THE HIGHTOWER REPORT
Futures Analysis & Forecasting
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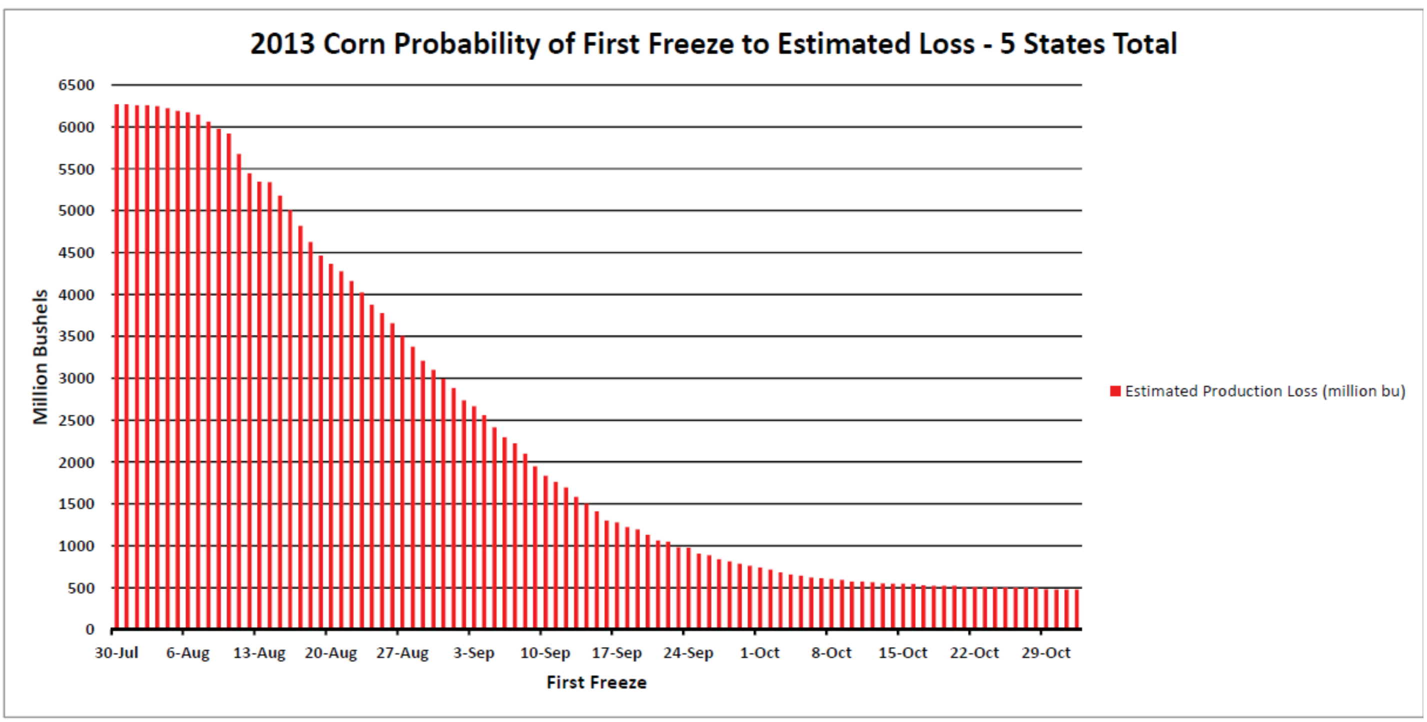
Excerpts on Corn from The Hightower Report Market Letter, July 26, 2013

Potential for Corn Production Losses from an Early Freeze

With this year's planting progress far behind the average pace, concerns about potential corn production losses from an early freeze have begun to surface. We decided to research potential crop losses at different probability levels, based on various average first freeze dates in the 5 major corn planting states: Minnesota, Iowa, Illinois, Indiana, and Ohio.

We determined the starting point of first freeze occurrence for each state based on historical data of earliest first fall freeze dates from 1950 to 2013, recorded at over 1,110 weather stations across the 5 states by the Utah Climate Center Database. We then broke down those dates into 3 probability ranges: 0-10%, 10-50%, and 50-90% according to the NOAA's 1981–2010 U.S. Climate Normals. These percentages represent the chance of a first fall freeze occurring on a specified date or earlier. For example, an October 10th first freeze falling in the 10-50% probability range means that there is 10-50% probability that the first fall freeze will occur by October 10th.

