

# Weekly Commodity Report

## January 27, 2012

### Top Stories

- The Fed's announcement that they would hold low interest rates well into 2014 on Wednesday is causing money to flow back into commodities and pushing prices higher. This move made the dollar weaker and US grains more attractive to foreign buyers.
- The Department of Commerce reported fourth quarter GDP rose by 2.8% over the 3<sup>rd</sup> quarter which was well below what had been expected. As a result the stock market saw some weakness and grain prices moved lower.
- On-going nervousness over the Greek debt issue continues to keep some investors out of the market and has been adding a "risk on" mood to the European market

### Commentary:

This week we say Ag markets close higher every day. Several factors are coming together that indicate we will continue on this track for the near term. First the weather bogey in South America (impact on soybeans and corn), second Russia and several other large wheat exporting countries hinting they may see smaller wheat crops this year due to the mild winter and raising their wheat prices, and third export buyers coming back to the US for their needs.

A lot of pundits are calling this "a market correction that was long overdue and not the beginning of a long term trend." I have to agree, prices for grains fell too far too fast for no reason other than investor panic. A new year and new outlook has brought investors back and prices are being pushed higher, but dry weather is starting to spread around the world and this could keep pushing Ag prices higher.

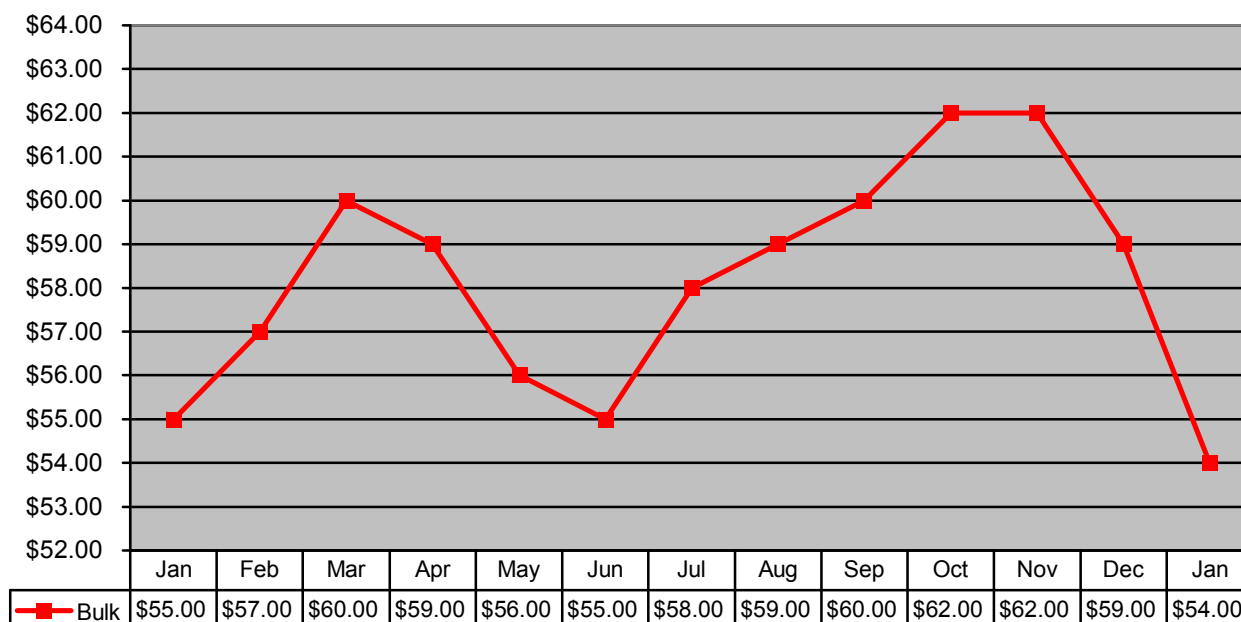
### Sugar

Domestic sugar market was a little bit of a mix last week. Nearby contracts were steady while contracts for delivery in May and beyond moved lower. *Milling & Baking News* is still quoting bulk refined between 54 and 56 cents a pound fob Midwest mill.

World sugar prices continue to move with fluctuations in the Euro. Rallies will have a hard time sticking since all indications are the world will see more sugar this year despite production issues in Brazil.

