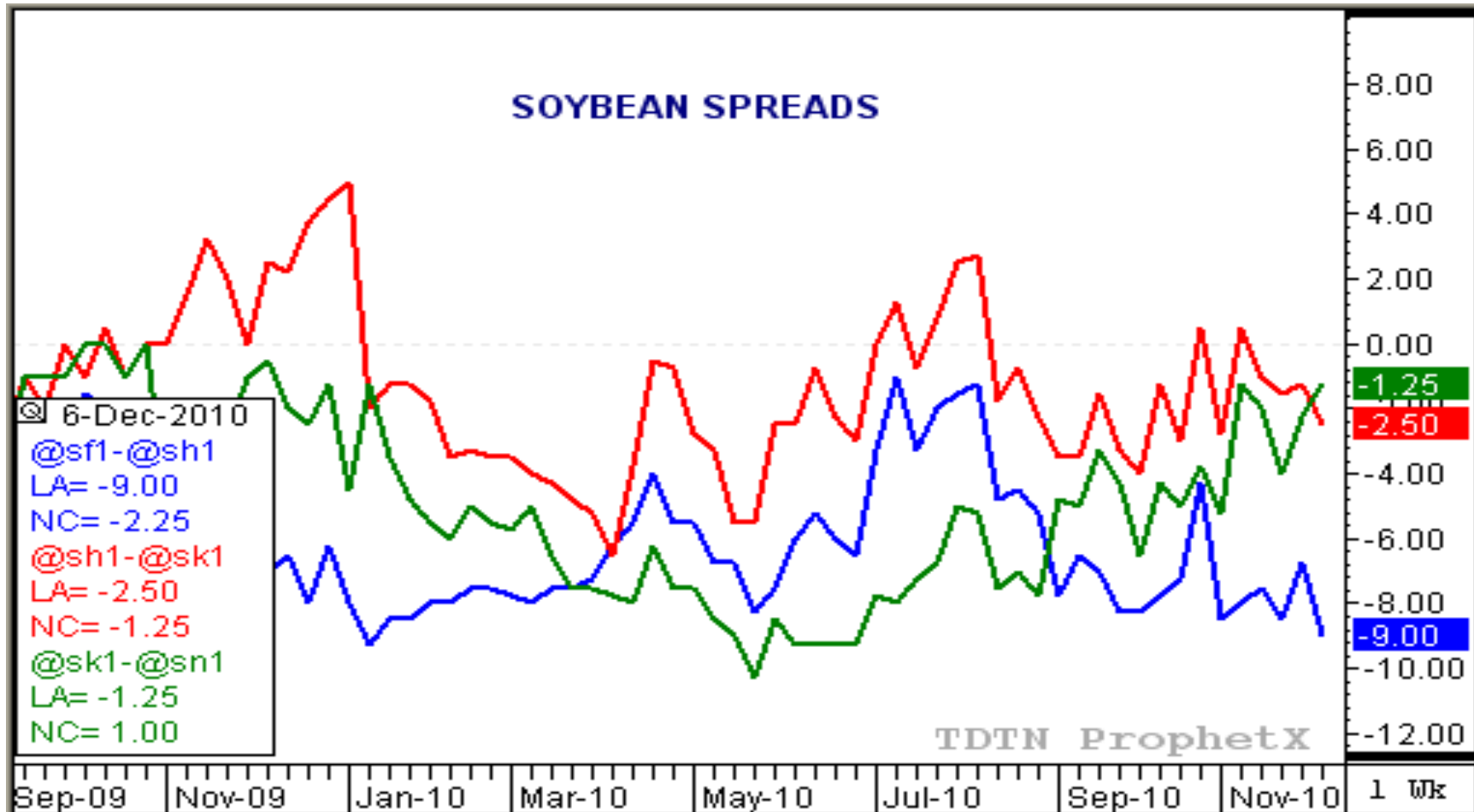
SOYBEAN TREND



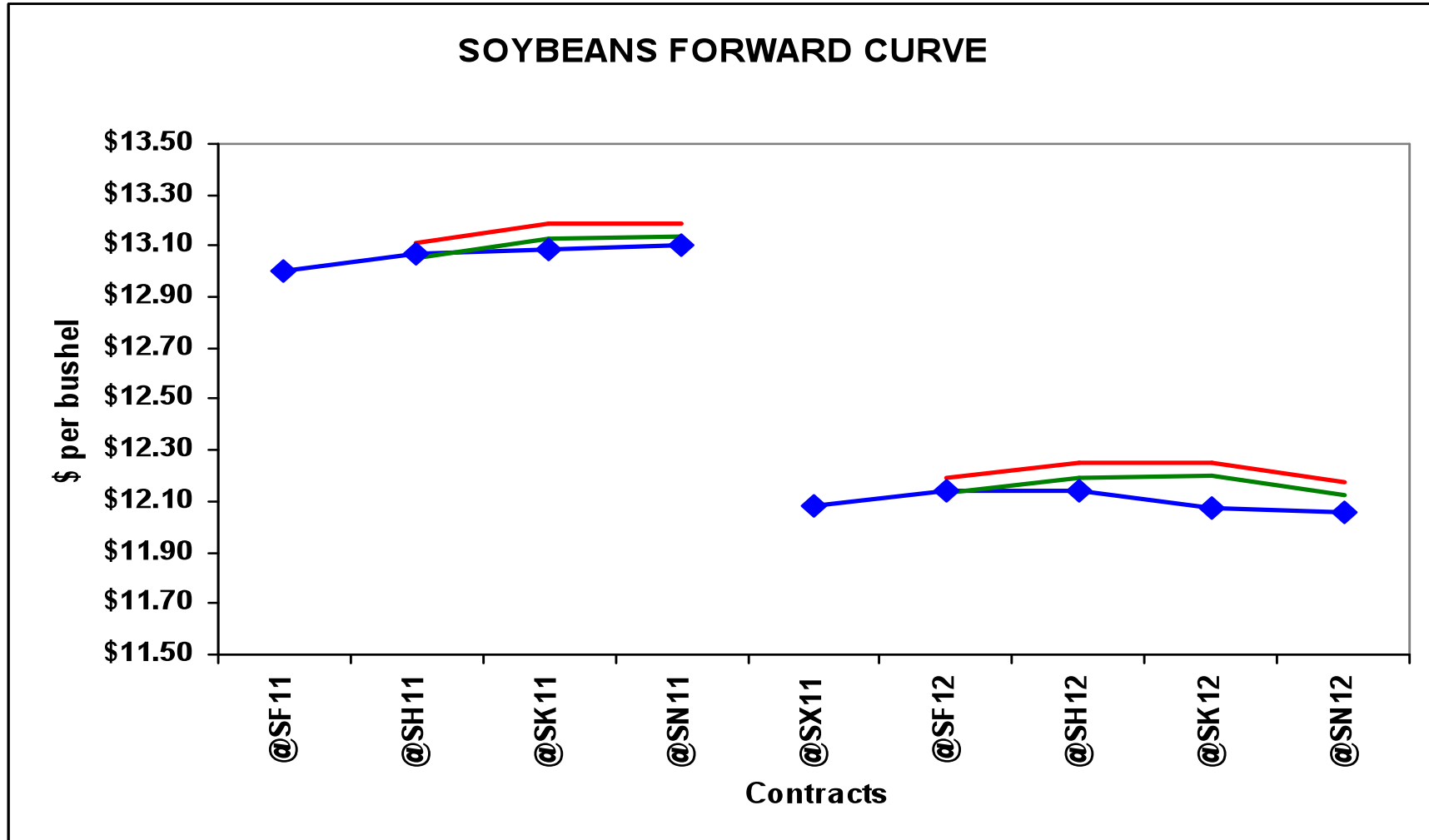




SOYBEAN SPREADS

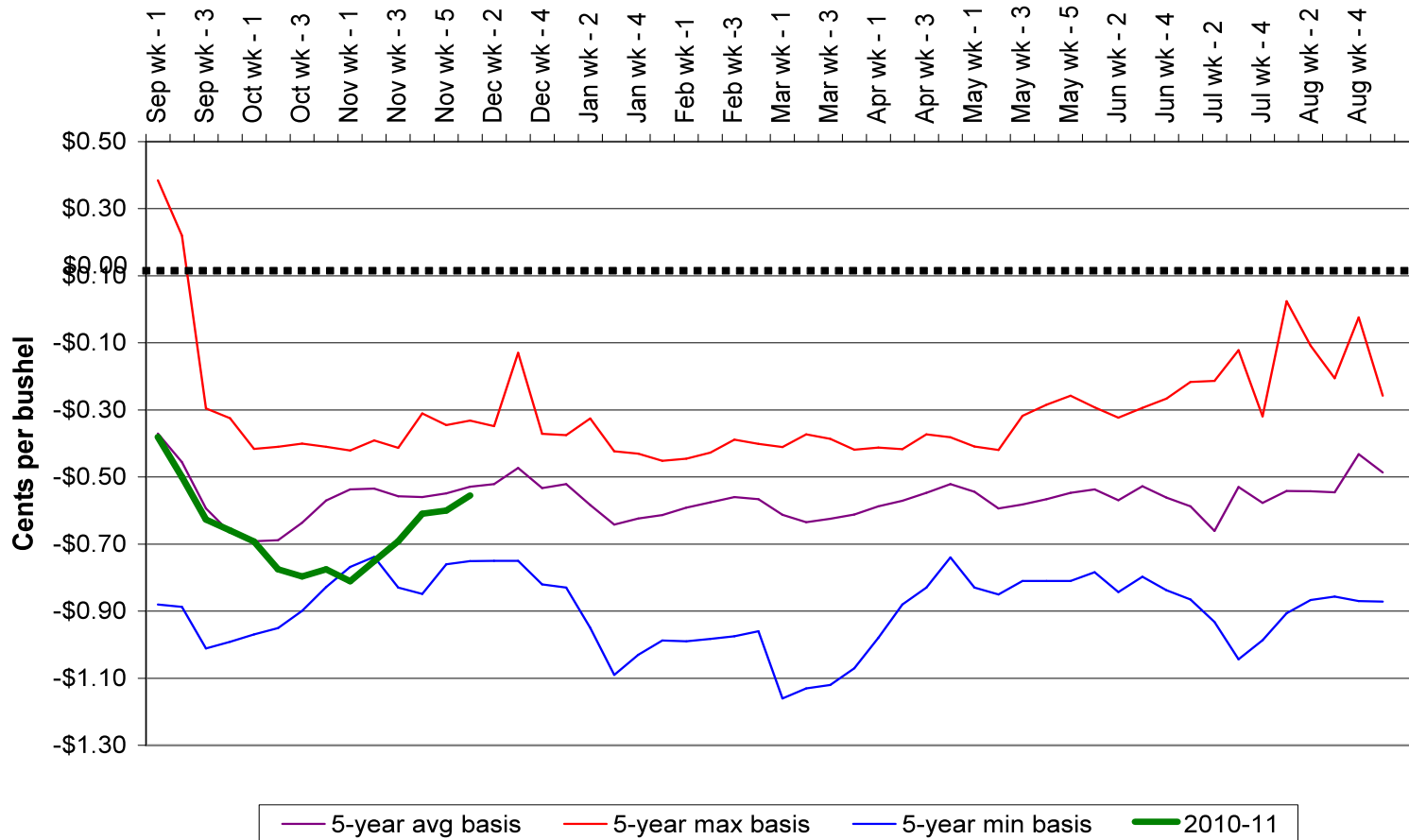


Soybean Structure: Spreads



Soybeans: Cash Market

**NATIONAL AVERAGE SOYBEAN BASIS:
DTN Index - front month futures**



SOYBEAN OUTLOOK

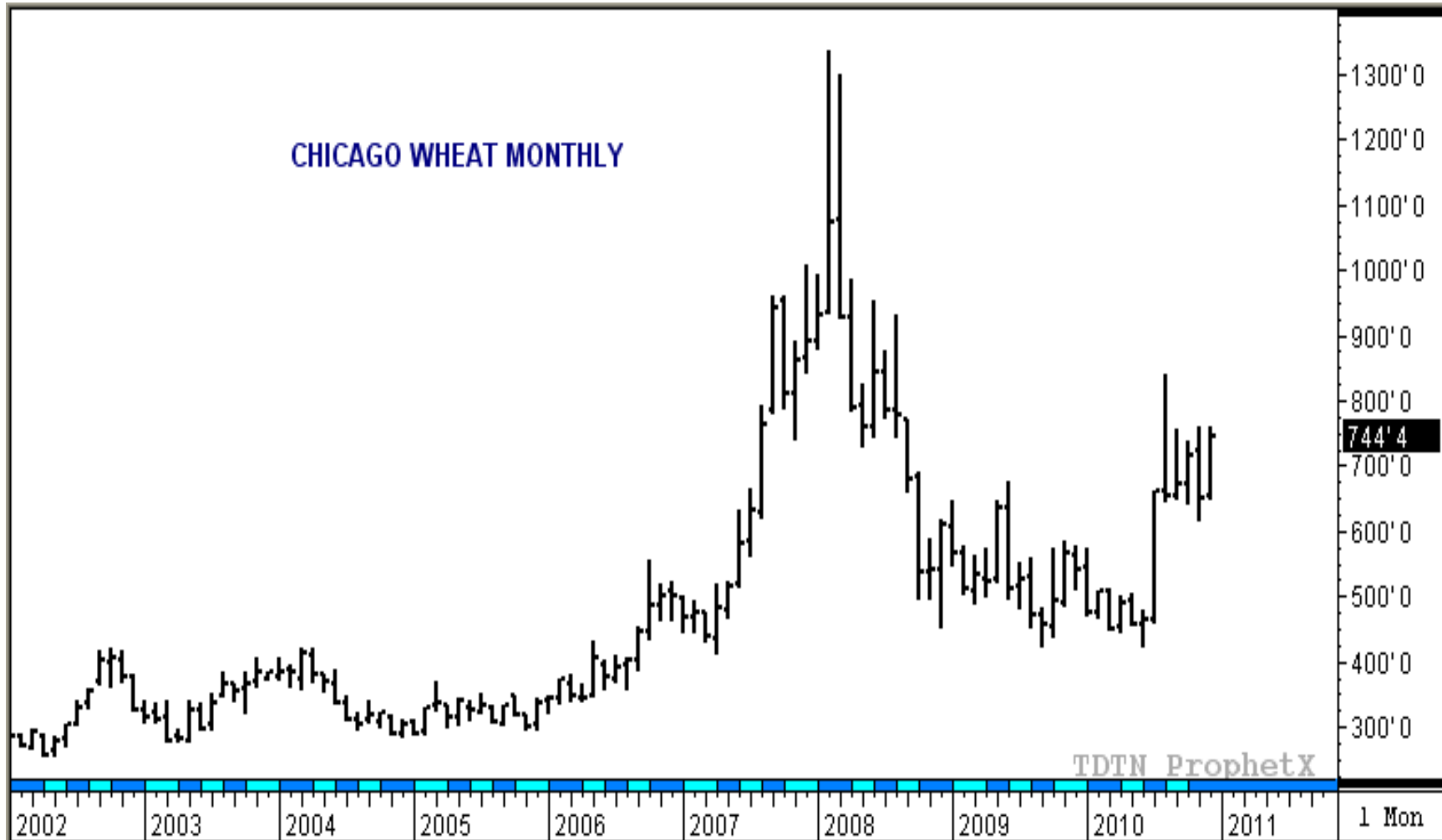
- **Structure**
- The long-term trend of the market remains up
- The commercial outlook is neutral to bullish
 - Short-term (Jan-Mar spread) neutral
 - Longer-term bullish
 - The spread situation in both 2010-2011 and 2011-2012 contracts indicate bullish commercial outlook.
- **Bottom line: Given its bullish structure, soybeans should move into the role of lead ag commodity in the early part of 2011. The key factor to watch will be growing Chinese demand offsetting possible increases in supplies. If so, a run at the 2008 highs in the \$16.00 range is not out of the question. Cash market could gain on futures market as supply/demand situation tightens.**

