

This season, July futures advanced from a June high of \$5.71 to a September high of \$8.24 for gains of 44%. However, this season futures experienced an “anticipatory” advance. In other words, prices advanced before actual tightness occurred, rationing demand well before any extreme tightness was experienced. Now, *price is seeking a level that will balance remaining supply with demand that has already been rationed.*

In addition to price rationing ethanol production and export demand (see the 12/22/12 issue of *Price Perceptions*), corn and ethanol imports into the US were record large during the September-November quarter. Also, record US prices have encouraged larger foreign corn production as well as substitutes, such as wheat and barley, in global feed rations.

US Supply/Demand

The USDA’s final crop estimate and December 1 stocks report on January 11 will have a significant impact on their supply/demand forecast. Based on our foregoing estimates, the supply/demand balance projects *not* to be as tight as the December USDA forecast . . .

Ending Stocks Not Tighter!					
US Corn Supply/Demand – Million Bushels					
	09-10	10-11	11-12	12-13	
	Actual	Actual	Actual	USDA ^{1/}	CIS Est
Beg stocks	1673	1708	1128	988	988
Production	13092	12447	12358	10725	10598
Imports	9	28	29	101	100
Total supply	14774	14182	13515	11814	11686
Feed/res	5125	4795	4547	4150	4200 ^{2/}
Food/ind	1370	1407	1426	1367	1367
Ethanol	4591	5019	5011	4500	4450 ^{3/}
Exports	1980	1834	1543	1150	1000 ^{4/}
Total usage	13066	13055	12527	11167	11017
End stocks	1708	1128	988	647	669

1/ 12/11/12 USDA estimate
2/ Above USDA as poultry and hog production appear to be stabilizing
3/ Based on continued poor production margins
4/ Based on current commitments with better sales into spring

Although our production estimate is 127 million bushels below the USDA, price rationing has been severe in the ethanol and export sectors. Our total usage estimate is 150 million below the USDA, bringing ending stocks 22 million above the USDA.

The supply/demand balance is expected to remain tight through the remainder of the season. However, the large sugar crop in Brazil is expected to result in continued record US ethanol imports, keeping corn distiller margins negative. Brazil is expected to continue exporting corn well below US prices through winter, holding the US sales pace at extremely low levels. Therefore, if a new demand element does not become evident, corn futures can be expected to trade in a gradual downtrend into spring.

The USDA’s January 11 reports are generally expected to be bullish for old crop futures. Therefore, a price recovery should occur in anticipation of the reports. However, unless they are significantly more bullish than our foregoing estimates, we do not expect a sustained price advance. After all, higher prices will only discourage demand even more. In addition, most analysts are expecting record corn production for 2013, which will provide overhead selling from inventory holders avoiding losses into the new crop year.

“HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.”

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