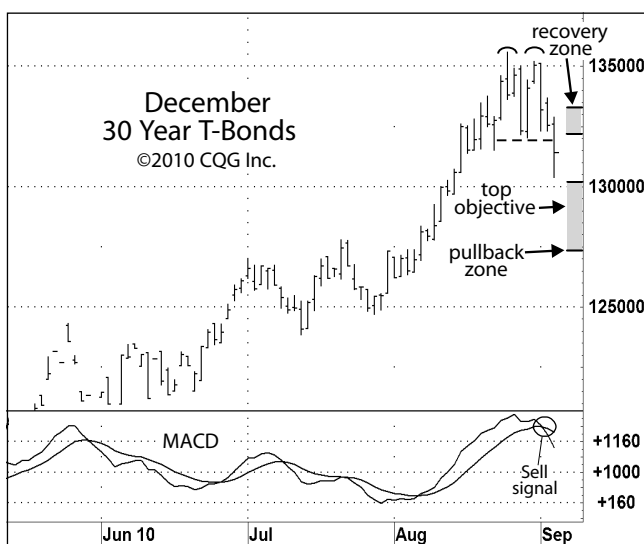




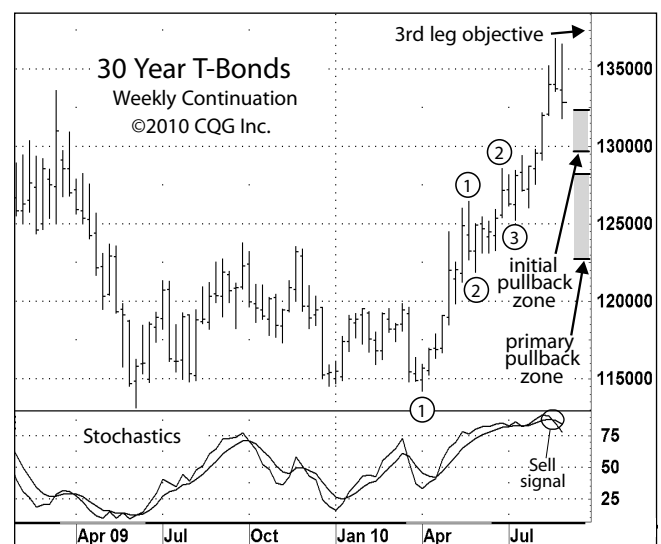
MARKET VIEW

Issue #1417 • September 4, 2010

Financials

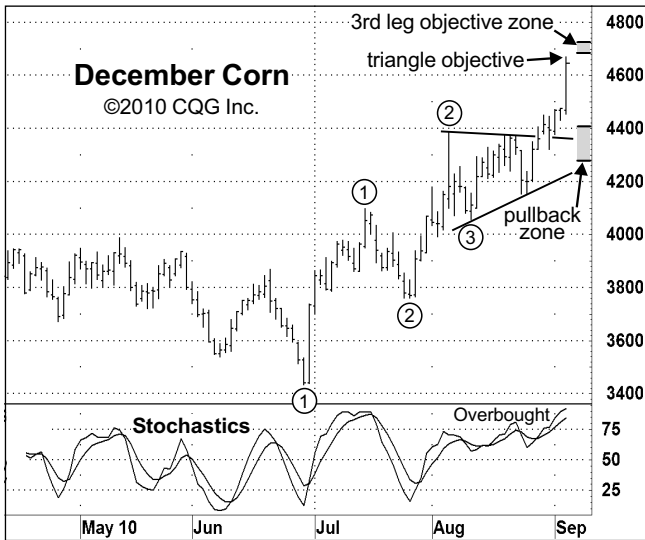


A double top was completed this week, providing a downside objective of 129-07. The next pullback zone ranges from 127-13 to 130-04. The next recovery zone ranges from 132-07 to 133-11. The MACD gave a sell signal on 9/2/10 from deep overbought territory, confirming a pullback effort.

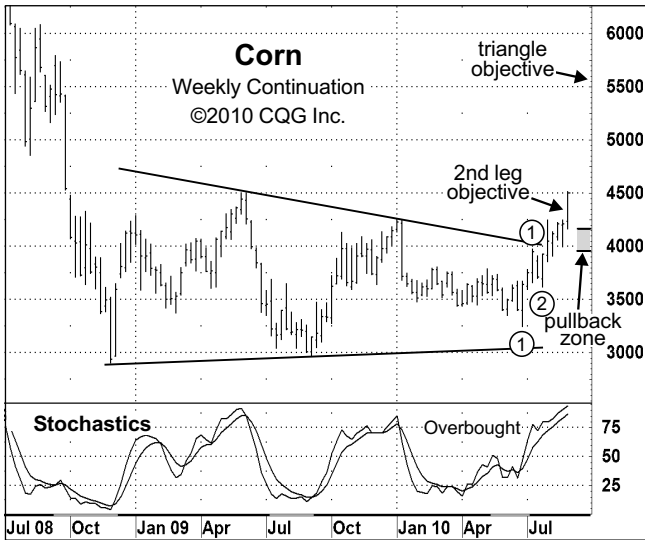


The first leg (1) of the advance gained 12-09. The second leg (2) was shorter, gaining only 6-23. As indicated previously, objective for the third leg (3) is 137-16. The recent high of 136-31 was close enough to satisfy that objective. This week, the market pulled back into the initial zone shown previously from 129-23 to 132-15. The primary pullback zone ranges from 122-29 to 128-09. Stochastics gave a sell signal on 8/27/10 and remain in a negative mode.

FUTURES RALLY ON EARLY YIELD RESULTS!



The first leg (1) of the advance gained 67 cents. The second leg (2) gained 63 cents. If the third leg (3) is equal to either of the previous, objectives will range from 4.69 to 4.73. A triangle was completed this week, providing an objective of 4.68. The market is now approaching these objectives. The initial pullback zone ranges from 4.28 to 4.41. Stochastics are deep in overbought territory, but remain in a positive mode. The next sell signal should confirm a pullback toward the zone indicated.



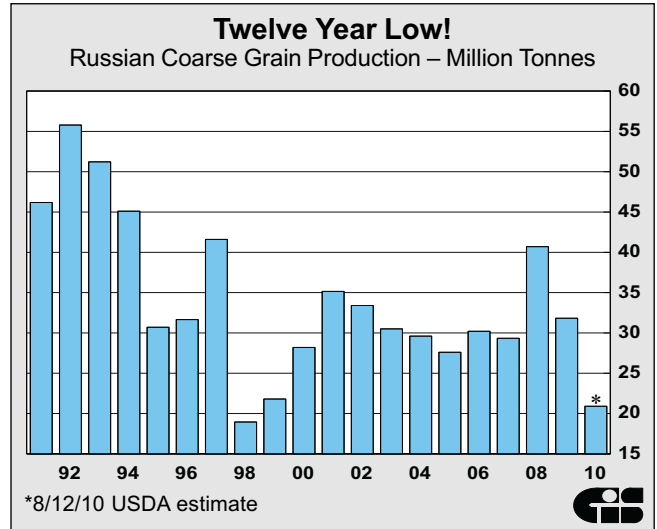
A large triangle was completed, providing a long term objective of 5.58. The first leg (1) of the current advance gained 73 cents. This week, the market achieved the second leg (2) objective of 4.35 shown previously. The next pullback zone ranges from 3.96 to 4.17. Stochastics are in overbought territory, but remain positive.

Overview

The corn market advanced to new highs this week as early yields in southern portions of the Corn Belt were below last year. It is important to keep in mind futures are advancing on early crop concerns, but yields in the major portion of the belt could offset these early reductions. In addition, farmers will be harvesting record crops of corn and soybeans in weeks ahead and selling pressure may become intense at times. Therefore, we prefer adding to long positions only on setbacks until harvest approaches 50% or more.

Russian Situation

Russia's crop failure this year is forecast to reduce coarse grain production to the lowest level since 1998 . . .



The USDA estimated Russian coarse grain production at 20.9 million tonnes on August 10. Since that time, private estimates have fallen even further. Our estimate is now down to 19.9 million based on recent trade observations. While the USDA reflected a rather accurate picture of production, they reduced their usage estimate even more . . .

Continued on page 3 . . .

Can Usage Go This Low?

