

The Hightower Report

Futures Analysis & Forecasting

141 W. Jackson Boulevard
Suite 4002
Chicago, IL 60604
312.786.4450 / 800.662.9346

www.futures-research.com

- Trade Recommendations
- Pre-open and Midday Audio Updates
- Fundamental & Technical Chart Library
- Daily Fundamental & Technical Analysis

www.futures-research.com

Special Report

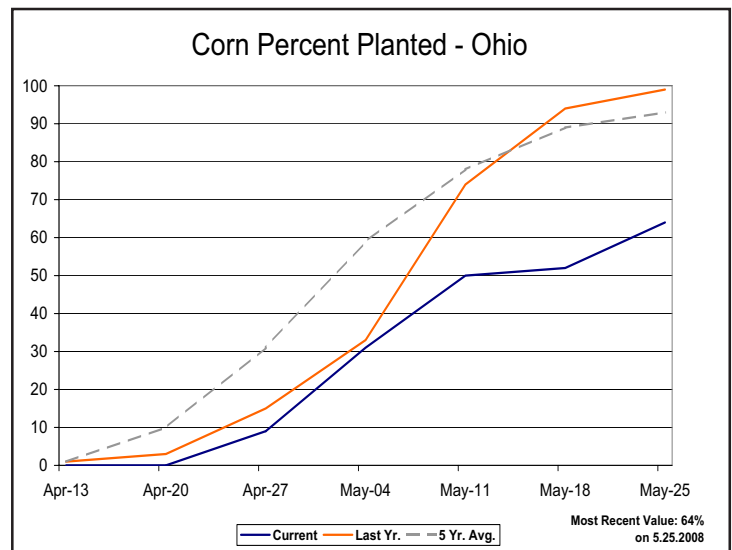
May 30, 2008

Corn: Perfect Weather Needed or Uptrend to Persist

While the US may see a shift to more corn plantings next year, there is not much that can be done to alleviate a tight supply/demand outlook for the 2008/09 season. In fact, ending stocks and stocks/usage levels are already projecting this season to be one of the tightest on record. There were some general thoughts that producers would be able to plant an extra 2-3 million acres above the March intentions report of 86 million, but the weather has not cooperated. It now appears that only around 86 million acres will be planted and that the growing season will be off to a slow start. Any weather problem which threatens to reduce yield potential will therefore be seen as extremely bullish for corn and leave the market in the position of "rationing" supply through higher prices.

The Weather Factor

Crop progress has been the overriding fundamental issue in the corn market this spring, with extremely wet and unseasonably cool weather predominating across most of the Midwest during nearly all of April and May. This put corn planting progress 1-2 weeks behind the 10-year average pace in mid-to-late May, with emergence arguably running even farther behind than planting. Emergence has been behind in



all growing areas, but crop development gets progressively later starting in central Illinois and moving eastward, with the worst conditions of all in Ohio.

The result of late planting can be reduced yield, and the USDA has already acknowledged this potential on the latest Supply and Demand Report where they projected the 2008/09 corn

The information in this report may be considered dated upon its release and should not be considered interpersonal advice. This report is merely an opinion on the market and is a reflection of conditions as of its publication. Market conditions change! Traders should not consider entering positions without their own independent analysis of the market's current situation, nor without further consideration of any changes to the information contained herein that may have occurred since this report was written. The authors are not responsible for any verbal or written claims and opinions that might be provided in conjunction with this report. The trading suggestions contained herein have been provided merely as a general guide and only for the purpose of quantifying the authors' opinions.

This report includes information from sources believed to be reliable but no independent verification has been made and we do not guarantee its accuracy or completeness. Opinions expressed are subject to change without notice. This report should not be construed as a request to engage in any transaction involving the purchase or sale of a futures contract and/or commodity option thereon. The risk of loss in trading futures contracts or commodity options can be substantial, and investors should carefully consider the inherent risks of such an investment in light of their financial condition. Any reproduction or retransmission of this report without the express written consent of The Hightower Report is strictly prohibited.

Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

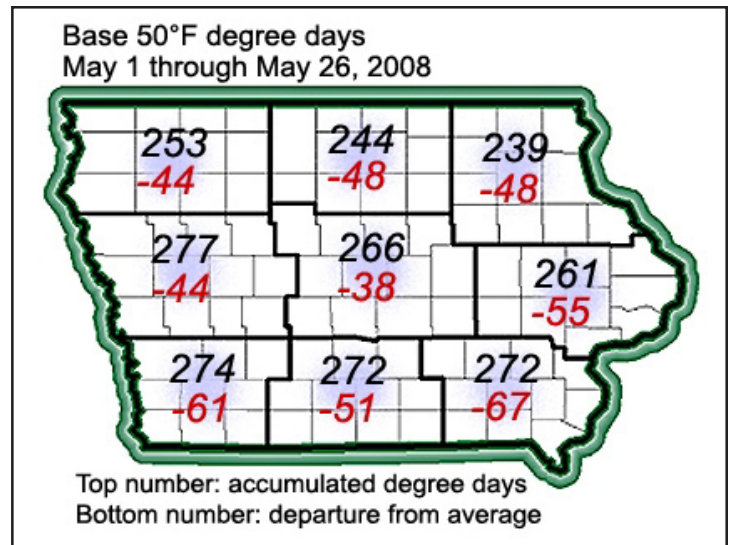
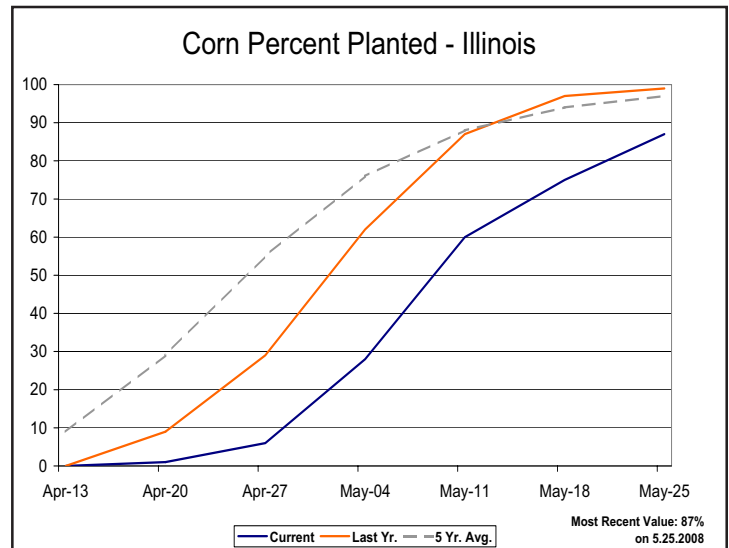
yield at 153.9 bushels per acre, 1 bushel per acre below the trend line. However, one study of conditions in Indiana by Purdue University indicates that final yield is not a one-to-one correlation. The report shows that in years when the crop was planted late, yields were all over: below trendline, at trendline or even above trendline. In years when the crop was late and yields were low, the study indicates that the “lateness factor” only accounted for 24% of the losses. Other factors such as temperature at all stages of development, early soil moisture and drought stress during pollination accounted for the other 76% of the lost yield. That said, it should be noted that late planting sets the stage for many of those other negative factors.

It should also be noted that when agronomists talk about a loss of yield due to late planting they are subtracting bushels from an optimal yield, not from the trend line. This means that if all other factors are ideal, the late-planted crop could still fall above the trend line yield. As of May 25th, corn producers still needed to plant 10.3 million acres.

Growing Degree Days

One of those “other factors” is already in play this year, namely late emergence. Last year, corn also started out late, but farmers caught up rapidly during the first and second weeks of May, resulting in 88% of the corn crop being planted as of May 18th. Just as important, weather was warmer during May last year, and the crop emerged very rapidly.

This year we had much slower emergence due to cool weather, which brings a longer term factor into play: Growing Degree Days, or GDD. GDD measure the accumulation of heat during the growing season. The count starts at either planting time or emergence and runs through to plant maturity. Just as some house plants need a lot of sunlight to thrive, corn needs a substantial number of GDD in order to mature and produce an optimal yield. This year’s crop is already far behind in terms of optimal GDD due to late planting, slow emergence and ongoing cool weather. The nearby map shows the accumulated GDD in various sections of Iowa since May 1st, with the deficits to date.



Courtesy of Iowa State University Ag Extension Service

Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

A Perfect Storm in Reverse?

