

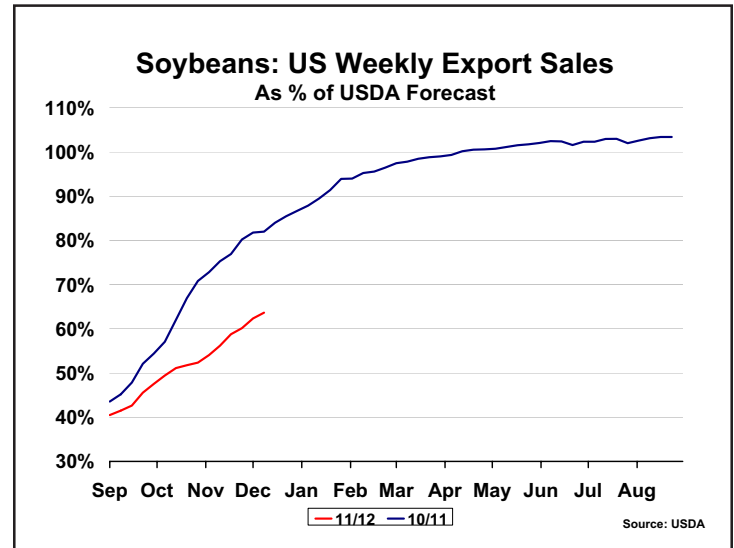


Soybean Outlook for the New Year

December 16, 2011

The general trend for soybeans for the first part of 2012 looks to be down, but the break into Mid-December has left the market a bit oversold, and a bounce might be expected in the near term. In addition, a dry weather forecast for Argentina and southern Brazil is threatening to disrupt production. With this forecast, many traders believe that Argentina may end up with about 30% of normal precipitation for the month. The price trend is down, and the situation looks to get worse into the first quarter. Unless the South America weather scare turns into a weather problem that causes major yield reductions, it could present a selling opportunity.

With US soybean exports off to a slow start this season, it appears that the longer-term supply/demand fundamentals will stay in the bear camp into early next year. However, recent estimates from commercial traders in China have indicated that their import demand for the 2011/12 season may be closer to 60 million tonnes, rather than the 56.5 million that the USDA is currently estimating. Into mid-December, the soybean complex was showing signs of being oversold, and March soybeans had already corrected as much as 37 1/4 off of the late August peak. Any sign of adverse weather in South America could spark a dramatic recovery rally, but it will take a dramatic turnaround in financial markets or a major weather issue to turn the trend.



