

February 7, 2011

Well friends.....we find ourselves at very interesting times in the markets. Quite frankly, I felt things were quite well planned until Friday. Now, I know one day does not mean much, but it is the internal dynamics that are a little troubling to me. So, I thought I would do another one of those: WHAT DO WE KNOW....emails. Let's start at the beginning in hopes of regaining some confidence.

HERE IS WHAT I WROTE ON AUGUST 6th:

"WHAT DO WE KNOW" (in my view)

1. THE CORN YIELD REPORTED NEXT WEEK WILL BE THE HIGHEST ONE OF THE YEAR. FINAL YIELD WILL BE ABOUT 5 BU BELOW THIS AT BEST AND MAYBE 8 AT WORST. TOO MUCH RAIN AND TOO MUCH HEAT ALWAYS KILL GRAIN FILL. Yes, we did in fact know this didn't we

2. THE FRINGE AREAS ARE A MESS THIS YEAR. NO WAY THE NATIONAL YIELD EXCEEDS LAST YEAR WHEN THE FRINGE AREAS WERE PERFECT OR BETTER THAN PERFECT. THIS APPLIES TO BOTH CORN AND BEANS. HEAT KILLS THE SHALLOW SOIL FRINGE AREAS YIELD EVERYTIME. Yes, we did in fact know this didn't we

7. SO, WE HAVE A TIMING POINT THAT IS IMMEDIATELY FOLLOWED BY A REPORT THAT WILL BE COMPLETELY WRONG WHEN IT IS PRINTED. Yes, we did in fact know this didn't we

LASTLY, CORN AND BEANS ARE INVOLVED IN A WEATHER MARKET AND NO ONE KNOWS IT YET. STILL CAN SELL CORN PUTS AND BRING IN A BUNCH OF MONEY TO RAISE THE SELLING PRICE IF YOU ARE HEDGED. Yes, we did in fact know this didn't we

Interesting glimpse from the past. Obviously, if we had known how truly PATHETIC the USDA crop condition reports were.....we should have been long millions of bu of corn. But, in my view, it was impossible to guess the enormity of their incompetence, (EVEN THOUGH WE KNEW IT AT THE TIME)

BACK TO THE CURRENT....what do we know now?

1. AND THIS IS IMPORTANT....This is a global supply short-fall rally. It is NOT a demand led rally. As such, it is important to remember how those end. For example, we heard all last week about countries buying grain to increase their RESERVES...this is true hoarding on a global scale. Scared politicians very often put multi-year highs in markets...and it is very far to say that there are MANY scared politicians today.

2. Not only are countries hoarding, the speculative funds, as of the week reported 2/1, had ADDED another 82 million long corn and 159 million long bean positions. NET speculative longs as of 2/1: CORN: 3,392,220,000 Bushels (3.39 Bil Bu) 7 TIMES the carryout BEANS: 1,555,015,000 Bushels (1.55 Bil Bu) 20 TIMES CARRYOUT. WHEAT: 1,085,375,000 Bushels (1.08 Bil Bu) 3 times carryout This is why one stroke of a pen could limit down grains for days.

In retrospect, as business managers, we have used our superior market knowledge to great effect. But like I have always said....today is what counts.

And it is today that troubles me....mostly because the highs are due, or overdue. And, OBVIOUSLY we are very close to MULTI-YEAR Highs. But, this feels a lot like May of 2008 doesn't it.

Importantly, the reasons I am concerned are simple:

1. Oats making new highs should NOT have happened if the highs were in. So, it looks likely Oats will test all-time-highs, that will be an easy sale and will happen in the next few weeks. But I did NOT expect it. Troubling.

2. Open Interest in Corn/Oats/Beans/Wheat should have declined on the last leg higher IF this was the last leg higher. TO DATE, it has not, meaning there is a possible continuation of the rally a few more weeks.

3. The 60-year cycle has topped, OR TOPS TODAY, and we are making highs which is expected, but it would have been better to do it emotionally on declining open interest rather than have a grinding push higher with all adding to longs.

4. Wheat normally tops first, this last leg to new highs in wheat, all speculative and hoarding driven on increasing open interest was not expected and thus implies the tops are a few weeks away. Wheat needs to top out.

5. Cotton has finally topped BUT it did not have declining open interest when it did it!!!....That is very unusual and might be a sign of the global currency printing going on. Regardless, it means that the GRAINS might top WITHOUT having declining open interest. SO, that makes it much harder to KNOW (back to the title of the email) when it is going to happen. It is TROUBLING to think the grains might top on increasing open interest.

TAKEAWAY, when cz hit \$5.98, we went to 100% sold 2010 c/s, doing the last 20% or so in short cz. Stops on that are at 6.12. Beans we are waiting to be stopped into shorts using our triggers underneath the market.

We are also now 75% sold 2012 using Cargill NBE's for both c/s; and 50% sold 2013. Our profit goals (at 33% net margin) are apparently LOWER than everyone else's.

THE POINT of this email is that I think we may have sold too soon because of the markets internal dynamics. BUT that does not mean we will panic, rather we will sell more deferred grains, and maybe even do some spec shorts, WHEN we have confirmation of a top.

The TOP in grains could happen:

NOW, 1/31 to 2/7

APRIL 4th

JUNE 3rd

There is no way this is 2008. Nor is there any way that the rally will continue unabated AFTER APRIL 4th. So, we are within a few weeks of a historic high. THIS IS STILL NOT A TIME TO TAKE PRICE RISK....at least not for us.

REMEMBER, the world should grow RECORD yields in 2011.

TO close, what do we really KNOW.

The markets are increasing at near vertical rates.

They are short crop markets with unprecedented speculative exposure.

They always top before June 5th the year following a short crop.

They will decline at TWICE the rate they increased.
They WILL NOT maintain these price levels through the new harvest.

SO....the things we know make me feel better about our position. BUT, I am a little depressed that I under-estimated the NASS field data incompetence, AND under-estimated the FED's ability to feed the speculative bubble in a stagnant world economy.

GOOD LUCK everyone. Any sale you make now will make you proud come harvest. We do KNOW that for sure. Plus as my good friend from IA likes to point out, Ken's price plus 60 cents in beans will be a hell of a good sale!

Take care,
Ken