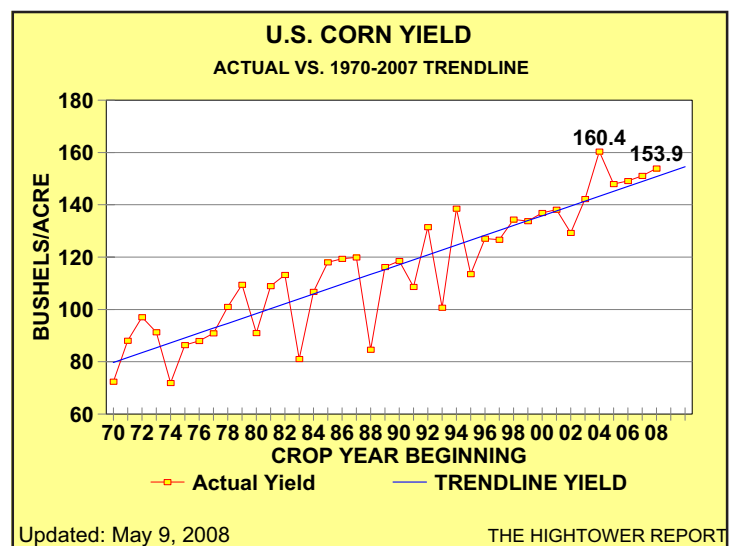
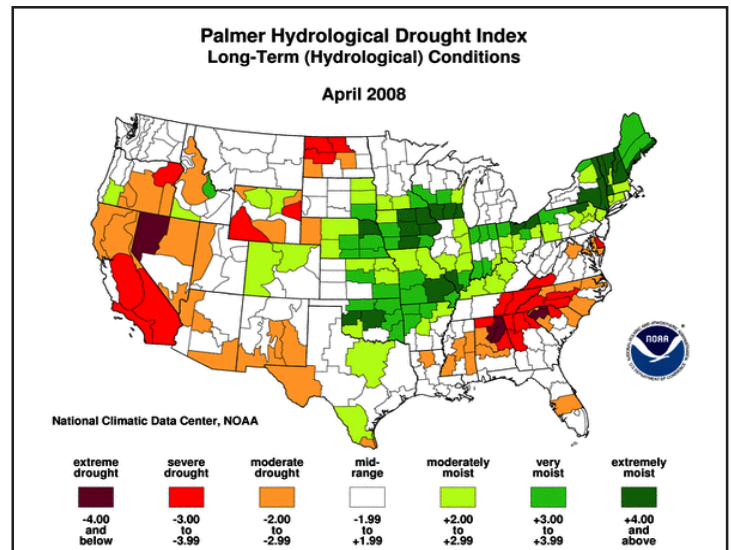
Does this mean that the yield is already locked in below the trend line average as was projected by the USDA on the latest Supply and Demand Reports? Probably yes. While ideal conditions from this point forward could still negate the influence of late planting and result in a yield at the trend line or better, it would take a virtual perfect storm in reverse – that is ideal weather throughout the Corn Belt - for that to happen. There would have to be no regional dry spells, few if any days in the 50s or 60s, no heat waves with temperatures over 90 degrees, no hail, no early frost, etc...

Of course, crop conditions are not entirely negative this year for corn. Another critical factor is soil moisture, and while too much moisture can cause problems with disease, shallow root systems and ‘mudded in’ fields, early season moisture generally gives a big boost to yield potential. A look at the Palmer Index map shows that every major growing area in the US has sufficient or better moisture levels to start the year. If we get that perfect storm in reverse of ideal crop weather from this point on, the early moisture levels will big a big plus in terms of yield in most areas.

