

Pro Farmer

CROP TOUR

Planting *safrinha* corn near Alta Araguaia in southeastern Mato Grosso, Brazil.
Photo by Dr. Michael Cordonnier
www.soybeansandcorn.com

Crop Tour Insert Vol. 5, Issue 7 • February 2012

Special supplement to *Pro Farmer* newsletter

Brazilian soybean crop to dip under 70 MMT

When USDA estimated the 2011-12 Brazilian soybean crop at 72.0 million metric tons (MMT) in the Feb. 9 Supply & Demand (S&D) Report, it was immediately dismissed by market participants who labeled it "too high." That estimate, however, was based on conditions as of Feb. 1 and there was still time for a shift in the weather pattern to bring some production potential back to the bean crops in Rio Grande do Sul, Parana and Mato Grosso do Sul. Since then, two weeks of continued hot and dry weather have stressed the bean crop further.

Pro Farmer South American consultant Dr. Michael Cordonnier says, "Dry weather continues to be a concern for the soybeans in Rio Grande do Sul that are in the midst of pod filling. Additionally, rainfall in western Parana has not been good enough for the later-maturing soybeans to fully recuperate. Yields reported out of Mato Grosso are 'average' to 'very good,' but not good enough to compensate for the continuing problems in southern Brazil."

As a result of these stressful conditions, Dr. Cordonnier lowered his estimate of Brazilian soybean production

another 1 MMT, to 69.0 MMT. He says, "If the weather in Rio Grande do Sul continues to stay dry, the soybean estimate might decline a little more in future reports."

Corn crop estimate unchanged for now —

Dr. Cordonnier's estimate of 58.0 MMT compares to USDA's projection of 61.0 MMT in the Feb. 9 S&D Report. He says, "Brazilian farmers are expected to plant a record number of acres to the *safrinha* (second crop) corn crop. If plantings hit 6.7 million hectares, area would be up 13.6% from last year and *safrinha* production could reach 25.7 MMT. That would account for 43.6% of all corn plantings in Brazil and 42.4% of total corn production."

Dr. Cordonnier says there is no question full-season corn yields were cut by drought, making the *safrinha* corn crop the "wildcard" for Brazil. The leading *safrinha* corn state is Mato Grosso, where about 25% of the bean crop has already been harvested, allowing for corn planting to already hit 42% complete. Next on the list is Parana, where about 13% of the *safrinha* crop has been planted.

"Over 40% of the Brazilian corn crop is being planted and second-crop corn is always a risky proposition. It will take some time to determine crop potential," says Dr. Cordonnier.

In this month's Crop Tour:

Front page: South American crop estimates from *Pro Farmer* consultant Dr. Michael Cordonnier.

Page 3: Key areas of Brazil and Argentina remain very dry, threatening late-developing soybeans and the *safrinha* corn crop in Brazil.

Rains have helped to stabilize crop conditions in Argentina.

Page 5: Australian scientists see the end of La Niña in the months ahead.

However, even if La Niña fades its influence is expected to hang on long enough to keep above-normal temperatures across the Corn Belt deep into the 2012 planting season.

Page 7: The U.S. Drought Monitor and Seasonal Drought Outlook point to an early and fast start to the growing season — and more acres in "fringe" areas of the Corn Belt.

Page 9: Drought talk continues — this time in China where planting is already underway.

Potential winterkill on Ukraine wheat crop.

Converting numbers —

- 1 hectare = 2.471 acres
- 1 metric ton =
39.4 bu. of corn;
36.7 bu. of soybeans.

Dr. Cordonnier's estimates put the Brazilian bean crop at 2.532 billion bu.; the Argentine crop at 1.725 billion bushels. Total South American bean production is estimated at 4.584 billion bu., down about 404 million bu. from last year.

His estimate of Brazilian corn production is 2.285 billion bu.; Argentine corn production is estimated at 788 million bushels. Dr. Cordonnier also expects Brazilian *safrinha* corn acres of 16.415 million acres for the 2011-12 production season.

