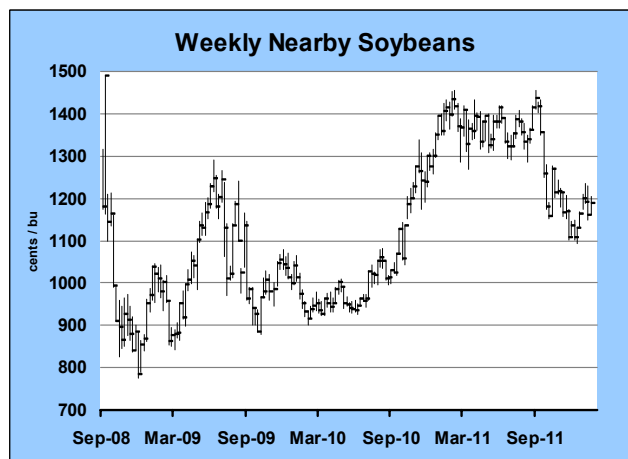


Soybeans January, 2012

Bearish news from the USDA, mostly for the corn market, plus less fear of a major drought issue for Argentina and Brazil helped to drive the soybean market sharply lower following the January 12th USDA reports. However, the market quickly recovered all of its losses in the week following the report, with outside market forces turning more positive, talk of some significant South American damage and a turn to positive crush margins from China seen as bullish forces. The USDA pegged US soybean production at 3.056 billion bushels, up from the previous estimate of 3.046 billion, which was about as expected. Ending stocks were pegged at 275 million bushels, up from trade expectations of 233 million and up from 230 million last month. Exports were revised lower by 25 million and crush down by 10 million. The steep decline in usage was seen as a negative development, and traders believe that unless there is further damage to crops in South America, US exports could slip further. World ending stocks for the 2011/12 season came in at 63.43 million tonnes, down from 64.54 million estimated last month. This is still the second highest on record. December 1st US soybean stocks came in at 2.366 billion bushels versus trade expectations near 2.324 billion. The report news was bearish with declining US demand and production a bit higher than expected.



On January 23rd the market pushed above the close from ahead of the key January reports, as there were reports that the badly needed rain (80% coverage of 0.50-1.5 inches) failed to materialize on the preceding weekend, with some of the dry areas of Argentina receiving less than 1/4 inch. Outside market forces have turned positive, and this has helped to spark a more positive speculative buying environment. Talk of higher crush margins in China and improving demand from that nation for 2012 helped to support as well. The International Grain Council believes China import demand will jump 8.8% for the 2011/12 season to 57MM tonnes. This is up from the current USDA estimate of 56.5. A lack of evidence of any "switching" of China soybeans from Brazil to the US was seen as a negative, but traders will be monitoring the Brazil shipping pace early in the harvest season closely. Traders are hopeful that if northern Brazil rains stay active, harvest will be delayed and some purchases will be switched from Brazil to the US.

USDA SUPPLY/DEMAND			
US SOYBEANS			
	Jan	Jan	Jan
	USDA	USDA	USDA
	09-10	10-11	11-12
Planted Area (M Acres)	77.5	77.4	75.0
Harvested Area (Acres)	76.4	76.6	73.6
Yield (Bu/Acre)	44.0	43.5	41.5
Beginning Stocks (M Bu)	138	151	215
Production	3,359	3,329	3,056
Imports	15	14	15
Supply, Total	3,512	3,495	3,286
Crushings	1,752	1,648	1,615
Exports	1,499	1,501	1,275
Seed	90	87	88
Residual	20	43	32
Use, Total	3,361	3,280	3,011
Ending Stocks	151	215	275
Stocks/Use Ratio	4.5%	6.6%	9.1%

Soybean export sales for week ending January 12th came in at 991,100 metric tonnes, which was well above trade expectations and a 3-mo high. However, cumulative sales stand at just 73.6% of the USDA forecast for 2011/12 (current) marketing year versus a 5 yr. avg. of 78.0%. The Commitments of Traders as of January 17th for soybeans showed non-commercial traders were net long 48,711 contracts, down 10,700 contracts for the week. The selling trend is seen as a short term negative. It will be another month before we see the first USDA ideas on planted area for the 2012/13 season. While profitability appears to favor corn over soybeans, soybeans are still more favorable than cotton and other competitors, and soybean production is still profitable on paper against new crop prices. As a result, some traders see plantings increasing by about 1M acres, and others show a slight decline. If up 1M acres and yield is 44 bu/acre and we also assume an increase of about 135Mbu in usage, ending stocks could come in near 422M bu vs. 275 this season.

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