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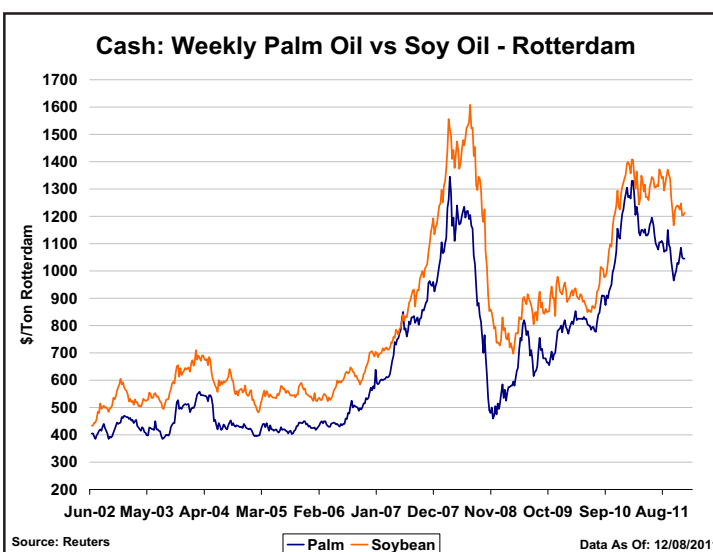
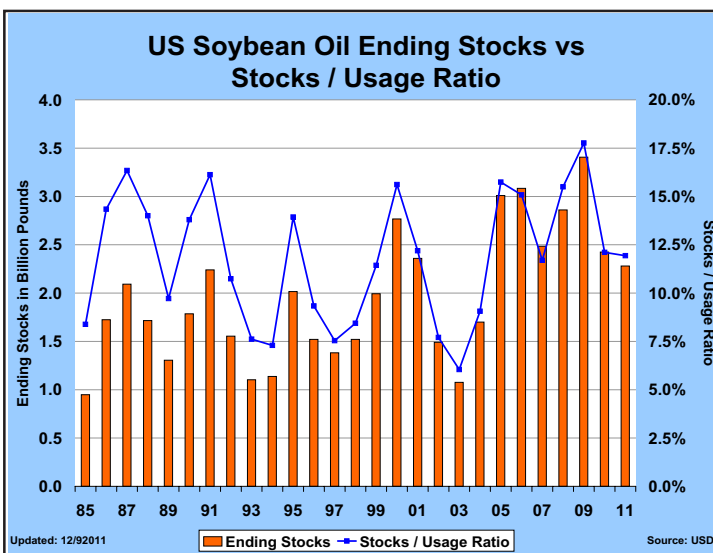
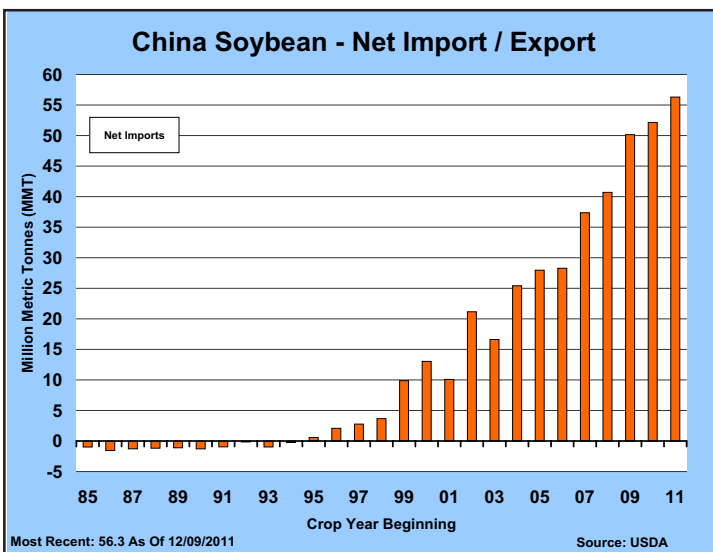
With tightening vegetable oil stocks, declining palm oil production, and an increase in bio-diesel demand in South America and the US, soybean oil stocks could tighten up quickly. By November 2011, US soybean oil stocks had already declined for five months in a row. If there is a weather issue in South America, soybean oil could have rally significantly in early 2012. Palm oil production in Malaysia was already dropping off quickly in November from October due to excessive monsoon rains this season, and production is likely to continue to slip into February. This suggests demand for soybean oil could jump relative to palm oil.

US soybean oil ending stocks and the stocks/usage ratio are expected to drop to seven year lows for the 2011/12 season. Expanding bio-diesel usage in the US, Argentina and in other key producing countries could be a supportive force this coming season. US subsidies will halt at the end of 2011, so usage will be much more dependent on energy prices. Argentina may shift to a 10% bio-diesel mix from 7% at present, and both production and exports should reach a record high. A surge in Black Sea sunoil output helped to pressure vegetable oils into the fall of 2011. Russian oilseed production reached a record 12 million tonnes, up from 7.46 in 2010. However, by the end of 2011 much of the exportable oil from that region may already be booked.

Growth in palm production is expected to slow in 2012, as it will be difficult for palm trees to keep up the production pace from 2011. If so, demand for other vegetable oils is likely to increase. With a 3-year low in ending stocks, the palm oil stocks/usage ratio will be tight, so oilseed production from South America will be relatively more important for 2012.

