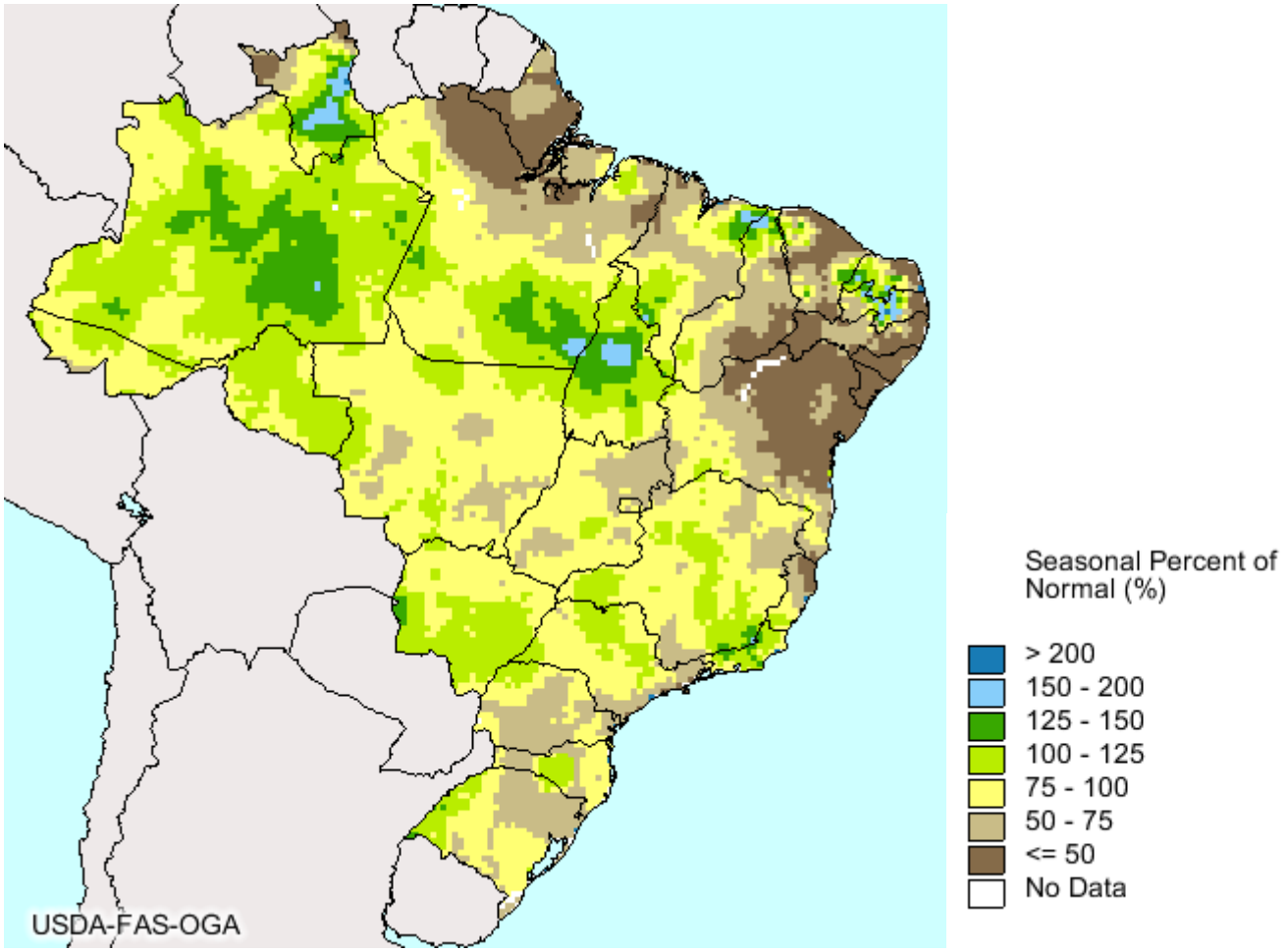