WHEAT

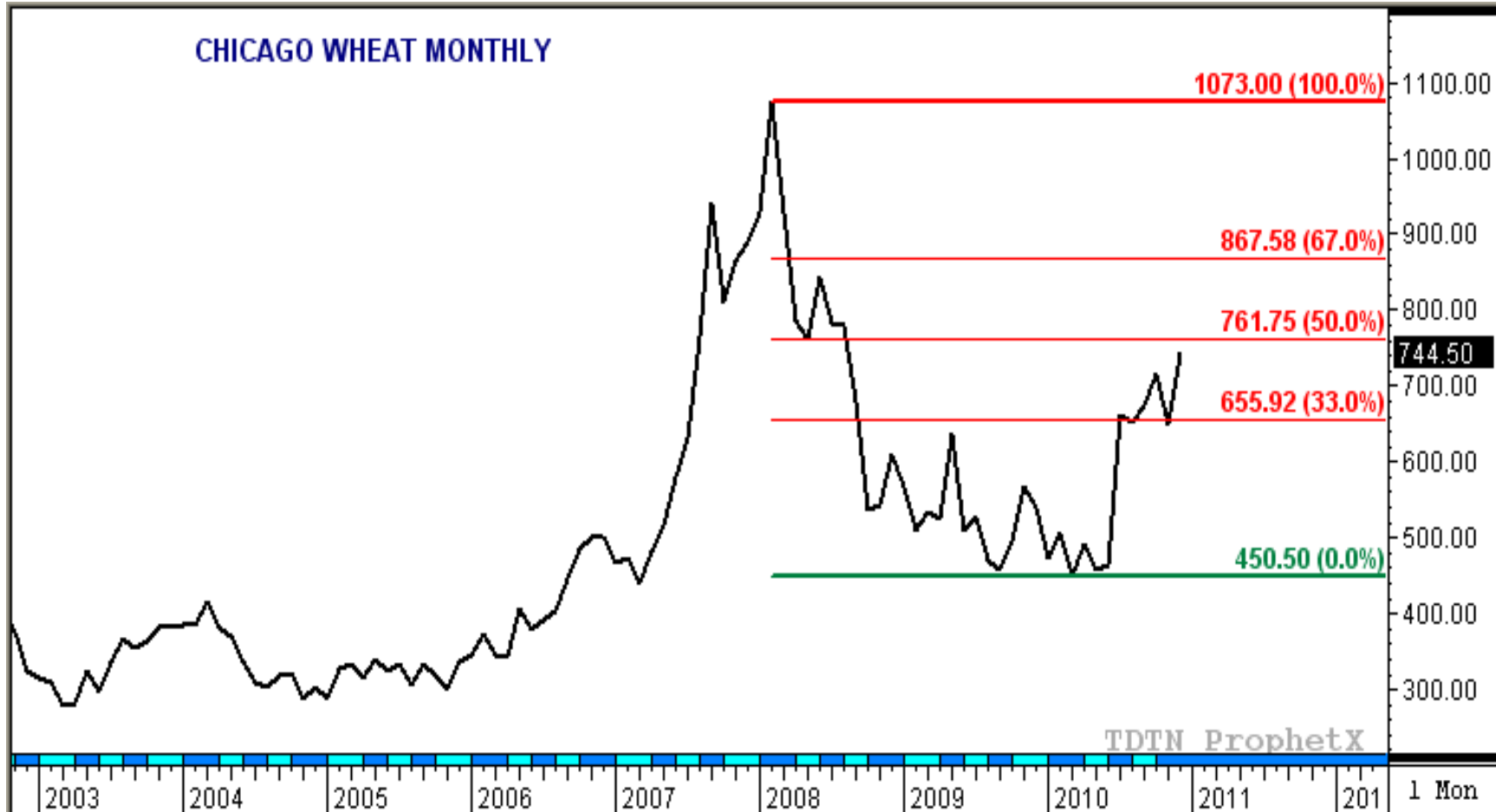
WHEAT SITUATION

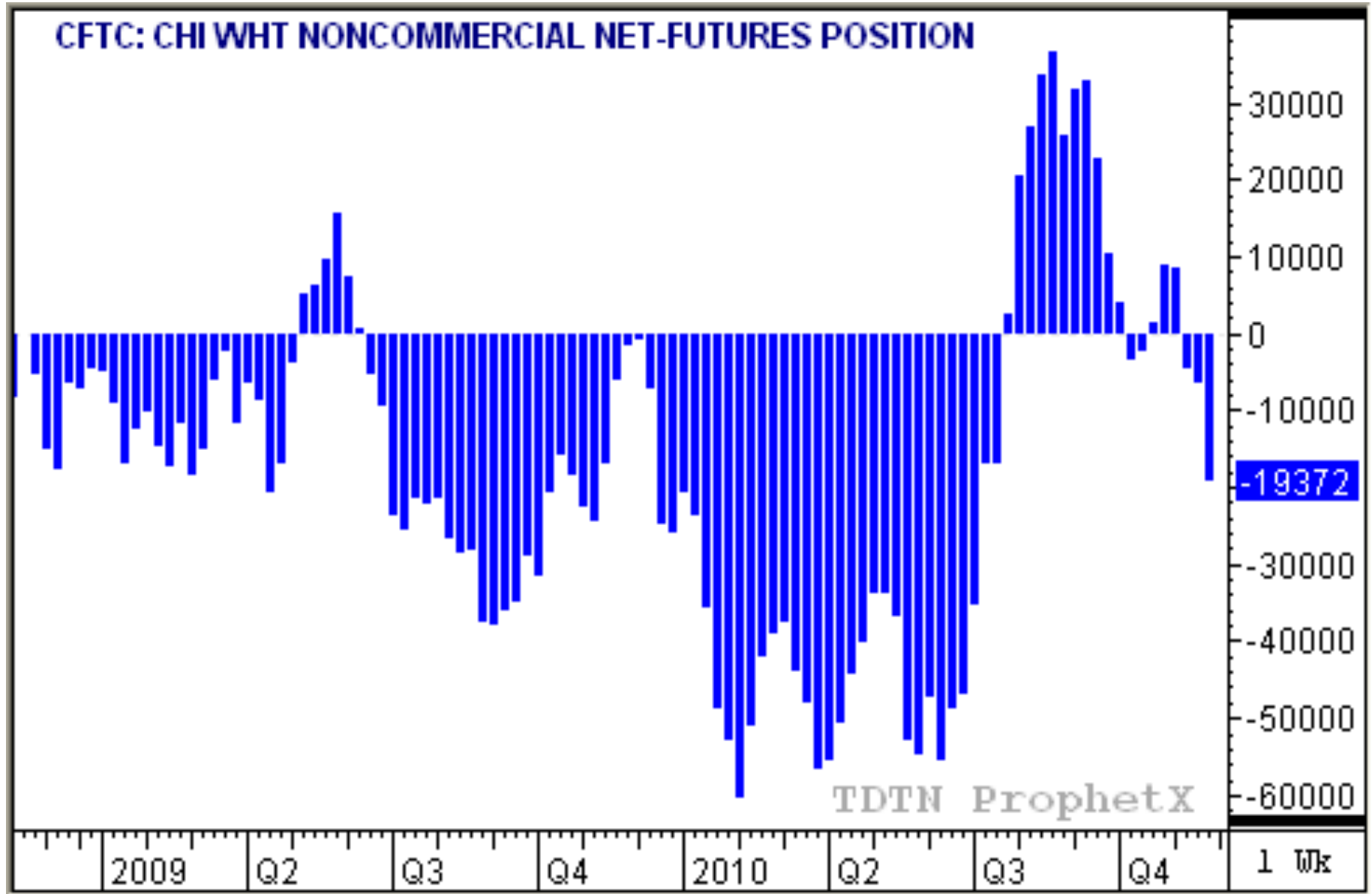
- **Key global growing areas continue to have issues**
 - Australia – heavy rains during harvest
 - Russia/Black Sea – Dry winter conditions
 - US Southern Plains – Dry winter conditions
- **Global supplies have dropped**
 - Another year like 2010 could have global ending stocks testing 2007-2008 levels
- **Global demand continues to increase**
 - Global ending stocks to use are far from tight, but another year of reduced production could create a “panic” situation
- **US acreage 2011**
 - Winter wheat acres are thought to have increased dramatically
 - However, poor conditions could lead to replanting into spring row crops
 - Spring wheat acres could be the wild card