Dr. Cordonnier's South American Soybean Production Estimates

	Current estimate	Maximum potential	Minimum potential	Year-ago actual
<i>(million metric tons)</i>				
Brazil	69.0	71.0	68.0	75.5
Argentina	47.0	51.0	45.0	49.0
Paraguay	5.5	6.0	4.5	8.3
Bolivia	1.7	2.0	1.4	1.6
Uruguay	1.7	2.0	1.4	1.5
Total	124.9	132.0	120.3	135.9

Current "Total" estimate is down 8.1% from year-ago.

Dr. Cordonnier's South American Corn Production Estimates

	Current estimate	Maximum potential	Minimum potential	Year-ago actual
<i>(million metric tons)</i>				
Brazil	58.0	62.0	55.0	57.5
Argentina	20.0	22.0	15.0	22.5
Paraguay	1.8	2.0	1.6	2.0
Total	79.8	86.0	71.6	82.0

Current "Total" estimate is down 2.7% from year-ago.

Dr. Cordonnier's estimate of Argentine corn production is right in line with market expectations. At 788 million bu., the Argentine corn crop wouldn't make the list of "Top 5" U.S. corn producing states. But, because Argentina is the second biggest U.S. exporter in the world, market participants will continue to pay close attention to Argentina's crop potential.

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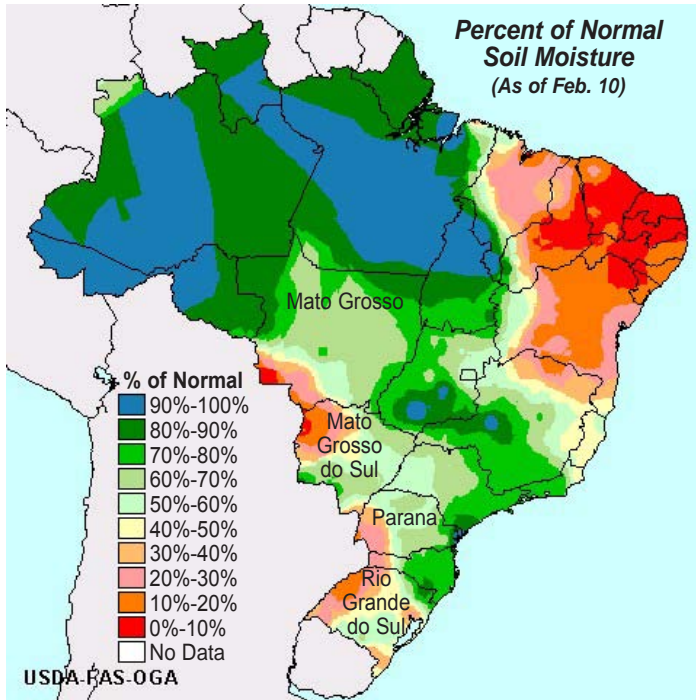
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January and early February rains not enough to 'fix' drought conditions in Southern Brazil



Conab (Brazil's equivalent of USDA's National Ag Statistics Service) estimates the Brazilian corn crop at 60.8 MMT, up 6% from last year. The agency says full-season corn acres are up 9% from 2010-11 and *safrinha* corn acres are expected to be up 13.6% from year-ago.

Nationwide, Conab estimates the Brazilian full-season corn yield at 62.5 bu. per acre, off 10.5% from last year's 69.9 bu. per acre.

The *safrinha* corn yield is estimated at 59.3 bu. per acre, up 5.2% from year-ago. Conab's higher-than-year-ago assumption on *safrinha* corn yields is why Dr. Cordonnier labels the crop as the "wildcard" for Brazilian corn production. In 2011 (a "good" production year), the Brazilian *safrinha* corn crop yielded 56.1 bu. per acre.

Since Jan. 10, conditions in Mato Grosso have dried out, but conditions are very good for soybean harvest and for planting the *safrinha* corn crop. Even as Brazil moves into the rainy season, the "drier pattern" in Mato Grosso needs to be watched closely as the *safrinha* corn crop is planted. In Parana, dry conditions in the western part of the state cover a highly concentrated area of soybean and *safrinha* corn production, making this state "critical" for 2012 Brazilian corn production.

