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The high beef and pork prices are likely to slow domestic demand for red meat and possibly shift some demand to lower priced chicken. The economy is still weak and consumers now have less disposable income due to high gasoline prices this spring. As a result, shoppers may be unwilling (or not able) to pay more for red meat. We may already be seeing this as both wholesale beef and pork prices have fallen from record high values seen in April and May. If consumers are indeed starting to back away from the meat case, the reduced demand will likely weigh on meat and live animal prices in the months to come. Given grain prices appear likely to remain high at least into the new crop year; reduced consumer demand would put additional pressure on cattle and hog producers to slow production by feeding fewer animals. It is unlikely this would all happen in time to have much impact on feed demand this crop year, but could slow demand for 2011/12.

This slowdown in production already appears to be occurring in poultry. Poultry prices have failed to keep up with rising feed costs and many producers have seen financial losses since late last year. As a result producers have been slowing production with broiler egg sets and placements now consistently running below year ago levels.

Previewing the USDA Acreage Report

Summary: On June 30, the USDA will release its *Acreage* report, which updates U.S. 2011 plantings from the survey done in March. The general expectation is for a significant decline in corn acreage due to wet conditions in the eastern Corn Belt and Northern Plains, while a slight increase in soybean plantings is anticipated. Along with the *Grain Stocks* report, this data has the potential to result in additional price volatility. As a student of the market, you know that increased volatility provides additional marketing opportunities. Now is the time to continue to maintain close contact with your *Farmers Cooperative* advisor to execute your risk management strategies.

History Shows Major Changes Possible in Plantings vs. March Intentions

Market volatility remains the norm with July 2011 corn futures this week collapsing to the lowest level since mid-March. To put things into perspective, July declined \$1.60 $\frac{3}{4}$ in just 10 trading days. For a producer holding 200,000 bushels of un-hedged old-crop corn, that equates to \$321,500. Looking ahead, on June 30 the USDA will release its *Acreage* report, which updates U.S. 2011 plantings from the March survey. The general expectation is for a significant decline in corn acreage due to wet conditions in the eastern Corn Belt and Northern Plains, while a slight increase in soybean plantings is anticipated. Several questions have surfaced surrounding this report.

☒ *When was the survey taken?* Typically, the estimates are based on surveys done the first 2 weeks of June.

☒ *How much of a change might be seen from estimates in the March Prospective Plantings report?*

☒ *Will the USDA re-survey areas affected by flooding again prior to the August Crop Production report?*

Probably, this was done most recently in 2009.

It was just one year ago that surprisingly bullish estimates in both the *Acreage* and *Grain Stocks* reports helped set the current yearlong price rally into motion. This year's data could once again result in additional price volatility ahead of the critical summer growing period. The good news is that as a student of the market, you know that increased volatility provides additional marketing opportunities.

Corn

WORLD CROP UPDATE—Last week, the Argentine Ag Ministry boosted its estimate for the 10/11 corn crop from 20.9 previously to 21.6 while the BA Grain Exchange continued at 20.0, 2 less than the USDA. Producers there as of June 16th had

harvested 81% of the corn crop, 8+ points behind the same date a year earlier. The Ukraine's Agricultural Ministry upped its estimate of this year's grain harvest to 50 MMT, from 45+ previously and 30% greater than last year's drought-reduced out-turn.

4-WEEK AVERAGE CORN SALES ACTIVITY— Export sales for the most recent 4-week period dropped from 93, down to 71 million, trailing the 09/10 total by 60 million and 27% below the 5-year average of 97. Sales to South Korea were about a third of last year but at 8 million, topped by the average by 2. Sales to Japan were also down significantly year to year (28 versus 42) but fell only 5 million short of the 5-year. Taiwan booked only 4 million, 2 less than a year ago and well below its 5-year average of 10. Other Asian destinations bought 7 million, down from 11 last year but equal to the region's 5-year average. African markets committed to only 8 million during the period, considerably less than the 19 million sold in 09/10 and 2 less than average. Sales to Western Hemisphere destinations were 4 fewer this year at 19 million and down 10 million versus the 5-year. Mexico was in for only 3 million, well below the 11 mbu it purchased for the same period in 09/10 and a third of the 5-year. Unknown cancelled an unusually large 15 million, compared to 6 last year and 4 for the 5-year.

Near-term inspections continue to look lack-luster and are likely to average 4-5 million below last year's upcoming 4-week average of 40 million per week. Expect 19-22 per week from the Mississippi River; 8-10 off the PNW and Interior shipments of from 4-6 mbu per week. No change to the 1.885 bbu export estimate this week although upward revisions of 10 mbu each for Japan and South Korea due to a pick-up in recent loadings were countered by like reductions to Africa and Other Western Hemisphere markets.

