ADM INVESTOR SERVICES, INC.

141 W. Jackson Boulevard
Suite 1600A
Chicago, Illinois 60604
312-242-7000

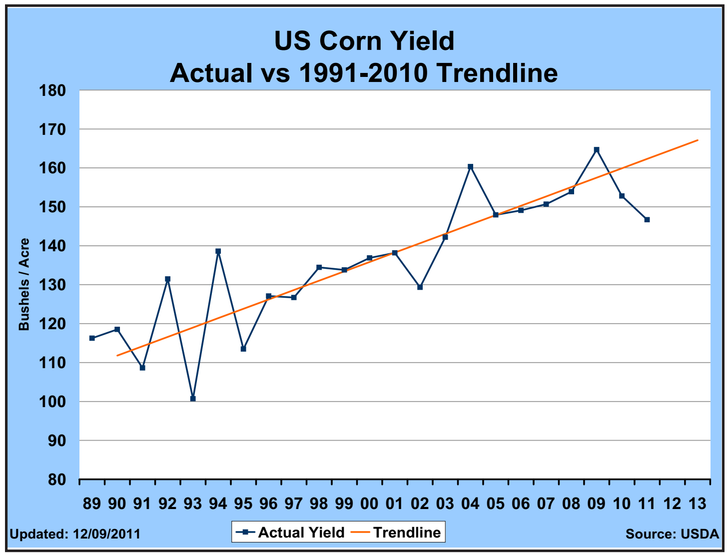
Corn Outlook for the New Year

December 16, 2011

The corn market might be volatile into early 2012, as it could shift from being in a very tight stocks situation in 2011 to one where a surge in global feed grain and US corn production sparks a sharp increase in available supply. May 2012 corn experienced a strong bull trend this past summer, rallying from 400 on June 30 to 793 on August 30th. Following that peak, the market set back to 584 1/2 by December 15th, as it priced in a poor global economic outlook and expectations for expanding feed grain production in South America in early 2012 and in the US next summer.

This past summer's heat was enough to push US yields down to just 146.7 bushels per acre from 152.8 last year and 164.7 two years ago. Fears that the yield was actually lower helped drive the market to a secondary high on November 9th, but news of increasing supply from competitors and expanding world and US wheat supply helped to push the corn market sharply lower into December. If South America's weather is normal this growing season, the supply/demand fundamentals for the 2012/13 season could look bearish, and the market may see the need to reflect that in the first quarter of 2012.

The January 12th quarterly Grain Stocks and final Crop Production reports for 2011 may give traders a better indication as to whether prices have been high enough this season to