Market is ahead of USDA on cuts to 2011-12 Argentine corn and soybean production estimates

USDA on Feb. 9 estimated the Argentine corn crop at 22.0 MMT. That compares to Dr. Cordonnier's estimate of 20.0 MMT. The spread between USDA's estimate and Dr. Cordonnier's peg isn't overly concerning... USDA is normally conservative in adjusting South American production estimates to the downside.

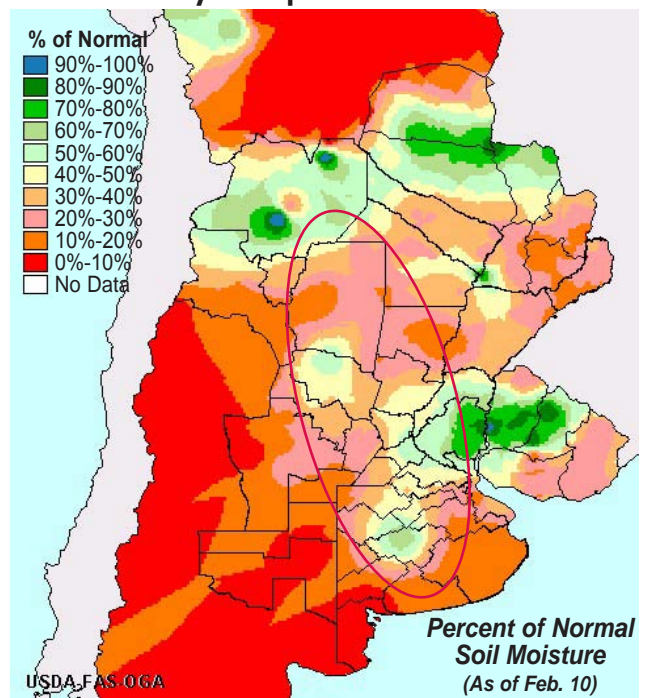
What is concerning, however, is Dr. Cordonnier's "minimum" estimate for Argentine corn at 15.0 MMT. It might seem a long shot to see USDA's estimate fall that far, but many Argentine crop watchers are looking for the corn crop there to fall to the mid- to high-teens for total production. Argentina is a relatively "small" corn producer, but it's very important in the global market where it occupies the No. 2 spot on the list of exporters. When/if USDA drops its Argentine corn crop estimate, look for some of that lost supply to increase export demand for U.S. corn.

In the Feb. 9 S&D Report, USDA cut 4.0 MMT (about 158 million bu.) from the Argentine corn crop and increased its estimate of U.S. corn exports 50 million bushels. So it can be argued that for every 3 bu. of lost production in Argentina, it translates into a 1-bu. increase in estimated U.S. exports. However, with tight global corn supplies, the next cut to the Argentine corn crop could see a "bigger chunk" of those lost bushels move to estimated U.S. exports.

Also, as the Argentine corn crop estimate shrinks, we should see USDA's estimate of global wheat-for-feed use peg rise.

Rains have stabilized Argentine corn and soybeans — Dr. Cordonnier says, "Surprisingly heavy rains fell across much of the main soybean producing regions of Argentina, which helped stabilize the bean crop. These rains were certainly a big help for double-crop soybeans, which are now 100% planted. If hot and dry weather returns, my estimate of 47.0 MMT for Argentine bean production could still move lower. If there is ideal weather over the next five weeks, the estimate might move a little higher."

For corn, Dr. Cordonnier says, "The good rains helped late-planted corn in Argentina, but the damage has already been done on the earlier-planted corn. Much of the later-planted corn is in pre-pollination when the ear size is being determined, and the improved moisture will help that process. The very-late-planted corn in northern Argentina still has a very long ways to go, but the improved soil moisture will help get the crop established. The rains make me less-negative about Argentina's corn crop potential."