Bearish outside market forces put pressure on international vegetable oil prices recently, and fund traders have made a big push to short soybean oil in the US. Open interest climbed more than 37,000 contracts from November 15th to November 25th, during a period when January soybean oil prices fell from 52.90 to 48.35. This suggests that fund traders added to their hefty net short position. For the week ending December 13th, non-commercial traders were net short 10,296 contracts. Non-commercial and nonreportable traders combined held a net short position of 19,908 contracts. Aggressive spec selling is a short term negative force, but many traders view soybean oil as oversold.

“Food for fuel” issues might emerge if crude oil prices stay high. Traders will also monitor India’s production closely, as



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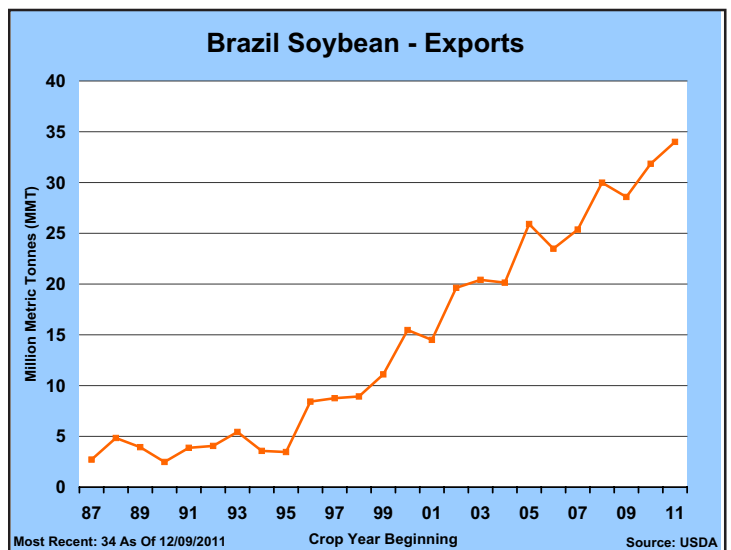
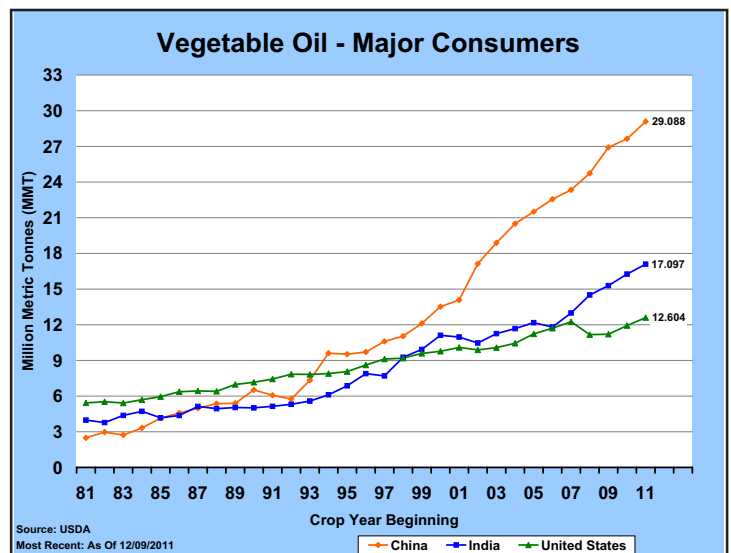
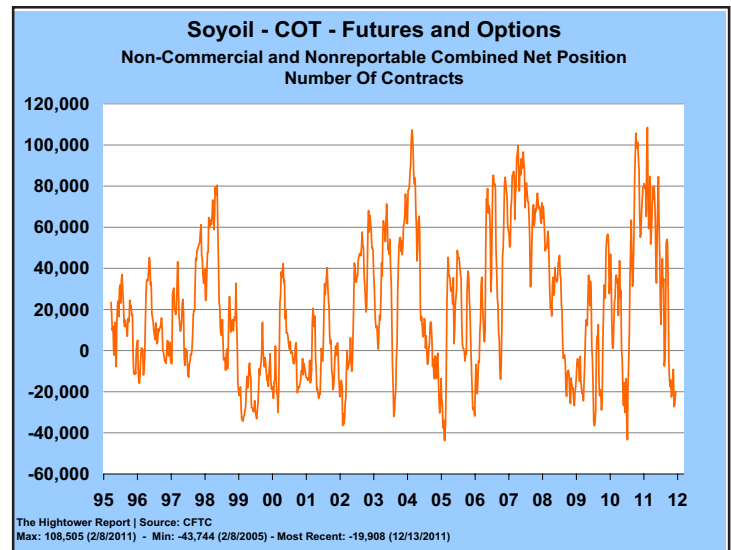
a weather problem there could spark import demand.

