

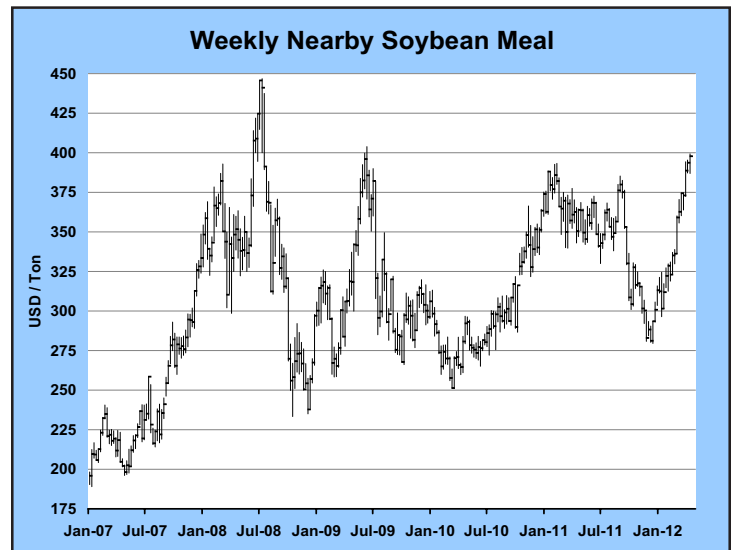


## Soybean Meal - Strong Demand, Supply Concerns

April 16, 2012

The sharp drop in South American soybean production this year on the heels of the largest year-over-year drop in world soybean production in 2011/12 on record leaves the high-protein meal supply in question for the 2012/13 marketing year. The USDA will release its first US soybean supply/demand estimates for the 2012/13 on May 10. Most traders are trying to figure out how the USDA will balance an enormous demand base and expanding demand from China with the lower South American production and the smaller than expected prospective plantings estimate from March 30th. It will be important to have increased plantings and record or near record yields in the US for the new crop season and a surge in production for South America in early 2013 to avoid a critical shortage of soybeans in 2013.

On top of the soybean crop concerns, there is a growing global demand base for soybean meal. The market will need to deal with global growth in protein demand from expanding world dairy herd, expanding aquaculture demand and expanding meat consumption in Asia.



This Special Report was prepared by

**The Hightower Report**

*Futures Analysis & Forecasting*

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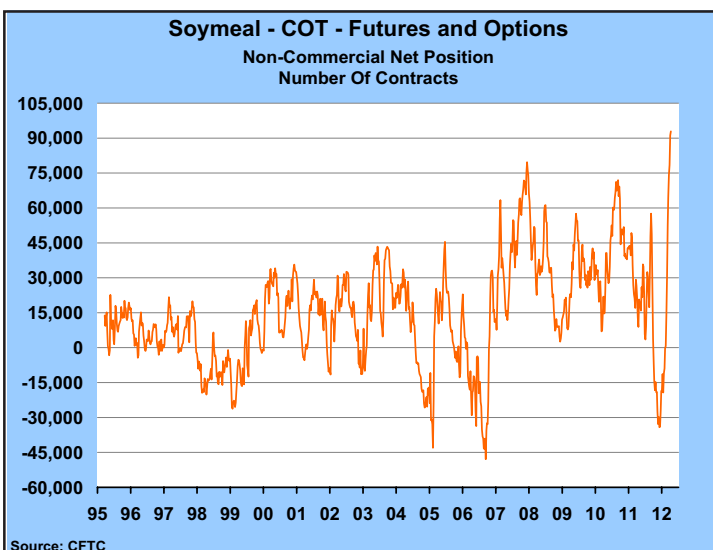
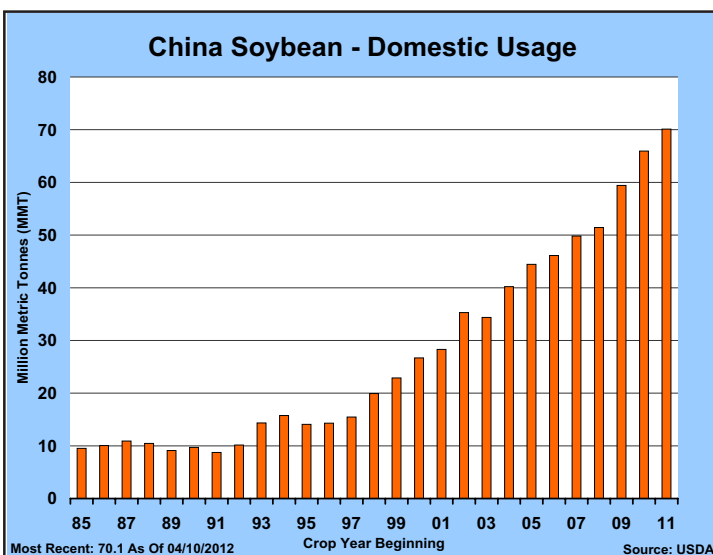
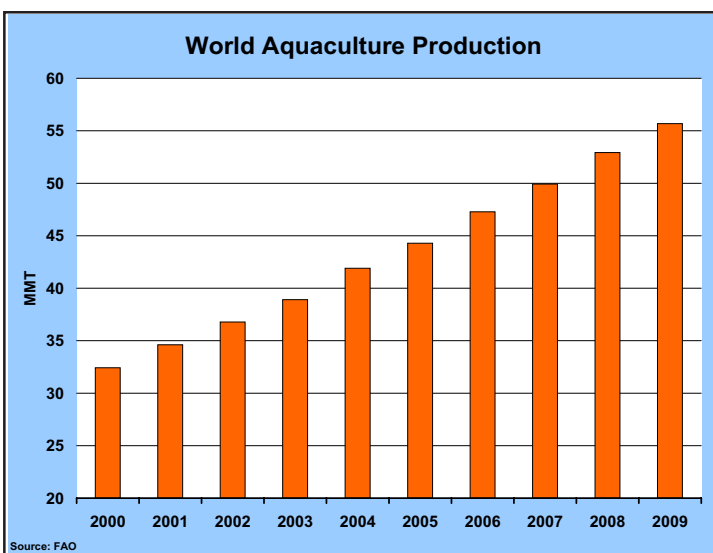
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### More on Aquaculture