Market Needs

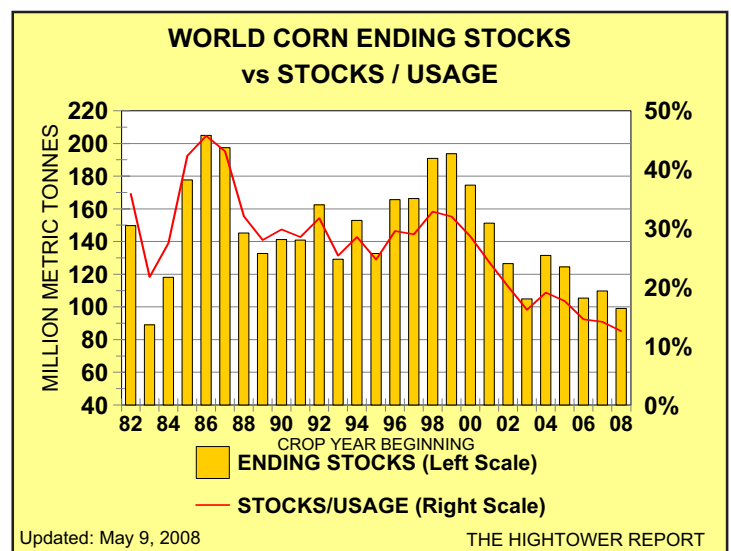
The USDA currently projects 2008/09 ending US corn stocks at only 763 million bushels, which is perhaps 200-250 million bushels above what is needed to simply keep the corn supply pipeline minimally stocked. If we leave the USDA’s demand numbers unchanged for 2008/09, each 1 bushel fluctuation in the national corn yield will raise or lower ending stocks by about 79 million bushels. (1 bushel x 78.8 million projected harvested acres.)

While the current projected yield of 153.9 million bushels is below the 10-year trend line, it is still above the average national yields we saw during the past two years, and it is only 6 1/2 bushels per acre below the all-time record yield. This suggests that there is substantial room for further erosion. A loss of 2 additional bushels per acre would take next year’s ending stocks down to about 605 million bushels if we leave the demand numbers unchanged. A loss of an additional bushel per acre would take stocks down to 526 million bushels. Many analysts are already assuming a yield of 151 bu./acre, which is nearly 3 bu./acre below the USDA.



Updated: May 9, 2008

THE HIGHTOWER REPORT



Updated: May 9, 2008

THE HIGHTOWER REPORT

Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

One additional problem already exists with regard to the current Supply and Demand table for 2008/09, namely, the lower demand numbers that the USDA had to plug in to keep the ending stocks above “pipeline” levels. They lowered exports by 400 million bushels and they also lowered US domestic feed usage by 850 million bushels. It is highly unlikely that these numbers will actually drop that sharply if prices remain at or below 600 in the nearby contract through the remainder of this year.

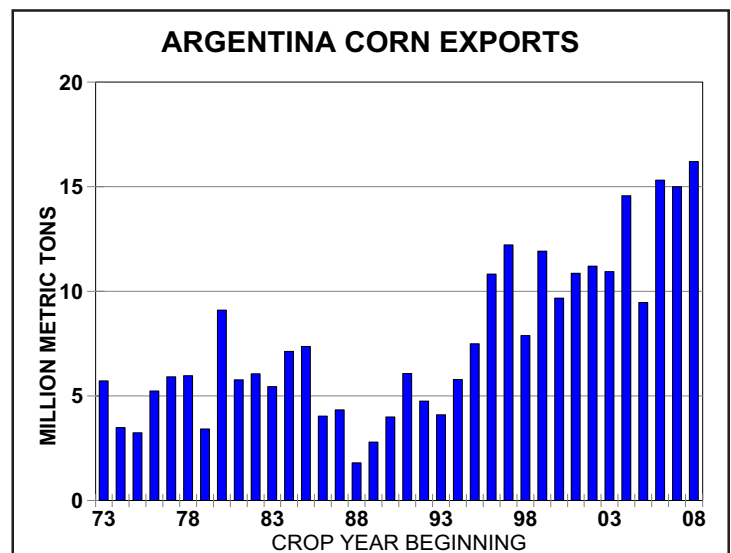
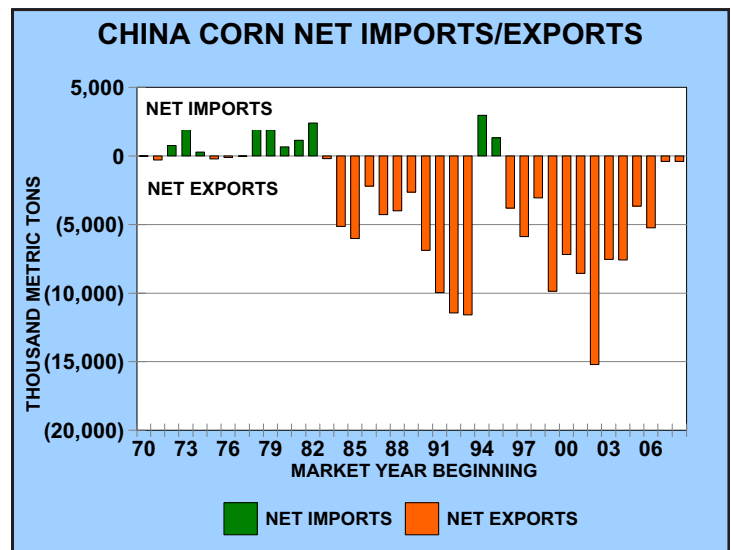
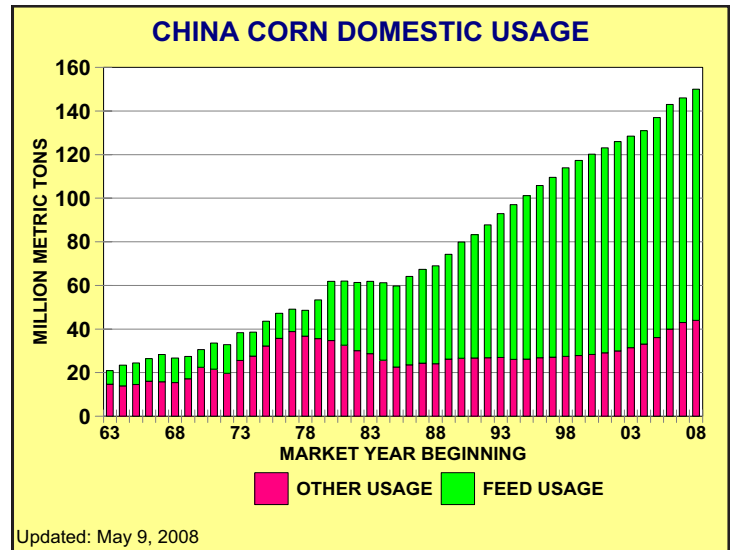
Wild Cards