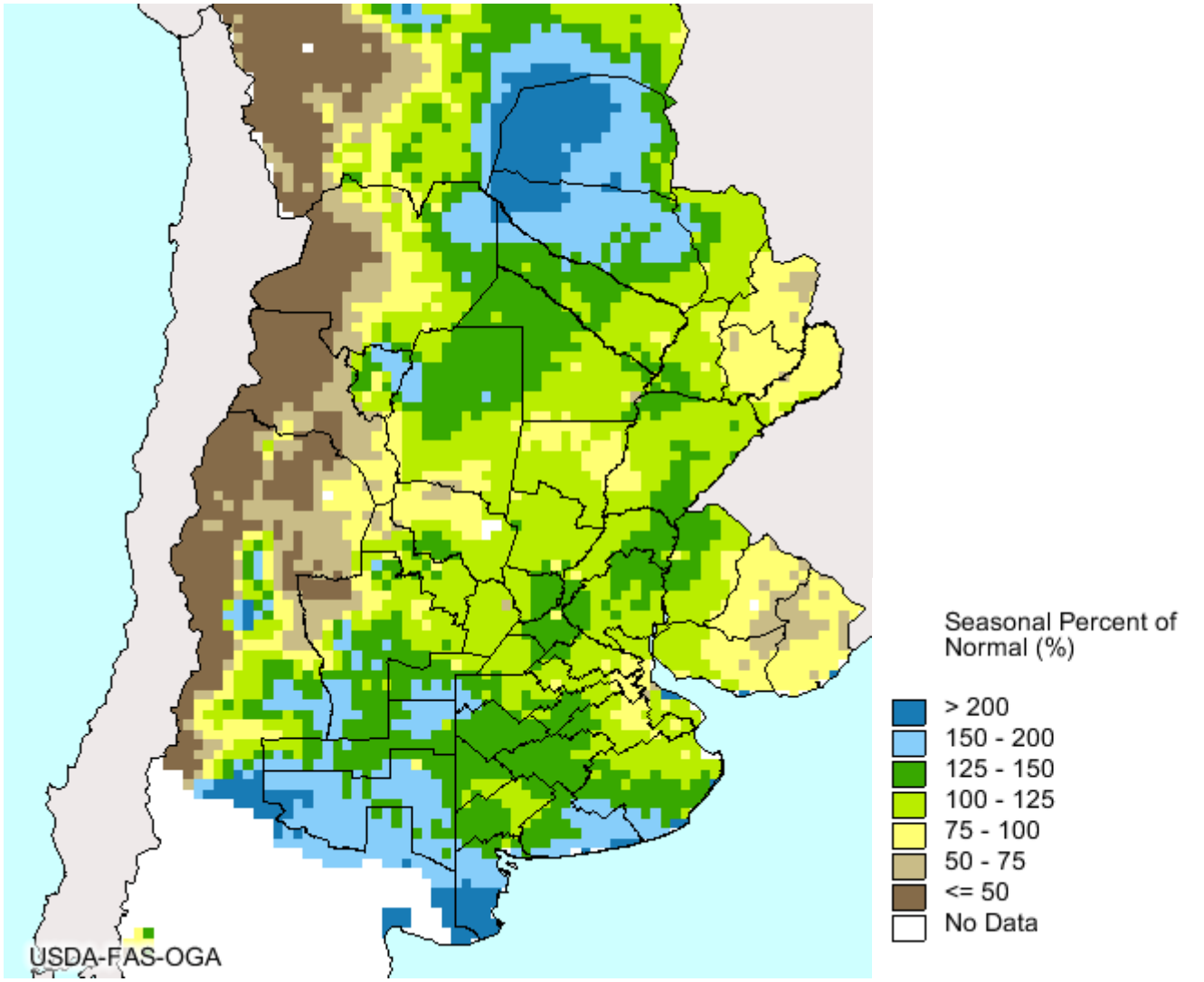
February 7, 2012