	<b>01/27</b>	<b>01/20</b>	<b>01/13</b>	<b>01/06</b>
Midwest Beet (No freight)	\$54.00	\$54.00	\$54.00	\$54.00
Midwest Cane (No freight)	\$56.00	\$56.00	\$56.00	\$56.00

### Bulk Cane Sugar \$/cwt (No Frt.)



### Corn

Corn futures traded higher all week gaining about 5% for the week. The market was supported by weakness in the dollar and firm cash markets. Increased export demand from Mexico and Japan plus light farmer selling has been supportive to higher prices as well. Many think that farmers are sitting on more bushels than has been reported waiting for prices to move higher.

	01/27	01/20	01/13	01/06
<b>Corn (\$/bu)</b>	\$6.12	\$6.00	\$6.44	\$6.38

### Oil/Shortening

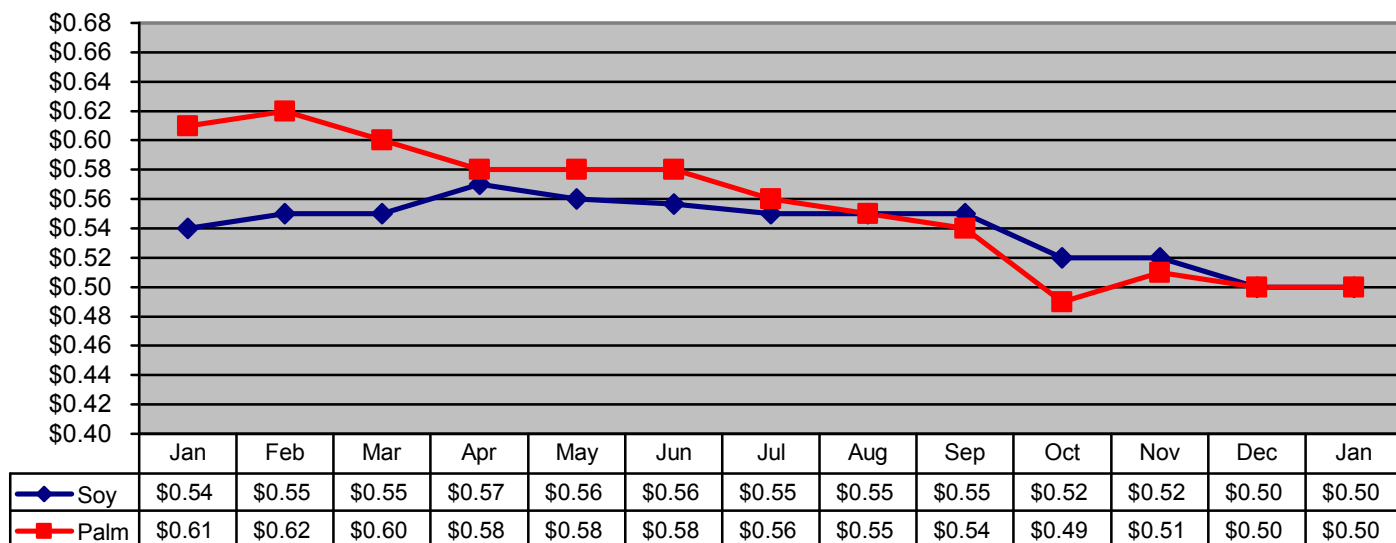
The March soybean oil contract closed at \$.5159 up 116 points for the week and the March soybean meal contract closed up \$10.30 at \$322.20 per ton. Oil market was supported concerns over production in South America, a stronger dollar, and higher crude oil and corn prices.

South America was a contrast of weather this week. While Argentina is struggling against dry hot weather hurting production, Brazil is fighting heavy rains that are delaying its soybean harvest. The Argentine government tried to end rumors this week that they were thinking about banning grain exports this year due to the harsh drought stating the rumors were unfounded. But the numbers indicate that between Brazil and Argentina production will be down 5.6 million metric tons from last which has the market on edge.

Palm oil futures closed higher in Malaysia due to US Fed's pledge to keep interest rates low which brought investor money back and heavy rains that has been disrupting production.