Statewide estimated corn production was calculated using 10-year trend line yield and 2013 planted acreage. Estimated yield reduction was calculated by tracking accumulative Growing Degree Days (GDD)



in each state to determine the percentage of corn in every growth stage at different freeze dates based on USDA planting progress data. From that data, we were able to project potential production losses.

The combined 5-state chart indicates that a first fall freeze occurring on September 17th has the potential to cause a loss of 1279.70 million bushels of production. A normal first fall freeze (50% probability) across each of the 5 states has the potential to cause a total of 664.75 million bushels in production losses. If a "1 out of 10" (10% probability) early fall freeze happens, the 5 states are likely to suffer a total production loss of 964.41 million bushels. Keep in mind that total corn ending stocks for the 2013/14 crop year are currently projected at 1959 million bushels.

For better reference, below are some records of early first fall freeze that occurred during 1950 to 2012 in the 5 states.

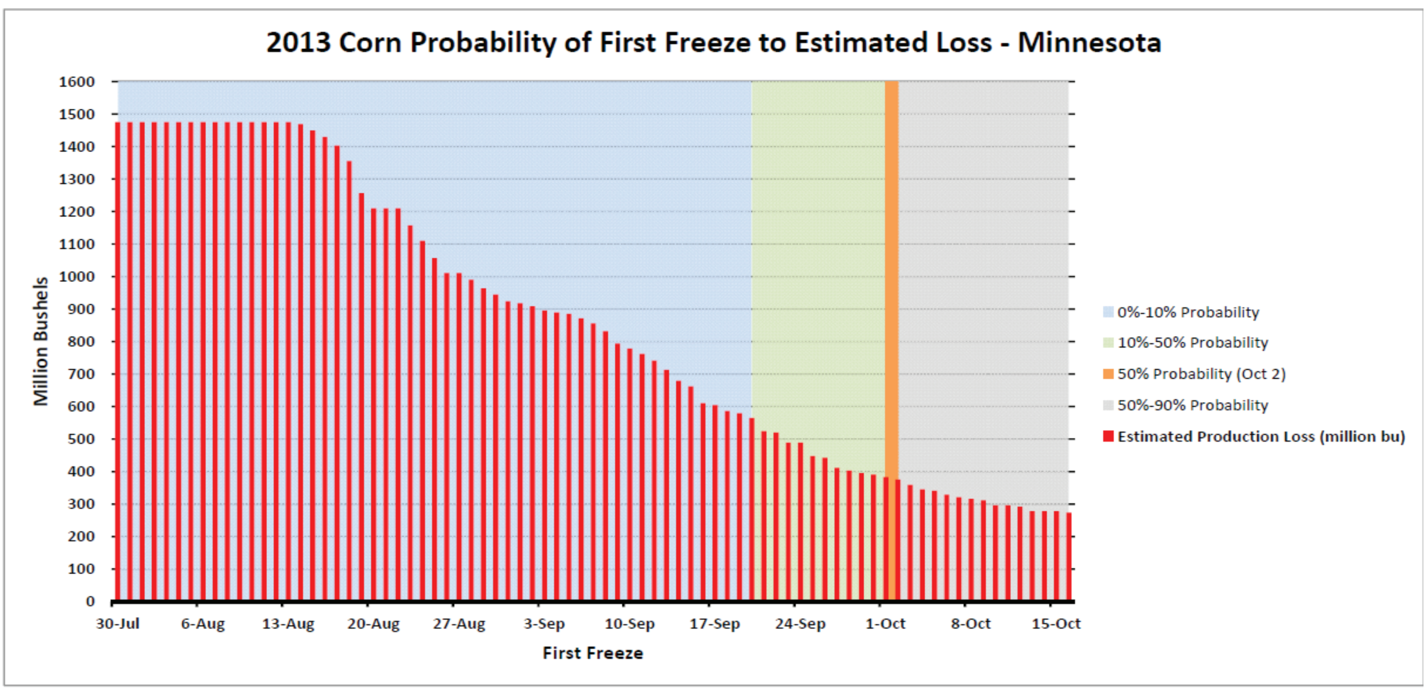
* **Minnesota:** Normal first freeze - October 2nd. 10% probability first freeze - September 21st. 3 weather stations recorded their earliest first freeze by August 24th in 3 distinct years, and 27 weather stations recorded their earliest first freeze by September 10th in 8 distinct years.

