

PROGRESSIVE AG WEEKLY COMMENTS

December 9, 2011

HEADLINE: SLOW EXPORTS PRESSURE GRAINS

CORN: LARGER ENDING STOCKS

The corn market was down 7 cents for the week. Friday's USDA report was not friendly for the corn market. US ending stocks rose 5 MB from the November report. USDA lowered the food/seed/industrial category by 5 MB and left feed, ethanol, and exports unchanged. Global production for 2011/12 was pegged at a new record of 867.5 MT. Global ending stocks were estimated at 127.2 MT, an increase of 5.6 MT and mainly from increased stocks in China. Even with the increase in global ending stocks, they remain at a 5 year low.

To start the week Monday, corn opened 5 cents higher but traded into negative territory by midsession and ended slightly lower with March down 4.25 cents. Corn found support early from the positive outside markets, short covering and speculator buying. The export inspections were also friendly, but buying interest dried up as the market searched for fresh news. There was also talk about the troubled Australian wheat harvest and that there will be more feed wheat on the world market. Traders continue to talk about the large crop that China produced and that their appetite for corn purchases may be limited.

On Tuesday, corn opened 9 cents lower, but firmed up by midsession and ended slightly higher, with March gaining 5.5 cents. Corn followed the trend of the overnight for the open, trading down to major support and the lowest level since March 17th for the March contract. Additional fund selling also added weakness early. The outside markets had a negative tone as rumors were that the S&P would downgrade the debt ratings of 15 countries. Additional weakness came from the news that Japan bought corn from the EU and Argentina, but selling interest did slow by midday and corn found support from a higher trading soybean market.

The corn futures opened 1 cent lower on Wednesday and were under pressure for the day. The March contract lost 3.75 cents and has closed lower in 4 out of the last 5 sessions. The negative outside markets pressured the open. Traders are also starting to look at Friday's USDA production and supply/demand report. There is no production survey for the report, so the focus will be on US demand and foreign production. Traders see ending stocks for 2011/12 at 830 MB, compared to 843 MB last month. Traders see USDA raising feed and ethanol usage numbers as the reason for smaller stocks, but exports have been disappointing this fall.

Traders see a larger world ending stocks number with the recent increases in China and Brazil production.

On Thursday, corn opened 7 cents lower, but quickly firmed up and March closed up 7.5 cents. The negative outside markets and the lower overnight carried over to start the day, but the market lacked selling interest and firmed up as the day moved along. Corn found support from a decent export sales report that came out above estimates. Dry weather for the next 2 weeks in SA also added strength. Weekly ethanol production set a record this week to add additional strength.

Ethanol production for the week ending December 2nd averaged 954,000 barrels/day, up 2.58% from the previous week and up 1.6% vs. last year. Total Ethanol production for the week was a record high 6.678 million barrels. Corn used in last week's production is estimated at 101.6 MB as compared with a weekly average of 95.9 MB necessary per week to meet the USDA estimate. Stocks were 17.9 million barrels, up 5.2% vs. last week and up 9.46% vs. last year.

USDA's Export Inspection Report was friendly for corn. There were 38.5 MB of corn reported shipped, above the 31.2 MB needed to meet USDA's projection of 1.6 BB. This was within the pre-report estimates of 30 to 35 MB. The Export Sales Report for corn was at 27.4 MB, which was above the 18.2 MB that was needed to meet USDA projection of 1.6 BB. This was above the estimates of 13.8 MB to 17.7 MB and friendly for corn. Total shipments this week were at 40.8 MB and above the 31.1 MB needed this week.

WHEAT: GLOBAL STOCKS LIMITING WHEAT EXPORTS

Monday the wheat markets opened mixed but slid to have sharp losses despite support from the lower dollar. There were reports that the Ukraine wheat crop may be as small as 8.5 mmt, down from 22.2 mmt last year. However, production in Kazakhstan may be up to 26 mmt versus 12.2 mmt last year, so world production news is mixed. Heavy rains in Australia may serve to increase the supply of feed wheat and decrease the supply of quality milling wheat.

The wheat markets opened lower Tuesday following the overnight losses but crept back during the day to finish with gains of up to 6 cents. The fears about further problems in the Euro-zone eased, allowing the dollar to stabilize. The latest Stats Canada report pegged Canadian wheat production at 25.261 mmt, above the October estimate of 24.16 mmt and also above last year's 23.167 mmt, but within the range of expectations.

On Wednesday the wheat markets opened with light losses but drifted lower throughout the day to finish with 8 to 15 cent losses.

Australia is predicted to have a record 28.3 mmt wheat crop, with the quality issues pressuring the Chicago wheat and corn markets. Egypt bought wheat from Argentina and Russia in a large tender, bypassing the more expensive U.S. wheat.

