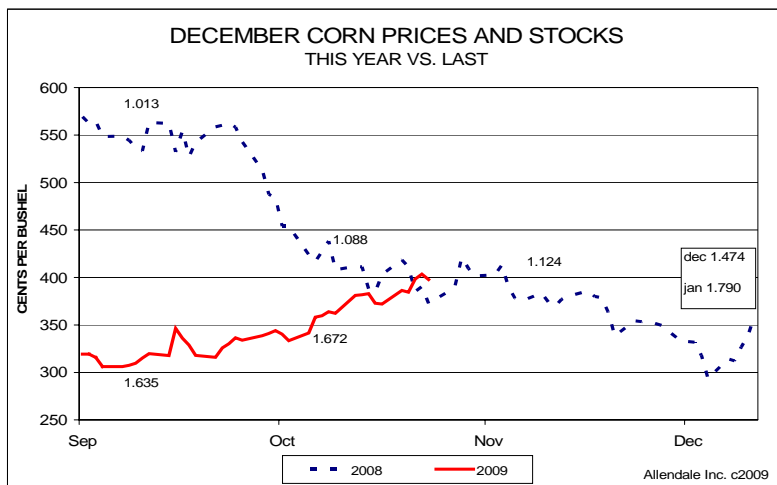


Do You Think This Corn Market Is All Weather?

Unless you live under a rock somewhere outside the Midwest, you are well aware of this year's harvest delays that are plaguing U.S. farmers. Last year harvest was a little slow and at times it is good to look back and see where we were a year ago. Starting into the 2008 corn harvest USDA had ending stocks in the September WASDE report at 1.013 billion bushels and the market closed that day at \$5.63 ¼. In this year's September WASDE the USDA pegged U.S. ending stocks at 1.635



billion bushels and on the close of that trading day December corn closed at \$3.19 ¾. Now look at the chart and see the divergence of how prices declined last year (blue dotted line) when ending stocks continued to increase as harvest progressed and this year's price (red line) continues to rally even though ending stocks started out this year 61.4% more than a year ago along with ending stocks growing from September's 1.635 billion to October's 1.672 billion bushels. What is interesting to see is how corn prices have crossed with

the 2009 corn harvest now 20% complete compared to last year's harvest progress at 37% and the 5-year average at 58% harvested. So do you think weather is totally causing prices to rally in the face of bigger ending stocks?

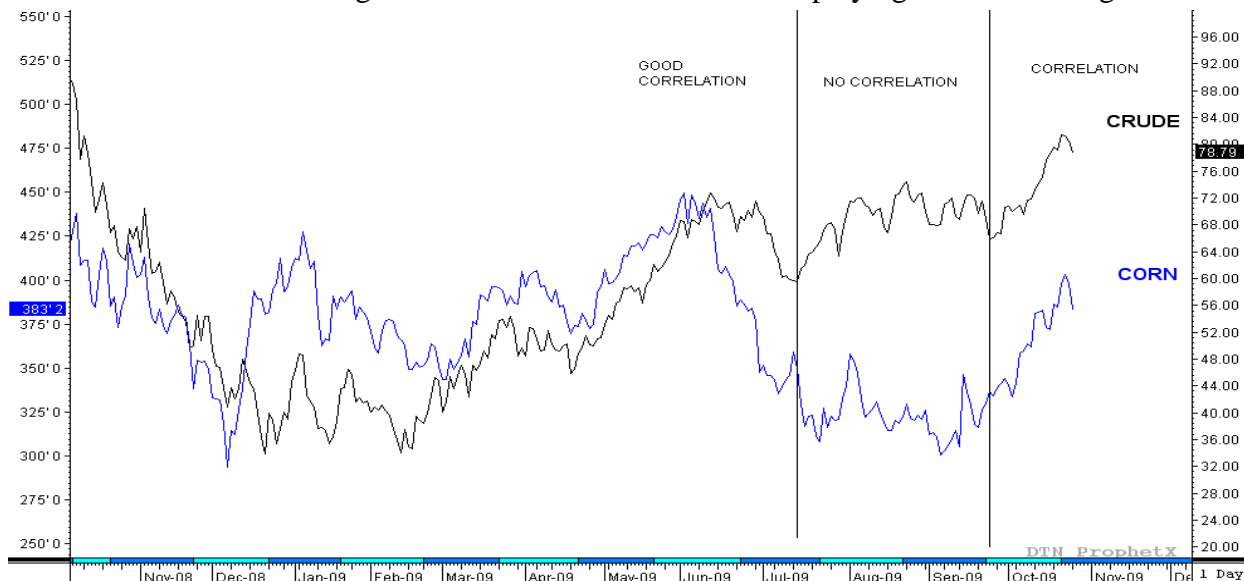
The answer to this is probably not! The trade has pushed this market up on the heels of a declining dollar and rising crude oil prices.

In looking at the monthly U.S. Dollar chart you can see how the downward slide resumed in March of this year as it continues to work lower possibly setting its sites on the 71-cent low set back in March of 2008. It's not the dollar alone that is driving this corn market as it is also getting some of its signals from the Crude Oil market.

Allendale has overlaid the corn and crude oil charts and found some interesting correlations. The accompanying chart below goes back to a year ago and shows how these two markets moved in tandem until early summer of this year when corn went back to trading on its own merit and fundamentals and worked side ways to



lower. Crude Oil hit its lows last winter around the \$40 and held in that area from December until February when it then started to climb back to the \$80 level that was achieved last week. This \$80 mark is around the 50% retracement of the sell off seen from the July 2008 highs to the December 2008 lows. About a month ago, corn began to show that it once again wanted to follow what the Crude Oil market was doing. While these outside markets are playing into and having some bearing



on what the corn market is doing, fundamentals will eventually lead the way in the corn market. Weather may eventually become more normal and let the corn dry down allowing harvest to finally progress. We will see how the market reacts at that time.

From an earlier Allendale e-Snapshot article you may remember that one needs to also keep one eye on Open Interest. Open Interest at the close of the day following the September USDA report was 846,558 and has climbed to a high of 968,048 last Thursday before the corn market peaked and then worked lower. Remember that the highest Open Interest corn ever achieved was 1,546,255 in February 2007. Let's see where Open Interest heads if this harvest really takes off over the next couple of weeks and if these funds pull their money and begin to bail out?

Your comments and questions are always welcome.

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