Russian Coarse Grain Supply/Demand
Million Tonnes

	07-08	08-09	09-10	10-11	
	Actual	Actual	USDA ^{1/}	USDA ^{1/}	CIS Est
Beg stocks	1.8	1.6	4.8	2.8	2.8
Production	29.3	40.7	31.8	20.9	19.9 ^{2/}
Imports	0.5	0.1	0.2	0.7	2.0
Total supply	31.6	42.4	36.8	24.4	24.7
Feed	18.7	21.9	20.5	13.5	14.5 ^{3/}
Other	10.2	10.9	10.5	8.9	8.9 ^{3/}
Exports	1.2	4.8	3.0	0.4	0.4
Total usage	30.1	37.6	34.0	22.8	23.8
End stocks	1.6	4.8	2.8	1.6	0.9

1/ 8/12/10 USDA estimate

2/ Based on recent trade estimates

3/ Lowest in modern history

No Shortage?

China Corn Supply/Demand – Million Tonnes

	08-09	09-10		10-11	
	Actual	USDA ^{1/}	CIS Est	USDA ^{1/}	CIS Est
Beg stocks	39.4	53.2	53.2	53.0	47.2
Production	165.9	155.0	150.0 ^{2/}	166.0	160.0 ^{2/}
Imports	0.1	1.0	1.2	1.0	5.0
Total supply	205.4	209.2	204.4	220.0	212.2
Feed	107.0	109.0	110.0	111.0	112.0
Other	45.0	47.0	47.0	49.0	49.0
Exports	0.2	0.2	0.2	0.2	0.2
Total usage	152.2	156.2	157.2	160.2	161.2
End stocks	53.2	53.0	47.2	59.8	51.0
Days of use	127.6	123.8	109.6	136.2	115.5

1/ 8/12/10 USDA estimate

2/ Based on private estimates

The USDA expects Russia to reduce feed usage by a huge 34% from last year and 38% from 2008-09. Other usage is forecast to decline 15% from last year. The USDA expects domestic usage to drop a significant 8.6 million tonnes from last year, or 28%. This would be the largest year-to-year percent decline in modern history. Even during the economic and political turmoil of the Nineties, the greatest year-to-year decline in coarse grain usage was 25%. With Russia now in much better financial condition than in the Nineties, it is difficult to justify a modern times historic reduction in usage.

Last week, Australia reported the first shipments ever of sorghum to Russia in vessel quantities. With Russian meat and starch consumption now stronger than during the Nineties, *coarse grain imports could be much larger than our forecast of 2.0 million tonnes.*

China Situation

As we have indicated since early this year, there is something terribly wrong about China's corn statistics. The USDA indicates China produced 155 million tonnes last year and will use 156 million. That leaves a 1 million tonne shortfall. However, the government has sold about 20.5 million of reserve stocks into the domestic market this year to keep prices from skyrocketing. They also approved imports of just over 1.0 million tonnes this year, the largest imports since 1995-96. Why would the government sell huge volumes into the market and allow imports if there was no shortage?

The Chinese government is notorious for fudging statistics. Their grain stocks are still considered a "state secret." Too many private observers indicate the government badly over-estimated last year's crop. Some estimates are as low as 146.0 million tonnes. Again this year, private sources are estimating the crop as low as 157.0 million. We have tried to find middle ground between government and private estimates. However, *there is little doubt something is drastically wrong with current official statistics.*

This year, the government has been forced to sell 20.5 million tonnes of reserves just to keep prices from advancing over the equivalent of \$7.50 per bushel. If the government is to rebuild reserves back to the level of last year, production must exceed usage by 20.5 million tonnes this year. However, the USDA is forecasting production only 5.8 million above usage. Therefore, *if the USDA is correct, the government would need to import 14.7 million tonnes to replenish reserves to last year's level.*

It is obvious something is significantly wrong with the USDA's China corn statistics. The truth is probably somewhere in between official and private estimates. Either way, *it appears China will need sizeable corn imports over the next twelve months.*

Continued on page 4 . . .

World Situation

The latest world corn supply/demand estimates by the International Grains Council (IGC) pointed to a much tighter situation than the USDA . . .

Tightest Since 2008!

World Corn Supply/Demand – Million Tonnes

	07-08	08-09	09-10	10-11	
	Actual	Actual	USDA ^{1/}	USDA ^{1/}	CIS Est
Beg stocks	109.4	131.3	147.5	139.0	139.0
Production	792.4	797.8	808.5	831.6	829.0 ^{2/}
Total supply	901.8	929.1	956.0	970.6	968.0
Feed	497.1	478.8	486.9	493.7	n/a
Other	274.9	302.8	330.0	337.7	n/a
Total usage	772.0	781.6	816.9	831.4	837.0 ^{2/}
End stocks	131.3	147.5	139.0	139.2	131.0
Days of use	62.1	68.9	62.1	61.1	57.1

1/ 8/12/10 USDA estimate

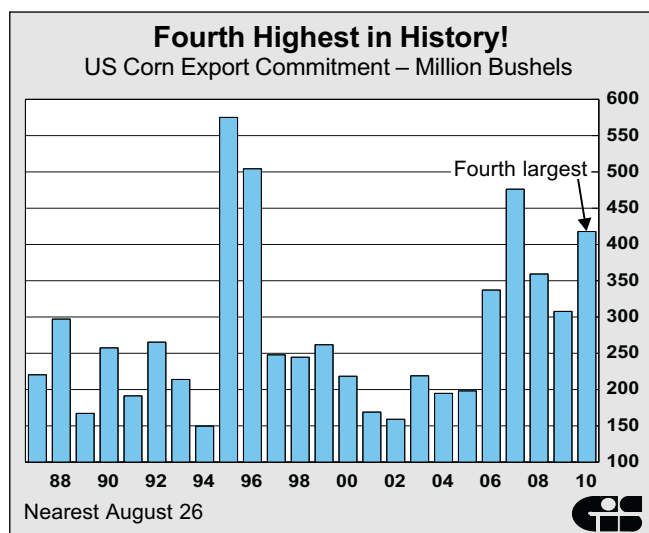
2/ 8/26/10 IGC estimate

n/a Not available

Based on the latest estimates by the IGC, ending world corn stocks and days of usage are projected to fall to the lowest level since the historic bull season of 2007-08.

Export Sales

The export sales pace for new crop corn in August is a good indicator of potential export demand for the season . . .



This year's export commitment for new crop corn is 36% ahead of last year and the fourth largest in history for August 26. The historic high occurred in 1995 at 575 million bushels. In that season, US farmers reported in June they had reduced planted acreage by a significant 6.9 million from the previous year due to a change in the

government support program. When foreign nations realized US acreage was being reduced by such a sizeable margin, they began contracting heavily for US exports during June. Crop problems became apparent that fall when the USDA reduced their yield estimate from 125.6 bushels per acre in August to 113.7 in November. As crop estimates declined, export sales remained strong through fall and prices advanced to historic highs into the summer of 1996.

The second highest year of sales on this date was in 1996. Importers, fearful corn prices would remain historically high during the 1996-97 season, aggressively bought ahead that year. However, acreage and yields were much larger and sales fell sharply during the fall and winter of the 1996-97 season.

The third year of strong early season sales occurred in 2007. Although the US expanded acreage that season and production was record large, importers were fearful of price advances due to the new US ethanol mandate. If the US was going to use food for a significant portion of their fuel needs, importers were fearful of repeating the experience of 1996 and believed they needed to build stocks aggressively. Prices advanced to new historic highs the following summer, but the economic crash a few months later ended bullish attitudes.

This year, farmers surprised the trade in June by reducing acreage from earlier intentions. Also, March corn stocks were significantly below expectations, indicating yield was probably overstated for the 2008 season. However, importers did not begin buying for export during early summer as they expected a record crop this fall. But, one of the worst Russian crop failures in history became evident in late July and export sales ballooned to the fourth highest level in history by August 26 this year. If this year follows the trend of 1996 when global demand became the dominant market force, *the export commitment should rival past historic high levels in months ahead.*

Crop Condition and Final Yield

The good/excellent rating of this year's corn crop was 70% on August 29. This was the sixth highest since 1986 when official crop ratings were published by the USDA. In past years, the final yield has been correlated with crop conditions when the percentage of good/excellent was 60% or above at the end of August . . .

Continued on page 5 . . .

USDA Yield Estimate on Target!

