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Dear Ag Industry Associate,

This month, we feature the new Dairy Margin Protection Program that was implemented as part of the Agricultural Act of 2014. This exciting product offers dairy producers a new way to manage forward profit margin risk. We explore the features of this program with a white paper that addresses the many questions that have come from our clients. We'll discuss the cost of using the program and how the margin, which the program protects, relates to the unique profit margin of an individual dairy producer.

One feature of the new program that has raised questions relates to the premium costs for insuring various margin thresholds, and how these compare to using exchange-traded alternatives such as CBOT and CME options on futures. We tackle this question head-on with a side-by-side comparison. Our team compared using the exchange versus MPP for a model dairy operation that may be representative of many of the operations contemplating this new insurance product.

Whether or not a dairy chooses to sign up for MPP, and how they decide to use it, will be a decision they have to make on their own. We want to help clarify all of the alternatives a dairy has at their disposal to manage forward profitability, and help find the best way to employ these tools.

It has been an active month as the summer winds down and we turn our attention to the fourth quarter. The USDA released a variety of reports, including the quarterly Hogs & Pigs and September Small Grains report in addition to the normal monthly WASDE, Milk Production, Cattle on Feed and Cold Storage numbers. We discuss how each of these reports has impacted forward profit margin projections for the hog, beef, dairy and crop industries in our regular Margin Watch feature.

Sincerely,

Chip Whalen
Managing Editor
V.P. Of Education & Research
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Managing Editor, Chip Whalen is the Vice President of Education and Research for CIH, a leader in Margin Management. He teaches margin seminars throughout the country and can be reached at cwhalen@cihedging.com

Upcoming Margin Management Seminars

Seminar - Date - (Location)

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The Dairy Margin Protection Program - Is It Right for Me?

Many dairy producers have questions regarding the new government Margin Protection Program including if they should sign up for it and how it will work to protect their profitability in coming years. This paper seeks to answer some of those questions with facts about the mechanics of the program and how it may be incorporated by a dairy as part of a larger margin management plan in their operation.

Background – What is MPP?

The Margin Protection Program was implemented as part of the Agricultural Act of 2014 to provide an improved safety net for dairy producers in the new Farm Bill. It is a voluntary risk management program designed to provide financial assistance to dairy producers during periods of catastrophic, industry-wide losses when the difference between the price of milk and the cost of feed falls below certain thresholds. The program replaces the former Milk Income Loss Contract (MILC), although the Livestock Gross Margin for Dairy (LGM) program was extended as the safety net provisions in the new Farm Bill move more towards subsidized insurance products and away from direct payments. The Margin Protection Program will run for the length of the new Farm Bill, and should a dairy producer choose to participate in MPP, they forego the option to participate in LGM.

How to Calculate the Margin in MPP:

The Milk Income Over Feed Cost calculation is determined by taking the U.S. All Milk Price as reported monthly by NASS and subtracting the following components from that price:

- NASS Corn Price * 1.0728
- AMS Soybean Meal Price * 0.00735
- NASS Alfalfa Price * 0.0137

The Income over Feed calculation is based off of national average cash prices reported by USDA and not CBOT or CME futures values. The prices cannot be customized by state or region. Additionally, the reported corn, soybean meal and alfalfa prices are those received by producers and therefore do not take into consideration offers paid by buyers such as dairies using these commodities. The margin will be calculated by taking a consecutive two-month average milk price and subtracting the corresponding two-month average feed cost from that price. The two-month averaging periods are as follows:

- January-February
- March-April

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- May-June
- July-August
- September-October
- November-December

Indemnity payments will be determined in the month following each two-month calculation, with payments made early in the following month. In other words, indemnity payments due based off the January-February average will be determined in late March with producer payments following in early April. The two-month average must fall below an insured threshold in order to trigger an indemnity payment. If for example the January average margin is below a threshold yet the February margin is not, with the January-February average margin also not below the threshold, no indemnity payment will be made.

Important Program Features:

The enrollment period for both calendar year 2014 and 2015 runs from September 2 through November 28, and producers may sign up through their local USDA Farm Service Agency (FSA) offices. For 2016-2018, the signup period will commence on July 1 of the preceding coverage year and run through September 30. This means that producers will have from July 1-September 30, 2015 to decide at what percentage of production and level of coverage they wish to participate in MPP for calendar year 2016.

Producers may elect to insure from 25% up to 90% of their historical production, calculated as the highest level of production achieved in 2011, 2012 or 2013 in 5% increments. They may purchase margin coverage from \$4.00/cwt. up to a maximum of \$8.00/cwt. in 50-cent increments. The first 4 million pounds of production will be offered at reduced premiums that are discounted 25% for 2014 and 2015 up to the \$7.50/cwt. level. No discount is offered at the \$8.00/cwt. level. Production in excess of 4 million pounds can also be covered at higher premiums with no discount offered for 2014 or 2015. Premiums will remain fixed for the duration of the current Farm Bill, regardless of where margins are calculated in subsequent years. Coverage may not be “laddered”, meaning that a producer cannot elect to insure a certain percentage of their production at one level and a different percentage at another. Coverage is free for margin protection at the \$4.00/cwt. level, with the following schedule detailing the cost for the various levels up to the maximum insurable margin at \$8.00/cwt.