SUPPLY/DEMAND UPDATE— Advance Trading's 10/11 corn carry-out is 720 million bushels, up 5 to reflect the USDA's higher import assumption of 25 million. Key usage categories are unchanged but it may worthwhile to note that some sectors are starting to show evidence of demand rationing which could boost summer corn supplies. This week's near-4 million bushel drop in estimated corn grind was accompanied by market talk that some ethanol plants are slowing down/considering extended down-time in the face of high corn prices and poor production margins. However, with the past week's sharp decline in corn prices and its impact on margins, down-time ideas may be on hold at least temporarily.

It should also be noted that while Friday's Cattle on Feed report indicated an on-feed total up 4% year to year (supportive 3rd quarter feed disappearance), May placements were at 89% of a year ago and 3 ½ points below the average industry estimate. May marketings of 107% exceeded expectations and should help lessen the pressure on summer feed needs. The poultry sector continues to show evidence of rationing—Eggs Set in the week of June 11 were down 3% year to year and Chicks Placed were 2% below the comparable 2010 week. And (see wheat comments below), SRW's discount to corn could further limit the need for corn, for the balance of the summer and perhaps through September.

FOREIGN NEWS—Russia's 1st Prime Deputy sees no need for the country to introduce duties on grain exports with the current grain crop estimated at 85 MMT, up from last year's drought-reduced 61 MMT total. Japan's April compound feed output fell nearly 7% from a year earlier, the 4th consecutive month of year on year reductions. High prices were not likely the sole factor as plant response was only 96% due to some facilities being shuttered for the entire month as a result of the March 11 earthquake and resulting tsunami.

SUMMARY— Conditions/weather outlook may pressure market but last week's recovery in ethanol margins suggests old crop volatility is not over.

2010-If making cash sales, protect with Sep calls. If sales are not going to be made, purchase Sep puts to maintain downside protection and upside open.

2011-Dec 11 \$5.90 or \$6.00 puts establishes a good floor to manage downside risk and still leaves the upside open with lots of unknowns ahead. A sale with call protection would work as well if comfortable making sales. Prices as always will remain unpredictable.

Soybeans

WORLD CROP UPDATE—Dry weather in the Mid-South/Delta region is enabling acres which had been previously planted to corn, and then flooded out, to now be re-sown to soybeans. In its June monthly crop release, Argentina's Ag Ministry trimmed the country's soybean production estimate by ½ MMT, down to 49.5. The BA Grain Exchange remains at 49.2 with the USDA at 49.5. The Argentine harvest is approaching 99% complete with rains in the north causing some delay. China's National Grain and Oil Information Center is holding its 2011/12 soybean production estimate at 14 million MT, 800,000 below the USDA with soybean imports pegged at 53 million, 1 less than the USDA and 4 fewer than the current year.

4-WEEK AVERAGE SALES ACTIVITY— The most recent 4-week sales total held steady at 20 million but continues low by historical standards, 2 less than a year ago and 5 below the average. The EU continues to seasonally prefer South American soybeans, making no purchases from the U.S. during the mid-May/mid-June for the 2nd consecutive year. China's 2 mbu purchase total was consistent with last year but 3 below the 5-year. Unknown cancelled an unusually high 7 million (net gain of 2 LY with a 5-year average of 2 million in cancellations). Japan, Taiwan and Other Asia were all in for amounts equal to or exceeding last year and the norm. Yearly totals by destination included Japan (6 TY; 3 LY; 5 Ave); Taiwan, (4, 3, 3) and Other Asia (5 TY; 5 LY, 4 Ave). In recent years, South Korea has remained absent from the U.S. market during this time frame and this year again, was no exception.

Unshipped sales remain seasonally record large at 155 million (76 LY; 142 2 YA) and continue to be heavily skewed towards China (63 vs 22 LY vs 43 2YA) and Unknown (36 vs 11 vs 28). Sales to other markets at 56 million are very near the seasonally average of 59. Interesting to note however, that weekly inspections of 7.8 million, while up 2+ from a year ago are well down from 08/09's same period average of 12.5 million. Inspections the last couple of years have had a strong tendency to hold steady or increase from recent levels. Last year saw the near-term average hold around 6 million and 2 years ago, loadings jumped up temporarily to 13.8-14 per week. With China seemingly content to take 2 +/- per week, we expect/hope inspections in the near-term will average 7-8 per week; 3-4 via the Gulf, 1-2 off the PNW and 2 million Interior.