(1) Grains in South America

Drought has cost Argentina 30% of its corn exports. US officials in Buenos Aires prepared the ground for a downgrade in US estimates for the Argentine corn harvest, in an influential crop report next week, by pegging production at 21.8m tonnes. Separately, consultancy Informa Economics on Friday cut its estimate for the harvest by 1.5m tonnes to 22.5m tonnes, while US broker Allendale estimates the crop at 23m tonnes. "Extremely dry conditions and very high temperatures during December and the first half of January, coinciding with the key period of corn flowering, has diminished production drastically," the attaches said in a report. Rains increased late in January too late for early planted corn but beneficial to late corn and beans. More rains will be needed for the second season safrinha corn crop, an increasingly important crop for South America..





The attaches' forecast for the corn crop, while above private estimates as low as 17m tonnes, is in line with an emerging consensus, but substantially below the USDA's forecast last month of a 26.0m-tonne harvest.

Ideas that corn buyers will be forced to turn from Argentina, the second-biggest corn exporter, to the top-ranked US for supplies have been a major prop to Chicago futures prices.

Informa also cut its forecast for Argentina's soybean crop by 4.5m tonnes to 46.5m tonnes, and for Brazilian soybeans by 2m tonnes to 70m tonnes. The Brazilian corn estimate was left unchanged at 61m tonnes. Allendale pegged the Argentine soybean crop at 49m tonnes, and the Brazilian one at 72m tonnes. The Brazilian corn harvest was estimated at 60m tonnes.

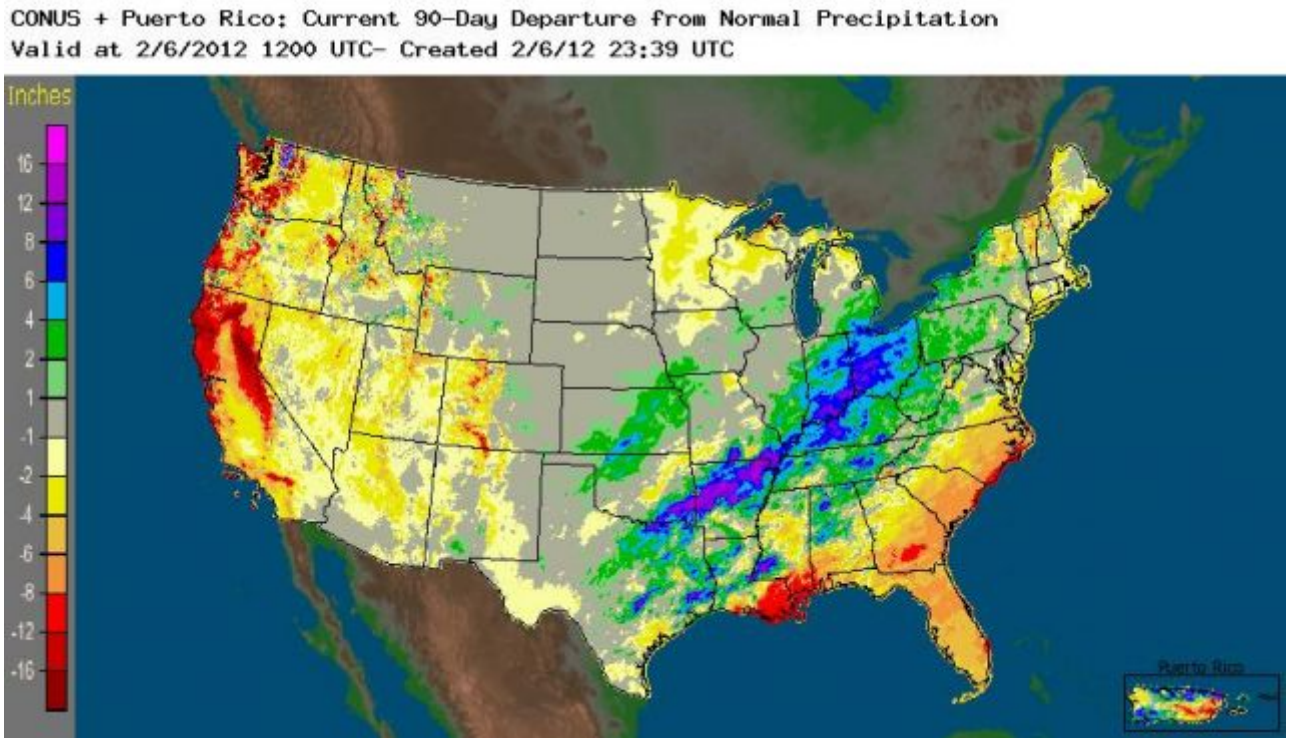
(2) US Grains

Meanwhile, U.S. farmers will plant the most acres in a generation this year, led by the biggest corn crop since World War II, taking advantage of the highest agricultural prices in at least four decades.