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Margin Level Covered	First 4 Million Pounds 2014-2015	First 4 Million Pounds After 2015	More Than 4 Million Pounds	*1,000 Head Dairy Milking 20 Mil. Lbs.
\$4.00	No Cost	No Cost	No Cost	No Cost
\$4.50	\$0.008	\$0.010	\$0.020	\$0.017
\$5.00	\$0.019	\$0.025	\$0.040	\$0.035
\$5.50	\$0.030	\$0.040	\$0.100	\$0.084
\$6.00	\$0.041	\$0.050	\$0.155	\$0.130
\$6.50	\$0.068	\$0.090	\$0.290	\$0.241
\$7.00	\$0.163	\$0.217	\$0.830	\$0.682
\$7.50	\$0.225	\$0.300	\$1.060	\$0.874
\$8.00	\$0.475	\$0.475	\$1.360	\$1.163

(*sample dairy we will reference to make comparisons with using MPP vs. exchange-traded options)

Payments may either be made in full at sign-up, or a minimum of 25% due by February 1 with the 75% balance due no later than June 1. Producers who have not paid their premiums by the deadlines will be considered in default, and will not receive indemnity payments until they have corrected the situation. Another feature of MPP is that a dairy donation program will be triggered if the calculated margin falls below \$4.00/cwt. for any two consecutive months, with the Agriculture Department publishing a list of consumer-ready dairy products to be purchased at market prices. The purchased items will be donated to food banks and other low-income feeding programs, with the Agriculture Department prohibited from storing the purchased items and the receiving parties prohibited from reselling the donated items back into commercial markets.

How Does MPP Relate to My Profit Margin?

The MPP margin is an income over feed equation and does not include operating costs. The actual margins for individual dairy operations associated with the various insurable levels will vary based upon the different operating costs and non-feed expenses unique to the particular dairy. The actual margin a dairy receives will further depend on their particular milk payment-formula as the NASS All-Milk price does not take into consideration PPD, California Overbase,

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or components unique to an individual dairy. The actual margin a dairy receives will also depend on their particular feed to milk ratio, which may differ from the MPP ratio implied by the formula. The MPP formula implies the following contributions to the dairy feed ration:

- Corn – 49%
- Soybean Meal – 27%
- Alfalfa Hay – 24%

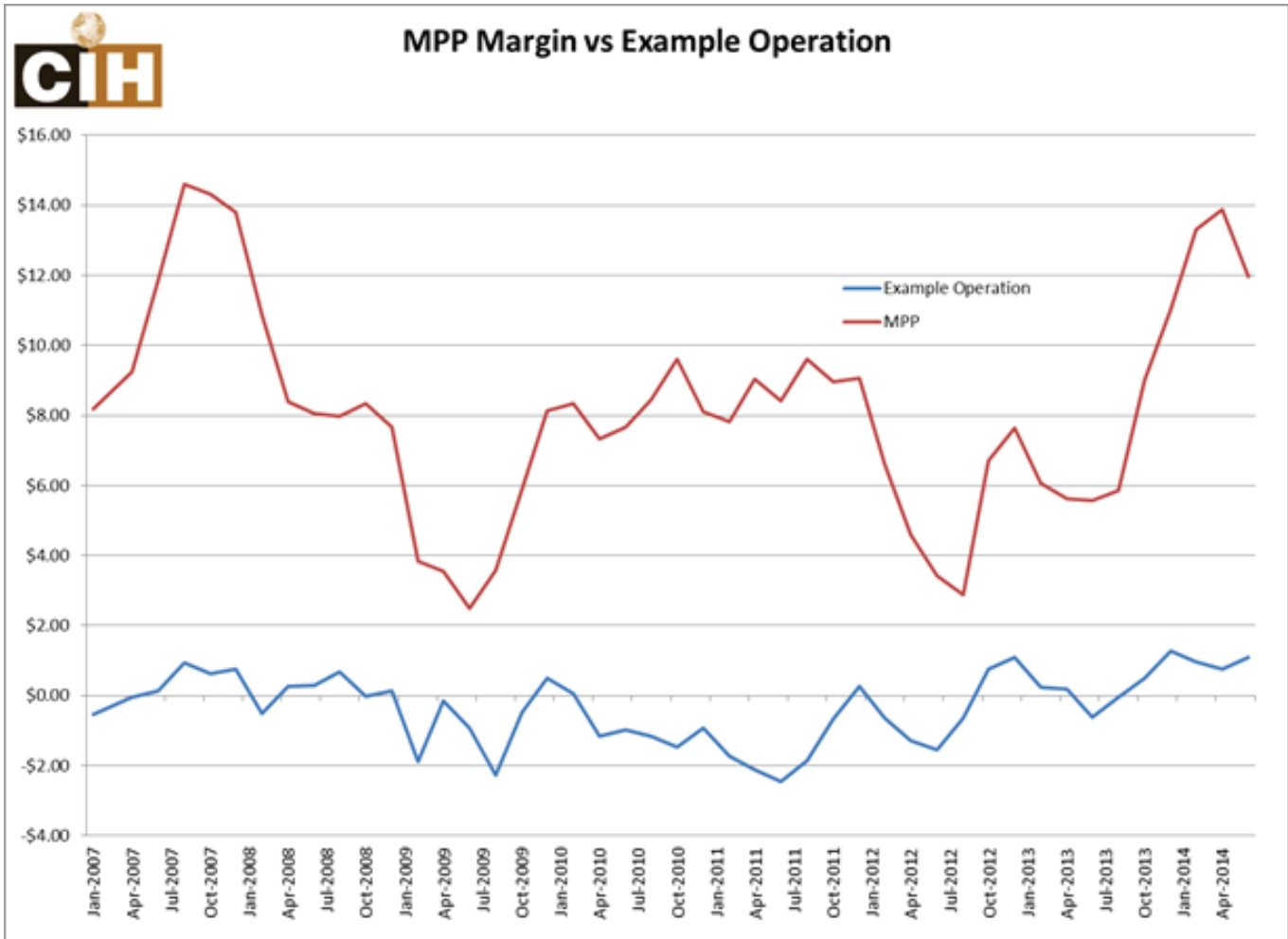
Another point regarding the ration is that the individual dairy's feed ration may also experience seasonal variation, which would further change the actual income over feed margin on the farm in any two-month period relative to the MPP calculation. Given these considerations, it is important for a dairy producer to understand how their actual profit margin has varied historically from the margin calculation in the MPP formula, and what the various insurable margin thresholds have corresponded to in actual profit margins over time.

