STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

October 2011

Farmers and ranchers who experienced weather-related losses this year need to document the losses by September 30, the date that the SURE program expires. Crop producers do not need to harvest or sell their 2011 crops before September 30 to claim a loss but the losses do need to be documented by then. Producers need to contact their FSA office and/or their crop insurance agent to start the paperwork documenting production losses. Since SURE payments are based on national average price and production levels, payments cannot be made until after the end of the crop marketing year. That means actual payments for 2011-crop losses won't be made until late 2012 or early 2013.

Crops planted for harvest in 2012 will not be covered under SURE at all unless Congress takes action, which is pretty unlikely. So far USDA has paid out more than $2 billion for the 2008 crops and $625 million for the 2009 crops under the SURE program. It's not yet known how much will be paid out for 2010 crops, where producers can file for payments under SURE for previously-documented 2010-crop losses now.

Swiss warn they will intentionally inflate the franc! In an unprecedented move that signals its grave fears of an inevitable EU meltdown, the Swiss Central Bank announced it would "not allow" the Swiss franc to drop below 1.2 times the value of the euro. It said it would buy foreign currencies in "unlimited quantities" (essentially "printing francs") to keep that from happening. Gold investors say loss of the franc as a "safe haven" investment could take gold to the once unimaginable $2,000 per ounce. If so, ag economists say that could increase the allure of ag commodities as an alternative "store of value"; i.e. inflation hedge. But on the negative side, others warn it could also boost demand for the U.S. dollar, hurting U.S. ag export competitiveness.

Odds high Southwestern drought will persist into 2012. It's been widely reported that La Niña conditions are returning and this, historically, is linked with continued drought patterns in the Southwestern U.S. But Drew Lerner of World Weather Inc. has told clients of additional linkage between where we are in solar cycles PLUS where we are in what climatologists call the Pacific Decadal Oscillation (PDO). Exceptions? La Niña winters tend to produce above-average precipitation from the Northern Delta across the heart of the eastern Corn Belt.

Approaching deadlines for disaster assistance programs: The deadline for filing a notice of loss under the *Livestock Forage Disaster Program* ends January 30, 2012. Producers must complete a Notice of Loss claim within 30 days of the loss under the *Livestock Indemnity Program*. Fact sheets about these programs can be found at *www.fsa.usda.gov*.

Progress on free trade bills? Maybe. The House has extend the lapsed Generalized System of Preferences until August 2013. This legislation allows for the duty free entry of 4,800 products from 129 developing countries and territories to promote economic growth in those countries. What's in it for the U.S.? Passage of this bill may provide a vehicle for the Senate to attach a renewal of the Trade Adjustment Assistance Act. The Obama administration has made approval of the TAA a precondition for submitting the three pending free trade agreements to Congress for approval. All three are likely to boost U.S. ag exports and favored by most farm groups.

THE BLUE-CHIP BORROWER

The kind lenders compete for!

John Blanchfield, director of the ABA Center for Agricultural and Rural Banking, conducted an ag radio tour Aug. 17-19 that covered parts of 18 states and two Canadian provinces. Mike Adams of Doane's *AgriTalk* Radio Network also interviewed Blanchfield. Here are some highlights of the full audio you can access at *www.agritalk.com*:

ADAMS: *"Did the recent downgrading of U.S. credit have any effect on farmers trying to get credit?"*

BLANCHFIELD: "We lost prestige as a nation, but it did not result in increase in cost of borrowing in the U.S. In fact, the Federal Reserve has pledged to keep interest rates at current low levels until 2013."

ADAMS: *"What's the interest rate outlook? How can farmers manage that risk?"*

BLANCHFIELD: "I can tell you they're probably not going lower and eventually they'll go back up. So this is a good time for farmers to look at converting any variable rate loans to fixed rates. Sure, the rate might go up a little, but there's very little chance they'll go down further. Most of the risk is to the upside."

ADAMS: *"With all the mergers in banking, is there good competition in ag lending?"*

BLANCHFIELD: "Total farm debt is about $240 billion and banks have about half of that. Input suppliers are strong competitors. There's plenty of competition."

ADAMS: *"What's your view on future for land values?"*

BLANCHFIELD: "I've found no real increase in farm real estate mortgage debt. So it's mostly cash driving land prices, not leveraged debt like we saw in the 70s. Sure, land will go down eventually, but so long as farmers are so far less leveraged than they were then, they can ride it out.

ADAMS: *"What's impact does the constant worry about the U.S. going into recession have on ag lender attitudes towards farm borrowers?"*

BLANCHFIELD: "Only that as a farmer or rancher, you need to demonstrate to your banker that you have a low risk profile, with good financial ratios, a good business plan and a sensible marketing plan. And just because interest is cheap, don't ask to load up on debt unless you have solid, documented business reasons to do so."

Doane's MARKETING MENTOR

CORN

The corn market consolidated ahead of the September 12 USDA Crop Production report, with December futures trading either side of $7.50. Trade estimates for the Crop Production report vary widely. Yields range from 145 to 153 bushels per acre with the average at 148.8 bushels. Production estimates range from 11.9 billion to 12.9 billion bushels, averaging 12.5 billion. These compared to USDA's August yield at 153 bushels and production at 12.914 billion. The report will be out by the time you read this, but even if USDA made a more modest cut in production, the trade will probably assume further cuts are likely in October and November, so the negative market impact should be limited. A close above the contract high at $7.79 for December futures signals follow-through strength to $8.00 to $8.25. Support should develop from $7.00 to $7.25. That $1 range is the best guidance on when to price and when not to at this time.