CHICAGO WHEAT TREND

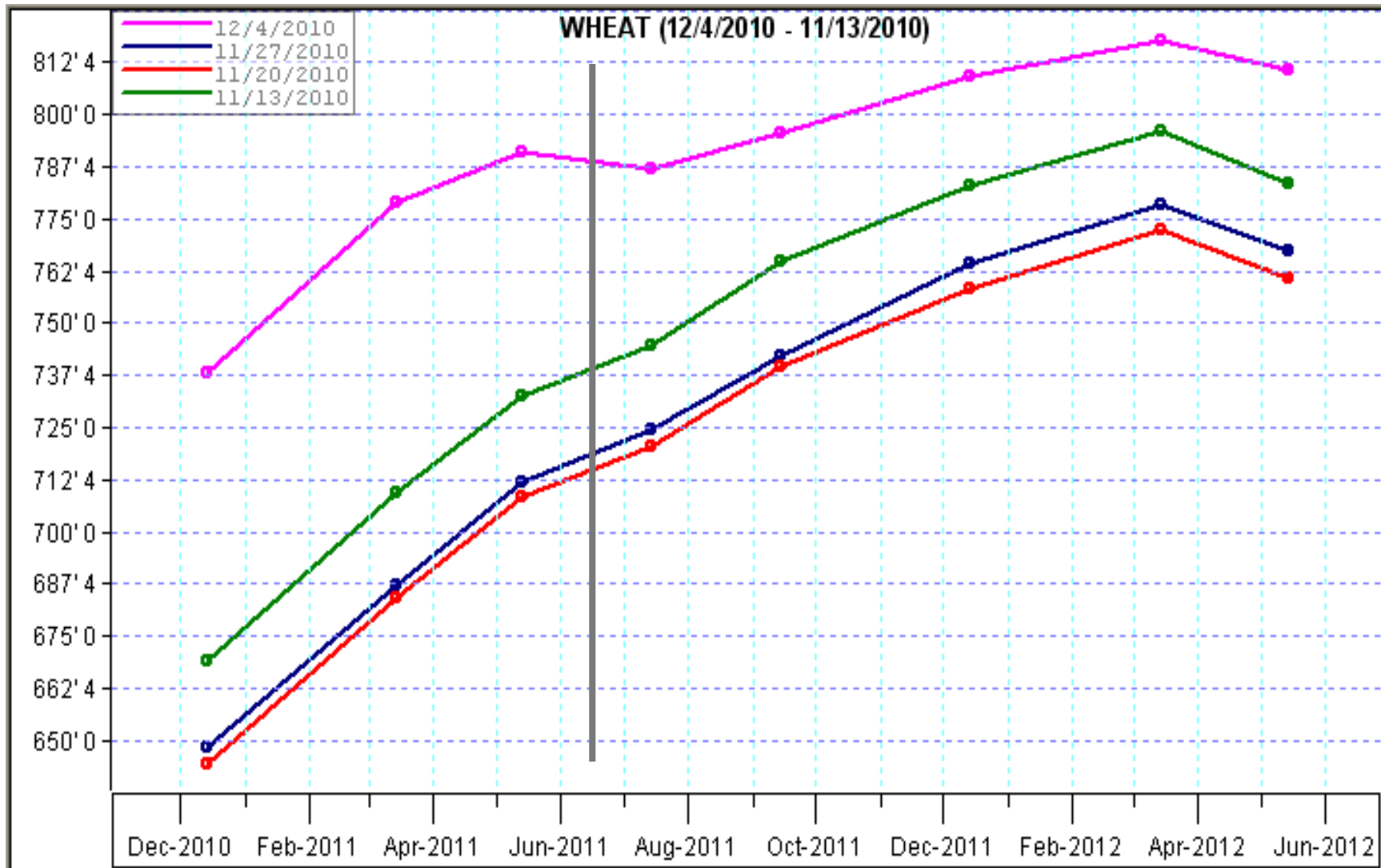


CHICAGO WHEAT TREND W/O NOISE



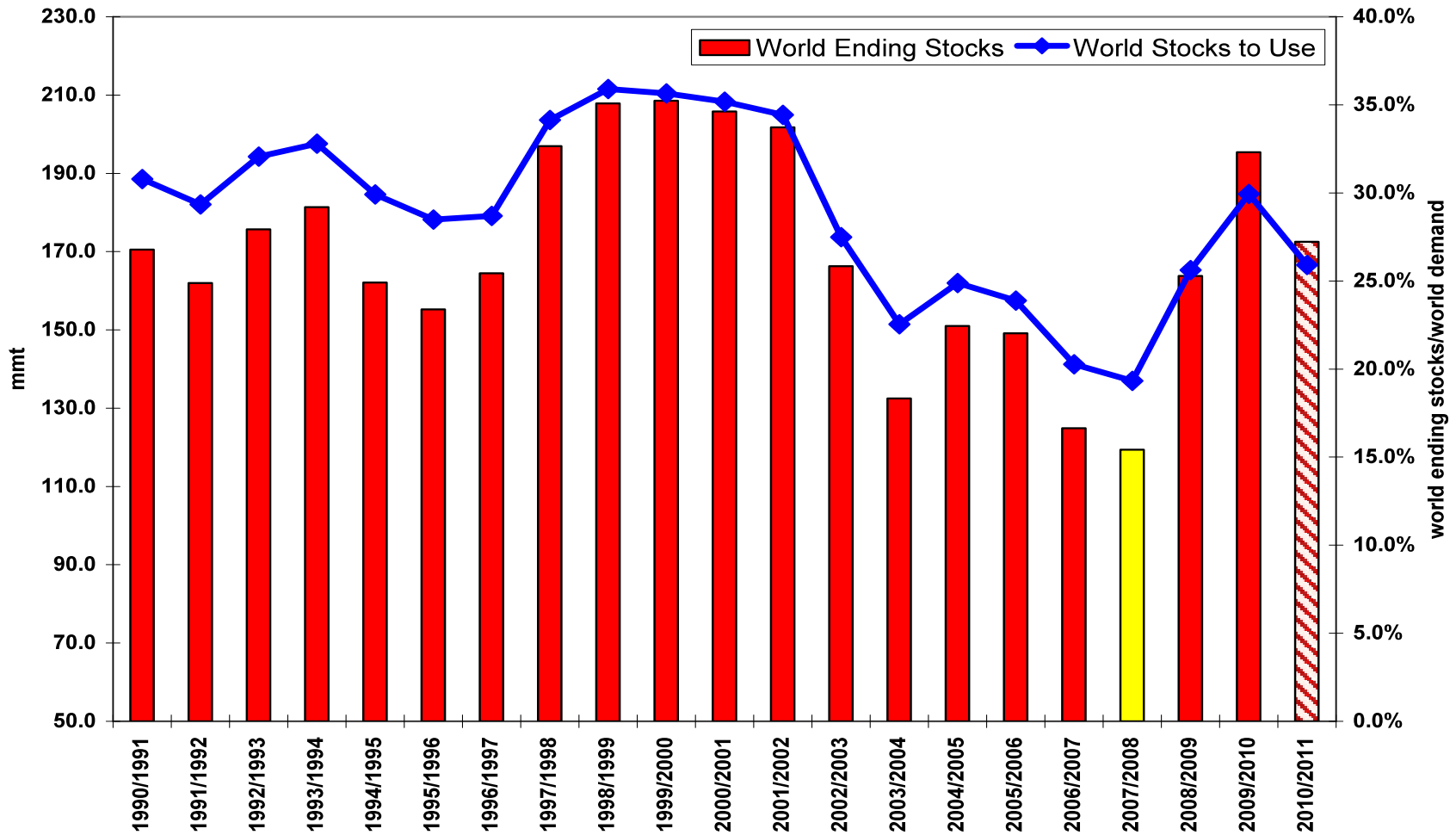


Wheat Structure: Spreads



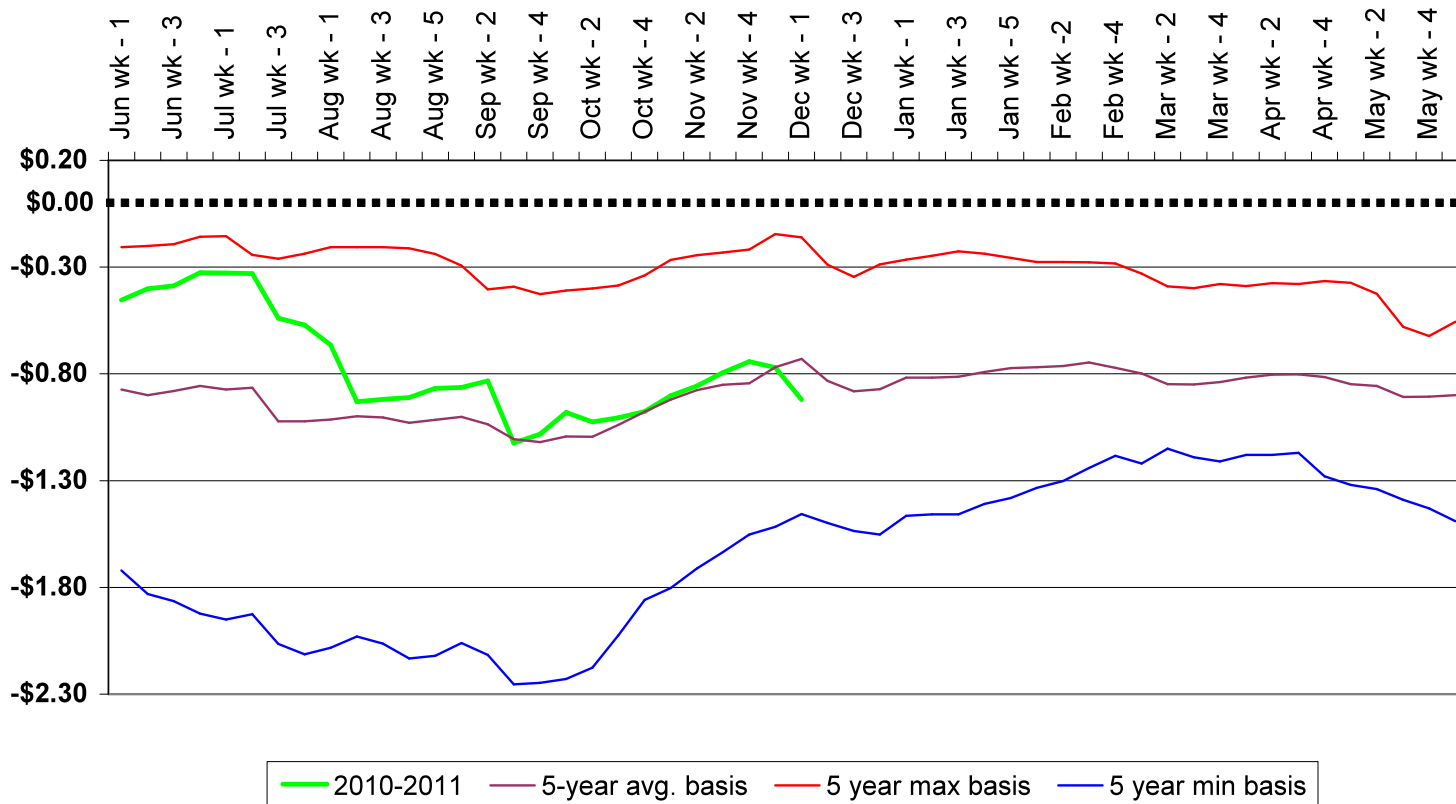
World Wheat Fundamentals

World Wheat Ending Stocks



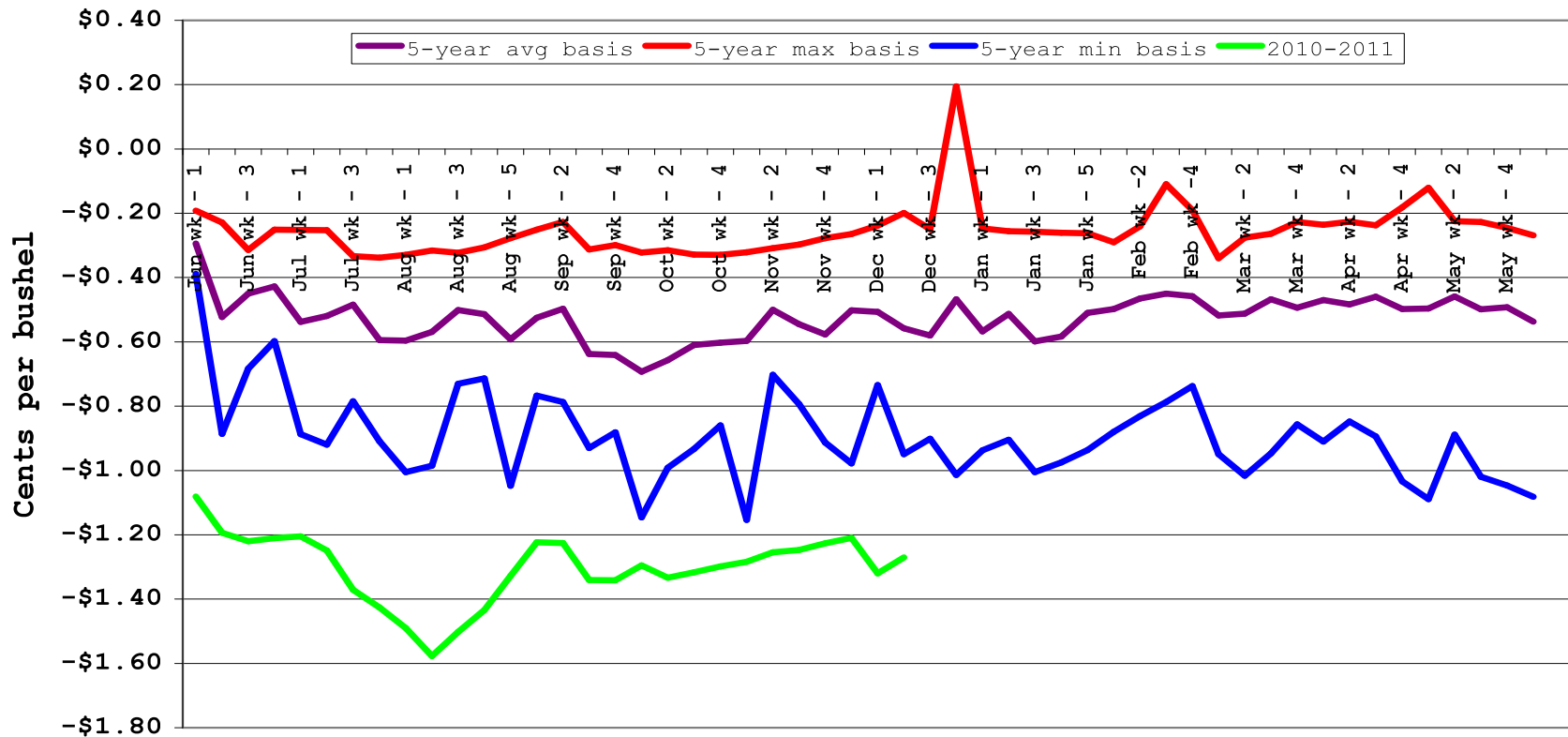
Wheat (SRW) Basis

SRW Basis



Wheat (HRW) Basis Problems

HARD RED WINTER WHEAT NATIONAL AVERAGE BASIS
DTN Index - front month Kansas City futures



WHEAT 2011 OUTLOOK

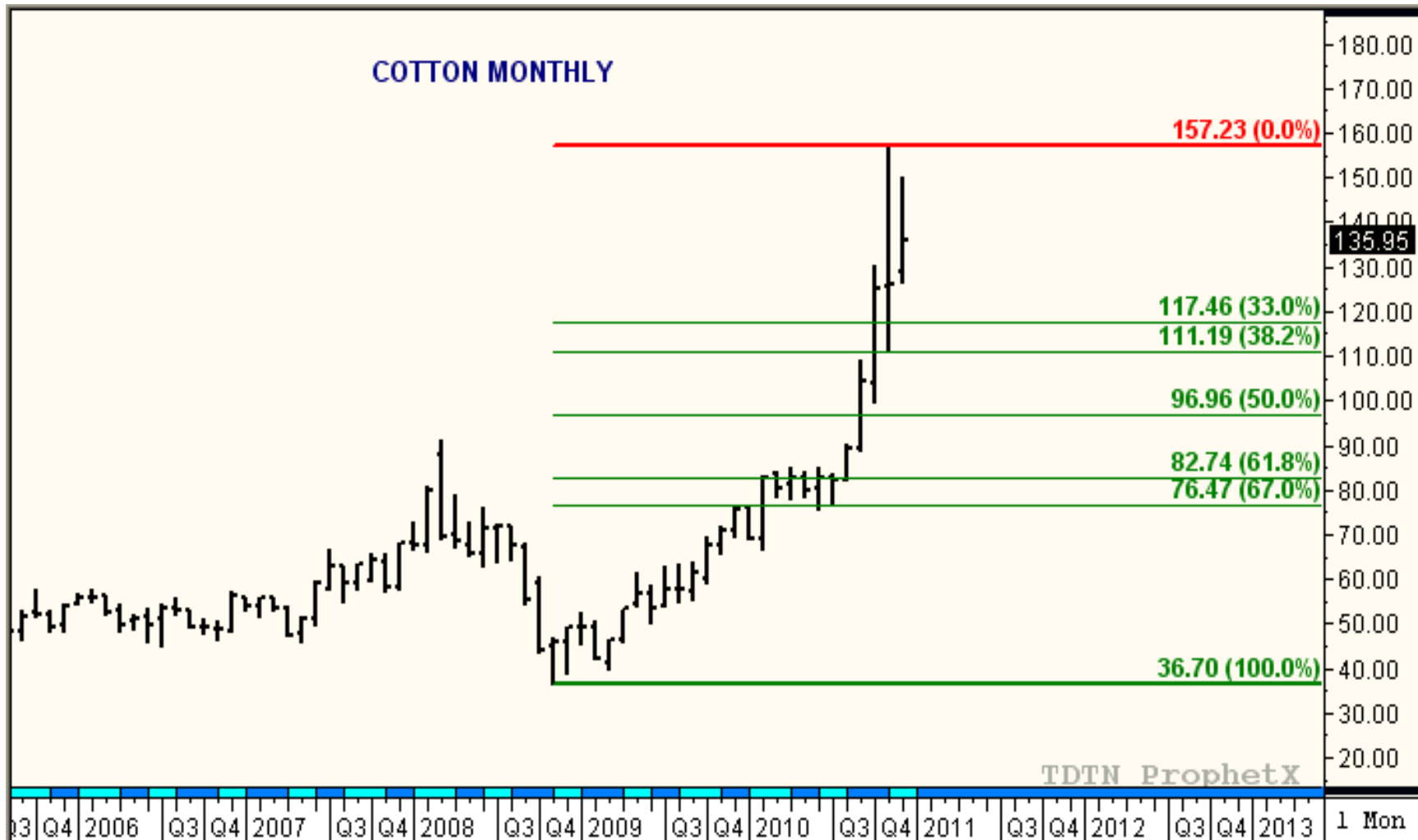
- **Structure**
- The long-term trend of the market remains up with resistance near \$7.60, then \$8.80.
- The long-term fundamentals remain bearish
 - The carry in the futures spreads remains strong
 - Leading to large deliveries, sparking short-term rallies at delivery period
- **Bottom line: The wheat market remains a bit of a mystery. While recent action has indicated a possible turn to a more bullish trend, the commercial outlook remains bearish. The bulk of support early in 2011 could come from noncommercial short-covering.**