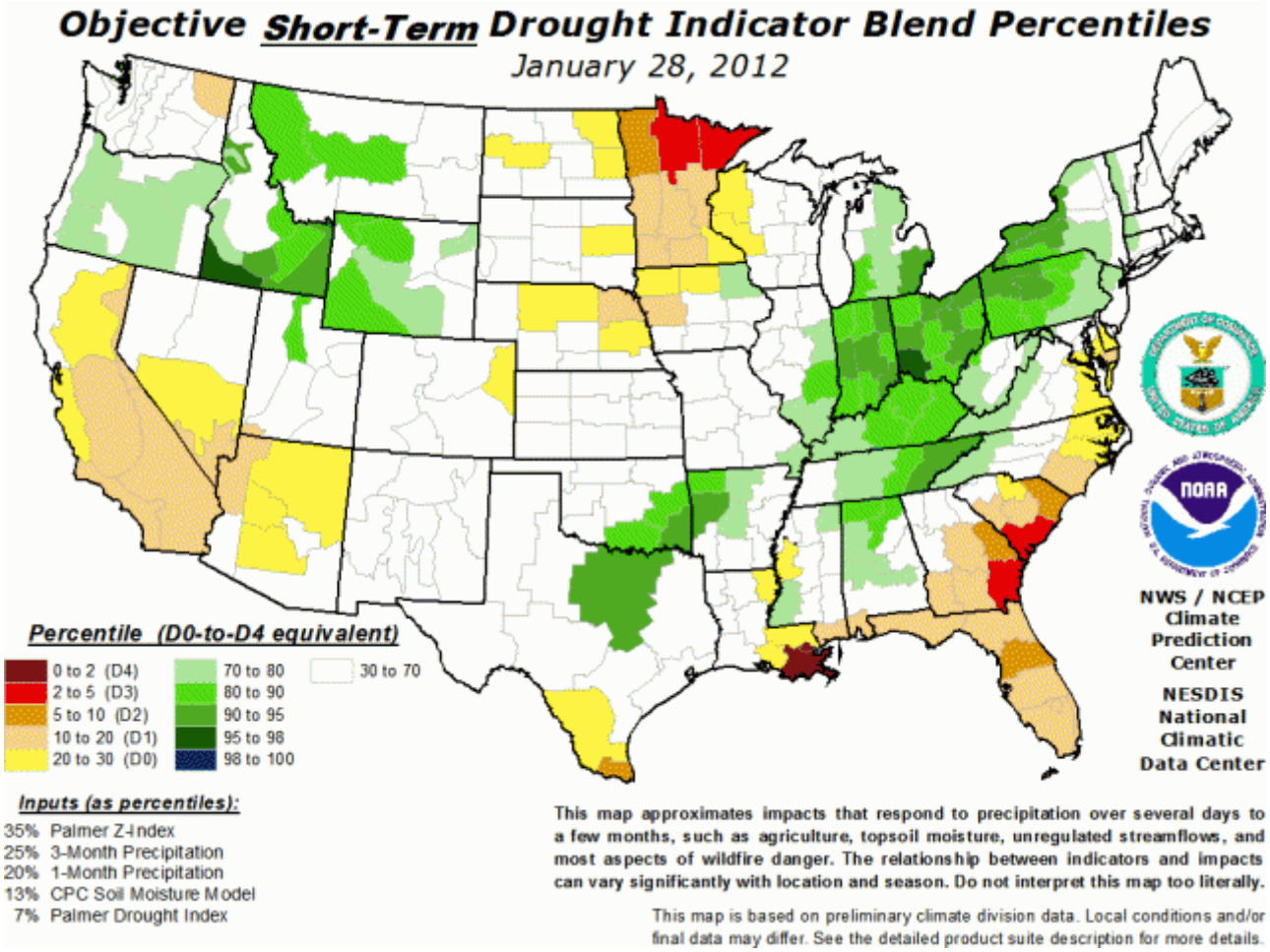
They will sow corn, soybeans and wheat on 226.9 million acres, the most since 1984, a Bloomberg survey of 36 farmers, bankers and analysts showed. The 2.5 percent gain means an expansion the size of New Jersey, as growers target fields left fallow last year and land freed up from conservation programs..

Precipitation the last 90 days has been most abundant over the Northern Delta and Ohio Valley and

portions of the central plains. It has remained dry over the northern Mississippi Valley, the southeast and west.



The precipitation in the next five months will be critical to the success of this year's crop. The decline of La Nina and movement towards El Nino would suggest improvement in moisture and less heat than 2010 or 2011. 2009 saw a rapid transition from La Nina to El Nino and a very cool and wet summer which led to the largest corn and bean crop on record. The timing of this transition and the precipitation will determine if we can get enough precipitation early enough in the spring to allow for a successful crop establishment. Droughts tend to beget droughts and heat.