SORGHUM

Sorghum crop condition ratings have deteriorated since USDA's August Crop Production report. Current crop condition ratings are the lowest since 2002 and 2003 when national sorghum yields were 50.6 and 52.7 bushels, respectively. The current yield is 54.8 bushels. While USDA is already using a low yield, the poor condition of the crop suggests at least a modest cut in the yield is likely in the September or following production reports. Regardless, sorghum supplies will be very tight and usage must be curbed in order to maintain even modest ending stocks. All usage categories are forecast to decline in 2011/12 compared to the previous year. Feed and residual use is expected to decline the most followed by exports and then food, seed and industrial use. Like corn, we expect sorghum prices to move higher into at least early harvest as prices follow a typical short crop contra-seasonal price pattern moving higher into harvest. Whether or not prices continue higher through the fall and winter hinges on final production totals and the pace of demand.

SOYBEANS

After a month of poor weather in many major producing states, that USDA August yield forecast could turn out to be too high. The next price cue will come from USDA's Sept. 12th crop report, still a few days off as this is written. Ahead of the report, industry analysts were projecting an average production outlook of 3.025 billion bushels. On the face of it, a USDA forecast that totals less than 3.00 billion would likely be seen as a bullish report, even after the rally of the past month. On the bearish side, a production forecast that was roughly unchanged or higher than August would be fundamentally bearish. As always, the soybean report can't be looked at in total isolation from other markets. It is expected that corn, soybeans, and wheat will all be competing once again for acreage allotments.

WHEAT

Prices took another hit in early September when India announced after months of deliberating that it would indeed put about 2 million metric tons of wheat up for export from bulging government reserve stocks. That followed STATS Canada reporting larger-than-expected wheat stocks and rising production estimates for Australia as well. We're told by agronomists with Texas A&M that the two most similar years to this one, in terms of fall drought conditions, were 1977 and 1999. In 1977, nationally winter wheat seeded for 1978 harvest dropped 14 percent from the preceding season overall. In the fall of 1999, winter wheat seedings for 2000 dropped by 7 percent, to the smallest area since 1972. But unless buoyed by new bullishness in corn, the seasonal rally in wheat is rapidly running out of steam until we see USDA's Winter Wheat Seedings report for 2012.

FEEDER CATTLE

After a peak in early July at $139, the CME feeder cattle price index has been trending lower. The decline in feeder cattle prices closely tracks the weakness in the deferred fed cattle futures. At that same time, corn prices have moved up about $1 per bushel and the historic drought in the southern Plains has forced ranchers to move calves and light weight feeders much earlier than normal due to the lack of pasture and hay. The $130 area is an expected long-term support level for the CME index, but the heavy summer placements and threat of another downturn in the economy could pressure deferred fed cattle and in turn feeder cattle. For calves, while the drought has pressured calf prices in the southern Plains, in other areas where feed supplies are adequate, demand for calves appears relatively strong. In other areas, we expect seasonal pressure on prices heading into the fall.

CATTLE

Packer margins remain positive and they are expected to bid aggressively enough to rebuild supplies following light cash sales in early September. Beef demand is expected to improve seasonally this fall, but does face hurdles with retail beef prices at record levels and the U.S. economy threatening another downturn. Strong beef exports remain a source of optimism for demand and prices. However, the dollar index turned higher this week and is threatening to reverse the long-term downtrend. Dollar strength would begin to erode the competitive advantage for U.S. beef. Fed cattle supplies are expected to ease the next couple of months, but will be above year ago levels. Fed cattle prices are expected to strengthen into the fall, trading from $115 to near $120. The sharp increase in summer placements does point to larger fed supplies in the December-February timeframe.

HOGS

After weeks of steady declines, cash hog prices began to stabilize in early September. Prices have been under pressure for the past month as a result of rising production and weakness in the U.S. and global economies. Cash prices hit a record high of $104 in early August as the hot weather reduced both the number of market hogs available and hog weights. But as the weather improved, pork production has rebounded and prices have dropped by more than $20 per cwt. Current cash prices are below break-even with current corn prices and the chances for significant increases in cash hog prices are limited. Hog supplies will probably continue to increase seasonally into November.

MILK

Milk prices appear to have topped for now. Class III futures peaked in the beginning of August and have fallen strongly the past few weeks. The decline in spot cheese prices have led to the weakness. American cheese sales apparently fell in July as stocks increased 30.9 million pounds from the previous month, which is the largest one-month increase in stocks in seven years. High retail prices may be curbing domestic demand. In the second quarter of 2011, fluid sales were down 1.8 percent after running 1.5 percent below year-ago levels in the first quarter. Increasing export competition and some weakening international demand has slowed export demand. Milk prices are expected to average above $20 per cwt through the end of the year, but then moderate to $18 to $19 per cwt level in the first quarter of 2012.