A Pause That Refreshes?

There was hope leading into November's USDA report that corn and soybean yields would fall, giving the price surge needed to help regain losses. Yields fell some, but, as the chart at right shows, a price rally did not follow.

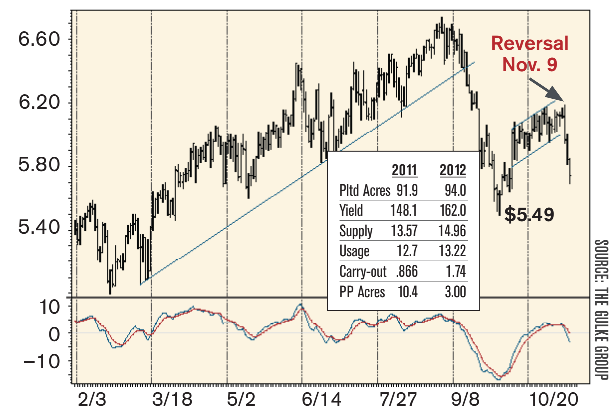
The drop in production did not translate into an equal drop in carry-out, as feed usage dropped another 100 million bushels to 4.7 billion bushels. Exports and corn used for ethanol were unchanged, but exports at 1.6 billion bushels are down 380 million bushels from the 1.980 billion bushels in 2009/10. Should the U.S. dollar rally, the outlook for exports doesn't brighten.

The chart shows how price movement played out in October. The table imbedded in the chart shows the potential supply and demand outlook for 2012/13. Carry-out could actually double next year, further validating my prediction of $4.50 to $5 futures.

What's Next? While we are enjoying the well-deserved fruits of our labors this winter, perhaps it would be good to look to the 2012/13 crop year. Futures prices were indicating there are storm clouds on the horizon. The basis for my proactive hedging of 2012 crops is as follows:

- According to Informa Economics, prevent planted (PP on chart) acres are estimated to have been 10.4 million in 2010. Historical averages suggest 2 million to 3.5 million acres is more normal. With chisel plows working prevent planted acres this fall, my assumption is for 3 million acres for 2012.
- Prices (gross income) for corn and soybeans were historically high this year, with $6 to $7 cash corn and $12 to $13 straight out of the field.
- A tight basis suggests tight farmer holding, not increasing demand.
- Yield variability within fields gives way to improving tiling, site-specific fertilizing, fungicide, etc., all yielding a huge return on investment. High prices are a great fertilizer, and I bet farmers worldwide seed every available acre.
- It is concerning that some think if cash prices were $8 this past summer, they will be at least that high again as people have to eat, regardless of their economic plight. After all, China is coming!

2012 December Futures



	2011	2012
Pltd Acres	91.9	94.0
Yield	148.1	162.0
Supply	13.57	14.96
Usage	12.7	13.22
Carry-out	.866	1.74
PP Acres	10.4	3.00

> *Technical analysis suggests that if the 2012 bear flag proves viable, the longer-term pause that's refreshing the market might be only half complete.*

- Both December corn and November soybean prices have declined in anticipation of more acres and lower odds of repeat 2011 weather in 2012.
- The focus on increasing production has already occurred, with "deals" between Argentina and China and the continued rhetoric that China will need more corn and a stable demand of soybeans.
- The potential for increases in planted acres of all crops in the U.S. and Canada means there will be ample supplies for China, ethanol and livestock.
- We won't run out of supplies this year, as the current projected ending stocks for corn, soybeans and wheat can absorb a demand shock. A repeat La Niña might be needed to reduce production somewhere.
- Given that I am part of one of the only economic sectors that is flourishing, it would be naive to believe agriculture will remain unscathed by the austerity needed to put economic houses in order.

The "science" of trading looks to the past; the "art" of trading focuses on the future. A little time spent in art class this winter might prove beneficial in 2012/13. There is risk in being complacent! ■

Jerry Gulke farms in Illinois and North Dakota and is president of Gulke Group Inc., a market advisory firm with offices at the Chicago Board of Trade. Gulke Group recently published *Technical Analysis: Fundamentally Easy.* For information, send an e-mail to *info@gulkegroup.com* or call (815) 520-4227.