As a simple example, let us consider a model dairy operation that milks 1,000 head with total non-feed costs and operating expenses historically averaging \$8.00/cwt., and a dairy ration of 42% corn, 8% soybean meal, 32% hay, and 18% other feed. Considering at first only the impact of the \$8.00/cwt. non-feed costs, we can immediately see that if we were to utilize the MPP's highest, \$8.00/cwt. insurable margin threshold, it would roughly translate to protecting a breakeven margin on this particular dairy (not including the premium cost). Furthermore, if we now consider the variation of the model dairy's ration from MPP, we can see that the one size fits all margin of the MPP may not perfectly protect this operation. For example, since the model dairy operation uses more hay than MPP's assumptions, if hay prices increase we will only be partially protected from the price rise. Likewise, because this operation is using less meal and corn than the MPP assumptions, if those prices fall the MPP margin will improve more than this particular model dairy, creating another potential mismatch in coverage. The impact on margins from both of these factors including the non-feed costs can be seen in the following chart comparing the historical MPP to that of our model dairy operation:

DAIRY PRODUCER VIDEO TESTIMONIALS

Real dairy owners discuss how the dairy approach works.
www.cihedging.com/testimonials

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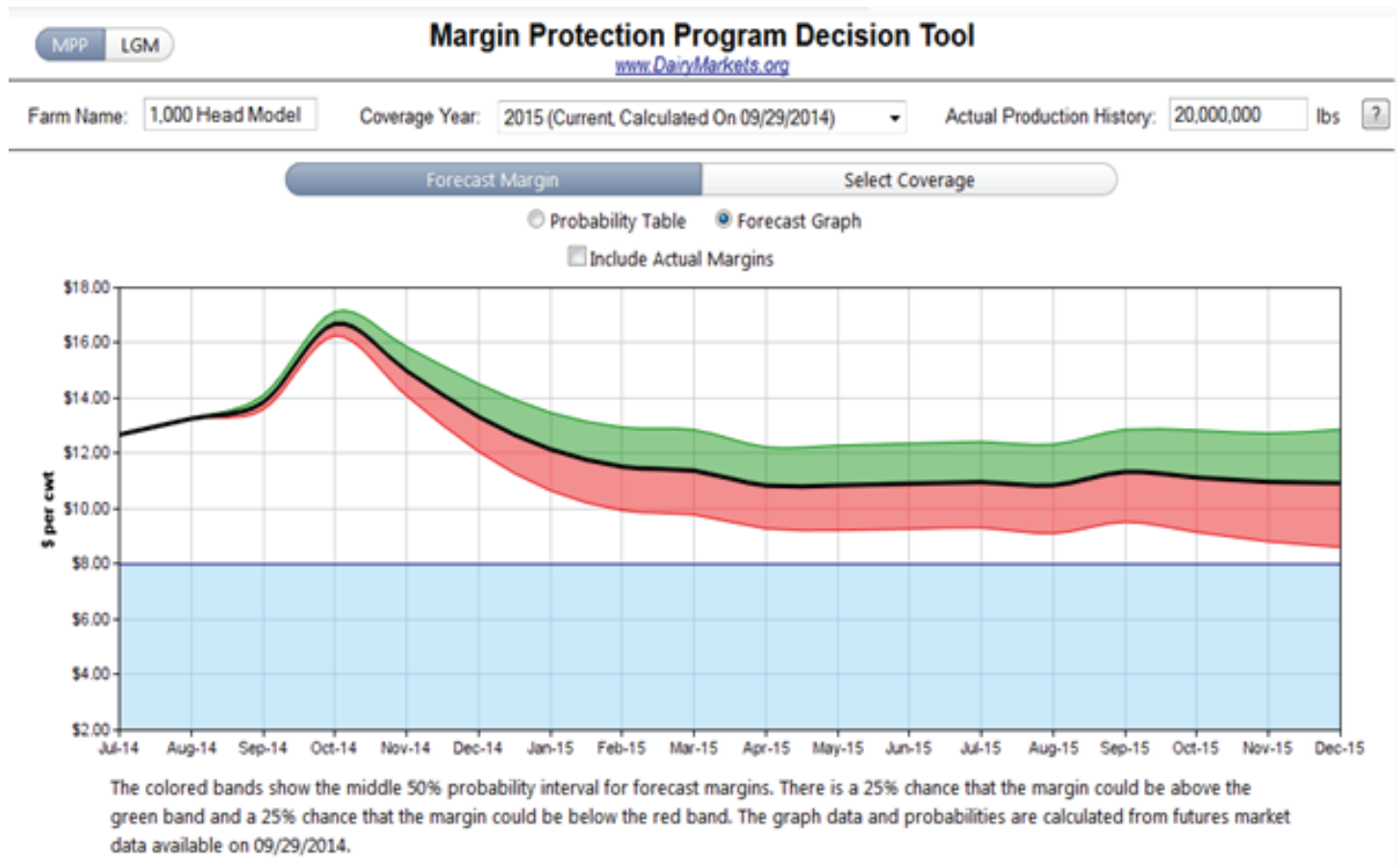
Should I Sign Up for MPP?