	01/27	01/20	01/13	01/06
Bulk Soybean Oil (fob Decatur)	\$0.5100	\$0.5000	\$0.4975	\$0.5050
Canola Oil (fob Midwest)	\$0.5550	\$0.5450	\$0.5450	\$0.5575
Palm Oil (fob dock)	\$0.5000	\$0.5000	\$0.5025	\$0.5070
Lard (fob Chicago)	\$0.4875	\$0.4900	\$0.4950	\$0.4900

### Soybean vs. Palm Oil



### Dairy

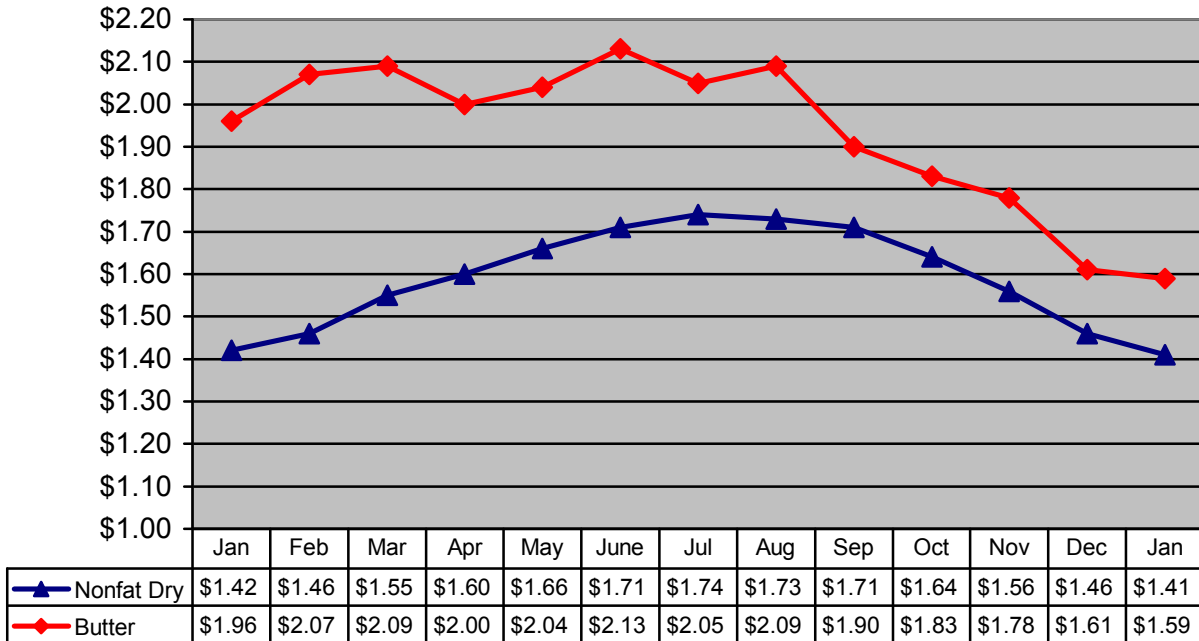
Butter prices moved lower last week on very poor sales. Chicago reported only 1 rail car was sold last week. The weekly average of \$1.55 per pound is the lowest prices since December of 2010, yet producers are busy processing larger supplies of cream and building inventories. Export sales continue to be slow, and over the last six months have dropped by about 20 million pounds versus the same period in 2010..

Dry milk markets continue to struggle and buyers reacted strongly to last week's price drops on the Chicago Mercantile Exchange (CME) and are delaying further purchases until they believe prices have stabilized. Export demand is waning as well signaling prices might be under pressure for some time.

Whey protein demand remains strong and spot outages and shortages are becoming more frequent.

	01/27	01/20	01/13	01/06
Cash Butter (TL/No Frt.)	\$1.55	\$1.58	\$1.62	\$1.60
Nonfat Dry Milk (Hi Heat)	\$1.40	\$1.42	\$1.41	\$1.40
Dry Buttermilk	\$1.39	\$1.41	\$1.41	\$1.41
Whey Powder	\$0.72	\$0.72	\$0.71	\$0.70

## Dairy Prices



## Wheat/Oats

Wheat futures closed the week on a down note after trading higher all week. Cash corn is getting scarce in the U.S. at the moment as farmers are just not selling and basis levels are surging as a result. Wheat also benefitted from another move lower in the U.S. dollar and a modest round of commodity fund short covering. Short covering is when a trader buys back a commodity they sold. For example early in January wheat prices went

down so traders sold their wheat thinking they would lose money. Now wheat is trading higher so traders are buying wheat hoping it will continue to go higher to cover their losses off the first sale.