US Corn – End August Condition vs Final Yield

Year Ranked	Rating ^{1/}	Trend Yield ^{2/}	Final Yield	Final % of Trend
1986	85	102.6	119.4	116.3
1994	80	122.0	138.6	113.6
1987	79	105.0	119.8	114.0
1990	79	112.3	118.5	105.5 ^{4/}
1992	78	117.2	131.5	112.2
2004	70	146.2	160.3	109.6 ^{5/}
2010	70	160.8	165.0^{3/}	102.6
2009	69	158.3	164.7	104.0
1998	69	131.7	134.4	102.1
2000	66	136.5	136.9	100.3
1989	64	109.9	116.3	105.8 ^{6/}
1996	62	126.9	127.1	100.2
1997	62	129.3	126.7	98.0
2008	61	155.9	153.9	98.7
1995	60	124.4	113.5	91.2

1/ Percent of crop rated good/excellent near 8/29

2/ Twenty year trend yield

3/ 8/12/10 USDA estimate

4/ Final crop rating fell from 79% to 75%

5/ Reads high as crop rating advanced from 70% to 75%

6/ Reads high as crop rating advanced from 64% to 66%

Extremely Tight!

US Corn Supply/Demand

Million Acres and Bushels

	07-08	08-09	09-10	10-11	
	Actual	Actual	USDA ^{1/}	USDA ^{1/}	CIS Est
Pltd acres	93.5	86.0	86.5	87.9	87.9
% hvstd	92.5	91.4	92.0	92.2	91.5 ^{2/}
Hvstd acres	86.5	78.6	79.6	81.0	80.4
Yield	150.7	153.9	164.7	165.0	164.0 ^{3/}
Beg stocks	1304	1624	1673	1426	1426
Production	13038	12092	13110	13365	13186
Imports	20	14	8	10	10
Total supply	14362	13729	14791	14802	14622
Feed/res	5913	5182	5525	5350	5350
Food/seed	1338	1316	1365	1390	1390
Ethanol	3049	3709	4500	4700	4700
Exports	2437	1849	1975	2050	2200 ^{4/}
Total usage	12737	12056	13365	13490	13640
End stocks	1624	1673	1426	1312	982
Days of use	46.5	50.7	38.9	35.5	26.3

Note: Totals may not add due to rounding

1/ 8/12/10 USDA estimate

2/ Below USDA due to ponding and flooding

3/ Unchanged from 8/21/10 issue

4/ Based on greater Chinese and European demand

In all years when the crop rating was 64% or higher at the end of August, the final yield was above the 20 year trend. If this year's crop rating remains near 70% into October, *the study indicates the USDA yield forecast of 165 bushels per acre is in line with historic experience.*

Early harvest results in the southern Corn Belt have been generally disappointing. However, corn harvested early is normally from fields with the poorest yield. Therefore, a better perspective of yield will not become available until mid to late September when harvest moves well into Iowa and Minnesota.

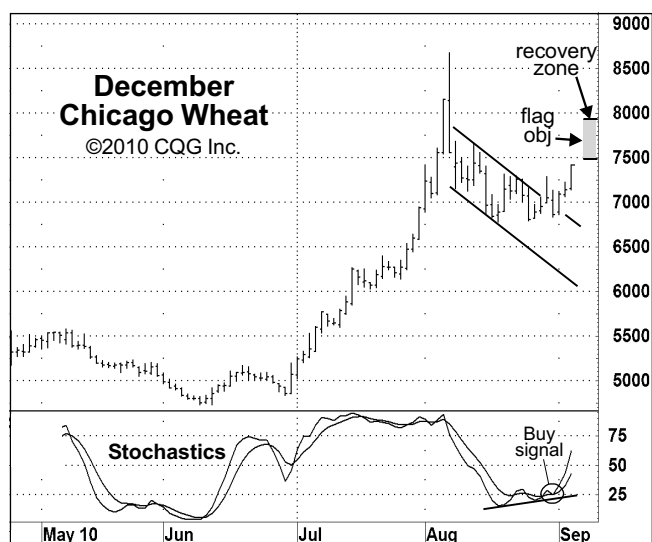
US Supply/Demand

Based on recent demand trends, the corn balance for this season projects to become extremely tight . . .

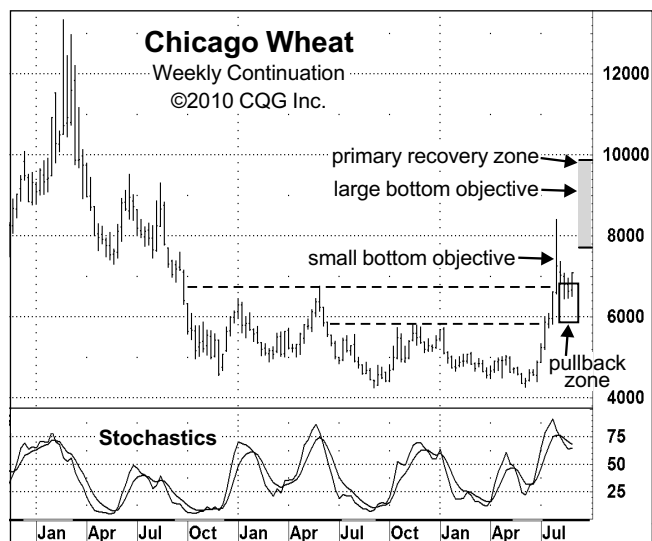
Ending stocks are projected at 982 million bushels, the lowest since 2004. However, in days of use, the supply/demand balance projects to become the tightest since the historic bullish season of 1995-96. Because the ending balance is forecast to become extremely tight, any prospective reduction in yield holds potential to push prices higher through harvest, similar to 1995-96. We continue to expect July corn futures to eventually trade between \$5.00 and \$5.50.

"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." **COMMODITY INFORMATION SYSTEMS, INC. • 3030 NW EXPRESSWAY, #725 • OKLAHOMA CITY, OK 73112 • (405) 604-8726**

SUPPLIES BECOMING TIGHTER!



As shown previously, a small bull flag was completed this week with an upside objective of 7.70. The recovery zone ranges from 7.50 to 7.95. The market is now approaching the recovery zone. Stochastics have shown divergence on recent lows, indicating a loss in bearish momentum. A buy signal was given on 8/30/10, confirming a recovery toward the zone shown.



As illustrated previously, a small bottom was completed with an objective of 7.42. That objective was achieved. A much larger bottom was also completed, providing a long term objective of 9.14. The primary recovery zone ranges from 7.74 to 9.88. This week, the market closed above the pullback zone shown previously from 5.85 to 6.82, indicating a recovery. The overbought condition in stochastics has been relieved by the recent setback. The next buy signal should confirm resumption of the advance.

Overview

Estimates of foreign production continue to fall and import forecasts are increasing. As of August 26, the US export commitment was 518 million bushels compared to 321 million last year. The 61% increase compares with the USDA forecast of 36% more. Although new crop Southern Hemisphere wheat will become available after the first of the year, larger production is not assured. It appears futures may test the spike highs of early August.

Russia Situation

The USDA's Russian agricultural attaché released his latest estimate of wheat production on August 23. If the USDA adopts his estimate, the balance will become even tighter than the USDA forecast on August 12 . . .

Tighter Still!

Russia Wheat Supply/Demand – Million Tonnes

	07-08	08-09	09-10	10-11	
	Actual	Actual	USDA ^{1/}	USDA ^{1/}	CIS Est
Beg stocks	4.2	3.9	10.5	11.8	11.8
Production	49.4	63.7	61.7	45.0	41.0 ^{2/}
Imports	0.4	0.2	0.2	0.7	3.3
Total supply	54.1	67.8	72.3	57.5	56.1
Feed	15.0	16.2	19.0	26.0	26.0
Other	22.7	22.7	23.0	23.2	23.2
Exports	12.6	18.4	18.5	3.0	3.0
Total usage	50.2	57.3	60.5	52.2	52.2
End stocks	3.9	10.5	11.8	5.3	3.9
Days of use	28.4	66.9	71.2	37.1	27.3

Note: Totals may not add due to rounding

1/ 8/12/10 USDA estimate

2/ 8/23/10 USDA Russian attaché estimate

If Russian production proves to fall to 41.0 million tonnes, it would be the shortest crop in seven years. We have adopted the USDA's usage estimates as food consumption will not change drastically and animal feeding should expand sharply due to the huge decline in alternative feed grains and forage. Therefore, if usage does not vary significantly from the USDA estimate, imports must expand to 3.3 million tonnes if ending stocks are to be maintained near one month's usage. If Russia does import 3.3 million

Continued on page 7 . . .

tonnes of wheat, it would probably come from adjacent, close by nations. *Exports out of the Black Sea area should fall even further than recent expectations.*

This week, Prime Minister Putin announced that Russia's grain export ban will not be lifted until after next year's harvest is complete. *This will continue to shift demand toward the US throughout the 2010-11 season and into the 2011-12 season.*

Argentina Situation

Argentine wheat production was expected to rebound strongly this season following the devastating drought last year. However, sources indicate farmers did not increase planting as much as expected because the government maintains a higher tax on wheat than other grains as it attempts to hold domestic food prices down. In addition, rainfall has been poor during winter and stands are reportedly suffering. This week, the Rosario Grains Exchange forecast production from 9.0 to 10.5 compared to the USDA forecast of 12.0 million. If correct, this will keep Argentine exports at minimal levels for another season . . .