This Special Report was prepared by

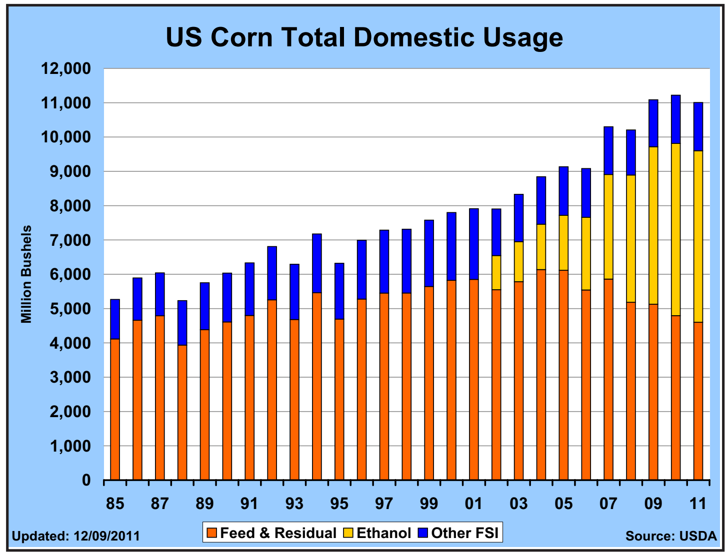
The Hightower Report

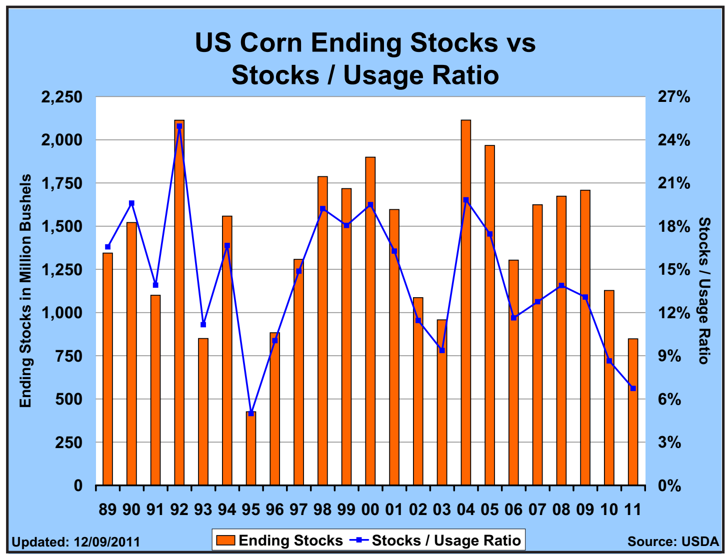
Futures Analysis & Forecasting

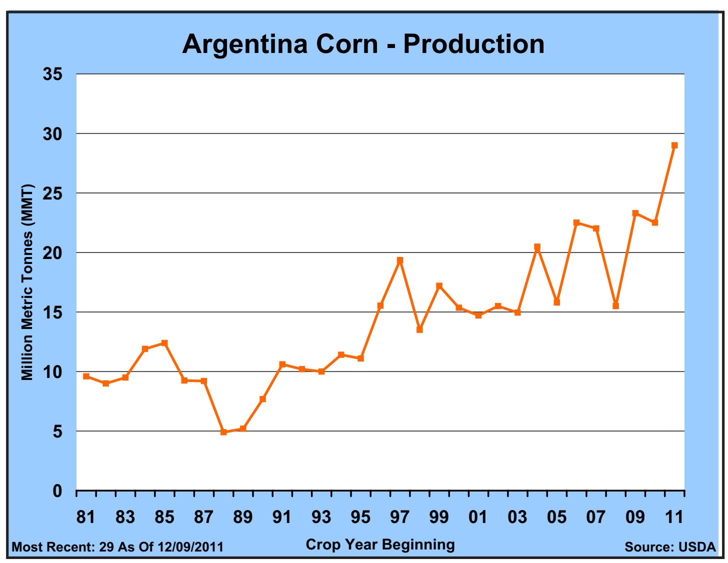
ration supply and hold corn ending stocks above the pipeline minimum. If the final 2011 yield is adjusted down to 145 bushels/acre (due to the late harvest in Ohio and the tendency for small crops to get smaller as the USDA makes its revisions during the course of the year) and the USDA finds a need to adjust domestic feeding demand higher from the current estimate, which is a 22-year low, ending stocks could slip below 600 million bushels, and the stocks/usage ratio could fall below 5% to a record low. While this scenario is not likely, the tightness in the cash market in the weeks immediately following the harvest, the historically strong cash basis levels, and the extreme volatility for the previous quarterly stocks reports suggests that extreme tightness cannot be ruled out until after the January 12th reports are released. March corn has made a limit move on the January report date in each of the last five years.

If the January report does not show a continued tightening of ending stocks from the current forecast of 848 million bushels, the lack of a serious weather issue so far in South America plus talk that there will be plenty of available acres in the US to see corn and soybeans expand for 2012 may shift corn from a bull to a bear trend for early 2012. The USDA Farm Service reported 9.6 million acres of prevented plantings due to flooding or other weather problems in 2011, which was up sharply from 6.9 million in 2009 and 4.2 million in 2008. This suggests that with normal spring weather, there will be plenty of incentives for producers to expand both corn and soybean acres in 2012. Also, an additional 1.6 million acres will move out of the Conservation Reserve Program for the coming year, which will add to the total acres available for grain production.