In addition to crop weather in the US, other factors that bear watching include crop weather in China, political developments in Argentina and world meat consumption. China in particular could be the market’s biggest wild card. The chart of China’s net imports/exports of corn shows that even a minor crop problem there could tip China over to the status of importer. This could easily result in a net swing of 5-10 million tons in world demand and make it impossible to reduce US exports by the 400 million bushels that the USDA currently projects without substantially raising the price of US corn first. And while it is still possible that China will remain a net exporter next year, it will take nearly ideal weather there for them to do so.

Argentina is also a wild card, but more on the negative side. The recent strike there has bottled up supplies in the near term, and they might hit the market later this year, thereby depressing prices and shifting corn demand away from the US. In addition, Argentine farmers are threatening to reduce planted area for soybeans, which are planted later this year, and perhaps even for the wheat crop that is currently being planted. If this is the case, it could shift planted acreage into corn. On the other hand, the Argentine government has shown an almost inexplicable willingness to withhold supplies from the market despite high prices, and farmers have also withheld supplies when they were on strike.

The American Farmer’s Position

The chart on page 5 shows the skyrocketing level of profitability per acre for corn in the US. Profitability is projected to rise to near \$681.42 per acre in 2008/09. While changes in costs are likely to pull this level down from current



Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

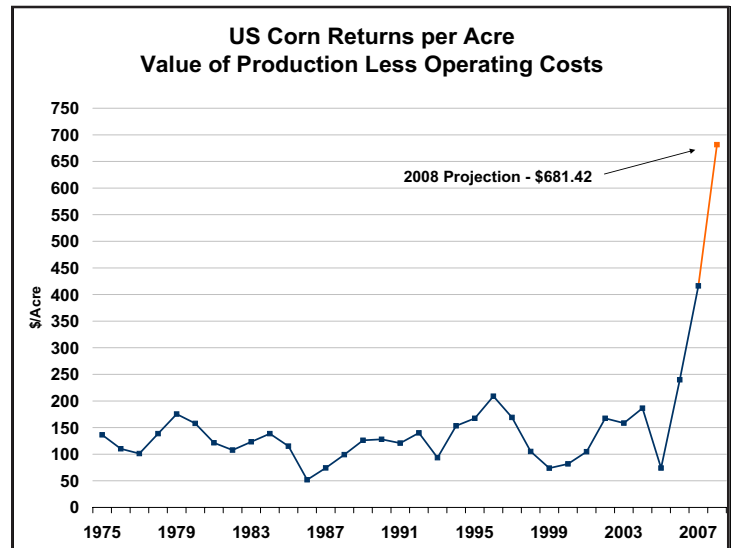
estimates, these numbers show a stunning improvement in the bottom line for US corn producers, but the profitability equation is not a static one. Just as globalization does not allow manufacturers or other businesses to sit on fat profits for very long, it will not allow American farmers to maintain this dramatic edge indefinitely.