Though the MPP may not perfectly hedge your operation and only provide protection at low margin levels, with the government providing free disaster insurance to protect against a severely negative margin event, it would seem prudent to at least participate at that level through the duration of the current Farm Bill. This would entail paying a minimum \$100 administrative fee in each year through 2018. Whether or not to insure above the \$4.00/cwt. margin threshold and pay additional premiums to obtain that insurance will be a function of forecasted margins for the particular coverage year. The Agriculture Department has developed an online tool to help dairy producers forecast forward margins which can be accessed through the following link:

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http://www.fsa.usda.gov/FSA/pages/content/farmBill/fb_MPPDTool.jsp

After agreeing to a disclaimer, you will be taken to a page that looks like this:



The Margin Protection Program Decision Tool basically uses futures prices to estimate the forward margin calculation in the MPP formula, with the graph for 2015 displayed above. Given that the MPP Income over Feed calculation is based off USDA average monthly cash prices as reported by NASS and AMS, there is a margin for error associated with using exchange-traded futures prices to forecast forward MPP Income over Feed values. This is represented by the probability bands around the black line in the graph. By changing the coverage year in the drop-down menu at the top of the page, you can see how actual margins in previous years differed from what was forecast at the end of September the year before. The end of September forecast for the following year would correspond to

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the last day you would have had to elect coverage levels for the upcoming year had the program previously been in effect. The graph for 2015 depicted above forecasts that margins are expected to stay above \$8.00/cwt. level which is the highest insurable threshold that can be elected – even taking into consideration the lower probability band.

As a general note, paying for supplemental insurance above the \$4.00/cwt. minimum threshold that is offered for free will appear more favorable when forecasted margins are expected to fall within the insurable range and less favorable when they do not. Also, because the premiums will remain fixed through 2018, paying added premium to insure a higher margin threshold will be more advantageous during a low margin period and less advantageous during a high margin period. Another way of thinking about this is to calculate “expected net returns” by choosing different coverage levels at a given percentage of production. If you change the graph from “Forecast Margin” to “Select Coverage”, the decision tool will take you to a table where you can view the expected net returns for the various levels of coverage. This basically will take into consideration the cost of your premium against the probability of receiving an indemnity payment given the forecasted forward margins so you can make a more educated decision on what level of additional coverage (if any) you may elect to insure should you decide to sign up for MPP. The screenshot below displays this view:

MPP
LGM

Margin Protection Program Decision Tool

www.DairyMarkets.org

Farm Name:

Coverage Year:

Actual Production History: lbs ?

Forecast Margin

Select Coverage

2014 Estimate

2015 Estimate

Include Actual Net Revenue

Coverage Percentage =

Coverage Level	Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$211,630	\$13,743	(\$197,887)
\$7.50	\$159,160	\$7,490	(\$151,670)
\$7.00	\$124,120	\$3,769	(\$120,351)
\$6.50	\$43,874	\$1,813	(\$42,061)
\$6.00	\$23,683	\$850	(\$22,833)
\$5.50	\$15,457	\$395	(\$15,061)
\$5.00	\$6,523	\$188	(\$6,335)
\$4.50	\$3,251	\$87	(\$3,165)
\$4.00	\$100	\$31	(\$69)

The Expected Payments and Net Returns are based on probabilities calculated from futures market data that were available on 09/29/2014. The “2015 Estimate” values are the period over which you must elect a coverage level and percentage of production history.

Futures and options trading involves the risk of loss.