Thursday the wheat markets opened with 5 to 9 cent losses and had small gains during the middle of the day before drifting to finish with 2 to 4 cent losses. The sharply higher dollar put pressure on the wheat markets, while late gains in the corn market helped to cut losses in wheat. Traders were positioning ahead of Friday's USDA report.

Friday the USDA report showed higher U.S. and global ending stocks for wheat. U.S. ending stocks were increased by 50 MB to be 878 MB due to a 50 MB cut in exports, which was higher than expectations. Global ending stocks of 208.5 mmt are at a 12 year high.

USDA reported last week's wheat's export inspections pace at 14.5 MB. This brings the year to date export shipments pace for wheat to 533.5 MB compared to 575.5 MB for last year. With 26 weeks left in wheat's marketing year, shipments need to average 16.9 MB to make USDA's projection of 975 MB.

Last week's wheat export sales pace was estimated at 15.7 MB. This brings the year to date export sales pace for wheat to 674.1 MB compared to 872 MB last year. With 26 weeks left in wheat's marketing year, sales need to average 12.2 MB to make USDA's projection of 975 MB.

SOYBEANS: SLOWER EXPORTS HIKE ENDING STOCKS

Soybeans opened Monday with gains of 6 to 7 cents but ended the day with losses of 9 to 10 cents, following the outside markets lower. There was some concern about dryness in southern Brazil and Argentina, but outside market forces kept the buyers away from the grains.

Soybeans opened 6 cents lower on Tuesday but slowly crawled back to finish the day with 3 cent gains. Markets stabilized with cooler heads prevailing after the latest Euro-zone scare. The fact that the corn market was able to recover to close back above significant support levels helped all of the grain markets.

On Wednesday, soybeans opened with small gains but traded in lower territory for much of the day before recovering to finish with 1.5 cent gains. Soybeans were able to fight off pressure from lower corn and wheat markets due to some dryness concerns in South America.

Soybeans opened 8 cents lower on Thursday in the January contract but renewed buying interest brought trade into positive territory by midday, finishing with 1.5 cent gains. Negative pressure from outside markets was responsible for the early

weakness, but the grain markets were able to trade higher due to good export sales and a lower crop size estimate out of Brazil. Officials in Brazil have predicted the soybean crop size at 71.3 mmt, below USDA's latest estimate of 75 mmt. Gains were limited by predictions for lower exports and higher carryout in Friday's USDA report.

Friday the USDA report showed higher U.S. and global ending stocks for soybeans. U.S. ending stocks were increased by 35 MB to be 230 MB, which was higher than expected due to a 25 MB cut in exports and a 10 MB cut in domestic crush. Global ending stocks had a slight increase to 64.5 mmt, although the latest crop size estimates out of Brazil have not been factored in.

USDA reported last week's soybean export inspections pace at 31.6 MB. This brings the year to date export shipments pace for soybeans to 428.3 MB compared to 639.0 MB for last year at this time. With 39 weeks left in soybean's marketing year, shipments need to average 23.2 MB to make USDA 1.325 BB projection.

Last week's soybean export sales pace was estimated at 28.3 MB. This brings the year to date export sales pace for soybeans to 810.3 MB compared to 1.2272 BB last year at this time. With 39 weeks left in soybean's marketing year, sales need to average 13.6 MB to make USDA 1.325 BB projection.

BARLEY

USDA reported last week's barley export shipments pace at 4,000 bushels with all of the bushels going to Mexico. This brings barley's year to date export shipments pace to 5.576 MB compared to 4.398 MB for last year. No barley export sales were reported. This brings the year to date export sales pace for barley to 3.8 MB compared to 4.1 MB for last year. Cash bids in Mpls were at \$5.15 for feed and \$7.30 for malting.

DURUM

USDA reported no export shipments for durum. Last week's durum export sales were estimated at 300,000 bushels. This brings the year to date export sales pace for durum to 13.1 MB compared to 26.9 MB for last year. Cash bids for milling quality durum were at \$9.50 on Thursday.

CANOLA

Canola futures on the Wpg exchange gained around \$8 CD/ton for the week, closing at \$510.60 CD/ton on Thursday. The latest Stats Canada report pegged Canadian canola production at 14.165 mmt, within expectations but well above the October estimate of 12.928 mmt and last year's 12.773 mmt. The market absorbed the larger production number fairly well due to continued strong demand for canola products. Strong commercial buying

interest and slow farmer selling created strength in an otherwise quiet market. Cash canola bids in Velva were at \$23.36 on Thursday.

SUNFLOWER

Last week's soybean oil export sales pace was estimated at 18.5 TMT. This brings the year to date export sales pace for soybean oil to 140.5 TMT compared to 795.9 TMT for last year at this time. Cash bids for NuSun in Fargo were \$28.90.

DRY BEANS

Trading activity has picked up again in the pinto bean market, with USDA reporting grower prices back on the board at \$43. Demand is coming from Mexico, where drought damaged their crop. Navy and black prices are reported steady at \$45.

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