Little Increase in Export Availability!

Argentina Wheat Supply/Demand – Million Tonnes

	07-08	08-09	09-10	10-11	
	Actual	Actual	USDA*	USDA*	CIS Est
Beg stocks	0.6	2.4	0.4	0.6	0.6
Production	18.6	10.1	9.6	12.0	10.0
Imports	—	—	—	—	—
Total supply	19.2	12.5	10.0	12.6	10.6
Domestic	5.7	5.3	4.9	5.1	5.1
Exports	11.2	6.8	4.5	7.0	5.0
Total usage	16.9	12.1	9.4	12.1	10.1
End stocks	2.4	0.4	0.6	0.5	0.5

*8/12/10 USDA estimate

In 2007-08, Argentina accounted for 10% of global wheat exports. During the past season, they represented only 3% of the world total. Because the bulk of their exports are sold to Brazil, any increase in Brazilian imports will probably come from the US due to low shipping costs. Therefore, *a large portion of any Argentine export shortfall will shift demand toward the US.*

Other Recent News

- Pakistan, originally expected to export 2 million tonnes of wheat this season, is now expected to become an importer due to historic flooding.

- The German Agricultural Ministry reduced their grain estimate to 43.8 million tonnes, down 12% from last year. The German wheat crop experienced heavy rainfall during harvest, downgrading as much as 35 to 50% of their crop to feed quality. Germany recently bought a small cargo of US hard red wheat for blending due to the quality issue. This was the first US wheat purchase of this size in ten years. Germany's flour mill association said they may need to import up to 1 million tonnes of quality wheat this season due to poor quality issues. Germany is normally the second largest EU wheat exporter.
- Turkey's State Grain Board announced plans to sell 334,000 tonnes of wheat reserves into the domestic market to curb increasing prices.
- European sources believe wheat exports will be reduced this year due to quality issues. In addition, they will need more feed wheat to replace losses in feed grains. This will shift demand for quality wheat from the Middle East to the US and Canada.
- The International Grain Council (IGC) recently estimated world wheat production at 644 million tonnes compared to the USDA forecast of 646.

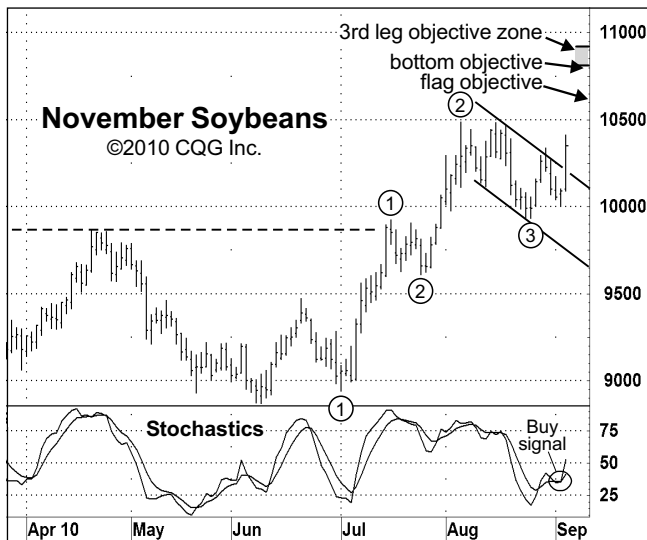
Demand for high quality wheat will be exceptionally strong into early next year. This will shift demand primarily to Canada and the US. In the US, demand will center on hard red wheat (Kansas City) due to its higher protein content. Although US spring wheat is also high protein, the bulk of demand will be centered on Gulf origins due to closing of the Great Lakes in December.

We expect Kansas City futures to continue gaining on Chicago into early winter. After the first of the year, new crop Southern Hemisphere wheat will become available and demand for US wheat could subside somewhat. However, focus will be shifted to Russian crop potential into next spring. Indications of another crop failure would point to potentially large Russian imports and could become another long term bullish force.

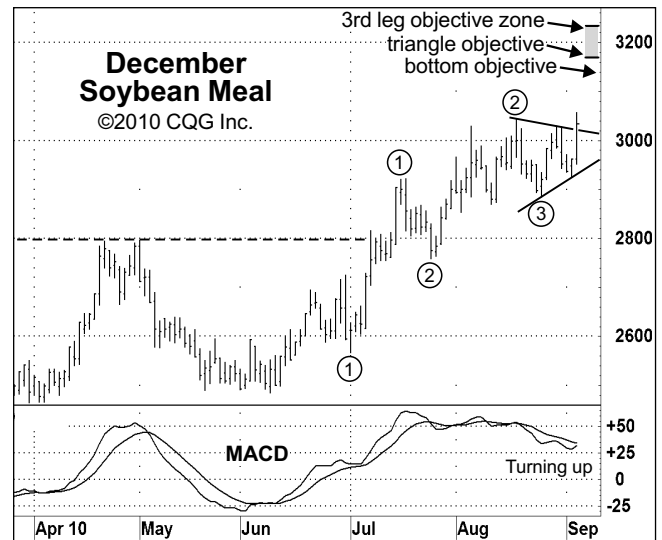
We continue to expect export interest to be active on set-backs for months to come. Any new crop problems in the Southern Hemisphere could easily push futures toward recent spike highs.

Soybean Complex

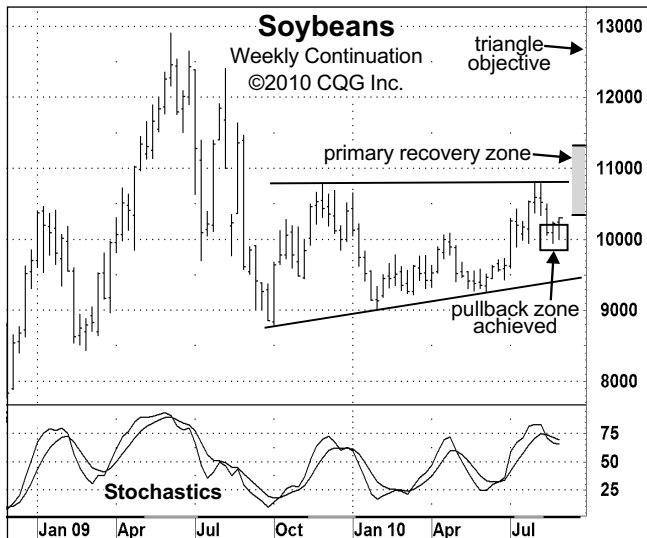
HARVEST PRESSURE AHEAD!



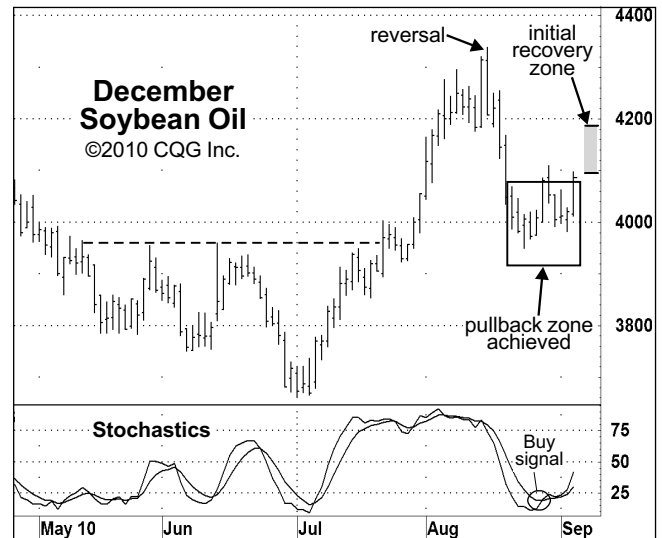
A large bottom was completed indicating an objective of 10.81. The first leg (1) of the advance gained 99 cents. The second leg gained 88 cents. If the third leg (3) is equal to either, objectives will range from 10.82 to 10.93. A bull flag was completed this week, providing a near term objective of 10.63. Stochastics gave a renewed buy signal on 9/3/10, confirming the third leg is underway.



