

Preview: Prospective Plantings & Grain Stocks

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The Big Picture

There are 36.8 billion acres in the world, and only about 7.7 billion can be used for crops (21%). The lower United States has approximately 1.9 billion acres, approximately 350 million of that is used for planted crops (18.5%). While there is a finite amount of land in the world, the world's population is growing faster than ever. It's estimated that the population is growing 213,000 people per day. Estimates also suggest the world is losing 35 million acres of farm land each year.

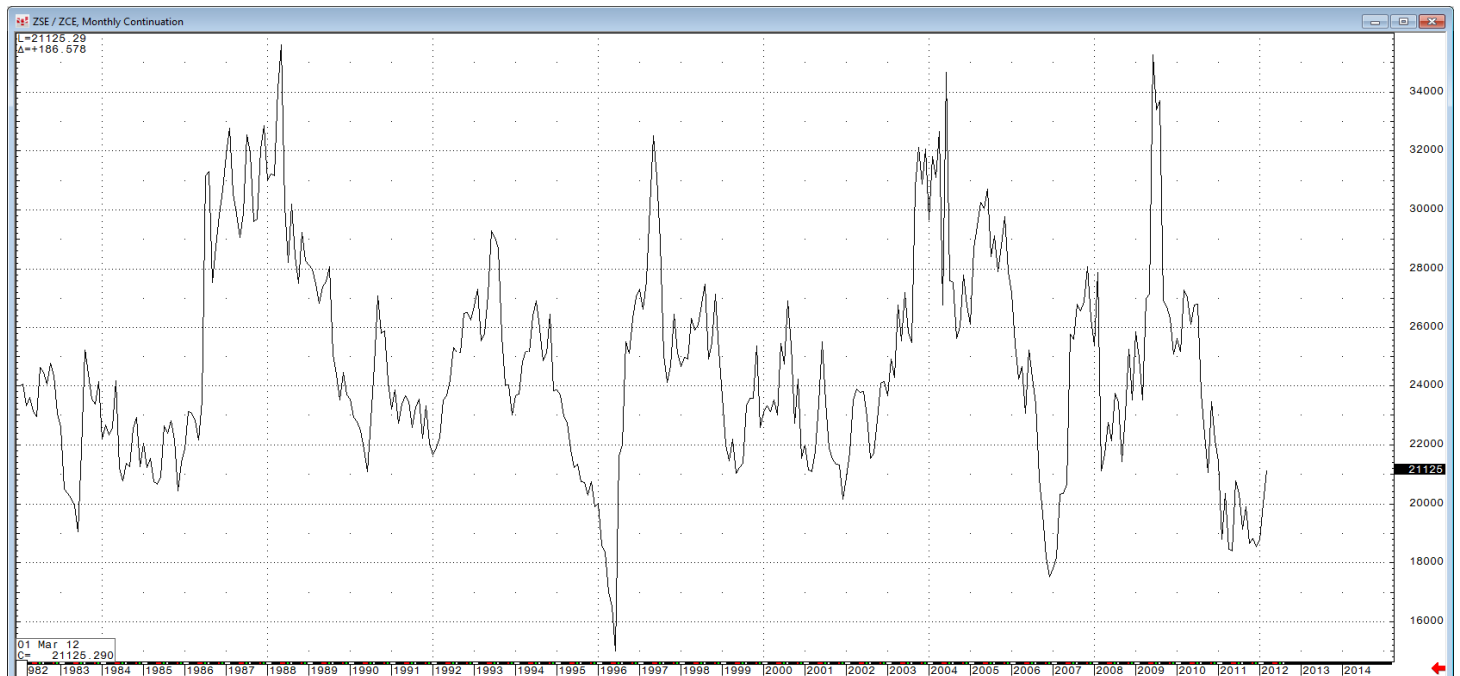
There is a "squeeze" going on between number of mouths to feed and agriculture products produced. This is the reason I believe this report will be generally bullish.

The Report

Prospective Plantings

The most important number in this report is the prospective plantings. The general estimates are that 94-95 million acres of corn will be planted, 75 million acres of soybeans, 58 million acres of wheat, and 12.5 million acres of cotton.

My personal estimate is slightly different. Traditionally, the ratio of corn to soybeans has been 2.3. What does this mean? The current price of new crop soybeans divided by the current price of new crop corn is 2.4. Soybean prices are 2.4 times the price of corn. *If you look at the historic ratio on a continuous chart, current ratios favor planting soybeans instead of corn.* Therefore I believe the actual numbers will be corn planting intentions will be closer to 94 million acres and soybeans closer to 76.5 million acres.



Wheat planted acreage will be slightly lower than past years due to higher paying alternatives. If you are a farmer in southern Oklahoma or Texas, your delimita is not corn or soybeans, but cotton or some alternative at this time. Those winter wheat acres are already planted and look great with recent rainfall. There are “die-hard” cotton growers that were not in a pool that made 10 years worth of profits in the past few years. The majority were in a marketing pool and received closer to 85 cents per pound, but they are still believers and possibly opted out of the marketing pool.

With cotton prices at current levels, there is still incentive to plant. The drought in the southwest actually favors cotton over corn, soybeans, & other alternative crops due to dry moisture profiles. My estimates are cotton acreage to be 13 million acres and wheat at 57.5.