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As you can see, the expected net returns for all coverage levels in 2015 is negative which makes sense as the forecasted margin is expected to stay above the maximum insurable level of \$8.00/cwt. Given this forecast, a dairy might reasonably conclude that it may not be advantageous to elect coverage beyond the minimum \$4.00/cwt. minimum level in calendar year 2015 – at least based upon the current forecast. This may, however change by late November when a dairy has to make a final decision for next year.

It is important to understand though that the margin being forecast for next year and the actual margin to be realized in 2015 can be drastically different depending on how market conditions unfold over time. Just because the expected net return at any given coverage level is negative based on the current forecast doesn't mean that the actual return will turn out negative. There remains risk that what is being forecast may not play out with reality depending on how milk prices and feed costs change between now and next year. As with any insurance product, you purchase insurance to protect against a negative outcome. Just as you would not want to file a claim to "get value back" from your policy in the event of a loss, determining not to purchase additional coverage at higher levels of margin protection should not be made solely on the basis of a negative expected return.

How Do MPP Premiums Compare to Prices on the Exchange?

The Margin Protection Program as an insurance policy can be related to using exchange-traded options which would protect both higher feed costs and lower milk prices simultaneously in a margin management strategy. We have received many questions regarding how the costs and benefits of the Margin Protection Program compare with using the exchange independently. In order to calculate what it would cost to protect MPP protection levels on the board, we must compare the MPP cash prices to board equivalents. For the sake of simplicity in this example, we assume that NASS milk can be substituted with CME Class III Milk (plus \$2.00 due to the historical price difference), NASS Corn with CBOT Corn, AMS Soybean Meal with CBOT Soybean Meal, and that the price of Hay remains constant at \$150/ton (given that there is no equivalent exchange contract). Using these assumptions we can figure out prices on the board for combinations of purchased options over the course of the next year that would protect approximately the same margin levels as the MPP program. A comparison of the MPP premiums for a 1,000 head dairy to the costs of the same protection on the board follows.

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Protection Level	MPP Premium	Avg. Board Premium	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
\$4.00	\$0.000	\$0.052	\$0.012	\$0.016	\$0.018	\$0.029	\$0.032	\$0.048	\$0.043	\$0.061	\$0.064	\$0.088	\$0.099	\$0.109
\$4.50	\$0.017	\$0.065	\$0.013	\$0.020	\$0.022	\$0.037	\$0.042	\$0.059	\$0.059	\$0.072	\$0.082	\$0.112	\$0.124	\$0.134
\$5.00	\$0.035	\$0.082	\$0.015	\$0.025	\$0.029	\$0.047	\$0.053	\$0.079	\$0.079	\$0.091	\$0.102	\$0.142	\$0.154	\$0.172
\$5.50	\$0.084	\$0.106	\$0.017	\$0.034	\$0.039	\$0.063	\$0.073	\$0.107	\$0.099	\$0.121	\$0.132	\$0.179	\$0.192	\$0.212
\$6.00	\$0.130	\$0.133	\$0.021	\$0.044	\$0.053	\$0.085	\$0.095	\$0.137	\$0.120	\$0.155	\$0.167	\$0.219	\$0.238	\$0.267
\$6.50	\$0.241	\$0.171	\$0.026	\$0.063	\$0.078	\$0.120	\$0.130	\$0.177	\$0.157	\$0.195	\$0.210	\$0.274	\$0.297	\$0.327
\$7.00	\$0.682	\$0.219	\$0.039	\$0.088	\$0.108	\$0.160	\$0.172	\$0.233	\$0.203	\$0.248	\$0.270	\$0.343	\$0.367	\$0.398
\$7.50	\$0.874	\$0.279	\$0.059	\$0.128	\$0.148	\$0.202	\$0.232	\$0.294	\$0.263	\$0.313	\$0.337	\$0.423	\$0.458	\$0.488
\$8.00	\$1.163	\$0.354	\$0.079	\$0.175	\$0.205	\$0.279	\$0.299	\$0.374	\$0.334	\$0.393	\$0.421	\$0.523	\$0.558	\$0.607