The record returns that corn producers garnered in 2011 will be all the more reason for them to expand acreage in 2012. We estimate that planted area could reach 95.4 million acres, an increase of 3.5 million from 2011 and a new record. If we assume a return to a more normal yield of 164 bushels per acre and a 4% jump in consumption due to lower prices, we still end up with an ending stocks forecast for 2012/13 season of 2.092 billion bushels, up 135% from this season. This would also push the US stocks/usage ratio to an eight-year high of 15.9%, up from 6.7% this season and 8.6% last year. With this setup, the bulls will be counting on abnormal weather for a third year in a row to rationalize a return to the bull trend. If the global economic outlook for growth and/or inflation does not cooperate into the first quarter of 2012, we could a resumption of the downtrend that began in September.







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 CORN	06-07	07-08	08-09	Dec USDA 09-10	Dec USDA 10-11	Dec USDA 11-12	2011-12 Slightly Lower Yield, Demand	2011-12 Slightly Higher Yield, Demand	2012-13 Acreage +2.5 Mln, Yield
Planted Area (M Acres)	78.3	93.5	86.0	86.4	88.2	91.9	91.9	91.9	94.4
Harvested Area	70.6	86.5	78.6	79.5	81.4	83.9	83.9	83.9	86.8
Yield (Bu/Acre)	149.1	150.7	153.9	164.7	152.8	146.7	145.0	148.0	164.0
Beginning Stocks (M Bu)	1,967	1,304	1,624	1,673	1,708	1,128	1,128	1,128	843
Production	10,531	13,038	12,092	13,092	12,447	12,310	12,166	12,417	14,235
Imports	12	20	14	8	28	15	15	15	15
Supply, Total	12,510	14,362	13,729	14,774	14,182	13,453	13,309	13,560	15,093
Feed & Residual	5,540	5,858	5,182	5,125	4,792	4,600	4,750	4,600	4,800
Food, Seed & Industry	3,541	4,442	5,025	5,961	6,428	6,405	6,410	6,410	6,410
Ethanol for Fuel	2,119	3,049	3,709	4,591	5,021	5,000	5,000	5,000	5,000
Domestic Total	9,081	10,300	10,207	11,086	11,220	11,005	11,160	11,010	11,210
Total Exports	2,125	2,437	1,849	1,980	1,835	1,600	1,575	1,600	1,900
Use, Total	11,207	12,737	12,056	13,066	13,054	12,605	12,735	12,610	13,110
Ending Stocks	1,304	1,624	1,673	1,708	1,128	848	574	950	1,983
Stocks/Use Ratio	11.6%	12.8%	13.9%	13.1%	8.6%	6.7%	4.5%	7.5%	15.1%

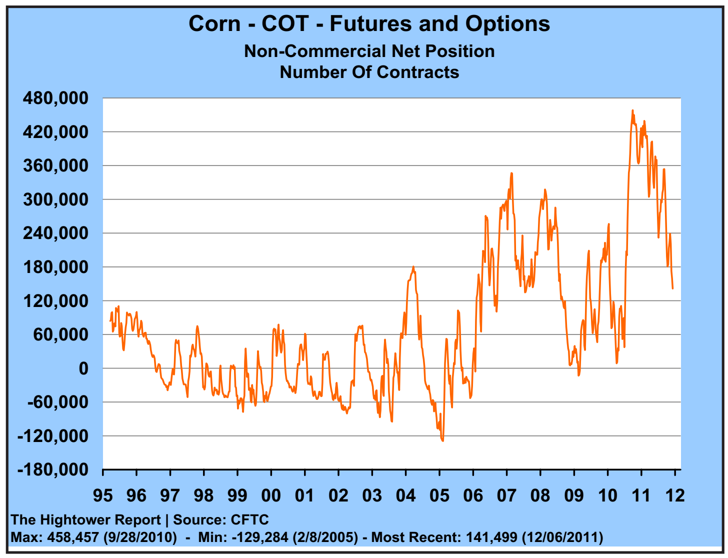
The global scenario is not much different. Producers around the world saw strong profitability in corn production over the past few years, so planted area is likely to expand. Exports surged in Ukraine and Argentina in 2011, and this could encourage their growers to put more resources towards production in 2012.

