

Friday, November 20, 2009

CORN:

Values trading lower with traders expecting expanded weekend harvest activity. Additional rains however seen moving into the belt early next week to again thwart normal harvest. Trade talking about Monday night crop progress report to show harvest progress no more than 65% complete vs 54% last week and near 99% normally. December options expired today. One large bank estimating \$60 billion of new commodity investments this year. Funds expected to buy up to 65,000 contracts of corn futures to rebalance and reallocate assets soon after Jan 1. ADM indicating vomitoxin in US corn crop no major problem. Funds long 164,000 contracts of corn futures. USDA announcing 458,000 tons of 09-10 corn sold to Mexico and 275,000 tons of 2010-11 sales. Traders already discussing new crop acreage and 2010-11 S&D possibilities. earlier in the week we examine this issue and will again revisit our current acreage ideas and project possible 2010-11 balance tables.

Acreage

	<u>2007</u>	<u>2008</u>	<u>2009</u>	FCS <u>2010</u>
Corn	93.5	85.9	86.3	87.0
Milo	7.7	8.2	6.6	7.4
Soy	64.7	75.7	77.5	78.0
Wheat	60.4	63.2	59.1	58.0
Cotton	<u>10.8</u>	<u>9.5</u>	<u>9.1</u>	<u>9.1</u>
Total	237.1	242.5	238.6	239.5
CRP				
Matures	--	2.1	1.0	2.7
Hay	61.0	60.0	60.1	60.5
Double Beans	5.0	7.0	4.7	3.7

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US 2010-11 Grain Supply Demand

	<u>Corn</u>	<u>Soy</u>	<u>Wheat</u>
Planted	87.0	78.0	58.0
Harvested	79.8	77.0	49.7
Yield	163	42.5	43
Carryin	1625	220	885
Production	<u>13007</u>	<u>3272</u>	<u>2137</u>
Available	14642	3502	3132
Total Use	<u>13255</u>	<u>3145</u>	<u>2125</u>
Carryout	1387	357	1007
New Crop in:			
Mar	4.05	8.50	4.50
Apr	4.10	8.50	4.60
May	4.25	8.50	4.60
Jun	4.30	8.50	4.65
July	4.25	8.60	4.70
Oct	3.75	7.50	4.25

This work would highlight the possibility of a dramatic additional building of US wheat stocks that combined with building world inventories can dramatically pressure wheat values long term. Wheat would be priced at nothing more than a feed grain with one of the largest carryout to use ratios ever in the United States. While funds may allocate additional monies into long Chicago wheat in and around Jan 1, this leg of their portfolio may be a dramatic underperformer as fundamentals eventually pull values lower. Larger wheat supplies may undercut corn demand. Still new crop corn balance table will require some corn acreage expansion that may generally support values into spring.

SOYBEANS:

Values trading independently firmer with traders still concerned over possible tightening of the US supply demand situation with torrid China sales. Longer term prices may rollover to significantly lower levels in the 2010-11 US supply demand situation (see corn section tables and acreage projections). In the meantime, traders remain focused on strong China US buying interest. USDA currently forecasting South American soybean exports down 3.5 mmt on smaller supplies. But China soy purchases from the US are currently up 7.6 mmt from a year ago. Larger than expected China purchases may prompt many to suspect that China loadings of US soy may significantly surpass current USDA projections. China possibly concerned about limitations on South American logistics regardless of crop size increases this coming spring. Extrapolating ongoing US winter loadings may prompt many to project a

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US carryout at or below 200 million bushels vs USDA's 270 carryout estimate in November. China meal use growing from insignificant amounts in 1991 to nearly 35 mmt now as per capita pork and overall meat consumption expands by 5 kilograms since 2000. Broiler production up 3 mmt since 2000. China will produce nearly half of the world's pork. Broiler sector second only to the US. 5 mmt of meal estimated used in aquaculture in China. China producing 45% of world's total eggs with milk production up 30 mmt since 2000. Recently China soymeal demand growing over 2 mmt per year. Good China livestock feeding margins reported. Forecast calls for .5 to 2 inch rains to cover much of Argentina to improve dry conditions. Argentina soy expected to be 55% planted by Nov 25. Rapid Brazil soy planting reported near 62% complete vs 55% last year. Brazil preparing for expanded B5 mandate mixture in biodiesel. 2010 biodiesel demand there seen consuming 1.8 billion liters of soyoil. Government already talking about a B10 or even B20 blending possibility in some areas. Expanding biodiesel production in Brazil obviously absorbing exportable veg oil surplus. USDA forecasting Brazilian soy exports at 2.4 mmt last year, 1.9 mmt this year and 1.5 mmt in 2009-10 cycle. Domestic usage expanding nearly 1.3 mmt in the past two years. With strong China demand and US loadings, path of least resistance may be higher in the nearby contracts with a wider July-Nov spread.

WHEAT:

Values closing independently lower with corn reflecting generally bearish world and US fundamentals. In the above corn section we revisit the question of next year's US grain acreage. FCStone offices suggest that US acreage may not decline as much as some other privates have suggested. This type of eventual acreage could find US wheat stocks ballooning to near 1 billion bushels creating one of the most burdensome carryout to use ratios in history. This type of situation obviously arguing for wheat to be priced at no more than a small premium to corn for large feed wheat consumption. Fund money buying up to 25,000 contracts of Chicago wheat futures in and around January 1 may ultimately be extremely disappointed with this leg of their grain portfolio over time. Some Australian firms slightly lowering Australian wheat crop production estimates with hot weather there. Argentina wheat harvest estimated 10% complete. US wheat basically \$40/ton over world values in this weeks Egyptian tender. Funds short 14,000 contracts of Chicago wheat.

ECBOT	HIGH	LOW	CLOSE	CHANGE
Dec Corn	3.99	3.9025	3.91	- 4
Mar Corn	4.1475	4.06	4.07	- 3 3/4
Jan Beans	10.50	10.315	10.46	+ 7
Mar Beans	10.5475	10.37	10.5025	+ 5 1/2
Dec wheat	5.7225	5.5325	5.5975	- 2 3/4

Regards
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