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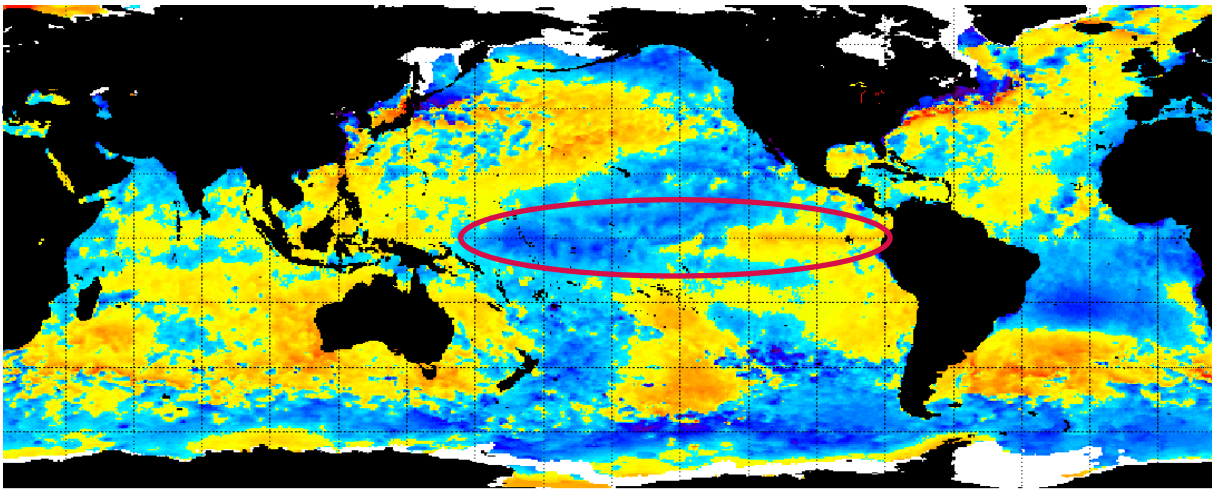
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Australian scientists say current La Niña is finally starting to weaken

Sea Surface Temperature Anomalies as of Feb. 16, 2012



-5.0 -4.5 -4.0 -3.5 -3.0 -2.5 -2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0
Departure from normal temperatures in °C

The pool of cooler-than-normal sea surface temps (SSTs) along the equator in the Pacific Ocean (circled in red) started to give way to some warmer-than-normal sea surface temperatures in the eastern Pacific. That's one reason meteorologists are predicting a demise for the current La Niña episode. Even if conditions do transition to neutral conditions, La Niña's influence can "hang on" for up to 60 days. That suggests a dry spring with some timely rains in April.