The market was in a long liquidation selling trend as of late 2011, and this looks to continue into early 2012. Non-commercial traders (funds) were still holding a net long position of 139,688 contracts as of December 13th. This was down from a record-high 458,457 contracts in late 2010. This selling pattern is negative, and fund traders will need a reason to extend their long positions into 2012.

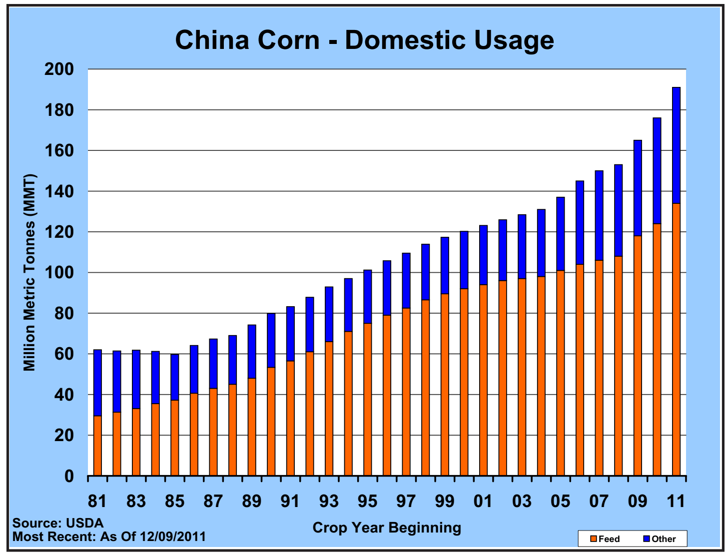
Other factors besides weather that could materially shift the supply/demand balance for the coming year would come from China and Mexico. Mexico experienced its worst drought in 70 years in 2011, and this could spark a jump in the amount of corn they import from the US. This will help to offset the export business that the US ceded to Ukraine and Argentina.

China is the “wild card” with regards to both demand and supply. One thing we do know is that in 2011 pork prices in China were up about 40% from the previous year and that it has embarked on a massive push to expand and modernize its pork production. It will take 27.9 million tonnes (1.1 billion bushels) of additional corn to feed the additional animals if they expand their hog population by 10%.

China also announced plans to restock its reserves of many commodities late in 2011, and this effort on top of their typical



imports could have a dramatic short term impact on the prices. Traders estimate China sold 49 million tonnes of corn from reserves from 2009 to 2011. This is more than the sum total of all US corn exports for a single year and is almost 40% of the current world corn ending stocks estimate for the 2011/12 marketing year. Back in October China set aside funds to buy (import) 9-10 million tonnes of corn. This is equivalent to 376 million bushels. Keep in mind that US ending stocks for 2011/12 were projected at just 848 million bushels. But just when it appeared that China was going become get active in its buying, their final corn production estimates were adjusted sharply higher to a record 191.75 million tonnes, up from 184.5 as the November estimate and up from 177.25 million last year and from 163.9 million two years ago.



At this point, we would look for March corn to remain in a downtrend, with 551 1/2 as the next target. The 631-642 level offers stiff resistance. Further support basis the nearby contract comes in at 544 1/2 and possibly 484 1/2.

Suggested Trading Strategies:

1) Buy 2 March corn 580 puts for 28 cents each and then buy 1 March futures at the market. (We would expect it to be trading around 586 at that point.) A weather scare could easily offer a recovery bounce to near 638, where we would look to lift the March futures for a gain of approximately 52 cents. Hold the 2 March corn 580 puts for a break to 515 basis the March futures. Risk a total of 18 cents per bushel on the entire position.

2) On a recovery bounce, buy the March corn 620 put at 28 cents with an objective of 77. Risk to 17.

3) Hedgers: Wait for a weather-led bounce to 577 for December corn and then look to sell the December corn 640 call near 43 cents and buy the December corn 550 put near 51 cents. This hedge window should protect the producer on a move under 542 in December corn but leave a maximum price received at 632.

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