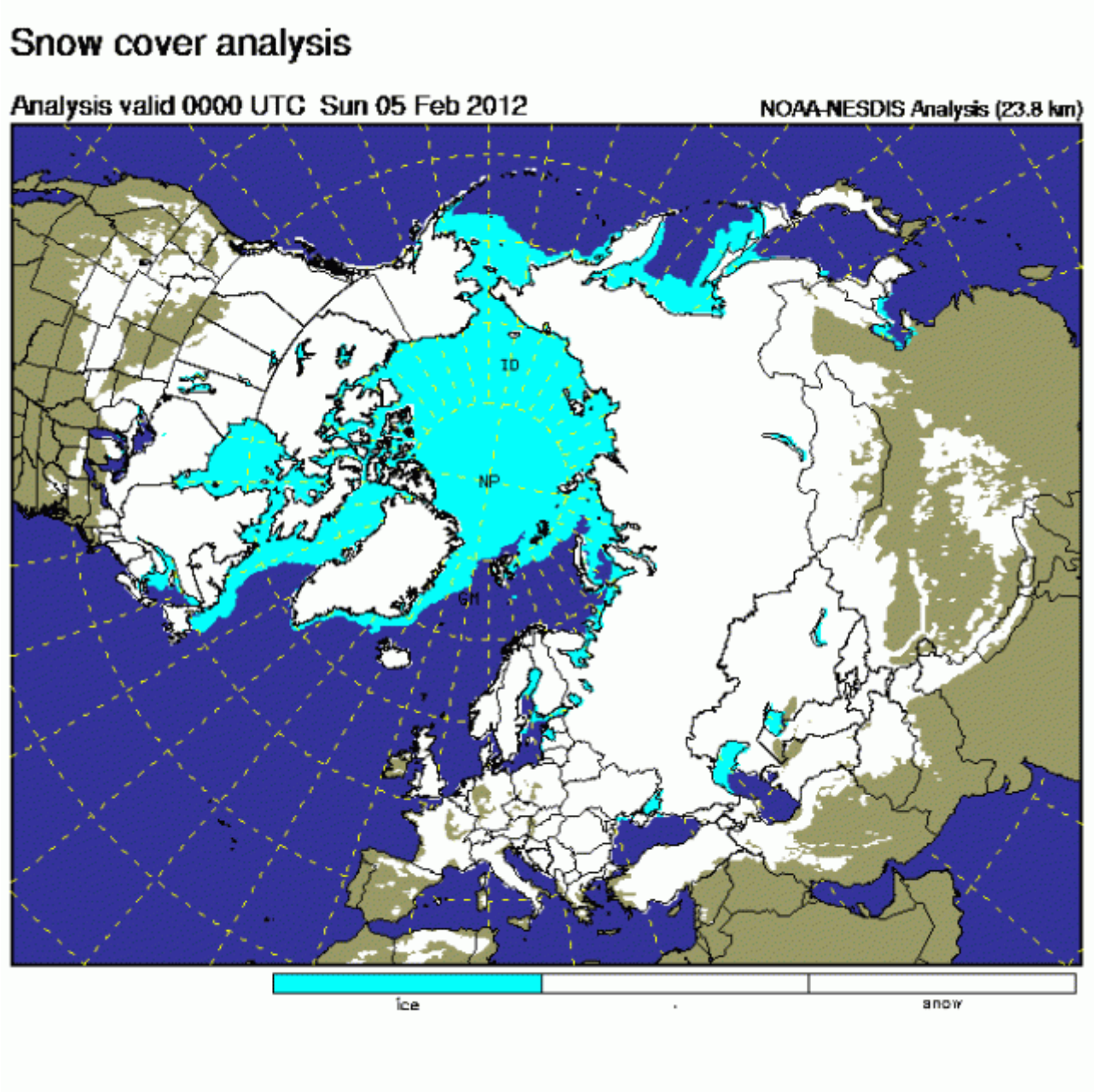
Floods, drought and freezes last year prevented planting of the three crops on about 8.577 million acres, 28 percent more than in 2010, USDA data show. An additional 1.84 million acres that were planted failed to produce, more than double the amount a year earlier. Our analogs suggest the summer is cooler and wetter than the last two years but not to the extreme of 2009.There should, be much less flooding and less severe weather than in 2011.

Crop insurers paid out a record $9.1 billion last year to cover the damage, and the bill may top $10 billion when all claims are settled, Overland Park, Kansas-based National Crop Insurance Services said Jan. 24.

