March 30, 2011

Friends:

When we get close to these big government reports, often I can sense what the outcome will be, like Jan or June 2010. This is not the case this time.

The thing that seems obvious to me is that the number will be wrong the moment it is printed. Why? Well, there is just no way the feds can capture in the survey the amount of land that will return to production in 2010. In our township for example, I count at least 200 acres of permanent pasture, or development property that will be farmed for the first time since the 70's maybe. 40 acres of woods cleared and plowed, alfalfa plowed under. I just think it obvious we will plant alot more acres than even in 2008. So, the process that NASS uses cannot capture this variability. (This is identical to how they missed corn yields last year despite aerial images that showed major crop losses in early July. It is a process problem is all.)

Also, it is ALWAYS perception and not reality that determines price changes in the future. If you remember Jan 2010, we had heard for weeks about how funds would have to buy c/sb to re-balance their portfolios. Everyone thought that this would be bullish. Well, the way it really happened, they did buy like 50,000 contracts, but at lower price levels during a swift decline due to USDA report changes. So, regardless of what you read, this time around, it is just not predictable it seems to me.

I will point out however that the BULLS..t is being flung around the internet again. Much like 2008, the wise ones are claiming there is NO WAY we will grow enough corn this year. On that, I think they are obviously wrong.

Of course, one thing that is probably very predictable is the MASSIVE cotton acreage increase we will see. If I grew cotton, I would go into this report very hedged Dec2011 cotton. At least sell some silly calls for mountains of money.

Back to the grains, let's return to the BIG PICTURE.
1. This is a year after a major production shortfall.
2. In those years, the following new crop prices always TOP early in the year.
3. In those years, prices VERY often make major highs BETWEEN 3/25 and 5/10, with 4/1 being the MOST LIKELY time for a high.
4. There is NO reason to think that this year will be any different.
5. Beans have massive divergence of beans versus the products. Meal and oil look very weak. BUT beans could indeed have a bullish report number.
6. SEASONALLY, BEANS should top around 5/1 NOT 4/1. So, a bullish bean number is actually perfect for our expectations.

SO, to our plan, we will just stay hedged and see what happens.

My somewhat educated opinion is that the report will have little lasting impact. Corn should top out again very soon, wheat around late April as noted in the last email, and beans will probably just chop around sideways.

That said, I just refuse to lift hedges at such extreme profit levels. If I am wrong, well so be it, by harvest I won't be.

Remember, I have written often about how new crops should rally back strongly and it DID. Now, that it has rallied back, do you really want to count on USDA for ANOTHER bullish surprise? Sooner or later, they will become bearish surprises.. Just the way the world works.

By the way...got to love hogs. Right on target to hit our goals in early May.

Take care,
Ken