A major bottom was completed, providing an upside objective of 314.00. The first leg (1) of the advance gained 35.50. The second leg (2) gained 28.70. If the third leg (3) is equal to either, objectives will range from 317.10 to 323.50. A triangle was completed this week, providing an objective of 317.50. The overbought condition in the MACD has been relieved by recent consolidation. The next buy signal should confirm third leg objectives.



Note: The chart has been reconfigured since the last issue. An ascending triangle is now evident. A weekly close above the upper line will provide a long term objective of 12.69. The pullback zone shown previously from 9.85 to 10.21 has been achieved. This week's close above the upper level of the pullback zone points to a test of the upper triangle line. The overbought condition in stochastics was relieved by the recent setback. The next buy signal should confirm continuation of the advance.



A bottom was completed and the upside objective was achieved. A downside reversal occurred on 8/16/10, confirming a pullback. The pullback zone, shown previously from 39.19 to 40.80 was achieved. The initial recovery zone ranges from 40.98 to 41.90. Stochastics gave a buy signal from deep oversold territory on 8/27/10, confirming a recovery into the zone indicated.

Continued on page 9 . . .

Overview

China's buying spree has receded over the past two weeks as the government is contemplating selling reserves to processors and replacing their inventory with new crop beans. However, the government will need to provide subsidies as imported prices are below their current selling price. With the bulk of US harvest just a few weeks away and storage for both corn and soybean crops tight, we expect hedging pressure to push prices somewhat lower into late September. However, once harvest pressure is out of the way, market focus will shift to planting progress and weather in South America. We expect a strong post-harvest rally.

South America Situation

The USDA forecast reduced acreage and yields for next spring's harvest . . .

Lower S. America Production!			
Brazil and Argentina Production Prospects			
Million Hectares and Tonnes			
	Harvested Acreage	Yield	Production
2008			
Brazil	21.30	2.86	61.00
Argentina	16.37	2.82	46.20
Total	37.67	2.85	107.20
2009			
Brazil	21.70	2.66	57.80
Argentina	16.00	2.00	32.00
Total	37.70	2.38	89.80
2010*			
Brazil	23.50	2.94	69.00
Argentina	18.60	2.93	54.50
Total	42.10	2.93	123.50
2011*			
Brazil	23.50	2.77	65.00
Argentina	18.00	2.78	50.00
Total	41.50	2.77	115.00
*8/12/10 USDA estimate			

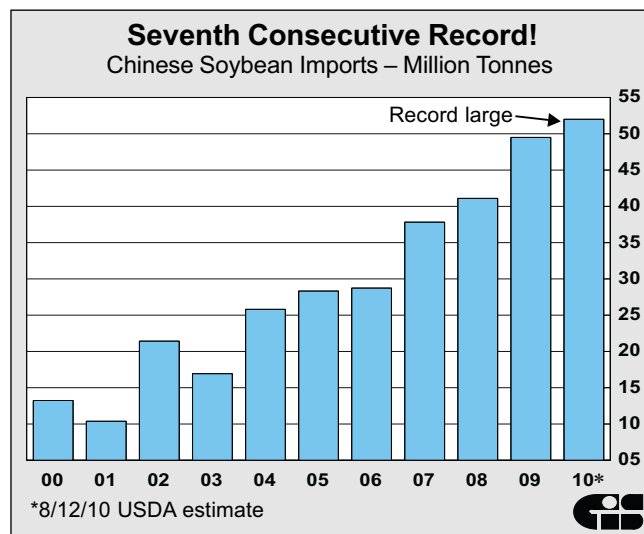
Both Brazil and Argentina harvested record acreage in 2010 and attained historically high yields. The surge in production from 2009 was a gigantic 33.7 million tonnes, representing an increase of 38%. This, combined with a record US crop of 91.4 million tonnes, *provided the world with 30.2 million more tonnes than had ever been consumed.* However, unprecedented demand from China and other Asian nations readily absorbed the surplus from prices ranging from \$8.79 to \$10.78 per bushel.

Although the USDA expects only a minor reduction in South American acreage for 2011, they forecast yield to fall below both 2008 and 2010. This was apparently in anticipation of less than perfect weather due to current La Niña conditions in the South Pacific. In past years of La Niña episodes, dry weather tended to occur in the critical growing period of Southern Brazil and Northern Argentina.

Brazilian crushers are reportedly shutting down for maintenance early this fall due to growing tightness in available soybeans. Although exports have been record large this season, domestic supplies should not be tight if last spring's production was as large as estimated. Some attribute the tightness to farmer holding. However, it would be unusual for farmers to hold record supplies of old crop beans just as their cash needs expand in preparation for new crop seeding late this fall. *If supply tightness continues into late September, it may indicate last year's crop was overstated.*

China Situation

China has purchased a record volume of soybeans from the US for the new crop season. Sales have slowed the past two weeks as Chinese crushers are expecting the government to sell reserve beans this fall to rotate stocks with new crop production following harvest. While the lull in demand has stalled the bull move in futures, the supply/demand balance for 2010-11 continues to point to record imports once again . . .



As indicated in the August 7 issue, the USDA's estimate of Chinese imports was too low. In the August 12 USDA supply/demand report, they raised their estimate from 48.0 to 49.5 million for the 2009-10 season and from 50.0 to 52.0 for the 2010-11 season. However, this week the China National Grain and Oils Information Center (CNGOIC) reported 15

Continued on page 10 . . .

new crushing plants would go into operation during the coming season. This would increase China's crushing capacity to 100 million tonnes next year compared to the USDA crush estimate of 55.8 million. Therefore, it appears either China will have huge excess crushing capacity or they intend to import more soybeans and become an exporter of meal to Asian destinations.

September Yield Estimate

Over the past ten years, the change in crop conditions during August was as good indicator of change in the USDA's September yield forecast . . .

Lower September Yield Estimate?

Change in August Crop Condition vs
Change in USDA Yield Estimate

Year	G/E Crop Rating			USDA Yield Est		
	Aug 1*	Sep 1*	Chg	Aug	Sep	Chg
2000	65	55	-10	40.7	39.5	-1.2
2001	57	52	-5	38.7	38.2	-0.5
2002	43	46	+3	36.5	37.0	+0.5
2003	63	45	-18	39.4	36.4	-3.0
2004	70	64	-6	39.1	38.5	-0.6
2005	51	54	+3	38.7	39.6	+0.9
2006	53	59	+6	39.6	41.8	+2.2
2007	56	56	-	41.5	41.4	-0.1
2008	63	57	-6	40.5	40.0	-0.5
2009	67	69	+2	41.7	42.3	+0.6
2010	66	64	-2	44.0	?	?

*Good/excellent crop rating nearest first of month

In nine of the past ten years, the direction of change in crop conditions from August to September was the same as direction of change in the USDA yield estimate. Interestingly, in years when the crop rating declined, the yield decline was almost in lockstep with the change in condition. For instance, in 2000 conditions declined 10 points and yield was down 12 points. In four of the five years of condition declines, the yield declined within 2 points of the change in condition. The exception was 2003 when conditions fell historically wide during August. *If the correlation holds for this year, the USDA should forecast September yield from 43.6 to 43.8.*

US Supply/Demand

Our supply/demand estimate for 2010-11 has not changed since the last issue. Although the USDA may forecast a slightly higher yield in September than our estimate for the final, it will have little impact on the eventual outcome . . .

Little Room for Lower Yield!

US Soybean Supply/Demand
Million Acres and Bushels

	2008-09	2009-10	2010-11	
	Actual	USDA ^{1/}	USDA ^{1/}	CIS Est
Planted acres	75.7	77.5	78.9	78.9
% harvested	98.7	98.6	98.9	98.7 ^{2/}
Harvested acres	74.7	76.4	78.0	77.8
Yield	39.7	44.0	44.0	43.5 ^{3/}
Beg stocks	205	138	160	160
Production	2967	3359	3433	3386
Imports	13	15	10	10
Total supply	3185	3512	3603	3556
Crush	1662	1750	1650	1700 ^{4/}
Seed	90	92	88	90 ^{5/}
Residual	16	41	70	50 ^{6/}
Exports	1279	1470	1435	1510 ^{7/}
Total usage	3047	3353	3243	3350
End stocks	138	160	360	206

1/ 8/12/10 USDA estimate

2/ Below USDA due to excessive ponding

3/ Below USDA due to sudden death syndrome (SDS)