* **Iowa:** Normal first freeze - October 5th. 10% probability first freeze - September 22nd. 5 weather stations recorded their earliest first freeze by August 30th in 3 distinct years, and 15 weather stations recorded their earliest first freeze between September 1st and September 10th in 3 distinct years.

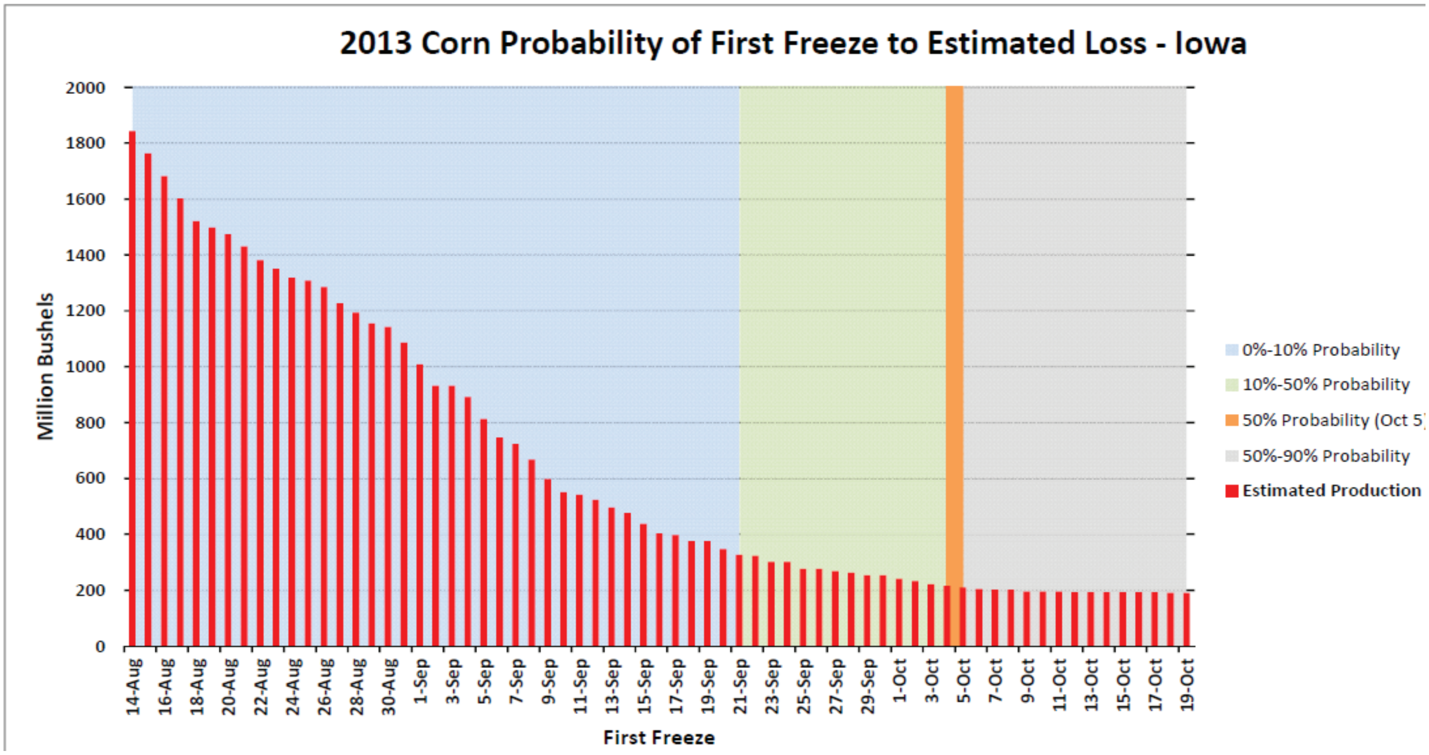
* **Illinois:** Normal first freeze - October 15th. 10% probability first freeze - September 30th. 7 weather stations recorded their earliest first freeze by September 15th in 6 distinct years.