Hard red winter March wheat futures in Kansas City March closed up 33 cents for the week, settling at \$7.00. Soft wheat March futures in Chicago closed up 36 3/4 cents at \$6.47 1/4 per bushel while the hard spring March future on the Minneapolis Grain Exchange closed up 27 1/2 cents at and \$8.26 1/4.

Rumors that Russia might impose a tax on exports from April forward to ensure supplies at home helped to support the wheat markets this week. The U.S. is currently much more competitive on the world market than in recent months.

	01/27	01/20	01/13	01/06
Soft Wheat	\$6.47	\$6.11	\$6.24	\$6.25
Spring Wheat	\$8.26	\$7.99	\$8.01	\$8.01
Kansas Wheat	\$7.00	\$6.67	\$6.80	\$6.80
Oats	\$2.99	\$2.83	\$2.87	\$3.15

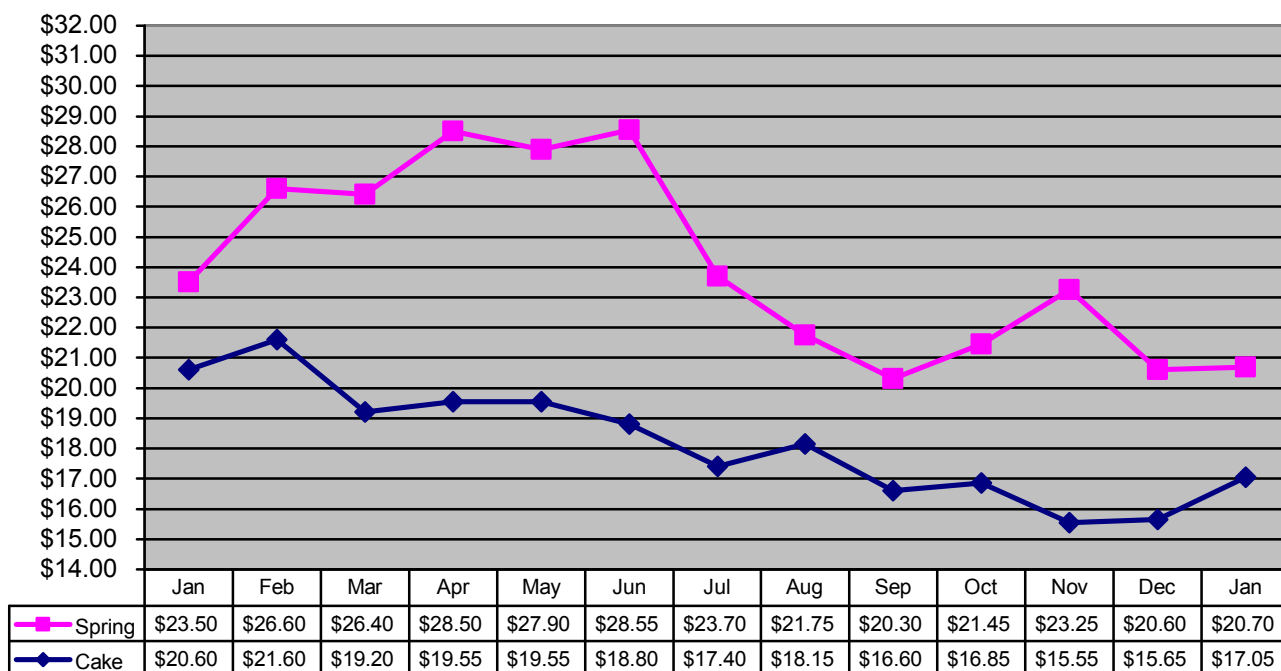
## Flour

Cake and pastry flour buyers have seen their prices move higher due to investors jumping back into the soft wheat market and driving prices higher. Mean while bread flour buyers have seen their prices move up as well though not as much as protein premiums have started to weaken slightly. Hard spring wheat flour prices for patent and high gluten flour have actually weakened due to falling protein premiums.

The majority of flour buyers did cover their first quarter needs back in November and December before the wheat markets started to firm up and move higher. The majority of buyers are still betting we will see lower prices in the spring due to increased acres planted and competition from around the world which would keep a lid on US wheat costs.

