

February 10, 2011

Friends:

Rationing.....Rationing.....RATIONING!!! and bears OH MY.

Sorry for the weak attempt at humor, but if I hear anymore about how prices have to keep going higher to RATION demand.....geez.....talk about a deaf and blind seeing eye dog leading the blind down a bullet train track.

PLAN IMP:

Still short the CZ and using a 6.24 stop for now.

Shorted some BOH today, stop at 61.20.

Added some short WN12 on the close.

The WN12 has some very interesting math going on at 9.44. The last leg higher is equal to 1.382 the first leg and is equal to \$2.24 which is the modern day low price in wheat, and also is 50% of the low price last June. Probably early as usual, but \$9.50 is very strong resistance on the weekly chart and I was just thinking about how many millions of wheat acres can be added globally in time for harvest in July 2012.

As to the question of rationing.....well, it is just a bogus question. On many levels, so I'll take a few shots at it.

1. Wealthy folks like us never really ration anything when prices are high. Sure, a dairy somewhere might get foreclosed upon, but its demand is never reduced until after prices have already collapsed. Takes a long time to close an end-user of grain. Please remember the 2008 event, where Verasun had deals cut forcing them to buy 2x the corn bushels at \$7 IF the price declined. The net effect was that the demand for that corn was bid into the market when corn was \$8, and when it fell back to \$7, there was NO demand because Verasun and many others had already bought. Markets in effect build up a vacuum under them, Gann called it a "Tunnel Through the Air". So, if you think you are going to see rationing when prices are high you will not.

Rationing is VERY POORLY understood by most everyone. ALL the ethanol plants were running when corn was \$8, many were closed when corn had declined back to \$3.50. Rationing isn't realized until after prices collapse.

2. The wealthy countries don't really reduce consumption of anything. Yes, supply chains become tighter, and yes, things get trucked in unusual directions, and sure sometimes, a plant will take longer for repairs, but if you look at quantity of corn used in any calendar year, I think there has only been one down year in the last 75. Last one of substance was the dustbowl era in 1934 I think. So, the whole concept of seeing corn demand be rationed in the wealthiest corner of the globe (the Midwest cornbelt) is not very instructive.

3. The poor do the rationing gents...and not many of us even know a poor person. Having just returned from a few hundred miles from Tunisia, those folks are rioting because they cannot afford to pay 2x the price for flour that they paid last year. You will also note that we don't export much to the poor do we. Again, rationing occurs, but if you starve to death, demand reduction doesn't really show up until next year, when prices have collapsed and food is more plentiful.

4. EXPORTS...the one economic statistic that ALL the experts just never mention. Exports of US grain ALWAYS INCREASE, sometimes by huge percentages, as prices increase.

While counter-intuitive, it is the same reality. You only pay ludicrous prices for US grains IF you are SCARED. So, as global supplies get tight, everyone gets SCARED, and buys more. You have the perverted effect of an INCREASE in PRICE CAUSING an INCREASE in DEMAND. Just wait, by July 2012, wheat will be back down to \$5 and US exports will be non-existent.

5. Rationing is not what really happens with global food production in the first place. What happens is folks find ways to delay consumption a few months to new crop, but MOSTLY JUST GROW MORE. There are still roughly 250 million aerable acres globally that can be added as I understand it. Black Sea, Brazil, Central Africa, 30 million of CRP in just the US, Canada, etc. Roughly 10 million acres would completely overwhelm this insatiable demand. This is of course BEFORE we add in yields increasing at 1.5% per year.

6. Why do we need to ration demand anyway? We still have 650 mil bu of corn in carryout. We actually start harvest in the south in August. ALSO, IT IS IMPORTANT TO NOTE THAT THE SAME GROUP THAT TOLD YOU WE HAD 1.3 Bil carryout a mere 16 weeks ago, is the one telling you it is only 650 mil now.

On a personal knowledge level, our hogs have gone from a 3.27 FE on the old junk corn, to around a 3.06 on the good corn. We have rationed our demand by 6.5%!!! Not. Also, some big hog farms are weaning 50% of normal pigs this month due to all the corn/heat/prss issues. So, the feed use number is probably overstated by 500 mil bu? Just saying, the data is not STATIC...it changes and someday soon it will change in the opposite direction every time for months in a row, just like this time on the way up.

Again, this is not a demand driven market, it is a global supply short-fall market and those all end the same way when production returns to trend or above.

Take care,

Ken