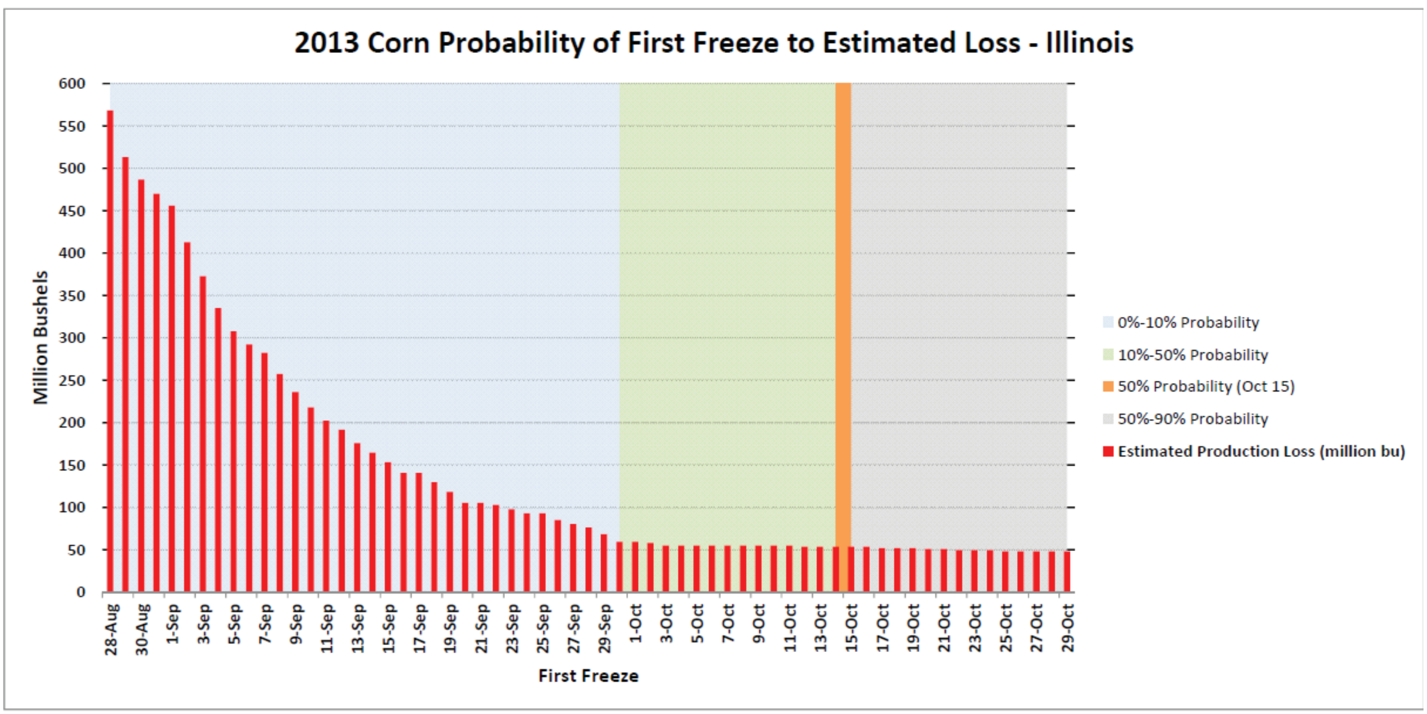
* **Indiana:** Normal first freeze - October 14th. 10% probability first freeze – October 1st. 18 weather stations recorded their earliest first freeze by September 20th in 7 distinct years.

* **Ohio:** Normal first freeze - October 16th. 10% probability first freeze – October 2nd. 1 weather station recorded its earliest first freeze by July 30th, and 13 weather stations recorded their earliest first freeze between September 8th and September 20th in 4 distinct years.