COTTON

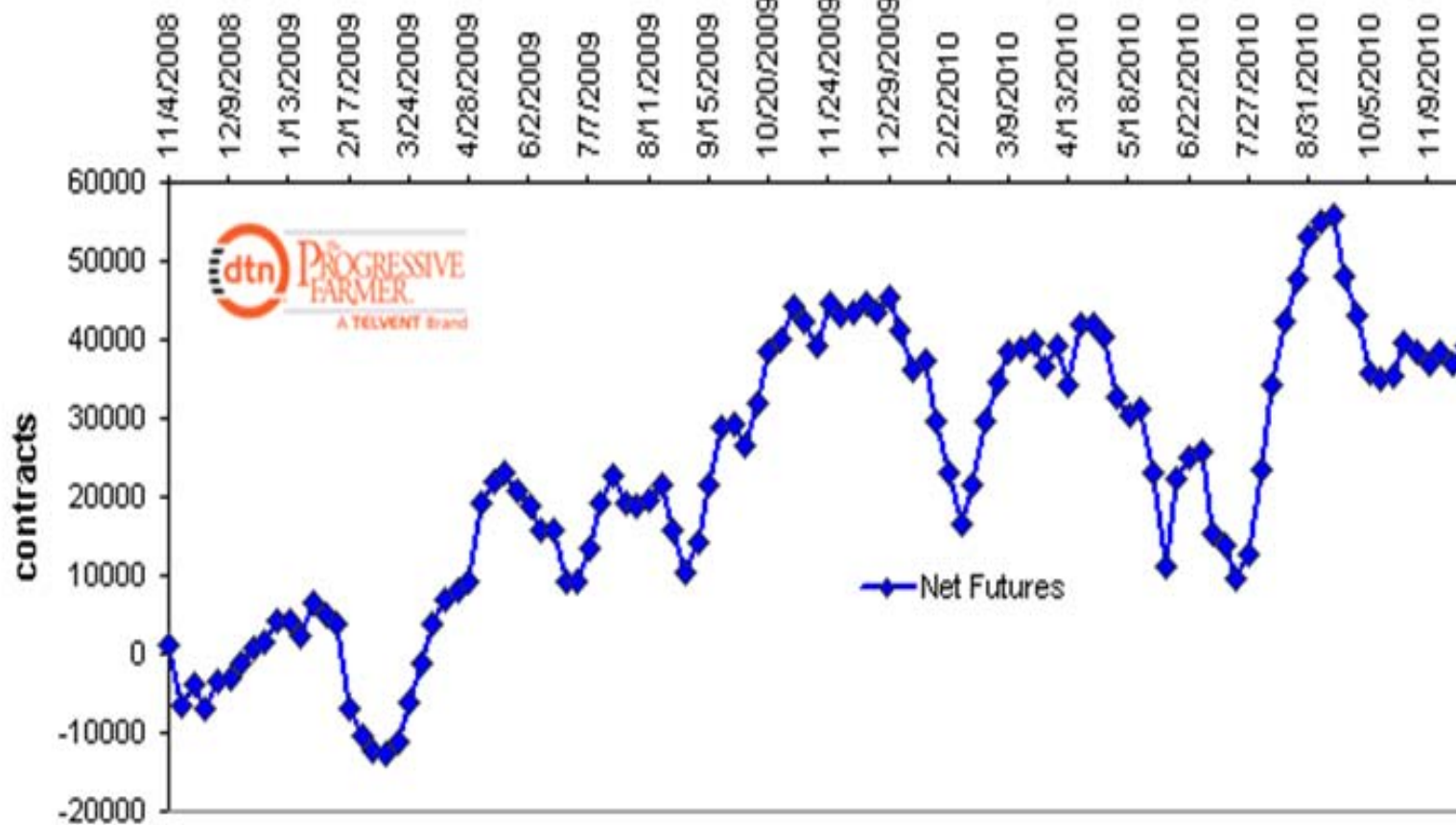
COTTON SITUATION

- **Global ending stocks to use continues to tighten**
 - 2008-2009 = 43%
 - 2009-2010 = 28%
 - 2010-2011 = 27%
- **Global demand continues to grow**
 - 2008-2009 = 140.02 million bales
 - 2009-2010 = 154.03 million bales
 - 2010-2011 = 155.67 million bales
- **No indication that the short-supply rally has come to an end**
 - Futures spreads remain inverted indicating longer-term bullish commercial outlook.
- **US acreage 2011**
 - Cotton acres could increase over 2010 levels given the sharp rally in price.