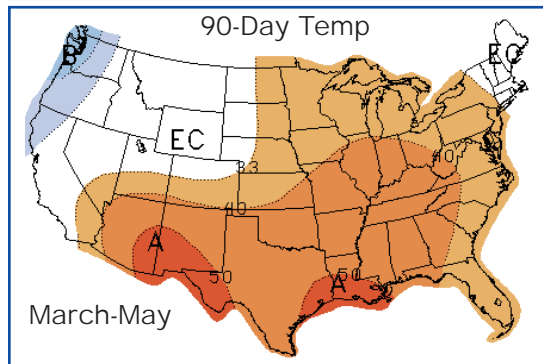
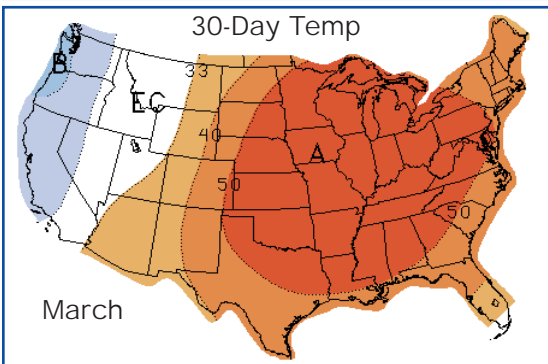
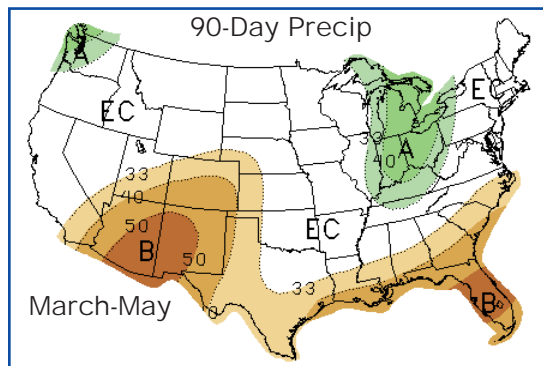
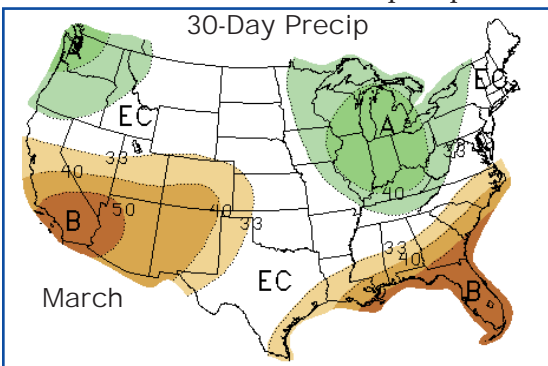
The Australian Bureau of Meteorology says La Niña showed some signs of weakening over the past two weeks as the tropical Pacific Ocean warmed. However, it says the event remains in place and is likely to influence the global climate over the coming months. It also says weather models signal La Niña will continue to decline, with neutral conditions expected during the March-May period.

"Over the past two weeks, sea surface temperatures have warmed across the tropical Pacific, most significantly over the central to eastern Pacific regions, associated with a brief easing of the trade winds," says the bureau. "Other indicators of La Niña, such as the Southern Oscillation Index (SOI) and cloudiness over the equatorial Pacific Ocean, have generally remained steady at La Niña levels."

Typical La Niña pattern expected to persist deep into the U.S. planting season

While the 30-day precip outlook holds promise for some relief in dry areas of the western Corn Belt, the La Niña influence is expected to push above-normal precip into the eastern Corn Belt. The western Belt has equal chances for above-, below- and normal precipitation.

Temps (bottom maps) are expected to continue the well-established trend this winter, with above-normal readings across the Corn Belt. Current soil conditions along with the potential for above-normal temps certainly suggests an early start to the 2012 planting season.



On long-term precip maps:

The darker the brown, the higher the odds of below-normal precipitation. The darker the green, the higher the odds of above-normal precip.

On the long-term temp outlook maps:

The darker the brown, the higher the odds of above-normal temps. The darker the blue, the higher the odds of below-normal temps.

White represents "equal chances" for above-, below- and normal conditions.

While the long-term temp and precip outlook appears to be relatively non-threatening for the Corn Belt, the risk of above-normal temps and below-normal rain in portions of the hard red winter wheat region points to some volatility in the wheat market as the 2012 crop breaks dormancy.



