

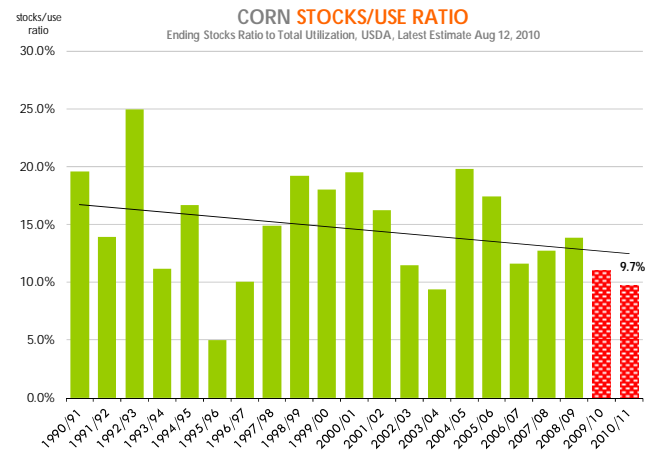
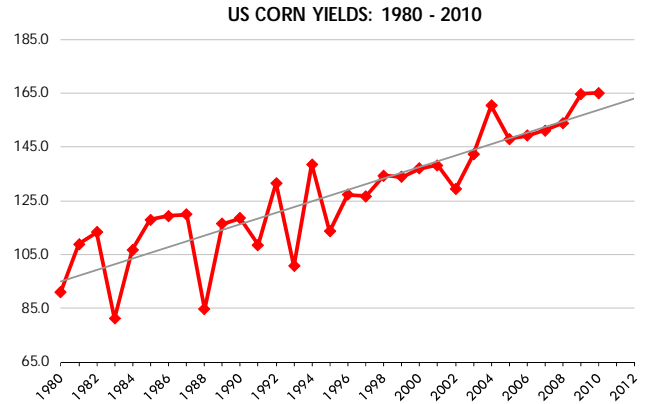
Daily Livestock Report

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Market Comments

Corn futures were a bit softer in overnight trade but they have been on bullish run since early July. On June 29, the December 2010 corn futures contract closed at \$3.44 per bushel as markets discounted the new crop given reports of ample stocks and record yields. Since then, however, corn futures have had to re-price the upcoming harvest. It appears that bins did not have as much corn as everybody thought and the quality of that crop was lacking. Then wheat futures spiked higher, propelled by the disastrous droughts in the Black Sea region. Every bull market needs a steady dose of bullish news and what's feeding this bull at the moment are reports that some early US harvest results do not support the estimates of time record yields. Dec. 2010 corn futures closed on August 30 at \$4.4150 per bushel, an almost 30% premium to where they were just two months ago.

The focus of the market at this point is yields, and for good reason. USDA noted in its latest supply and demand report that corn yields for the upcoming harvest were projected at 165 bushels per acre. The chart to the right puts that yield in perspective. If true, it would be an all time record yield, surpassing the estimated 164.7 bu./acre yield from a year ago. The record yields are expected to produce 13.365 billion bushels of corn, about 255 million bushels more than a year ago. If corn yields were to decline by just one bushel per acre, it would shave about 80 million bushels from current projected production. And that 80 million bushels is critical. The latest USDA numbers show that we will start the new harvest with only adequate pipeline supplies. The stocks/use ratio for the season ending in August will be around 10.7%, which is below the trend of the past 20 years. The higher yields assure that farmers will get a bit more corn than a year ago but all of that increase, and then some, will go to meet expected higher demand. Ethanol demand for the upcoming season is expected to increase by about 200 million, to 4.7 billion bushels. The wild card in projecting ethanol demand is the EPA decision on increasing blending limits. Should the blending limits be raised up to 15%, then it could pave the way for further expansion of ethanol demand into 2011/12. Also, the August USDA projections indicate corn feed use for 2010/11 will fall by 175 million bushels. Cattle numbers are down and that will limit some feed demand but we could see some modest expansion in hog and chicken production. This would make **the expected 175 million bushel decline in feed demand somewhat difficult to attain.** And then there is the issue of exports. USDA projects that corn exports will increase by 75 million bushels but reports on grain production out of Russia and surrounding countries are not very promising. Bottom line: We really need US corn yields to exceed expectations, otherwise even higher prices will be needed to ration available supplies.



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