4/ Above USDA due to larger meal and oil exports

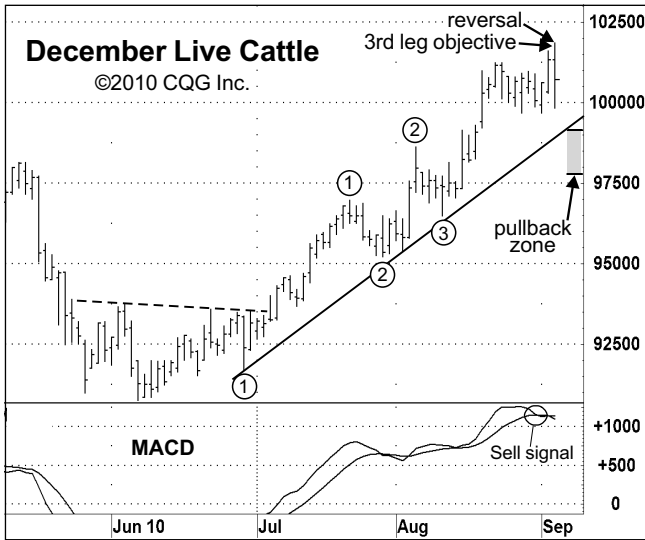
5/ Above USDA due to larger acreage needs next year

6/ Below USDA due to better export Census data

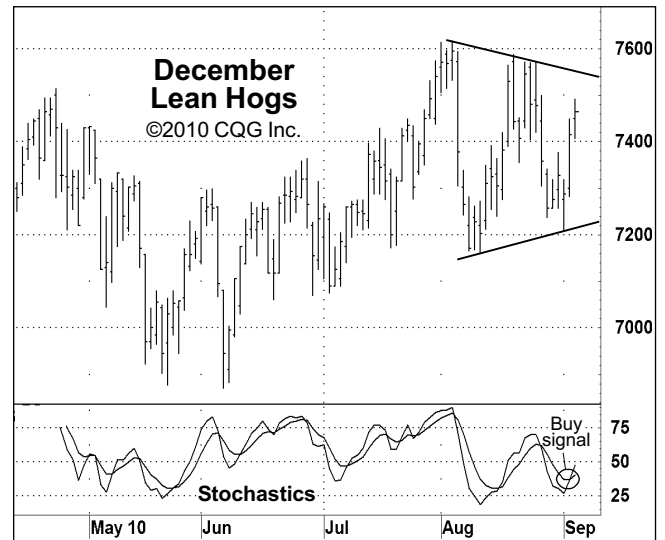
7/ Based on current sales trends and assumes slightly lower South American crop

If this year's yield were to fall back to the five year average of 42.3 bushels per acre, production would fall 88 million bushels below our estimate. This would imply an ending stocks figure of 118 million bushels, pointing to shortage and/or dislocation of supplies next summer. Although usage estimates can change dramatically over coming months depending on world economic conditions and/or prospective South American production, *the balance sheet currently leans toward tightness rather than surplus.*

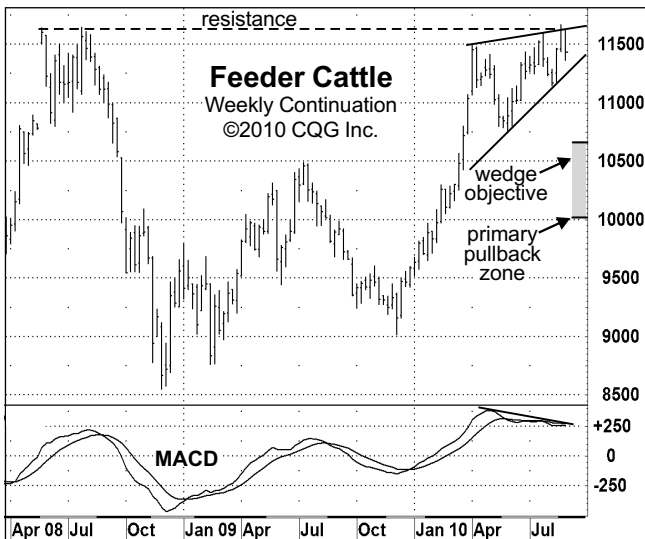
We expect futures to experience typical harvest pressure into September as farmers begin to market record corn and soybean crops. However, we doubt November futures can trade below \$9.50 during the peak of harvest pressure. Longer term, the marketplace will become extremely sensitive to planting and growing conditions in South America from December through February. Any indication of less acreage and/or crop problems will result in higher price trends. If South American production declines as forecast by the USDA and our usage estimates prove accurate, a spring high in the area of \$13.00 to \$13.50 will be indicated.



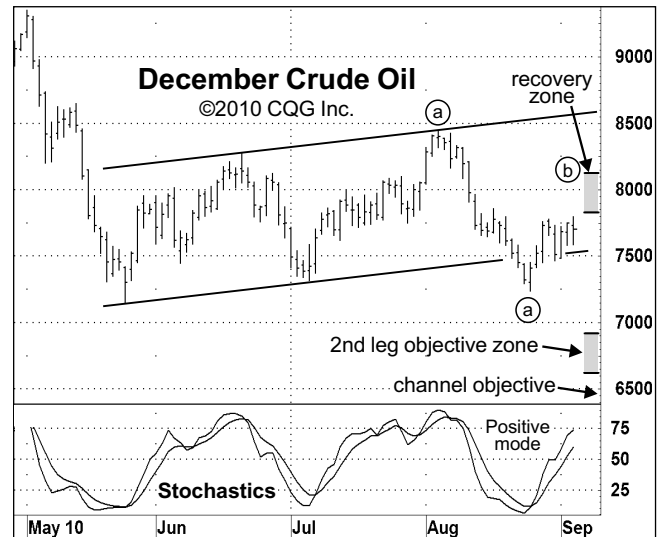
A bottom was completed in July. The first leg (1) of the advance gained 527 points. The second leg gained 342 points. When the second leg is shorter, the third leg is normally equal to the first. Therefore, objective for the third leg (3) was 101.75. That point was attained this week. Following attainment of the third leg objective, the market experienced a downside reversal, indicating a pullback. The initial pullback zone ranges from 97.80 to 99.20. It should be noted the uptrend line may provide support on the pullback. The MACD gave a sell signal on 9/1/10 and remains in a negative mode.



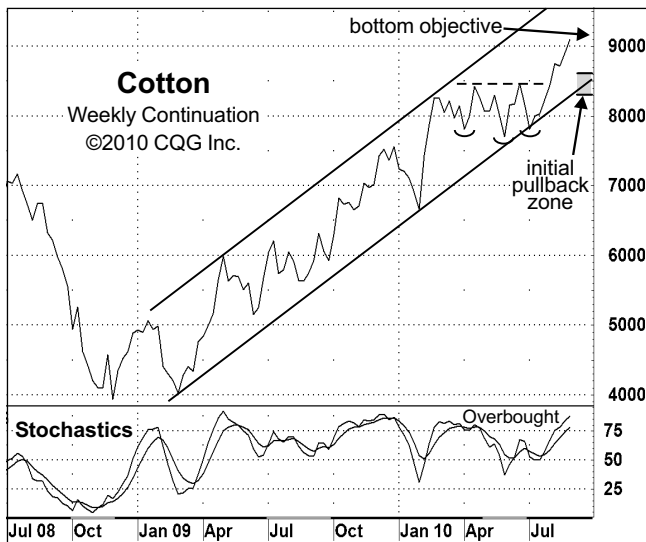
Note: The chart has been reconfigured since the last issue. Consolidation over the past month has formed a triangle. Two consecutive closes outside the formation would indicate a move of 4.40 in direction of the breakout. The stochastic buy signal on 9/2/10 should confirm a test of the upper triangle.



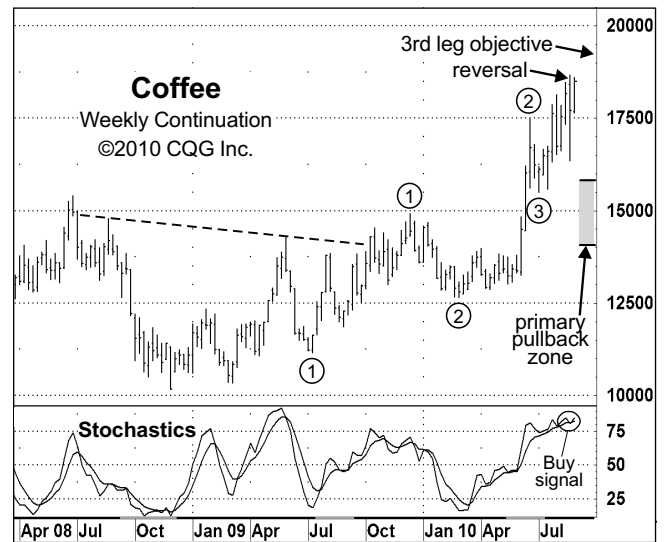
The market is currently testing strong resistance provided by the 2008 highs at 116.50. Two consecutive closes above this level are required to confirm continuation of the advance. However, a bear wedge has formed. A close below the lower line would point to a downside objective of 105.30. The primary pullback zone ranges from 100.30 to 106.57. The MACD has shown divergence since spring, indicating a loss in bullish momentum.