The accompanying table shows exactly where the American derives his competitive advantage: yield per hectare (1 hectare = 2.471 acres). American farms on average are expected to yield 9.66 tons per hectare in 2008/09. This is well above nearly every major producing country. Argentina, with its incredibly fertile soil and large, efficient farming operations is projected at only 7.68 tons/hectare, China is at 5.40 tons/hectare and Brazil is at a surprisingly low 3.80. The EU comes in at fairly healthy 6.48, but fertile Ukraine with its deep layer of black soil and large farms is only at 4.21. Russia is at 3.79. Some of these countries have built in problems such as small fields, as is the case in the EU, or a shorter growing season with fewer GDD, as is the case in Russia, but this is certainly not the case with Argentina and Brazil. What these countries lack is the latest genetically modified seed and adequate fertilizer.

With near record prices and tight projected stocks for 2008/09, non-US producers and their national governments will become increasingly fixated on narrowing the gap in yield and profitability. This may come in the form of consolidation of smaller holdings, the introduction of genetically modified seed, the more efficient use of chemical inputs and advanced farm machinery or all of the above. In fact, the Food and Agriculture Organization of the UN (FAO) issued a statement just this week that advocates a push for a major increase in farm investment. One way or another, these producers are likely to learn productivity lessons from the US, just as Chinese manufacturers of computers and machine tools have already done.

Locking in Profitability

It is probably a good idea for American producers to lock in profits for 2008/09 and 2009/10 while the window of profitability remains open. To accomplish this they will need to rely even more on futures and options positions than they have in the past. The reason for this is that forward contracts



Major Corn Producers
Yield, Harvested Area, Production

Country	Yield (MT/HA)	Area Harvested (HA)	Production (MT)
Argentina	7.58	3,100	23,500
Australia	5.00	70	350
Brazil	3.80	15,000	57,000
Canada	8.33	1,200	10,000
China, Peoples Republic of	5.40	27,800	150,000
EU-27	6.48	8,660	56,122
Egypt	8.52	725	6,175
Indonesia	2.09	3,700	7,750
Mexico	3.09	7,450	23,000
Russian Federation	3.79	1,400	5,300
South Africa, Republic of	3.38	3,400	11,500
Thailand	3.91	1,010	3,950
Ukraine	4.21	1,900	8,000
United States	9.66	31,889	307,989

Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

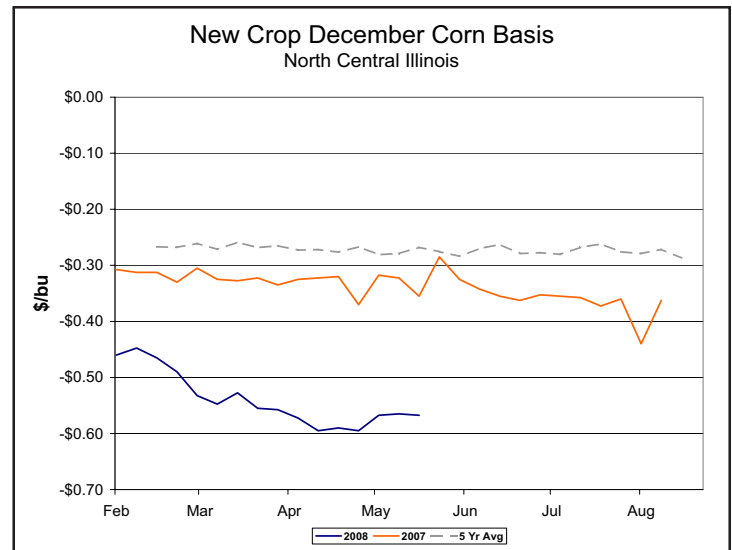
are less available in 2008/09 than has traditionally been the case, and when basis levels are quoted for deferred delivery, they are at historically wide (low) levels. While other options such as exchange-traded swaps are in the pipeline, all of these methods of hedging involve a substantial loss of premium up front.