OVERSEAS NOTES—China's June soybean imports are expected to rise 22% from May to 5.57 million MT (4.4 LY), according to the country's Commerce Industry due to seasonally strong feed demand. However, while crushing margins have improved they are still running at a negative 200 yuan per MT. China's National Grain and Oils Information Center estimates July receipts at 5 million MT (same as LY) while August and September are expected to drop to between 3 ½ and 4 MMT (4.6-4.8 LY).

SUMMARY— Conditions/weather/demand are all setting a negative tone to the bean market.

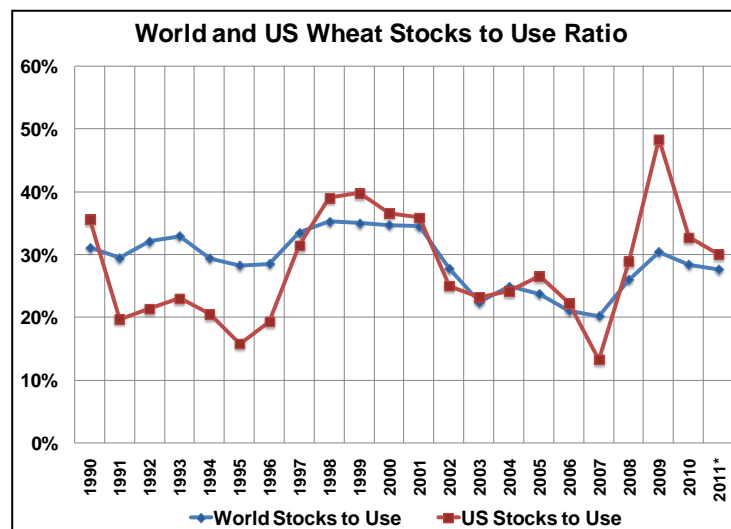
2010- Sold bushels- buy out of the money call option such as the August \$13.40 strike or August \$13.60 call. The alternative is a deferred call spread with a minimum of \$1.00 window. For those bushels not sold, a August put would establish a floor and leave upside open for any change back to the upside in the market.

2011 Crop- November 1260 or 1280 puts should be purchased to put a floor under the anticipated bushels to be grown in 2011 that are not sold. A sale with a call spread would work as well. Main objective is to leave the upside open for any changes that may occur. Prices are likely to remain volatile and as always are *unpredictable*.

Wheat

WORLD CROP UPDATE—Since posting a contract high in early February, Chicago July 2011 futures has declined \$2.91 ½ or almost 31% to trade at the lowest level in 11 months. Looking back, it's evident that the market overreacted to the upside on concern about crop loss in the U.S. HRW region. To underscore this notion, chart at right highlights U.S. and world wheat stocks-to-use ratios since 1990. While neither domestic nor world stocks are as high as two years ago, they are also well above the historic lows posted in the 07/08-crop year. A key to offsetting the short HRW crop in the U.S. is the forecasted 20mmt rebound in output in the FSU.

U.S. CROP CONDITIONS/PROGRESS— G/E up another point to 36% vs. 65% a year ago, with TY's aggregate crop index of 2.81 at the highest point since April 24 (2.82). Net was a 7mbu increase in the ATI crop model to 1.405Bbu. After penciling in a slight increase in harv acreage, the national average yield is pegged at 43.9bpa with prod by class and comparison to LW of: HRW, 741mbu vs. 736mbu; SRW, 432mbu vs. 431; and White, 232mbu vs. 231. As of June 19, harvest was 31% complete vs. 22% LW, 17% LY and the 22% five-year avg.



Spring wheat planting up 3 points to 91%, so look for a substantial decline—possibly over 1.0myn acres—in next week’s USDA *Acreage* report. Emergence is pegged at 83% vs. 99% for both LY and the avg., while crop ratings improved to 72% G/E vs. 68% LW but still well below 84% LY.

There are several important wild cards to monitor including: (1) The finish to the EU growing season, where further crop declines would decrease crop size and correspondingly increase U.S. exports; (2) final U.S. crop size, with excess rain in some key Midwest growing areas potentially reducing yields/quality; and (3) the “residual” component to feeding, which could be higher-than-expected given historically strong corn prices. *Plus, economics are getting closer to railing SRW out to the western feedlots given the steep futures discount of Chicago to Kansas City.*

SUMMARY –U.S. harvest is weighing on the market along with ideas the EU crop has stabilized following recent rain. Market probably overdue for a period of consolidation, but unless late-season weather conditions are extremely poor in FSU and/or EU, winter wheat supplies will be ample in 11/12. Spring wheat could be another, story, however, given loss of acreage in U.S. Northern Plains and Canada.

2011 Crop- The preferred strategy is to buy puts at this stage of the marketing year and to give you time to see how the wheat yields. Harvest is approaching and has started in places. July puts have been managed to the September puts to allow for more time until harvest is in full swing. If making sales, protect with September or December calls.