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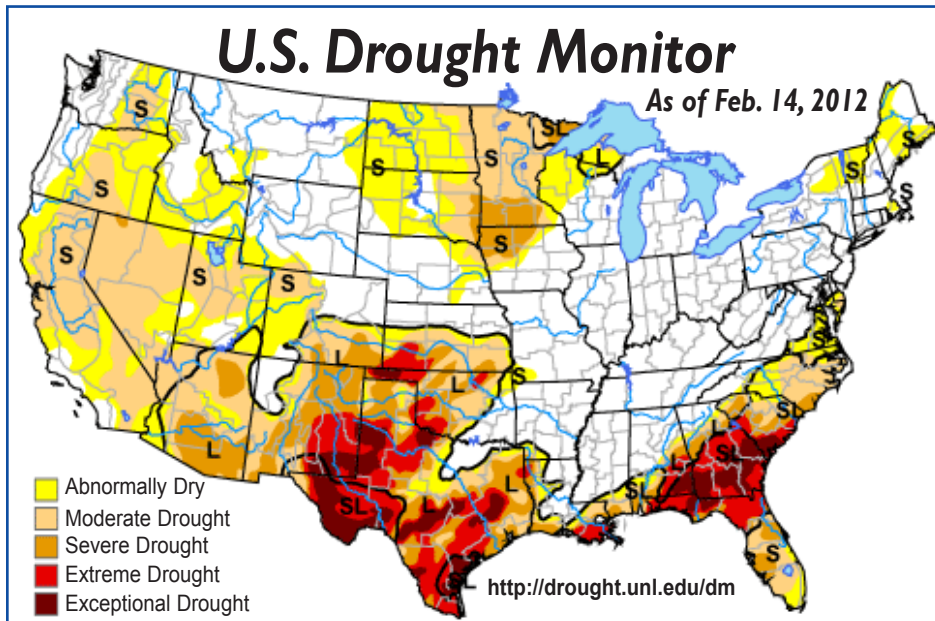
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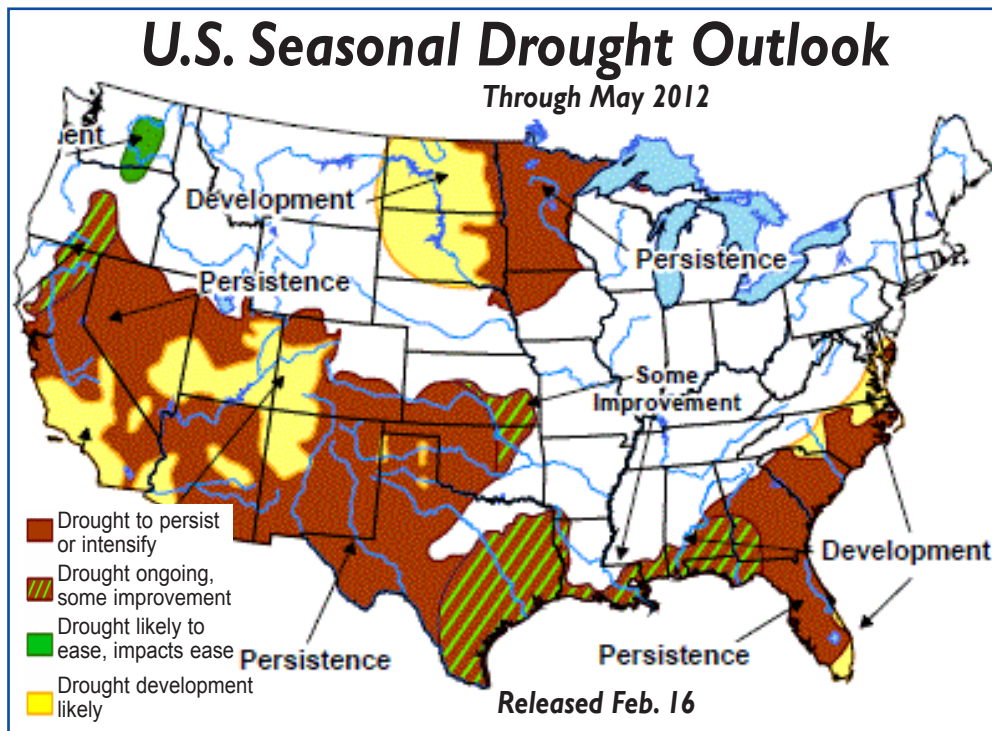
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Dry conditions in northwest Iowa have generated market chatter already this winter. Even in a "good year," the dry area of Iowa is typically a corn-deficit area.

With the exception of one county in the southeast corner, the entire state of Minnesota is experiencing some level of drought. The most intense drought is in the southern one-third of the state where corn production is most heavily concentrated. Farmers there are trying to be optimistic with a "plant in the dust and your bins will bust" attitude, but the state needs a lot of rain to grow a good 2012 crop.