For soybeans, traders will be monitoring the La Nina event closely, as it could spark dryness issues, especially in Argentina and southern Brazil. China will be a swing factor again this coming season, and most traders see this as a potential positive force for 2012. But with normal weather for South America and the US, ending stocks for the 2011/12 and 2012/13 seasons could expand.

With a record South American supply, China was still buying Brazilian soybeans late in 2011. This is traditionally the most active period for US exports. Traders were already revising their export forecasts for the US down by 50-75 million bushels as a result. The market also believed that South America had the soil conditions and the incentives to see another big crop harvest in early 2012. The drop in imports could push US ending stocks for 2011/12 closer to the 250-270 million bushel level, compared to the October USDA estimate of 160 million, the November of 195 million and December of 230 million. As of mid-December, soybean export sales were running about 33% behind last year's pace.

For the 2012/13 season, soybean traders were pricing in a bearish global economic outlook into mid-December, so any improvement in the outlook could lend support to the soybean market. But until there is a weather issue in South America or the US, the lack of a "story" for the soybean market will likely limit fund trader participation.

Strong producer returns for soybean production in 2011, the likelihood that 2012 will not see the loss of acreage that occurred in 2011 from poor weather and the expected movement of acreage out of the CRP program suggest soybean planted area could jump in 2012. We estimate that plantings could reach 77 million acres, an increase of 2 million from 2011. If we assume a return to a more normal yield of 43.9 bushels per acre and also assume a jump in usage of 1.8% due to lower prices, we still end up with an ending stocks forecast of 429 million bushels for 2012/13, up 120% from 2011/12 and the third highest in 25 years. This would also push the stocks/usage ratio to a six year high of 13.7%, up from 6.3% in 2011/12 and 6.6% in 210/11. With a setup like this, 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 see a resumption of the downtrend that began in September.



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As of Mid-December, the soybean market was oversold. The Commitments of Traders reports for December 13th showed non-commercial traders were net long just 16,957 contracts as compared with over 180,000 in the summer. Non-Commercial and nonreportable traders combined held a net short position of 18,451 contracts. Traders might look for March soybeans to trade higher in December and maybe into early 2012 if South America's weather turns poor. However, rallies still look like selling opportunities. March soybeans might see a recovery bounce to the 1175 1/2 to 1197 resistance zone before resuming their downtrend. Into the first quarter of 2012, look for a downside target for March soybeans near 1069. For the nearby futures, there is also a downside target of 1036.

The market faces major economic issues ahead out of Europe and China. Traders may want to approach the market with the expectations of another price break into early 2012 before a 1st quarter low can be established. Traders might consider using weather and/or short-term financial "relief" rallies as vehicles to help build a put position ahead.