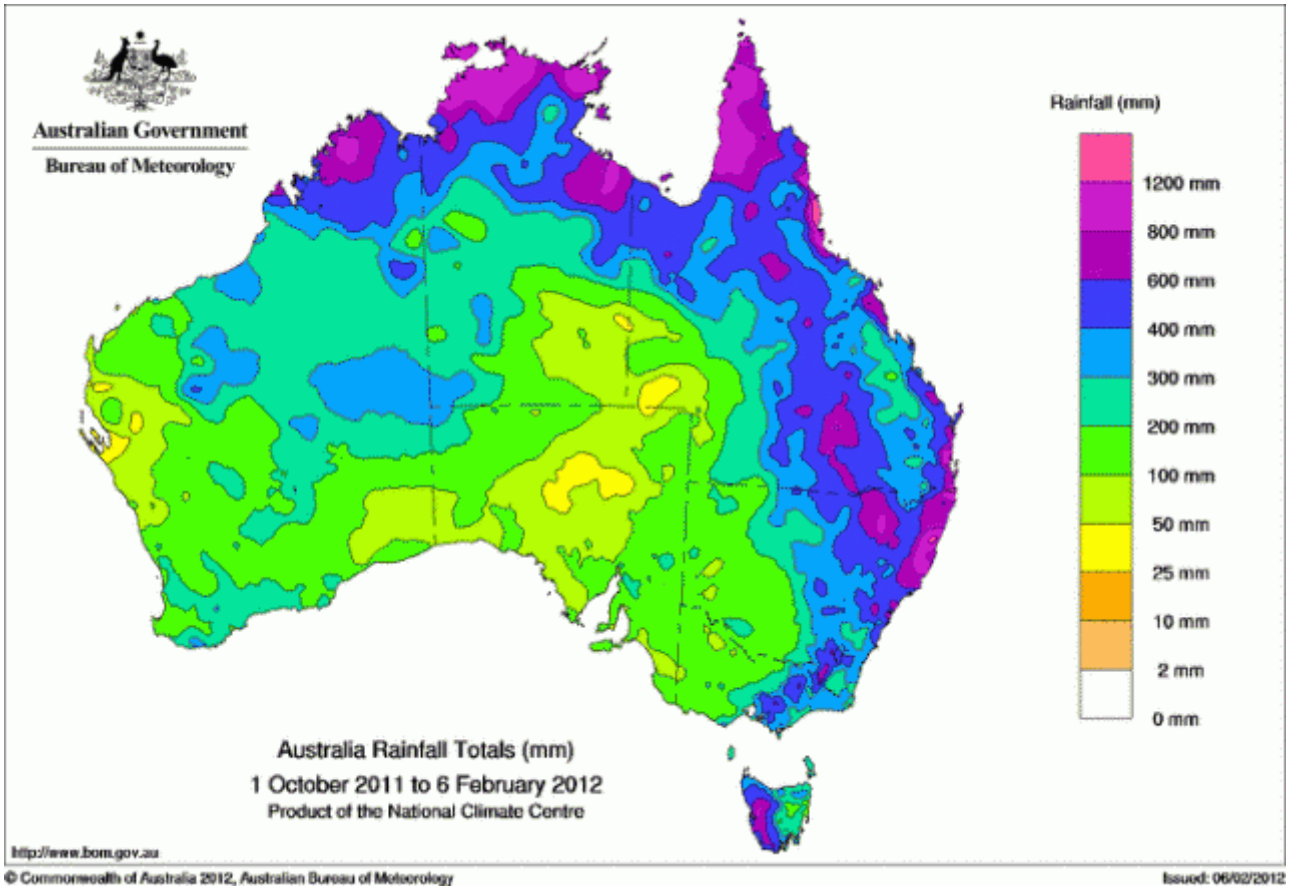
A return to normal weather in 2012 would mean more production from last year's lost acres. The government also has reduced the amount of land it pays farmers to leave fallow by 4.7 percent, adding 1.47 million acres that weren't available in 2011, USDA data show.

(3) Extremes elsewhere

Meanwhile in Europe, the Ukraine and Russia, snow and extreme cold threatens winterkill where the snowcover is thin. Warmer and in places drier than normal weather in the early winter left the winter grains less than hardy. In China, extreme cold came but plants had hardened because of more early cold.



In Australia, flooding similar to 2011 is repeating in Queensland and northeastern New South Wales affecting mainly sugar and cotton but also some summer grains. The soil moisture will be helpful for the winter grain season ahead.



Issued: 06/02/2012

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