November 2012 Month End Comments

It is the first week of December and the year is winding down. For the markets, that means slow, low-volume trading sessions that can swing back and forth for little or no reason whatsoever. With the markets fully into their "holiday mode," this is not the time of year to be very aggressive with positioning. Instead, one can use some of the various unexplainable swings in prices this month to establish positions for the start of the New Year.

There is some basis for slow, low-volume action in the weeks ahead. As noted in last month's update, the US harvest is wrapped up and the market seems to have a fairly firm grip on the size of the US crops. South American crops are still in the process of being planted, and while weather conditions currently are far from perfect, they aren't terrible either. There is still a long growing season ahead for South American crops, and the marketplace remains uncertain as to how to position.

I would like to think that the month of December will be fairly quiet and tame, but unfortunately the politicians in Washington will keep the market interesting because of the fiscal cliff drama that we will all have to witness. As I write this on December 3, I fully expect the commotion surrounding these talks to get worse before it gets better. It makes for better political theater to take things down to the wire only to swoop in and save the day with some sort of compromise at the last second. I expect nothing less from our "leadership" in DC.

I remain cautiously bullish on nearby corn futures, but I also maintain some short positions in new crop 2013 positions. There isn't much to update on this position this month. The long positions in the nearby months have worked favorably while the short positions in new crop have not changed much. I feel these nearby corn futures will continue to trade in a wide range in the weeks and months ahead. Lack of competing supplies around the world will stir up unwanted corn export business when prices decline, but poor ethanol margins and slow export demand will provide something of a lid to prices on rallies. The January USDA Grain Stocks report will provide a first glimpse of feed usage this marketing year, and will also solidify the estimate for 2012 crop size. The warm weather combined with heavy-weight cattle placements are likely keeping feed use at a subdued rate, but the overall grain-consuming-animal-unit estimates would imply the current USDA estimate is a bit too low. Again, this supports the idea of choppy and sideways trade in nearby positions in the months ahead. The short positions in the new crop 2013 positions will work in the long run if weather cooperates.

I do not currently have a strong bias in soybeans, but I do question if the current SF-SH inverse will hold at this level. With the MS River low-water levels and the likelihood of transportation stoppages this winter, it seems the SF-SH inverse is at risk here. The delivery mechanism for the soybean contract is used exclusively to barge soybeans down the IL River to the MS River, and then push downstream to the Gulf to load for export. If MS River traffic is halted as most believe it will be from St. Louis to Cairo, then there will be very little reason to own the SF contract as a means of taking delivery. I have established a bear spread in the SF-SH contracts and will look for that spread to trade a carry in the near term. Otherwise, I don't have a strong directional bias for

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soybean futures. I currently view South American weather as mostly favorable for soybeans, and with the added area this year it still sets the stage for a very strong rebound in production from last year's drought-reduced levels. With that in mind, I lean slightly negatively to soybeans, but I also know that export demand for US-produced meal and oil is very strong which could keep the soybean crush active and keep US supplies tight in the months ahead. I plan to stay mostly on the sidelines here until more is known.

I remain friendly to feeder cattle, but concede timing this trade will remain difficult. Weather conditions in the Plains have only become worse in the past month, and the strength in corn prices continues to discourage feeding. We need to start to see some sort of improvement in the Plains before demand in feeders can really be reestablished, and unfortunately that doesn't seem likely right now. I currently have long positions in the spring contracts, but I might have to roll them forward if conditions do not cooperate. I still feel this trade has excellent upside potential, but the timing will remain very tricky.

I hope you and your family have a very happy holiday season.

Regards,
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