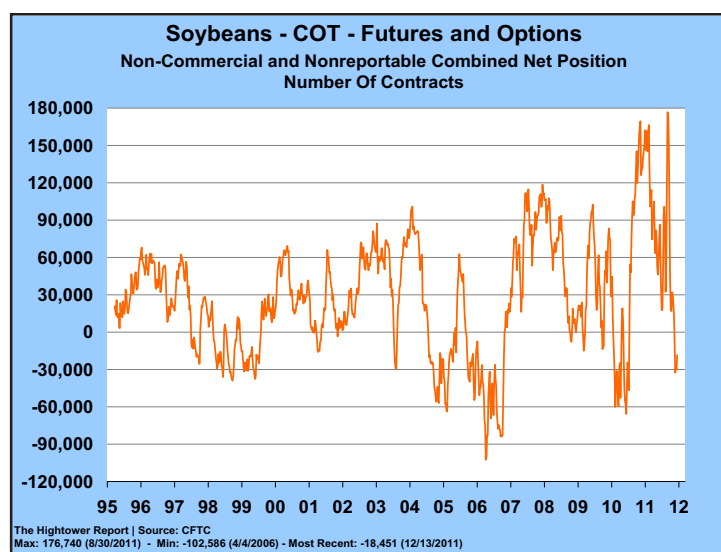
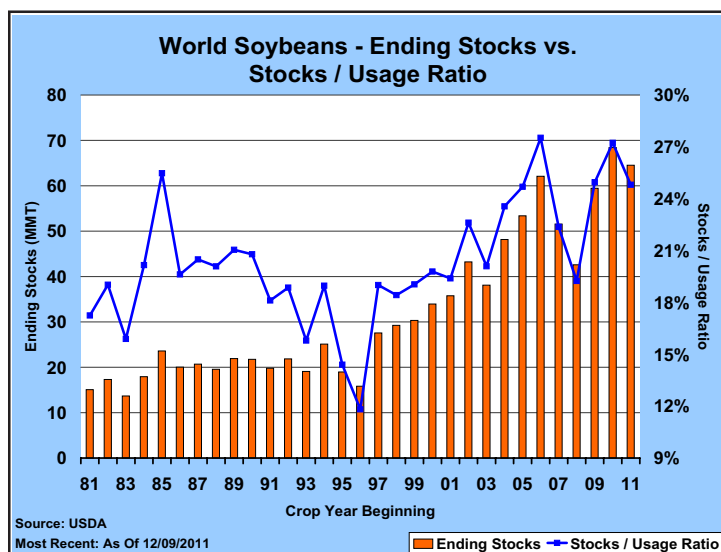
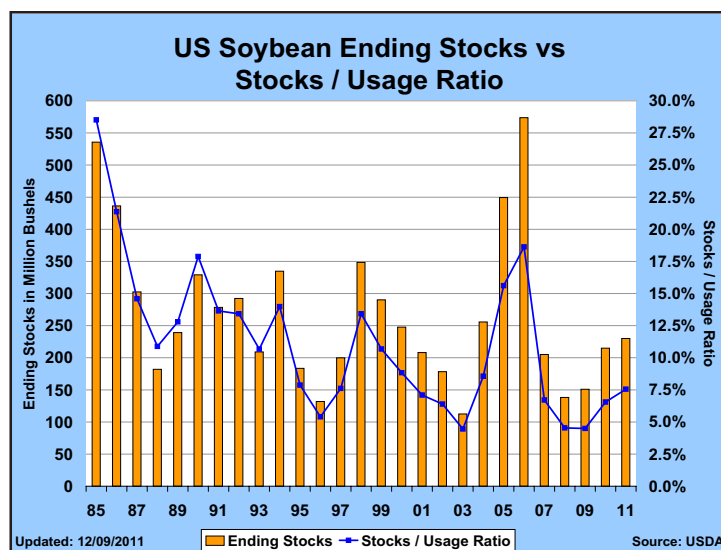
Suggested Trading Strategies:

1) Buy 2 March soybean 1100 puts for 33 cents each and then buy 1 March futures at the market. (We would expect it to be trading around should be trading around 1128 at that point.) A weather scare could easily spark a recovery bounce to 1197 1/4, a 50% correction of the Oct-Dec break. Look to lift the March futures at this price level for gain of approximately 69 1/4 cents. Hold the 2 March soybean 1100 puts for a break to 1036 basis March futures. Risk a total of 22 cents per bushel on the entire position.

2) On a recovery bounce, buy the March soybean 1150 put at 32 cents with an objective of 87. Risk to 18.

3) Buy March soybean oil at 49.36 or better with an objective of 55.30. Risk 120 points from entry.

4) Hedgers: Wait for a weather-led bounce to 1186 in November soybeans and then look to sell the November soybean 1320 call near 56 cents and buy the November soybean 1100 put near 58 cents. This hedge window should protect the producer on a move under 1098 in November soybeans but will leave a maximum price received at 1318.



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