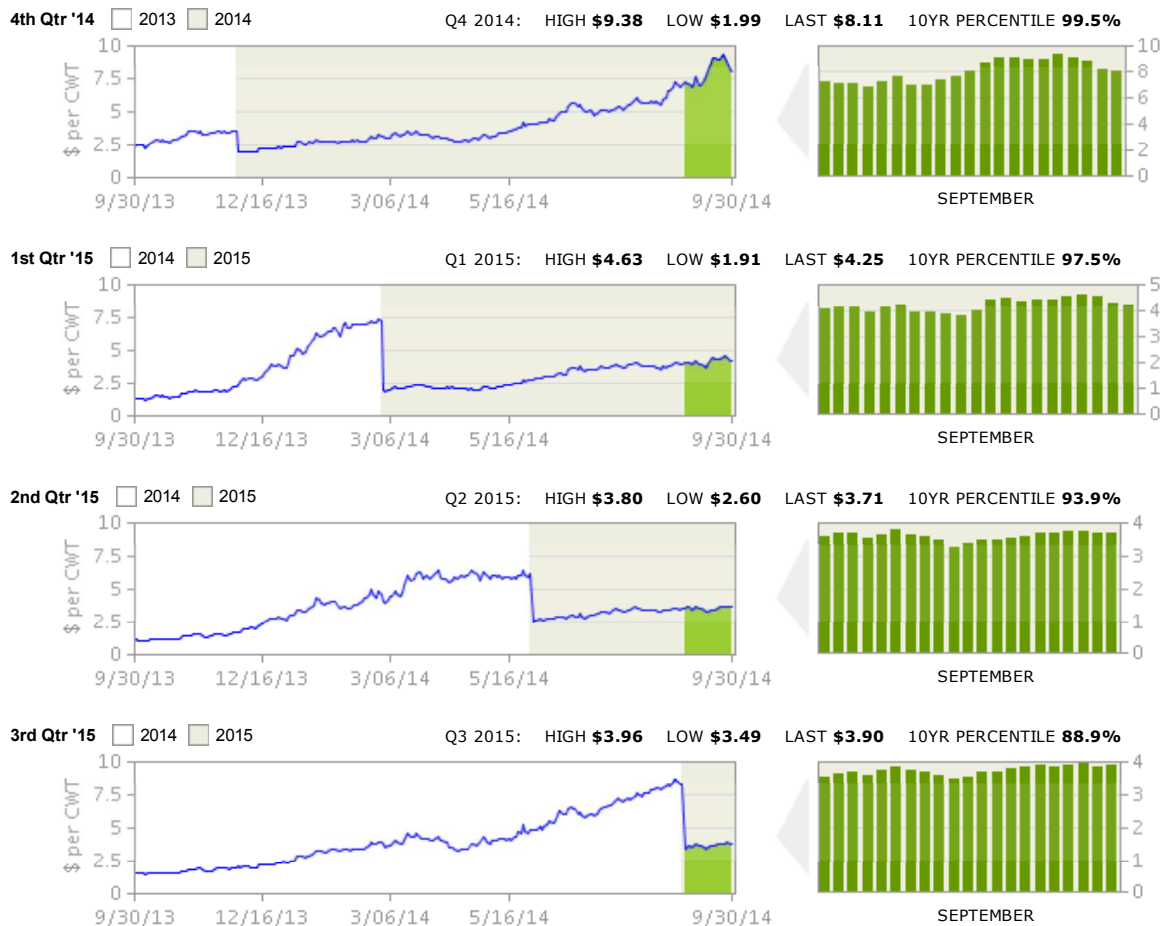
Calculations use Milk III, Corn (times 1.0728), and Soybean Meal (times 0.00735) CME futures prices and \$150 (times 0.0137) expected Hay price to project future MPP margins for a 20,000,000 lb yearly operation. Every combination of option strikes that yields the desired coverage level is tested in order to find the lowest board price.

As you can see, under the assumptions of this example, it would currently be cheaper to purchase similar protection on the board for 2015 than using the MPP program for all but the lowest coverage levels (below \$6.50/cwt.), although this might change by late November.

Conclusion:

The Dairy Margin Protection Program addresses the principal risk dairies face, which is the possibility that the cost of producing milk exceeds the value of that milk production in the marketplace. CIH embraces any tool that can be used to help our clients reduce their risk exposure, and MPP represents an attractive alternative to accomplish this – particularly at lower margin levels. Furthermore, in years where margins are projected to be low, it may be worthwhile to utilize MPP at its higher levels of margin protection. However, a producer must also be aware of how their specific operation relates to the assumptions in the MPP program in order to create an integrated margin management policy to ensure that they are properly hedged and that they are taking advantage of protecting opportunities above the levels that MPP offers. CIH provides the tools to compare various protection alternatives and to tailor a plan to meet your specific operation and needs. We encourage you to learn how a combination of risk management alternatives can help you better protect forward margins in your unique dairy.

Dairy margins strengthened since the middle of September as lower feed costs against steady to slightly higher milk prices improved projected profitability. Forward margins continue to exist at very high levels of historical profitability, above to well above the 90th percentile of the previous 10 years through the second quarter of 2015 and just under the 90th percentile in Q3 2015. After surging to new contract highs in late September, milk prices have sold off recently in response to pressure from weakness in dairy product prices with a sharp drop recently in spot cheddar blocks and barrels. Butter has succumbed to recent pressure as well. USDA reported August U.S. All Milk Production at 17.22 billion pounds, up 2.5% from last year with a year-over-year increase also reported for the milking herd. The August milking herd totaled 9.276 million head, up 47,000 from last year but slightly lower than July's milking herd of 9.277 million head which was revised up 5,000 from the preliminary estimate. Production per cow was estimated at 1,856 pounds for August, 37 pounds or 1.9% above last year. USDA also released the Small Grains report September 30, pegging final 2013-14 corn ending stocks at 1.236 billion bushels with old-crop soybean ending stocks at 92 million bushels. Both corn and soybean meal prices continued to decline through the last half of September as they succumb to increasing harvest pressure, with basis values dropping sharply for soybean meal in particular as old-crop premium comes out of the market. Our clients continue scaling into deferred 2015 margin protection with flexible strategies that will benefit from continued margin improvement. Opportunities to adjust existing strategies are also being discussed, particularly with milk in light of the relationship between Class III and Class IV prices.