Aquaculture is the farming of aquatic organisms such as fish, mollusks, crustaceans and aquatic plants. Increasing population around the world, particularly the growth in prosperity in the developed world, has boosted demand for protein. This has fueled a significant increase in aquaculture production (up 72% from 2000 to 2009 according to the FAO). Aquaculture is viewed as a more efficient way of producing protein than traditional land-based meat production. A study conducted last year showed that 100 pounds of feed will yield 65 pounds of farmed salmon, compared to 20 pounds of chicken and 13 pounds of pork.

Here are some other facts about the aquaculture industry and its potential impact on the global soybean market:

- China generated 62.5% of world aquaculture production of fish, crustaceans and mollusks in 2009 (34.8 million tonnes). Other major producers include India, Vietnam, Indonesia and Thailand.
- Fishmeal is more efficient as a protein source for aquaculture than plant-based proteins. (Carnivorous fish are not accustomed to plant-based feed.) Progress has been made on the plant end, but feed rations still require 1530% fishmeal.
- Expansion of global aquaculture could use 70% of the global fishmeal supply by 2015, up from 53% in 2003. Global fishmeal output has been running around 67 million metric tons per year for the last ten years. Average global trade has been running 34 million tons per year.
- China is by far the greatest consumer of fishmeal, ranging between 1.6 and 2 million metric tons annually. Japan and Thailand follow with 700,000 and 400,000 metric tons per year, respectively.
- While some decline in fishmeal output can be blamed on overfishing, most of the variations have been attributed to the presence of El Nino.
- The apparent limitations to fishmeal output leaves the potential growth in the aquaculture sector dependent on alternative feed sources, such as soybean meal, and on the ability to develop plant-based feeds that are efficient for aquaculture production.



**Trading futures contracts and commodity options involves substantial risk of loss, and thus is not appropriate for all investors. Investors should carefully consider the inherent risks of such an investment in light of their financial condition.**

