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Corn Volatility Alert

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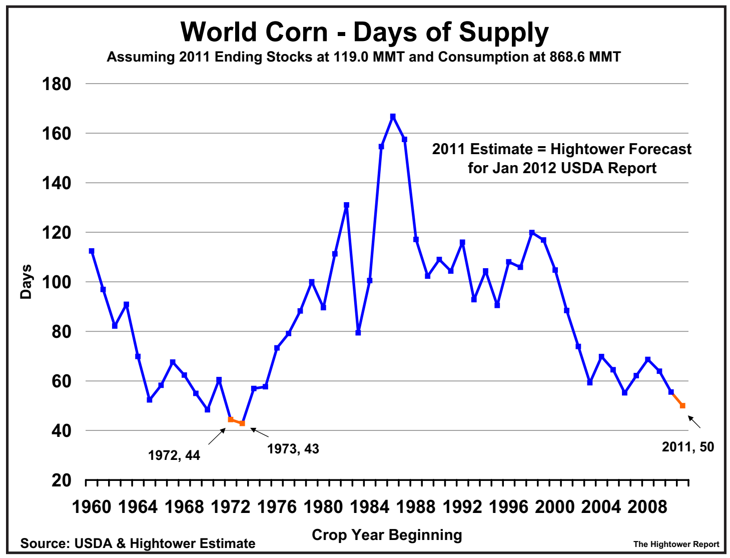
Wide ranges of estimates for ending stocks and production for the upcoming USDA reports and continued weather uncertainties for late January and early February leaves the corn market in a potentially volatile trade setup into and beyond the Thursday, January 12th report window.

In January every year, the USDA Supply/Demand, Crop Production and Quarterly Grains Stocks reports are released on the same day, and for the last five years, the corn market has made limit moves on each of those days. In 2011, the market hit the 30 cent limit-up move and closed 24 higher on the day. In 2009 and 2010, the market closed down the 30 cent limit. In 2007 and 2008, the market closed up the 20 cent limit. With the wide range of estimates this year, prices look very volatile for later this week.

On top of that, extremely high temperatures after weeks of below normal precipitation has producers in Argentina nervous over the possibility that the crop had already experienced an extreme loss in yield ahead of significant rains that are due to start today. Most growing areas were well above 100 degrees over the weekend into Monday ahead of the rain, and losses are mounting. The expected lack of a shift in the weather pattern in spite of a good rain event this week leaves the market vulnerable to significant upside potential if



This Special Report was prepared by

The Hightower Report

Futures Analysis & Forecasting

the soils dry up again into late this month. Traders are concerned that after receiving 1/2 to 1 1/2 inches of rain this week, crops will be back into a stressful condition in another week. Temperatures are expected to move higher into the coming weekend, and there currently is no other organized rain event in the forecast.

Traders expect corn production in the US to be revised lower by about 45 million bushels for the USDA production report on Thursday morning, due to a revision lower in yield or even harvested acreage. However, there is a 210 million bushel range for the report. US Ending stocks are expected to be revised down by about 100 million bushels in Thursday's report from the 848 million that was estimated in December. However, there is a 433 million bushel range of estimates.

Traders are looking for December 1st corn stocks to be down about 660 million bushels from the previous year. Stocks last year were 10.057 billion bushels. However, there is a 500 million bushel range of estimates for that number.

Global ending stocks for the 2011/12 season are expected to be around 123.5 million tonnes, down from 127.1 million estimated last month. However, with the damage done to the South American crop since January 1st, many traders see the ending stocks eventually falling well under 120 million. If we assume an ending estimate of 119 million, world ending stocks would fall to a 50-day supply, the lowest since 1973. This compares to 56 days last year and 64 days two years ago.

Some traders are looking for lower yield, lower harvested acreage, higher feed usage, better ethanol demand and higher exports due to the sharp drop in Argentina production. This could spark extreme tightness in the old crop ending stocks for the US and the world. However, with higher plantings and normal yield this coming season, traders are expecting a less-tight situation for 2012/13. And while we debate "how tight" U.S. and world ending stocks will be if we lose 8-12 million tonnes of corn in South America, a minor jump in US planted area and a 164 bushel per acre yield for the 2012 crop would result in an increase in US production of about 50 million tonnes.

Producer Hedge Ideas:

Old Crop: Sell March corn futures at the market and buy 2 February corn $6.75 calls for a total of 21 cents each. Expensive, but the producer would be fully hedged and could see windfall on bullish report.

New Crop: Buy a December corn $6.00 put, sell 2 December corn $5.00 puts and sell a December corn $7.30 call for a total premium cost of 3 cents. This strategy can provide solid short-term coverage for a low cost, and on a rally it will leave the hedger in a position to lock in a higher price level. There is increased risk if there is a sharp, extended break in the market, so the producer will need to re-evaluate the strategy if there is a very bearish report and/or a weather shift on South America.

End User Hedge Ideas:

Buy December 2012 corn futures at the market, buy a December corn $5.70/$5.20 bear put spread for 23 cents, and sell a December corn $7.30 call for 20 cents. The net cost of this strategy is 3 cents. This strategy provides long hedge coverage to $7.27, but the "hedge of the hedge" sees an increase in risk below if futures fall below $5.20.

Buy a December corn futures at the market, and then sell a December corn $5.80 put and buy 4 December corn $5.00 puts for a net premium paid of 32 cents. The hedger is covered on a rally, and if there is a major downside break, he or she could recoup the losses. The long hedge isn't influenced by time decay and by changes in volatility. This "hedge of the hedge" ratio put play has biggest risk on a decline that stops at $5.00. The market breaks to $4.50 in the next 30 days, the spread, which was bought for 32 cents, should be trading near $1.63.* This will help offset losses on futures hedge.

Spec Trade Ideas:

Buy May corn futures near $6.58/sell a May corn $7.20 call near 21 cents, and buy a February corn $6.40 put at 16. The put expires on January 27th and is bought for short-term protection. The trader's upside potential is limited to a rally to $7.25.

Sell a December corn $6.30 call, buy 4 December corn $7.30 calls, and sell 1 December corn $4.90 put for a total premium cost of 20 cents. Risk a total of 17 cents on entire position.

**Option values are based on pricing models and are not guaranteed.*