For example, the new crop corn basis in north central Illinois is running at a discount of near 60 cents to the December futures contract which compares to an average closer to 30 cents under and is unprecedentedly wide. Producers in this area would lose 50-60 cents right off the top when they enter into a new crop forward contract (if they can get one). This is akin to the loss in value that a new car buyer suffers the minute he drives his new automobile off the lot.

By contrast, deferred futures contracts are not trading at a discount to nearby contracts; they are trading at a premium. In fact, new crop (2008/09) contracts are all trading at a premium to the preceding contracts all the way out to July, 2009. The “carrying charge” disappears after that, but it picks up again with December 2010, which is currently trading at a premium of about 15 cents to December 2009. This tells us that producers can find far more value in the futures market than they can find at the local elevator. The question is: how do they unlock that price premium while managing the risk of a futures position?

Option premiums are very expensive, as a large yield and declining demand for the coming season could shift psychology and drive prices lower into the harvest. However, demand numbers may already be too conservative, and given what looks to be a very slow start to the growing season, it will not take much in the way of poor weather to see a yield low enough to drive corn to \$7.00 or more. *See Hedge Strategies for Corn Producers at left.*

While it may be easy for traders to assume that “high prices will cure tight supply” in the long run, we have to go back to the dilemma at hand. It is too late at this point to expect this year’s US or world supply/demand fundamentals will shift to



Hedge Strategies for Corn Producers

As a base position for the coming season, producers can look to...

To view the strategies and to get daily updates on the latest market developments, go to our website at

www.futures-research.com.

Corn: Perfect Weather Needed or Uptrend to Persist

For daily research on corn and other markets, go to www.futures-research.com or call 800-662-9346.

USDA SUPPLY/DEMAND US CORN								2008-09 Crop Outlook		
	01-02	02-03	03-04	04-05	05-06	06-07	07-08	May USDA Yield	07-08 Yield	6Yr Avg Yield
Planted Area (M Acres)	75.8	78.9	78.6	80.9	81.8	78.3	93.6	86.0	86.0	86.0
Harvested Area	68.8	69.3	70.9	73.6	75.1	70.6	86.5	78.8	78.8	78.8
Yield (Bu/Acre)	138.2	129.3	142.2	160.4	148.0	149.1	151.1	153.9	151.1	150.8
Beginning Stocks (M Bu)	1,899	1,596	1,087	958	2,114	1,967	1,304	1,383	1,383	1,383
Production	9,503	8,967	10,089	11,807	11,114	10,535	13,074	12,125	11,902	11,877
Imports	10	14	14	11	9	12	15	15	15	15
Supply, Total	11,412	10,578	11,190	12,776	13,237	12,514	14,393	13,523	13,300	13,275
Feed & Residual	5,864	5,563	5,795	6,158	6,155	5,598	6,150	5,300	5,300	5,400
Food, Seed & Industry	2,046	2,340	2,537	2,686	2,981	3,488	4,360	5,360	5,360	5,470
Ethanol for Fuel			1,168	1,323	1,603	2,117	3,000	4,000	4,000	4,100
Domestic Total	7,911	7,903	8,332	8,844	9,136	9,086	10,510	10,660	10,660	10,870
Total Exports	1,905	1,588	1,900	1,818	2,134	2,125	2,500	2,100	2,100	2,150
Use, Total	9,815	9,491	10,232	10,662	11,270	11,210	13,010	12,760	12,760	13,020
Ending Stocks	1,596	1,087	958	2,114	1,967	1,304	1,383	763	540	255
Stocks/Use Ratio	16.3%	11.4%	9.4%	19.8%	17.5%	11.6%	10.6%	6.0%	4.2%	2.0%

a significantly more bearish scenario. Once again, it will take nearly ideal weather to avoid a historically tight supply situation for the coming season.

Keep in mind, world ending stocks for the 2008/09 season are projected at just 99.03 million tonnes and this assumes normal weather. This would be down nearly 10 million tonnes from the 2007/08 season and would be the lowest ending stocks since 1983. In addition, at just 12.6%, the world stocks/usage ratio would be at the lowest level since 1973. While there are several short-term factors that could support a correction to the downside, (good early June weather, fund long liquidation selling, a correction in energy and commodity prices or fears of slower demand) the big picture fundamentals appear decisively bullish for the 2008/09 season. On the first hint of yield problems, the market appears poised for another leg higher.

Suggested Trading Strategies:

To view the strategies and to get daily updates on the latest market developments, go to our website at www.futures-research.com.