	01/27	01/20	01/13	01/06
Spring Flour	\$21.45	\$21.80	\$20.05	\$19.45
Hi Gluten Flour	\$24.35	\$24.85	\$23.05	\$22.45
Kansas Flour	\$18.95	\$18.90	\$18.10	\$18.15
Cake Flour	\$17.85	\$17.00	\$16.65	\$16.60

### Bulk Flour



### Cocoa

The cocoa market saw a small rally last week due to ongoing issues with the Ivory Coast production and new reports out of Indonesia that their production could be down as much 15% from last year.

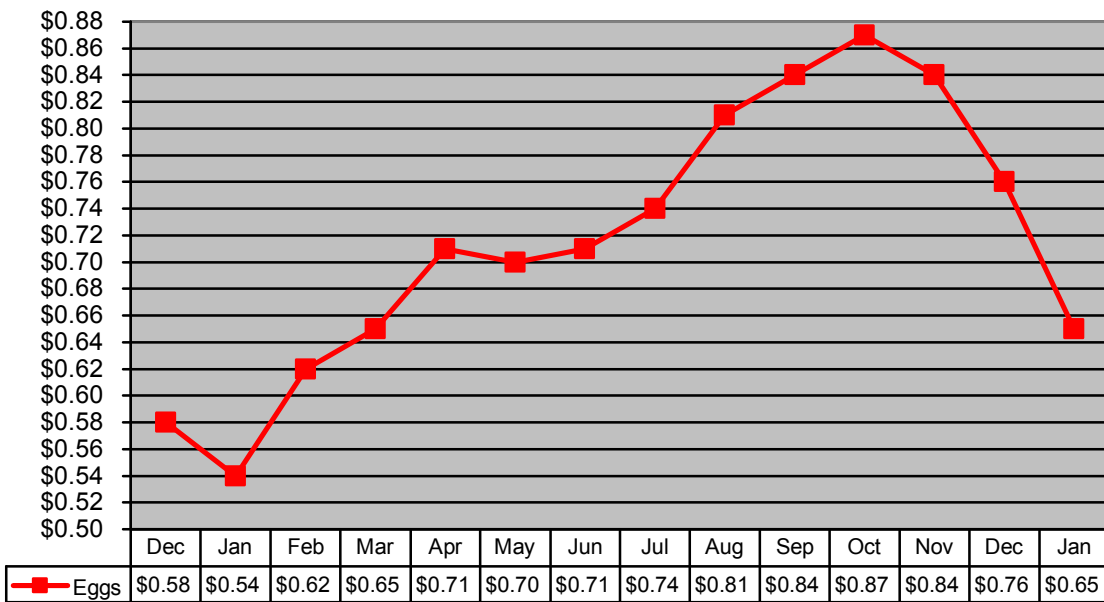
### Eggs

Processed egg prices moved slightly lower, but the ride might be coming to an end. When McDonald's cancelled their supply agreement with Sparboe a large quantity of those eggs wound up being processed into powdered eggs. Well those eggs have worked they way through the system which means supply will return to

normal and sellers will not be competing against cheap eggs to sell to processors. Bottom line with a smaller bird population and corn and soymeal prices moving higher, so will egg prices.

	01/27	01/20	01/13	01/06
Frozen Whole	\$0.64	\$0.64	\$0.65	\$0.68
Frozen Whites	\$0.69	\$0.70	\$0.71	\$0.71
Frozen Yolks	\$0.86	\$0.86	\$0.86	\$0.90
Dried Whole	\$2.30	\$2.35	\$2.38	\$2.40
Dried Whites	\$4.45	\$4.45	\$4.50	\$4.55
Dried Yolks	\$1.70	\$1.72	\$1.75	\$1.78

**Whole Frozen Eggs**



**Energy**

Natural gas and crude oil prices moved high this week due to an unexpected drop in US crude supplies and of course all the saber rattling going on in Iran.

Gas prices moved higher after news that a refinery that supplies gasoline to the East Coast located in St. Croix might shut down due to mounting losses.

	01/27	01/20	01/13	01/06
Natural Gas	\$2.68	\$2.34	\$2.71	\$3.08
US Avg Diesel	\$3.85	\$3.84	\$3.85	\$3.83