

Commodities Report

Jan 31, 2012

	<u>Close Jan 31</u>	<u>Jan 17</u>	<u>2 week change</u>
Mar Corn	6.40	6.04	+ .36
Mar Soybeans	12.00	11.84	+ .16
Mar Wheat	6.66	6.05	+ .61
Apr. Hogs	88.90	87.40	+ 1.50
Apr Cattle	128.60	126.80	+ 1.80
Mar Can \$	99.63	98.30	+ 1.33
US \$ Index	79.41	81.43	-2.02
Gold	1736	1656	+ 80
Crude Oil	98.43	100.87	- 2.44
US 10 Yr Notes	132-07	131-06	+ 1-01
TSX Stocks	12450	12214	+ 236

Grains were firmer over the past two week. Prices had weakened after the bearish USDA report issued Jan 12, but dry conditions in South America allowed prices to gain back most of those losses. Crop problems in the Ukraine are also severe, lending to the stronger tone.

Most of Argentina and Southern Brazil have had extreme temperatures with inadequate rainfall. This affected corn the worst, as it was further along in maturity. Many estimates of the Ag corn crop are near the 20 mln mt level. In their Jan 12 report, USDA lowered the crop there to 26 mln, from 29 mln mt estimated previously.

Arg had a serious drought in 2008 also, which helped propel soybean futures to their all-time high of \$16.65. However, that was right before the US banking crisis, which drove prices to under \$8.00 by the end of the year. Times are different now.

Markets now have become more two-sided, and are within well-defined, broad ranges. A breakout in either direction could result in a large move in price. On the downside, the ket levels are \$5.70 on corn and \$11.00 on soys. On the upside, the levels are \$6.60 and \$12.50.

Funds have liquidated a lot of contracts the past 6 months. Therefore, they do have "dry powder" on the sidelines that they will commit should prices break the longer term moving averages. Conversely, they will dump more, should support give way.

Grains have returned to following the outside markets also. If the US dollar is weak, commodities in general are strong. The European debt situation is back in the news, and some think Portugal is the next Greece. Meanwhile, US economic numbers have been slowly improving.

The US Federal Reserve is, however, not that bullish on US prospects going forward. They announced that interest rates would stay unusually low until at least the end of 2014. US 10 year notes are yielding 1.83 percent, while 5 year notes are .73 percent. And people are still buying them.

Ultimately this should be friendly to stock and commodity markets, as investors seek better returns. The risk of a debt default somewhere is keeping money in the safe havens...at least for now.