

WHAT DO WE KNOW, version 2011

Many of you will remember I shared a list of things that we knew about the crop and markets back just before the 2010 August crop report. I would say that everything we discussed at that time turned out to be pretty accurate. (For example, we felt strongly that corn would be much higher after harvest in December than it was in August, due to NASS techniques that just can't measure flood damage.)

So, how about we do a version 2011. Things we know about the 2011 crop (please review the BIG PICTURE item below to put things in context. We are still 100% hedged for example.

1. NASS is under immense pressure to "GET IT RIGHT". Funny, if you take out the silly stocks lowering mistake in the June 10th report, they had it right all along. Of course, no one wants to believe them. I think this puts them in a position where they become overly conservative, and thus will over-estimate yields in this report. Not for the 2010 reason, but for the 1995 reason. This does not mean prices have to rally, they already have rallied from \$3.45 to \$8 remember.

2. Rainfall in the next 10 days for about 40% of the belt will make or break yields. The report is as of August 1st and does not capture this. Since they are required to assume normal weather going forward it is highly likely that this report over-estimates yields.

Please go to this link and make your own conclusions.

(<http://water.weather.gov/precip/>).

Below the map you can select the time period and the percent of average. Great yield predictor, especially for beans. What I see is roughly 40% of the bean acres are in deep trouble. 30% should be very good. 30% average. No way beans make trend yields in this scenario when you consider planting date as well.

3. The weather continues to be very much like 1974. The grain markets really want to go down, just like everything else, but they just can't because of supply problems. Especially corn. Seems a frost is pretty likely the way things are going.

4. What will the NASS boys say this morning? I really don't know. Acres probably come down a little for corn, beans unchanged, prevent plant takes out 500k, corn and bean yields will be high versus the final but probably nothing like the error last year.

5. Great bean yields are normally driven by tropical storm moisture. None forecasted yet. Looks like we have high odds of getting the hurricane moisture just in time for harvest :-). Big rains the dry areas this weekend are needed across the dry areas.

6. INTEREST RATES...talk about a blow-off spike higher in the face of contrary news. It is clearly the greatest Ponzi scheme in all of human existence. Lower the credit score so that the bond funds are required to sell poorer bonds and buy more treasuries to maintain their funds average rating? People who fly to "Perceived" safety many times find it is not as safe as they thought. I've attached the long-term bond charts. **Hedging rates sometime in the next 10 days is a pretty good idea. Always want to sell into a panic buying spree.**

7. Also attached the chart of the Dow. Talk about an easy short!! We don't have stock investments and thus would not have anything to hedge, but that chart is another in a long list of all time classic sell patterns. It was clearly "**HAMMER TIME**". Sorry I wasn't even looking at stock charts since we don't invest there.

CONCLUSION:

Just about everything we know is already in the market this time around. That means there is not a clear answer to what to do. It also means that we are very comfortable going into the report with little price risk.

ACTIONS:

We have exited half the long bean long put position at a loss obviously. On the brighter side, we bought the puts for just this reason. Since we are unsure of what happens in this report, just going to keep all the sales in place and wait and watch.

On a side note, you can clearly see why I just don't trust weather markets. It is the corn belt for a reason...it rains almost 80% of the years and the fear fades away and price drifts lower or collapses. Just ask yourself where prices would be with average weather?

So, we will wait for a clearer picture and FOCUS on the 2012 charts, cz12 and sx12. Much like wn12, those markets have an extreme amount of downside given where we are in the Big Picture. Plus they are easier to manage with less emotional noise. They are attached.