COTTON TREND



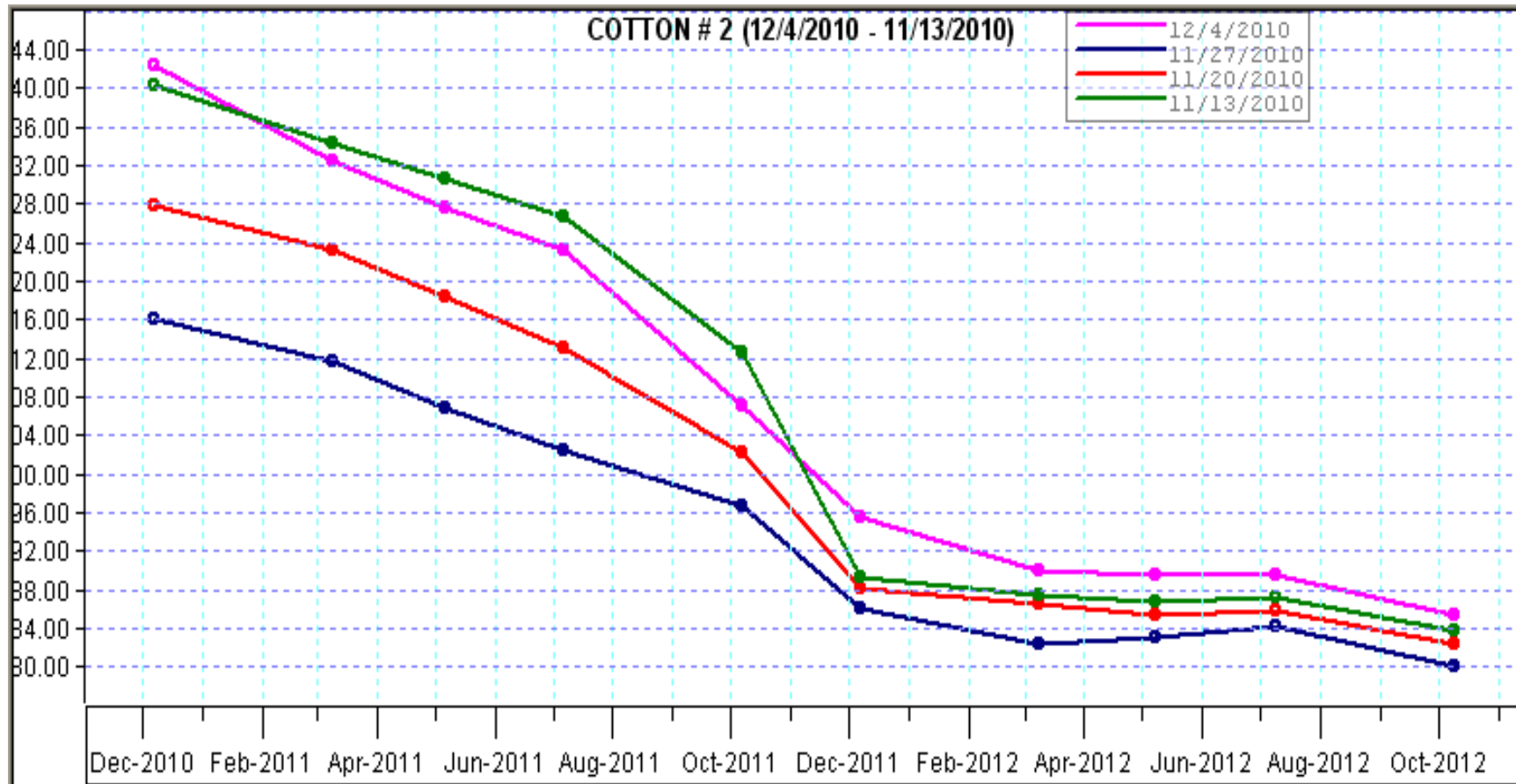
Cotton CFTC



Net Position: 39065

Net Change: 1953

Cotton Futures Spreads



COTTON 2011 OUTLOOK

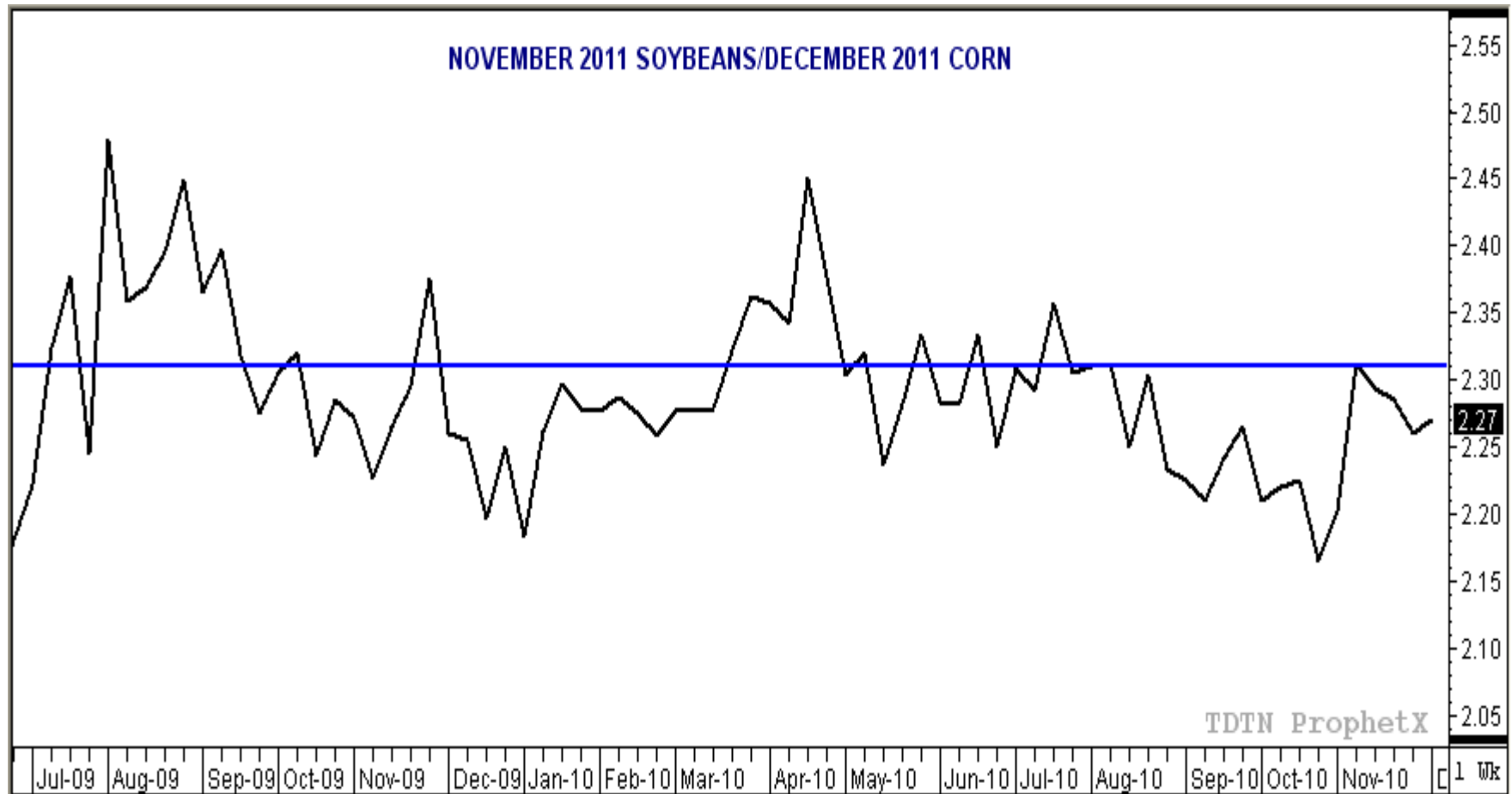
- **Structure**
- The long-term trend of the market remains up with resistance at November high of \$1.5723.
- The long-term fundamentals remain bullish
 - The inverse in the futures spreads remains strong
- **Bottom line: The cotton market remains bullish. However, short-supply spike rallies tend to end quickly, and violently. If contracts fail to make new highs through the winter the market is increasingly vulnerable to establishing a top.**

ACREAGE

US ACREAGE 2011 (GUESSTIMATE)

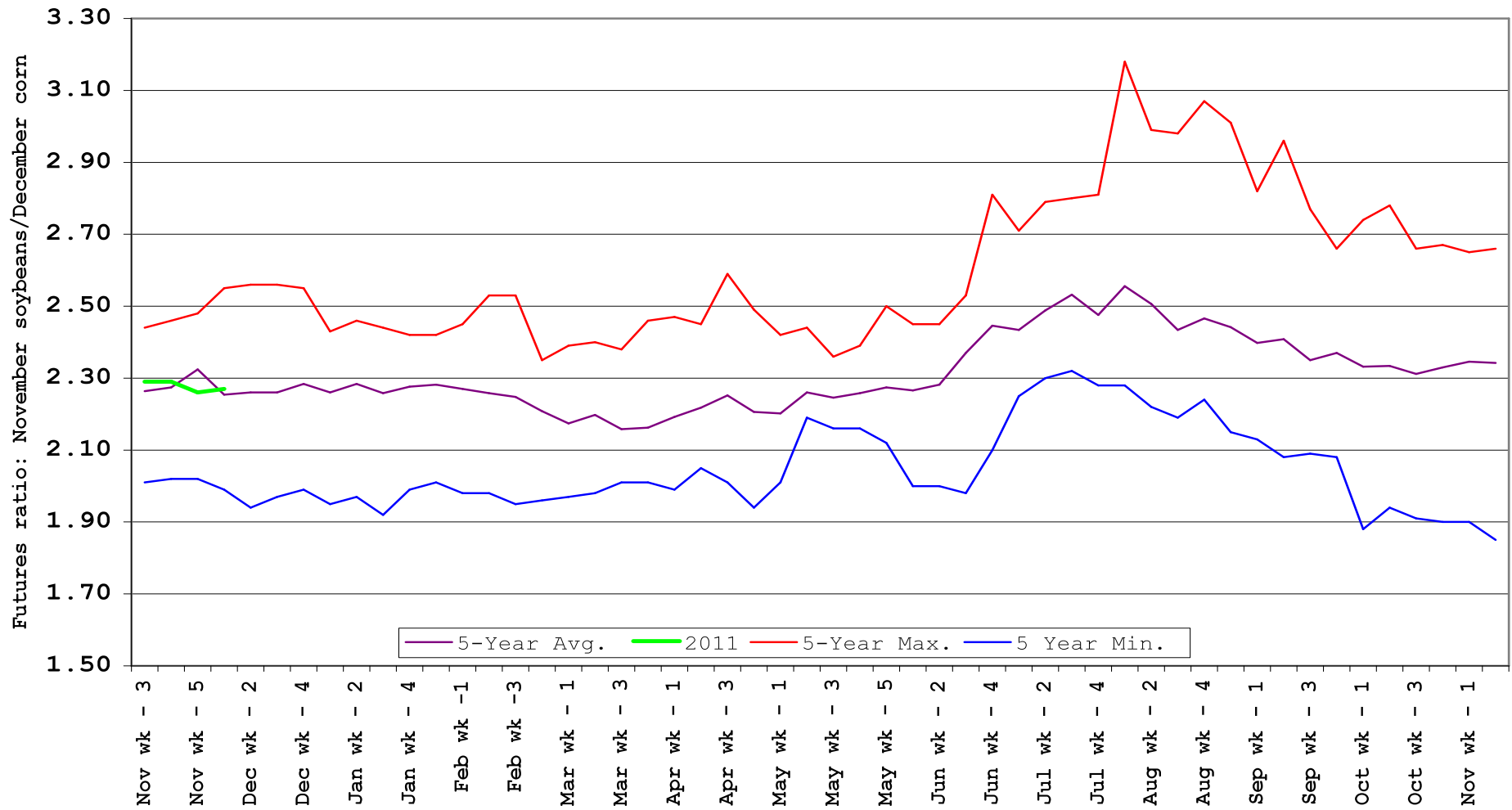
	2009	2010	2011
TOTAL*	232,216	230,540	237,000
CORN	86,482	88,200	90,500
SOYBEANS	77,451	77,700	78,000
WHEAT	59,133	53,600	56,000
COTTON	9,150	11,040	12,500

CORN VS SOYBEAN DEBATE



CORN VS SOYBEAN DEBATE

November Soybeans/December Corn



CONCLUSION

- **Heading into 2011 there is more that we don't know about the markets than we do**
- **These unknown variables could drastically change the path markets are on at this point**
- **Regardless, I'm generally bullish ag commodities at this time**
- **However, global demand is showing no sign of slowing**
- **Global economies will continue to be a question mark**
- **The acreage battle in US grains could be one of the more interesting in years**



For more information:

Visit: www.dtnprogressivefarmer.com

Email: darin.newsom@telventdtn.com

Twitter: www.twitter.com/DarinNewsom

Thank you