Potential for Corn Production Losses from an Early Freeze *continued*





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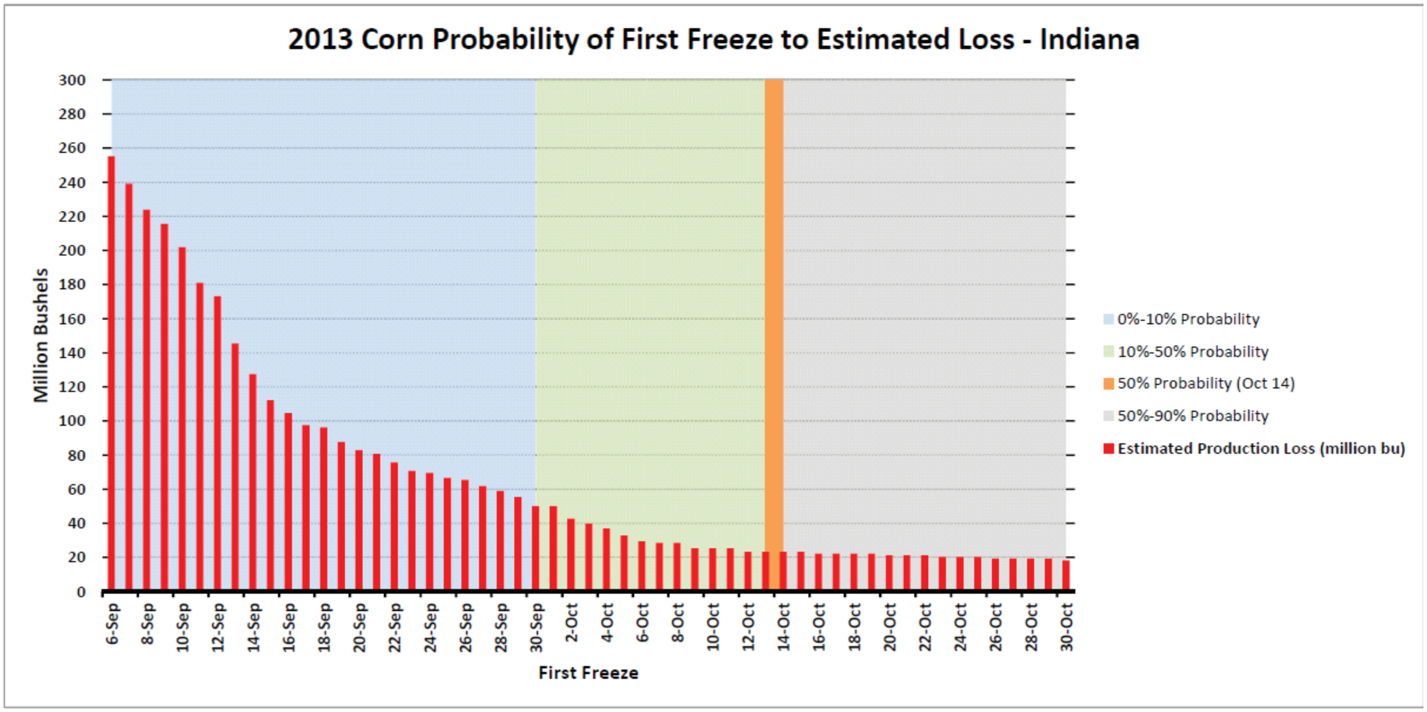
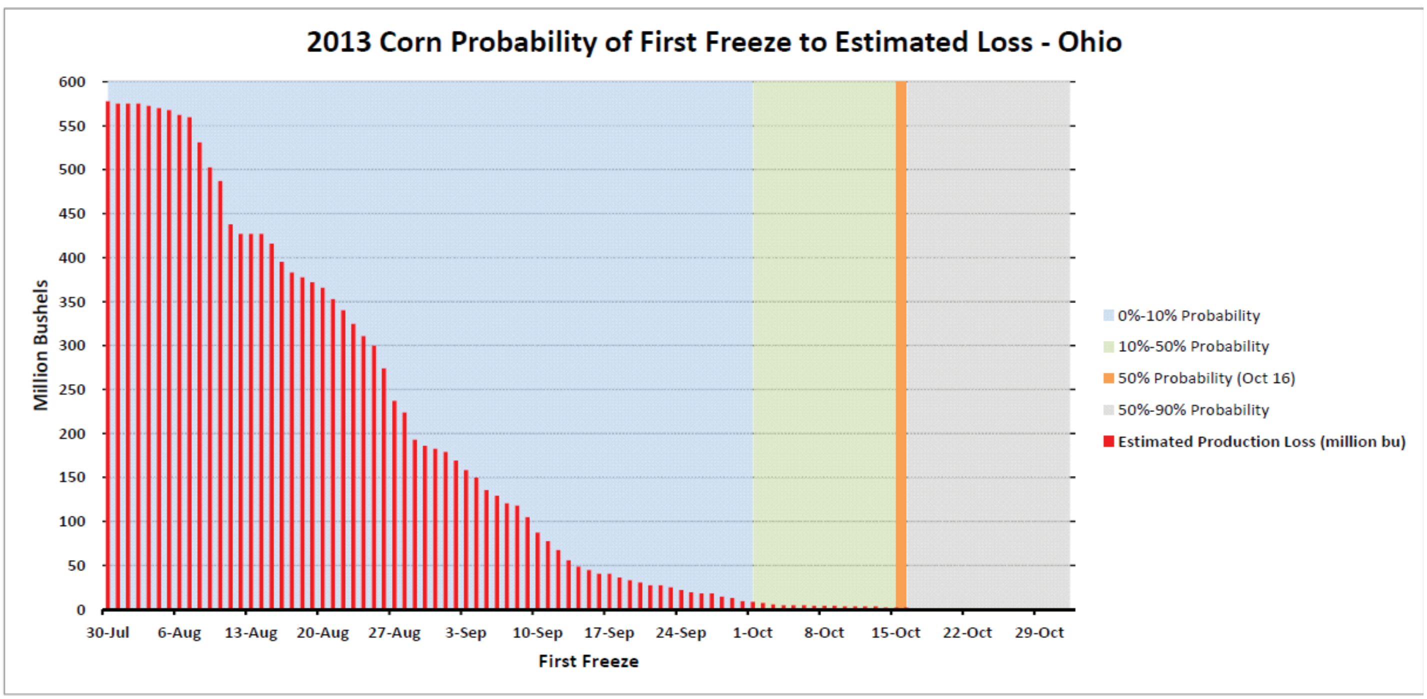