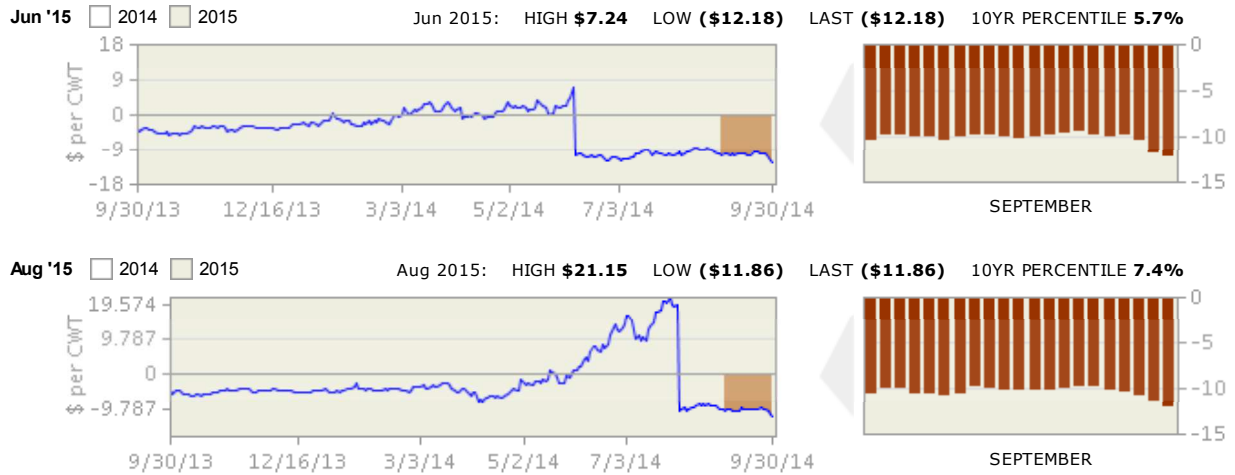
The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include \$0.90/cwt for other, non-correlating feeds, \$2.65/cwt for corn and meal basis, and \$7.00/cwt for non-feed expenses. Milk basis is \$0.75/cwt and non-milk revenue is \$1.00/cwt.

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Beef margins were mixed since the middle of September, continuing to improve significantly in nearby periods where feeder cattle have already been placed while deteriorating in forward periods where feeders have yet to be placed. As has been the trend recently, feeder prices are gaining at a faster rate than fat cattle as the inventory of available supplies to place on feed continues to dwindle. Margins remain at or near 10-year highs through the February marketing period, but below to much-below average for the spring and summer marketing slots. On a positive note, feed prices continue to decline as corn increasingly succumbs to harvest pressure. USDA released the Small Grains report, pegging final 2013-14 corn ending stocks at 1.236 billion bushels versus the average trade guess of 1.181 billion and the range of estimates between 1.02-1.255 billion bushels. The figure implies lower feed and residual usage in the June-August quarter than the market had anticipated, and will result in higher beginning stocks for the new marketing year. Cattle prices continue drawing support from lighter placements and low beef stocks. USDA's September Cattle on Feed report pegged August placements at 1.72 million head, down 2.9% from last year and the sixth straight month of lower placements on a year-over-year basis. Record tight feeder cattle supplies and heifer retention meanwhile will likely continue limiting placements through the fall and winter. August beef stocks in Cold Storage were reported by USDA at 343.7 million pounds, down 20.1% from last year and 18.1% below the 5-year average. Boneless beef inventories of 305.4 million pounds declined 7% from the previous month when the typical July-August drawdown averages about 2%. Our clients continue to favor flexible strategies to manage forward margins while they evaluate strategic adjustments on existing positions. Volatility considerations are also factoring into strategy discussions between our beef margin management consultants and clients.

Live Cattle Marketing Periods:





The Beef Margin calculation uses Feeder Cattle futures to price inbound animals and assumes each will consume 55 bushels of corn and cost approximately \$250 per head (for other feed and non-feed expenses) to gain 550 pounds and reach a market weight of 1,250 pounds.

