THE OHIO STATE UNIVERSITY EXTENSION

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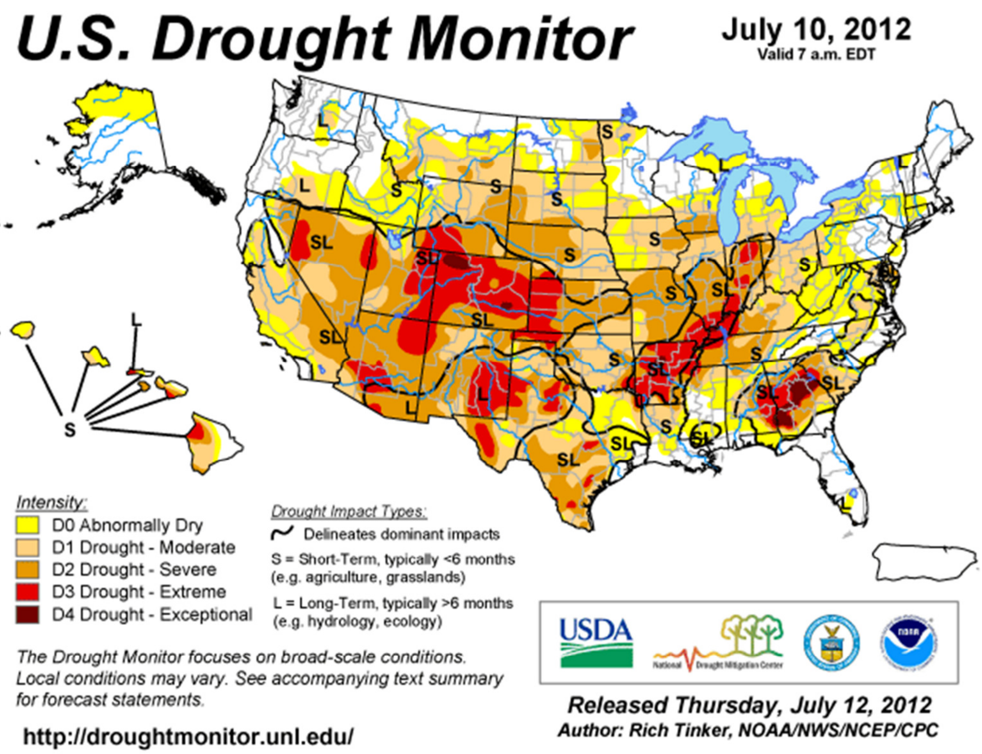
Grain Marketing Outlook Monthly Update

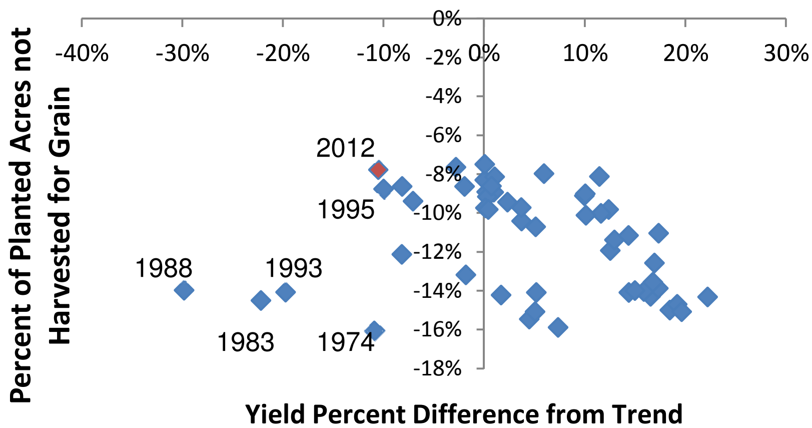


July WASDE Reports: Aggressive, Just as the Market Wanted?

Leading up to the July WASDE reports, the market wondered whether or not the Outlook Board would cut projected 2012 yields in a manner commensurate with the poor crop conditions that are currently observed**. The July report is largely based on the same data that all analysts have: the weekly crop progress reports.** It is not until August that NASS begins its objective yield surveys, so in abnormal years, the July report is always a guessing game. **But in this case, the market got what it wanted, I think.** The projected 2012 yield was cut by 20 bu/acre to 146 national average. Planted acreage was increased based on the June 30 Acreage report, but abandoned acreage was increased from 6.8m acres to 7.5m acres, or 7.8%, so that the net harvested acreage fell slightly. **The net result is that projected harvest is reduced by 1.82bn bushels.**

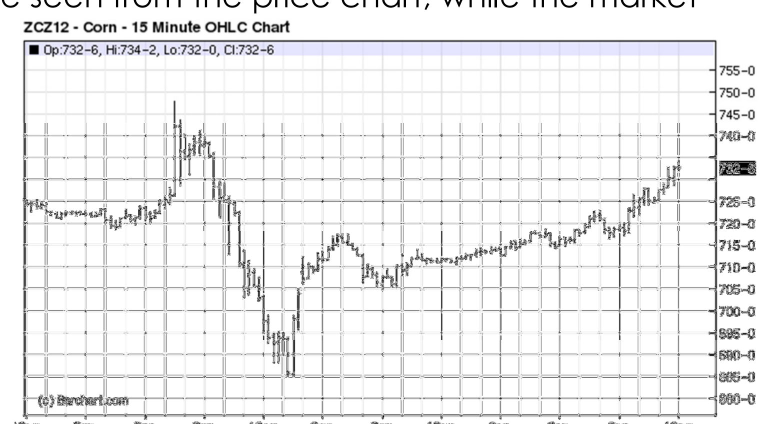
While there is still much uncertainty about the true state of the '12 crop, I think that the most puzzling number on the supply side is the number of harvested acres. Figure 2 plots the percentage of acres not harvested for grain against the yield realization, going back to 1961. Since that time, **there has been no year in which yields have declined by 10% or more from trend without at least 8.77% of planted acres going unharvested.** The current USDA projection for 2012 is in red. Based on this history, it is reasonable to expect that even if yields don't decline further, unharvested acreage will increase by another 1-1.5%, which is 960,000 to 1.4m acres, or 140m-200m bushels at current yield.