Prepare for a Freeze Scare for Corn?

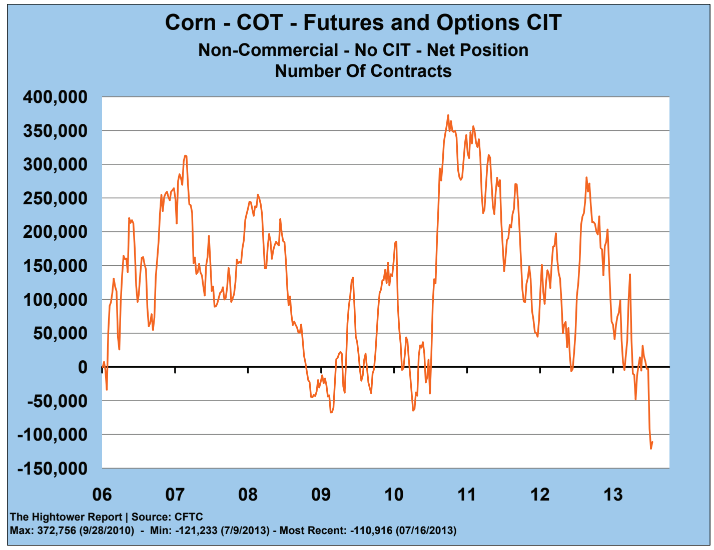
While recent market focus has been on improving crop weather for pollination and the possibility for higher corn yields, this year's late-planted crop could become a more supportive force, especially if temperature forecasts turn cooler for the month of September. In addition, some of the latest planted crops are also sitting in some of the more vulnerable areas for an early freeze. While the research for our article on early freeze problems (page 8) was done for the five primary corn-producing states, Iowa, Minnesota, Illinois, Indiana and Ohio, a large amount of the damage risk this year is in Minnesota and Iowa. A normal first freeze for the select 5 states would have the potential to cause a loss of 664.75 million bushels. Remember, this is the date that has a 50% chance of a freeze occurring in a normal year.

If we see a "1 out of 10" early freeze this year (one with a 10% probability), the 5-state loss could climb up to 964.4 million bushels. Keep in mind, total ending corn stocks for the 2013/14 year are currently estimated at 1.959 billion bushels.