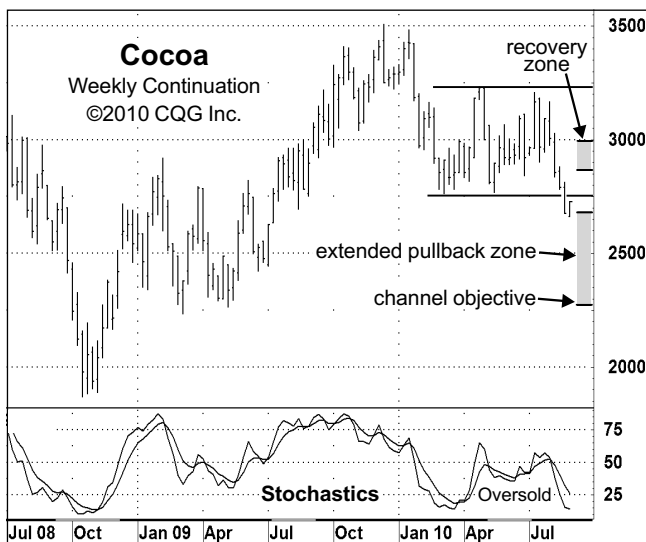
The market broke out of the uptrend channel shown in previous issues, providing an objective of 64.80. The first leg (a) of the decline lost 1210 points. As indicated previously, the recovery zone ranges from 78.41 to 81.43. The market is approaching the zone. Following completion of the recovery, objectives for the second leg (b) will range from 66.31 to 69.33. Stochastics are approaching overbought territory, but remain in a positive mode.



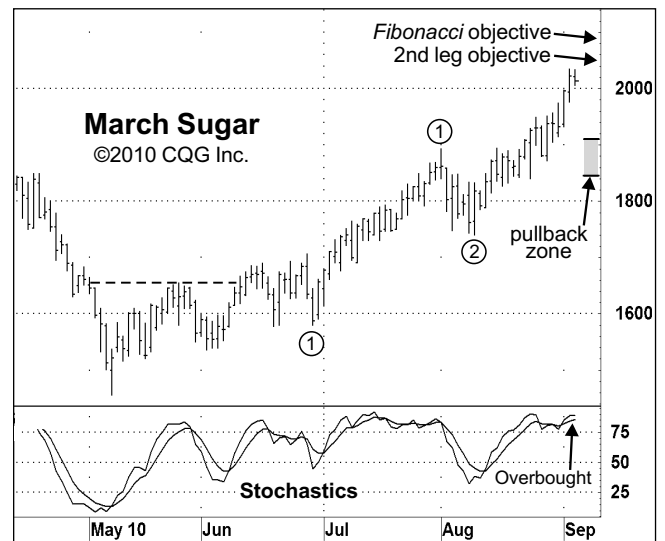
Note: A close only chart was utilized to illustrate formations. Since January, the market has traded in a well defined uptrend channel. A test of the upper channel line is now in prospect. As indicated in previous issues, a continuation head and shoulders bottom was completed, providing an upside objective of 91.92. This week's high of 91.80 may have been close enough to satisfy that objective. The initial pullback zone ranges from 83.04 to 86.06. Stochastics are in deep overbought territory, but remain in a positive mode. The next sell signal should confirm a pullback toward the zone indicated.



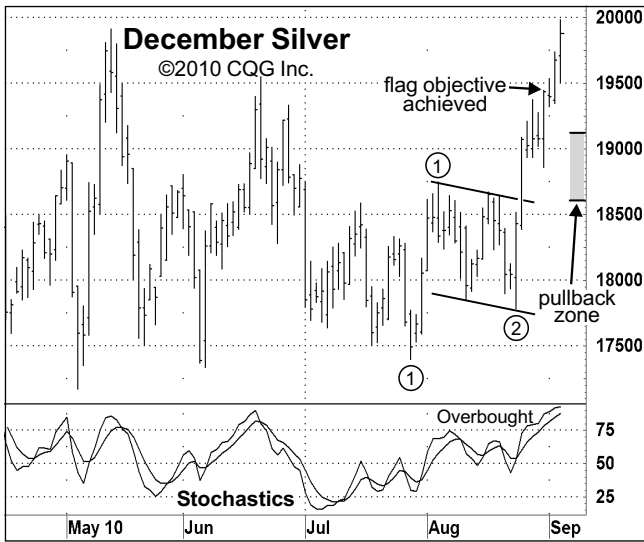
A bottom was completed in October. The first leg (1) of the advance gained 37.70. The second leg (2) gained 48.40. When the second leg is larger, the third leg is normally equal to the first. Therefore, objective for the third leg (3) is 192.70. However, last week's huge outside reversal suggests an end to the third leg. A close into new high ground will negate the reversal and confirm continuation of the advance. The primary pullback zone ranges from 140.25 to 158.05. Stochastics gave a renewed buy signal on 9/3/10, confirming a test of recent highs.



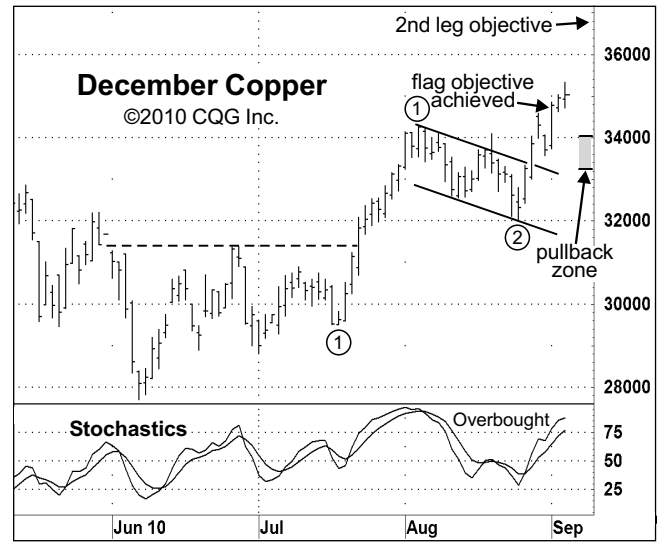
This week, the market broke out of the trading range shown previously, providing a downside objective of 2288. As indicated in last week's issue, the extended pullback zone ranges from 2275 to 2688. The market traded deeper into the zone this week. The next recovery zone ranges from 2871 to 3000. Stochastics are in deep oversold territory, but remain in a negative mode. The next buy signal should confirm a recovery effort.



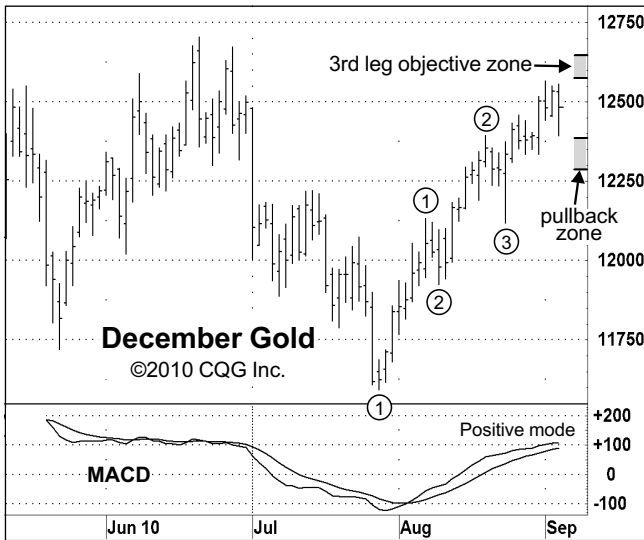
A bottom was completed in June, followed by extended consolidation. The first leg (1) gained 508 points. If the second leg is equal, an objective of 20.54 will be indicated. If the second leg is extended by a *Fibonacci* ratio, an objective of 20.88 is possible. The next pullback zone ranges from 18.47 to 19.12. Stochastics are deep in overbought territory. The next sell signal should confirm a pullback toward the zone indicated.



As indicated in the previous issue, a bull flag was completed, providing an objective of 19.47. That objective was achieved this week. The first leg (1) of the advance gained 1.35. To date, the second leg (2) has gained 2.12. The next pullback zone ranges from 18.62 to 19.14. Stochastics are in deep overbought territory, but remain in a positive mode. The next sell signal should confirm a pullback toward the zone indicated.