Fig 2: Acres Unharvested vs. Yield Realization

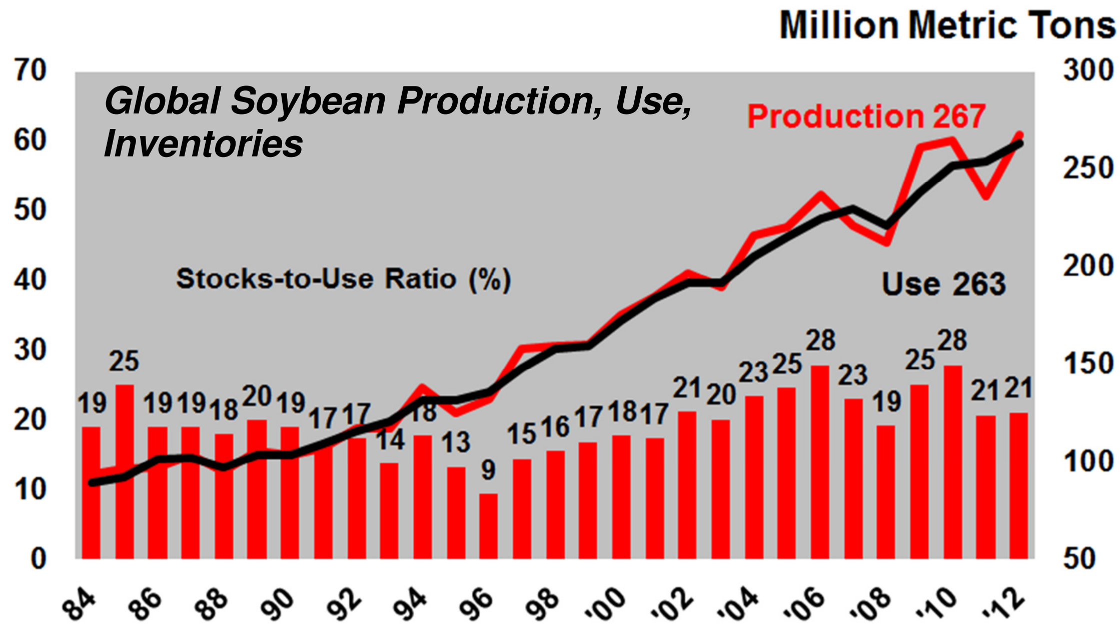


On the demand side of the corn balance sheet, **most of the reduced availability is absorbed by feed use declining 650m bushels from the June projection,** to 4.8bn bushels, which is still higher than the '11/'12 predicted use of 4.55bn. Ethanol and exports make up the remainder of the reduction, with cuts from June of 300m and 100m bushels. All of these demand numbers are still highly speculative. The net result in the WASDE is that ending inventories are projected to rise, as sharp reductions in consumption and higher planted and harvested acreage make up for the low yield.

However, as can be seen from the price chart, while the market was very bullish on the initial release, by midday on Wednesday, a sharp selloff ensued. It is often hard to discern the market's mood on days such as this, as fear becomes the primary motivator of trading. What I think that this indicates is that there is a tremendous amount



of uncertainty in the market. Each day, participants are flooded with photos and stories of yet more parched, total-loss fields. **But the real question is not how many 0 and 20 bushel fields are out there,** we know there are a lot. **What the market doesn't yet know is how many 180 bushel fields are out there.** For this reason, the private crop tour results will be even more closely watched this year.



The WASDE report also lowered projected soybean yield, from 43.9bu/ac to 40.5. While this was also seen as bullish**, I believe that there is both a bit more caution in the bean market, as well as much more upside.** The caution derives from the fact that we are just now entering the most crucial stage of growth for soybeans, so there is likely more yield upside than in corn if the weather turns, but there is also more price upside if the weather doesn't. **Global soybean inventories are not yet at 2008 levels, but they aren't that far away,** and the current projections of the '12/'13 levels assume a record South American crop of 141mmt, 8mmt more than in '10/'11, and 31mmt more than in the drought-damaged '11/'12. With nearly any interruption in production in Brazil or Argentina, I think that we could return to 2008 inventories in soy, and that would be explosive.

From a marketing perspective, right now, more people I speak to are more worried about closing hedges than selling production. When it comes to covering short positions, or buying back forwards, the first thing to realize is that there is no easy way to earn the money back. Accept the loss and move on. Don't attempt to construct some crazy option combination, or have one constructed for you, to 'earn back' your losses. While it might work, what you are really doing is doubling down, increasing your chance of even greater losses. The better choice is to accept your current losses and close your positions on breaks.

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