CPC: 'Drought to persist'
 The Climate Prediction Center (CPC) says, "For precipitation, there is a tilt in the odds for wetter-than-normal conditions across the Pacific Northwest and the southern Alaska Panhandle in March, and for a fairly large area encompassing the Great Lakes, the Ohio Valley and eastern portions of the upper and middle Mississippi Valley. In general, these same regions are expected to receive above-median precipitation during the March-May 2012 period, though with reduced coverage. Unfortunately, most of the anticipated precipitation is forecast to fall just east and southeast of where it is needed most in the upper Midwest. Most indicators support a westward expansion of dryness across the Dakotas."

Will drought conditions influence planting decisions in the northwestern Corn Belt?

Probably not. Growers in this region of the country are used to dealing with adverse conditions and will likely "charge forward" with planting intentions even if conditions remain dry. Also — as you know — weather in this area can change quickly.

But, dry conditions in the Dakotas could have a major impact on total corn plantings this year. Farmers there have dealt with a high number of Prevented Plant acres the past three years. This is the year that many of those acres must be planted to maintain a production history on those acres. Right now, farmers tell us that every "drowned-out pothole" that didn't get planted last year is dried up and ready to roll for 2012.

Dry early spring conditions in the northwest Corn Belt may clear the way for increased corn acres, but the addition of those acres in the total mix will make it more difficult to grow a trend-line national average corn yield in 2012. Traders are convinced it will take 95 million planted corn acres at a national average yield of 160 bu. per acre to grow "enough" corn for the 2012-13 marketing year. Because the increase in acres is expected in lower-yielding, "fringe" areas, it will be more difficult to reach that 160-bu. national average yield.

PERSPECTIVE: Anytime "fringe" areas increase corn acres, you can count on a volatile summer market for corn trade as a "weather scare" is a certainty.

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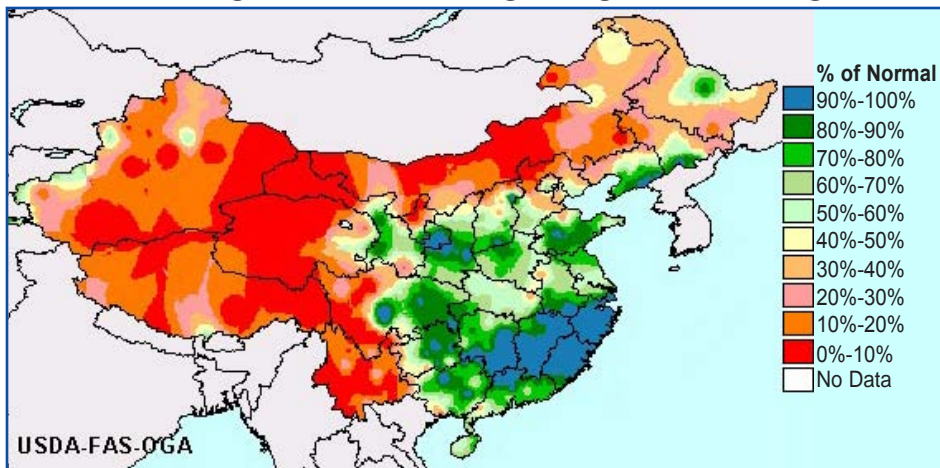