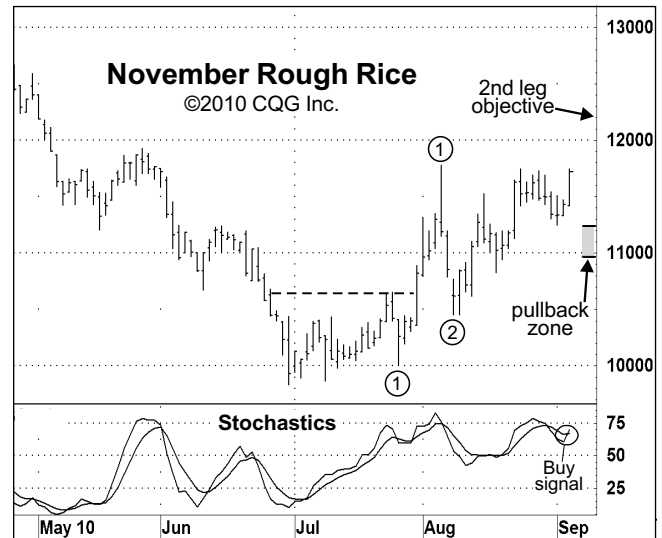


A bottom was completed in July. The first leg (1) of the advance gained 48 cents. If the second leg (2) is equal, an objective of 368.00 will be indicated. As shown last week, a bull flag was completed, providing an objective of 347.50. That objective was achieved this week. The next pullback zone ranges from 332.75 to 340.65. Stochastics are in overbought territory, but remain in a positive mode. The next sell signal should confirm a pullback toward the zone indicated.



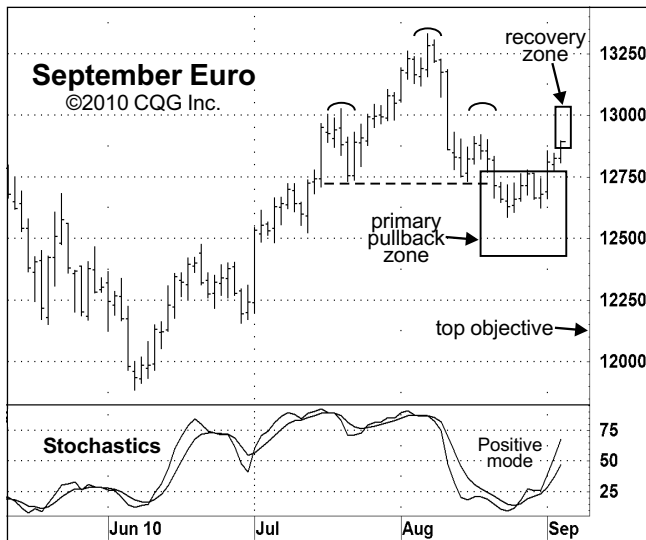
The first leg (1) of the advance gained 54. The second leg (2) gained 47. If the third leg (3) is equal to either, objectives will range from 1258 to 1265. The market is approaching the objective zone. The next pullback zone ranges from 1229 to 1239. The MACD remains in a positive mode.

Rough Rice

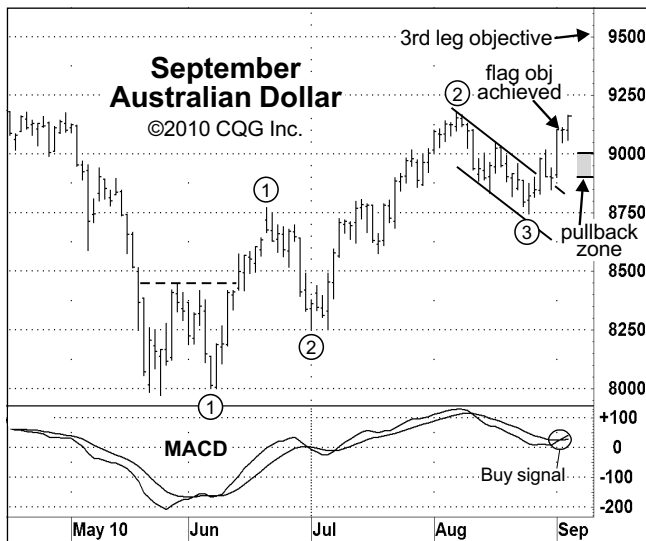


A bottom was completed in late July. The first leg (1) of the advance gained 1.78. If the second leg (2) is equal, an objective of 12.23 will be indicated. As shown last week, the pullback zone ranges from 10.98 to 11.25. Although this week's low was 11.25, the pullback zone remains operative until a close above 11.78. Stochastics gave a buy signal on 9/3/10, confirming continuation of the advance.

Currencies

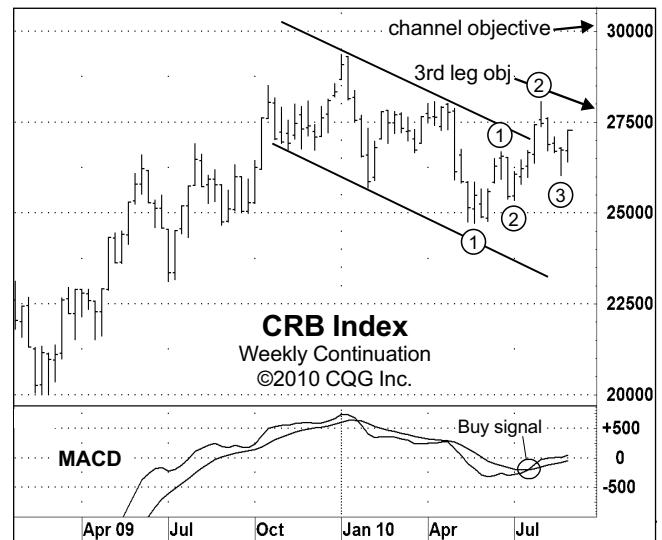


A head and shoulders top was completed in August, indicating a long term objective of 1.2130. The primary pullback zone shown previously from 1.2438 to 1.2779 remains operative. As indicated in the last issue, the recovery zone ranges from 1.2872 to 1.3048. The market is now trading in the zone. Stochastics are in a positive mode.

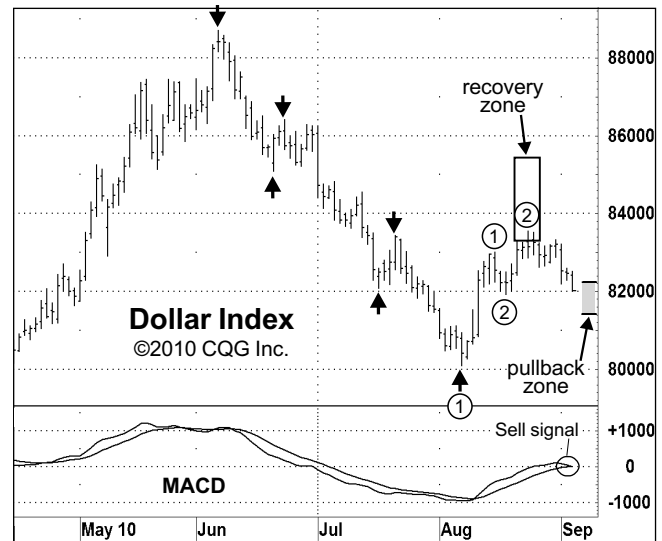


A bottom was completed in June. The first leg (1) of the advance gained 772 points. The second leg (2) gained 936 points. When the second leg is larger, the third leg is usually equal to the first. Therefore, objective for the third leg (3) is .9515. As indicated last week, a small bull flag was completed, providing an upside objective of .9105. That objective was achieved this week. The next pullback zone ranges from .8905 to .9005. The MACD gave a buy signal on 9/2/10, confirming the third leg is underway.

Indices



The index broke out of a downtrend channel, providing an objective of 301.80. The first leg (1) of the advance gained 19.80. The second leg (2) was extended, gaining 27.20. If the recent low proves to be the beginning of the third leg (3), an objective of 280.00 will be indicated. The MACD gave a buy signal on 7/23/10 and remains in a positive mode.



Following a three leg decline (arrows), a two leg recovery is typical (1,2). The market moved into the lower area of the recovery zone shown in previous issues and completed the second leg. This week, the market moved into the upper level of the initial pullback zone shown last week from .8141 to .8223. The MACD gave a sell signal on 9/3/10, indicating potential for a test of August lows.