USDA SUPPLY/DEMAND US SOYBEANS							2012-13 Outlook		
	06-07	07-08	08-09	Apr USDA 09-10	Apr USDA 10-11	Apr USDA 11-12	Planting Intentions Acreage Various Yields		
							Low	Trend	High
Planted Area (M Acres)	75.5	64.7	75.7	77.5	77.4	75.0	73.9	73.9	73.9
Harvested Area	74.6	64.1	74.7	76.4	76.6	73.6	72.9	72.9	72.9
Yield (Bu/Acre)	42.9	41.7	39.7	44.0	43.5	41.5	42.4	43.4	44.4
Beginning Stocks (M Bu)	449	574	205	138	151	215	250	250	250
Production	3,197	2,677	2,967	3,359	3,329	3,056	3,091	3,164	3,237
Imports	9	10	13	15	14	15	15	15	15
Supply, Total	3,655	3,261	3,185	3,512	3,495	3,286	3,356	3,429	3,502
Crushings	1,808	1,803	1,662	1,752	1,648	1,630	1,650	1,650	1,650
Exports	1,116	1,159	1,279	1,499	1,501	1,290	1,625	1,625	1,625
Seed	80	89	90	90	87	86	89	89	89
Residual	77	5	16	20	43	30	37	37	37
Use, Total	3,081	3,056	3,047	3,361	3,280	3,036	3,401	3,401	3,401
Ending Stocks	574	205	138	151	215	250	-45	28	101
Stocks/Use Ratio	18.6%	6.7%	4.5%	4.5%	6.6%	8.2%	-1.3%	0.8%	3.0%

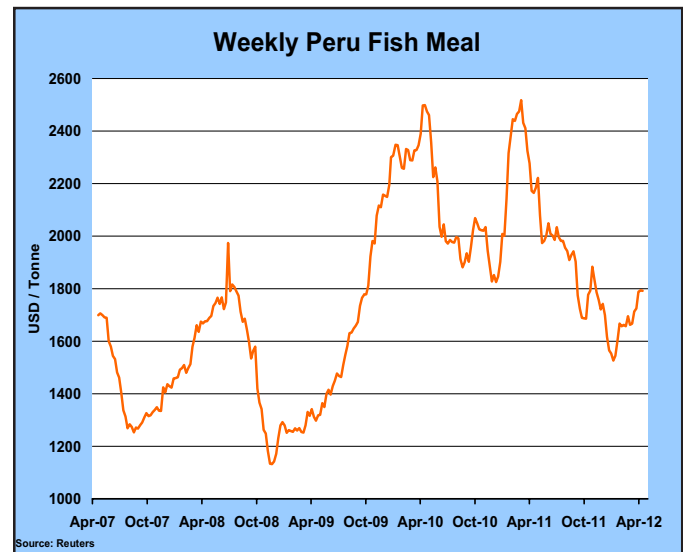
- The protein content in fishmeal is estimated at 65% versus 48% for soybean meal.
- World soybean meal production in 2009/2010 was 165 million tons, which was about 25 times greater than global fishmeal production.

**China’s Growing Demand**

The expansion of the swine, poultry and aquaculture sectors in China has been the driving force behind their need to import soybeans. The Iowa Soybean Association estimates that China’s aquaculture sector consumes 5 million metric tons of soybean meal or the equivalent of 235 million bushels of soybeans. China’s soybean import demand for the 2011/12 season is pegged at 55 million tonnes, but many traders are already expecting 57-58 million for this year and well above 60 million for 2012/13.

**Look to Buy a Correction**

The Commitments of Traders reports as of April 10th showed non-commercial traders were net long 92,929 contracts, an increase of 1,750 for the week and a new record high. This, along with a hefty open interest total leaves the market vulnerable to technical corrections. December soybean meal has seen four advances from the December 2011 low of \$290.40, averaging 21 trading days each and covering a little more than \$30.00. The uptrend pattern appears to have taken a pause after marking a new contract high of \$379.00 on April 3rd. We were encouraged by December Soybean meal’s move through its September top of \$370.50 on the latest advance,



and we view current downside action in December soybean meal as corrective. Given the nearly \$90.00 rally from the November 2011 low, we recommend buying a pullback to the retracement target of \$345.10.

**Suggested Trading Strategies:** 1) Buy 3 December meal 340.00 puts at 10.50 each and then buy 1 December meal futures at the market. On a break to the 345.10-334.70 support zone, lift two of the puts. Hold the futures as well as the remaining put to see if there is a resumption of the uptrend. Use an upside target of 401.10, and risk a total of \$1,500 on the spread. 2) Buy December meal futures at 345.20 with an objective of 400.90. Risk the trade to a close under 334.40. 3) Bull call spread: Buy a December meal 360.00 call/sell a December meal 430.00 call for a net cost of 17.30. Use an objective of 49.30 on the spread, and risk a total of \$780.

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