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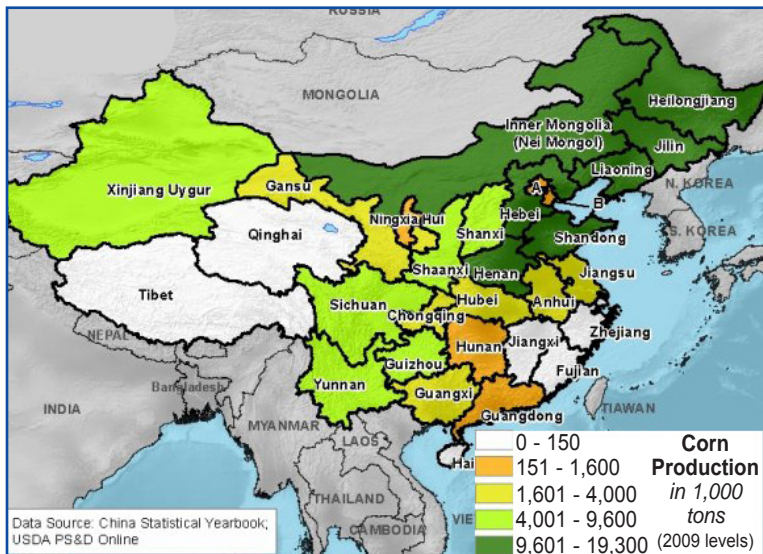
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More 'drought talk' — China's growing areas need a good rain to get ready for 2012 plantings



As discussed in the Feb. 4, 2012, *Pro Farmer* newsletter, China is committed to remaining mostly self sufficient on corn, wheat and rice production. For soybeans, the country has made the strategic choice to rely on imports to meet expanding demand from livestock industries. Last week, China's Vice President Xi Jinping signed agreements to purchase U.S. soybeans and stated his country has been relatively self sufficient for corn, wheat and rice.

Because China is already a big importer of soybeans, additional bean purchases would be price-supportive,



but wouldn't "shock" the markets. If, however, China has a production problem with corn, that could force the country to come to the U.S. (and now Argentina, as it agreed to export protocols with China) to bridge the gap between domestic production and domestic demand. In the past, a short corn crop in China meant lower Chinese exports into other Asian markets and a slowdown in domestic use. Now that Chinese consumers have an established "want" for meat and have shown a willingness to pay for it, China can't afford a slowdown in feed production.

That's why current soil moisture shortages in western and northern China are key to the outlook for the corn market. Regions that are important to China's corn production are currently very dry. Corn planting in the south runs from mid-February to mid-April; northern planting is mid-April to late-June.

Deep freeze in Europe; damage feared

USDA's Foreign Ag Service (FAS) in a report regarding the deep freeze in Europe, said the wheat and rapeseed crops may have been damaged given there is little to no protective snowcover. FAS says the areas most vulnerable to winterkill are western Poland and eastern Germany.

"In many crop-growing regions, temperatures dropped below critical values for winterkill damage," says FAS. "The cold air mass started in the east over Poland and Romania and pushed into France, moderating as it tracked west. Below-normal temperatures are expected to continue in the near future. It is possible that areas of widespread damage could have occurred in areas of the European wheat and rapeseed belt, but it is hard to ascertain damage at this point."

Additionally, FAS says some areas, such as France, had experienced very mild weather up to this point, increasing the potential damage from winterkill if temps plunge.

FAS says the area impacted by harsh temps encompasses the primary winter wheat and winter rapeseed production region of the European Union (EU-27), which collectively is the world's largest wheat producer.

FAS says minimal damage from the cold should be anticipated in far eastern Europe.

ABARES raises crop, export forecasts

Australia's 2011-12 wheat crop estimate was raised to a record 29.5 MMT by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). The new estimate is 4.2% higher than December and 5.7% larger than last year's then-record crop. ABARES forecasts Aussie wheat exports to also be record large at 22.3 MMT. Late-season rains in eastern Australia for a second year in a row leaves the country with an inordinate amount of feed wheat.

Paraguay soybean crop down sharply from year-ago

When it comes to the South American soybean crop, most focus on Brazil and Argentina. But for the 2011-12 growing season, the bean crop in Paraguay has been stressed more than its bigger producing neighbors. *PF* South American crop consultant Dr. Michael Cordonnier estimates the crop at just 5.5 MMT, down 2.8 MMT from last year — a 33.7% drop in output.

Wide tracks of farmland in Paraguay are owned by Brazilian farmers who Dr. Cordonnier says are now "under attack" by thousands of landless Paraguayans. They are demanding the ground be confiscated from current owners and turned over to citizens of Paraguay.

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