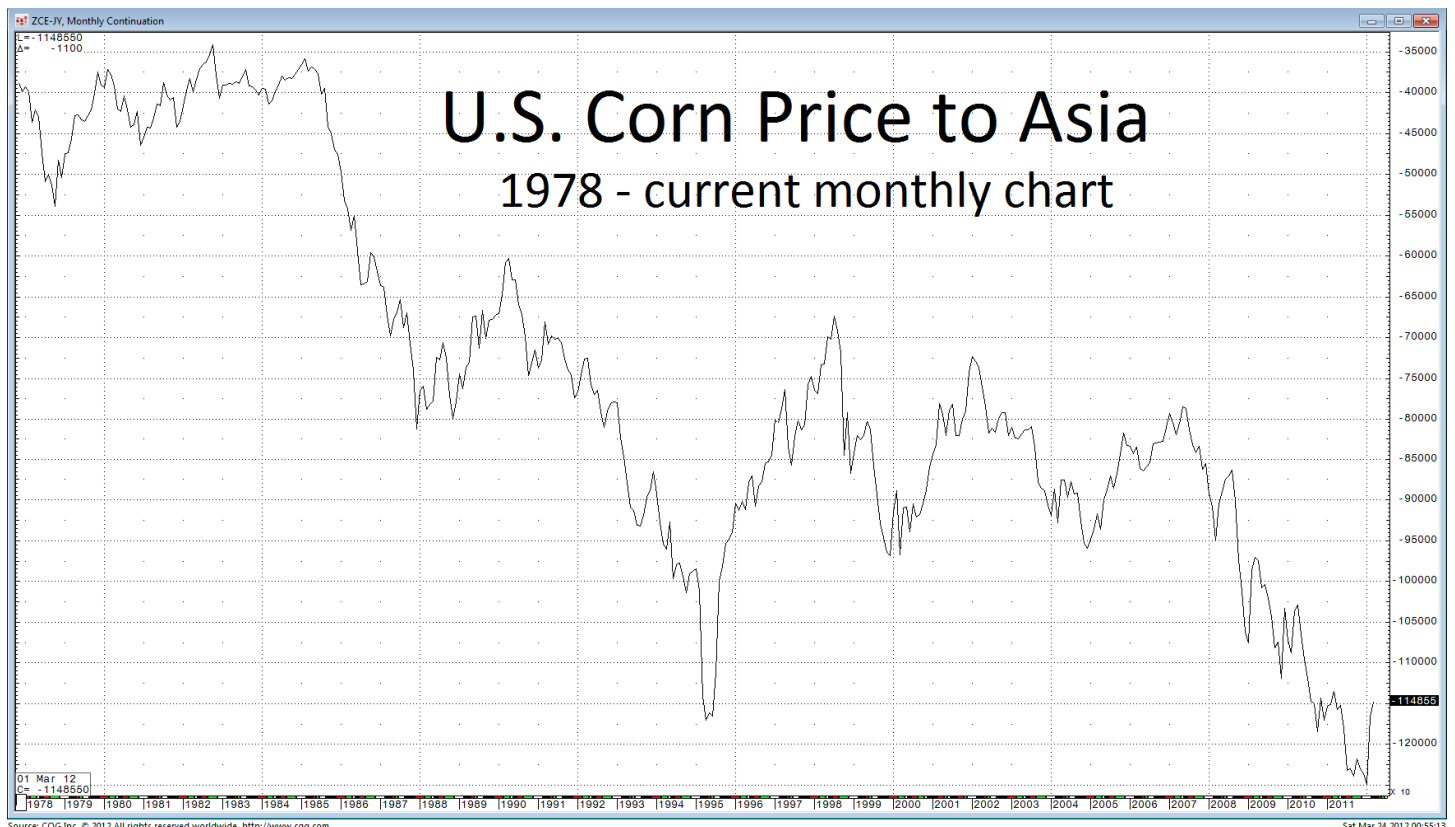
My Prospective Plantings

Corn Planted Acreage	94 million
Soybean Planted Acreage	76.5 million
Wheat Planted Acreage	57.5 million
Cotton Planted Acreage	13 million

Grain Stocks

Asia, South American grain production, and ethanol are the biggest variables of this report. The USDA doesn't include all of the economic situations relevant to the current situations. The grain stocks report will be slightly lower for corn due to ethanol production and exports, soybeans will also be lower due to greater export demand and decreased production in South America. Wheat stocks will likely be lower due to feed value that traditionally isn't relevant.

All stocks will be under pressure due to global currencies vs. the U.S. dollar. The chart below shows the Japanese Yen versus the price of the US corn. U.S. corn is cheap to Asia. The soybean and wheat currency valuation results similar characteristics to the corn chart below.



North American grain is cheap to the rest of the world. The dollar is cheap and the Baltic Dry index is low (see chart below). This index configures the cost to ship a load of dry goods (includes grain) on 23 global shipping routes. When the index is low, importing countries are more likely to purchase grain on the world market.



As with any report, there are an infinite number of variables and many possible outcomes. These views are my own.

If you have any questions, or would like more information, contact Justin Lewis at (877) 431-9805.

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