For Minnesota, a normal first freeze this year (October 2nd) could cause a loss of 375.8 million bushels, with a 1-in-10 first freeze date of September 21st potentially causing a loss of 524.7 million bushels. In 8 years since 1950, we have found 27 weather stations reporting their earliest first freeze by September 10th. A September 10th freeze this year for Minnesota could cause damage of 778.8 million bushels.

If Iowa sees a 1-in-10 freeze by September 22nd, it could lose 322.8 million bushels. A freeze on this date for both states could result in a total 2-state corn loss of 843 million bushels.

The short-term fundamentals still look bearish for corn, and we see



the possibility of continued weakness during the next few weeks with the $4.55 to $4.45 price zone as the next downside target. However, there are several factors which might limit the downside:

1) The corn market remains extremely oversold when we consider typical hedge fund traders. As of July 16th, trend-following funds held a near-record net short position of 110,916 contracts. The jump in open interest since then suggests that today's update may show an even more oversold market.

2) Corn is cheap enough for China to be an aggressive buyer. "Unknown destination" bought 211,328 tonnes of corn on Friday morning.

3) There may be more than 2 million acres of corn which simply did not get planted this year.

4) A normal or earlier than normal first freeze date for Iowa, Minnesota, Nebraska and the Dakotas could spark a major adjustment lower in US production.

5) The Western Corn Belt saw below-normal precipitation for parts of July, and it will not take much in the way of dry weather during August to spark lower yield expectations.

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WEEKLY MARKET LETTER
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THIS ISSUE

Fundamental Trades:

Bullish:	Live Cattle
Bearish:	Crude Oil

Campaign Trades:

Platinum & Live Cattle

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MAJOR ECONOMIC EVENTS

January 15
- Producer Price Index
- Retail Sales

January 16
- Consumer Price Index
- Industrial Productio

January 17
- Jobless Claims
- Housing Starts
- Philly Fed Survey

January 18
- Chines GDP/Retail Sales
- Consumer Sentiment

January 11, 2013

Next Week's Economic Focus

Commodity prices got a boost from this week's news of a recovery in Chinese exports and imports during the month of December. While the outlooks for the US and Europe remain suspect, seeing more positive developments out of China should dampen some of the negative sentiment toward copper demand. Adding to the positive sentiment was news that Spain and Italy saw strong demand for their debt during recent auctions. Unfortunately, the New Year failed to bring a complete end to the fiscal cliff debate, which has transitioned into a looming US debt ceiling debate. With several political pundits encouraging the President to unilaterally raise the debt ceiling and leave future ceiling adjustments in his office's hands, one might expect the GOP to dig in its heels instead of opening up to compromise. One also has to wonder if evidence of lower after-tax income in the first paychecks of 2013 will result in some negative sentiment during the coming weeks. Over the near term it is possible that positive news from China, less uncertainty from Europe and ongoing positive US economic data will provide physical commodities with a positive backdrop. On the other hand, markets like crude oil, soybeans and natural gas continue to face burdensome supply conditions that might be difficult to overcome.

-Dave Hightower

US Retail Store Sales
Percent Change From Year Ago

December 2012: -2.0% Hightower Estimate

OUR OPINION... MARKET BY MARKET

Market		*
Stocks	Improvement in China leaves the bulls in control.	L
Bonds	The bear camp retains a fundamental edge.	S
Dollar	Inability to hold rallies hints at an upcoming top.	S
Euro	Favorable auctions reduces risk for fresh longs.	L
Gold	Robust growth views needed to reverse downtrend.	S
Silver	Downside waves not extending with key reversal.	L
Copper	Near-term upside move possible from China news.	L
Crude	March Crude fails at $95.00 level.	S
Gasoline	Surge in supply & weak demand offer headwinds.	S
Nat Gas	Bounce from $3.10 leaves $3.50 as next objective.	L
Soybeans	S America weather good; downtrend continues.	S
Corn	Demand & 2013/14 planting seen as negative.	S
Wheat	Export demand still slow; precipitation in the east.	S
Hogs	Production decline seen through mid-February.	L
L Cattle	June and August look too cheap versus outlook.	L
Sugar	Oversold with more positive tone for commodities.	L
Coffee	Funds still hold big net short with shift in supply.	L
Cocoa	Will need signs of tighter supply to turn trend.	S
Cotton	Threat of China selling reserves may pressure.	S

* For traders/commercialwho need to be in a market, L = Long, S=Short

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