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BEEF MARGIN SEMINARS

**Ft. Morgan, CO.
 October 7, 2014**

**Garden City, KS
 October 28, 2014**

**West Point, NE
 November 18, 2014**

Hog Margin Watch: September



Margins were flat to slightly higher through the end of September, as steady to lower hog prices were more than offset by a similar decline in projected feed costs. Forward margins remain exceptionally strong, above to well above the 90th percentile of the previous 10 years through Q3 2015 and above the 80th percentile in Q4 2015. Hog prices have recently stabilized following an initial negative reaction to what was construed as a bearish quarterly Hogs & Pigs report. USDA reported all hogs and pigs as of September 1 at 65.361 million head, down 2.3% from last year when the market was expecting a 3.4% reduction from 2013. The June-August pig crop of 29.539 million head was down 1.1% from last year when analysts on average were expecting a decline of 2.4%. Perhaps more bearish, the USDA pegged the kept for breeding figure at 5.92 million head, up 1.8% from last year and the largest since 2008. Farrowing intentions for the Sep-Nov and Dec-Feb periods were also high relative to trade expectations at +4.0% and +3.8% over last year. The farrowing intentions suggest that the December breeding herd could be even larger at 3% above last year, and imply a significant increase in hogs coming to market next spring and summer. Corn and soybean meal prices meanwhile continued to decline since the middle of September as both come under increasing harvest pressure. USDA released the Small Grains report which pegged final 2013-14 corn ending stocks at 1.236 billion bushels compared the average trade guess of 1.181 billion and the range of estimates between 1.020-1.255 billion. Final old-crop soybean ending stocks were reported at 92 million versus the average trade estimate of 130 million and the range of estimates between 100-145 million. Our clients continue favoring flexible strategies to add coverage in deferred periods given volatility considerations.



The Hog Margin calculation assumes that 73 lbs of soybean meal and 4.87 bushels of corn are required to produce 100 lean hog lbs. Additional assumed costs include \$40 per cwt for other feed and non-feed expenses.

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Corn Margin Watch: September



Corn margins have deteriorated further since the middle of September as expectations of larger supplies continue. NASS recently reported final ending stocks for the 2013/14 marketing year to be 1.236 billion bushels, up 65 million bushels from the most recent WASDE report and was deemed neutral relative to market expectations. Stocks in the "on farm" position will have an impact on regional basis values as farmers begin harvest. NASS reported that "on farm" stocks amounted to 462 million bushels nationwide, the highest since 2010. Harvest progress has lagged average thus far at 12% complete versus 23% on a 5-year average. The maturation process is also slower than average at 60% mature compared to 70% on average. The slower maturation of this year's crop could prove to add weight to ears which increases yields. FSA recently updated enrolled acres at 84.8 million acres up from 83.3 million in August. The FSA acreage figure has some market participants expecting a reduction in coming WASDE reports to both planted and harvested area. At the same time, participants fully expect yields in the coming WASDE report to increase from the September estimate. With margins at historically low levels, opportunities to establish new margin protection are not attractive. Our consultants are working with clients to make strategic adjustments to existing protection strategies that would benefit from an increase in prices should that occur.



The estimated yield for the 2014 crop is 180 bushels per acre and the non-land operating cost is \$612 per acre. Land cost for 2014 is estimated at \$243 per acre¹. Basis for the 2014 crop is estimated at \$-0.27 per bushel.



The estimated yield for the 2015 crop is 174 bushels per acre and the estimated operating cost is \$615 per acre. Land cost for 2015 is estimated at \$238 per acre¹. Basis for the 2015 crop is estimated at \$-0.27 per bushel.

¹ The Corn Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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Soybeans Margin Watch: September



Soybean margins have continued to weaken as record production expectations outweigh historically strong demand. NASS reported final ending stocks for the 2013/14 marketing year to be 92 million bushels, 38 million bushels below the most recent WASDE report and was viewed as positive to nearby prices. Final ending stocks for old-crop soybeans will be reported at 92 million bushels in the coming WASDE and will be the lowest ending stocks since 1972. New-crop harvest is under way. NASS currently estimates 10% of the crop harvested compared to 17% on a 5-year average. Early results have been reported to be record to near-record yields in several major production areas. FSA recently updated enrolled acres to be 80.8 million acres up from 79.2 million last month. The FSA data has some market participants expecting lower planted and harvested area in the October WASDE report but also expect yields to increase resulting in a net increase in production over September's estimate. On the demand side, U.S. exporters have currently sold 1.03 billion bushels for future delivery which represents 61% of the current USDA estimate for shipments compared to 41% on average for this point in the crop year. The elevated pace of sales could cause the USDA to increase its current export forecast in coming WASDE reports. Soybean meal sales, too, are historically strong. Exporters of soybean meal have currently committed 5.58 million short tons for future delivery which represents 47% of the USDA expectation compared to 16% on average for this point in the year. The elevated meal sales support the current USDA forecast for a record crush rate this year. Given that New-Crop margins have continued to fall on increased supply worries new margin protection strategies look relatively unattractive. Our consultants are working with clients to help manage existing protection strategies and are considering adjustments to those strategies that would add flexibility to participate in higher prices while being protected to lower prices.



The estimated yield for the 2014 crop is 52 bushels per acre and the non-land operating cost is \$364 per acre. Land cost for 2014 is estimated at \$243 per acre¹. Basis for the 2014 crop is estimated at \$-0.2 per bushel.



The estimated yield for the 2015 crop is 52 bushels per acre and the estimated operating cost is \$365 per acre. Land cost for 2015 is estimated at \$238 per acre¹. Basis for the 2015 crop is estimated at \$-0.2 per bushel.

¹ The Soybeans Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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Wheat margins have deteriorated again since the middle of September as supply expectations continue to exceed demand expectations. NASS reported final 2014 wheat production to be 2.035 billion bushels, roughly 5 million bushels greater than the September estimate. NASS also reported stocks in all positions to be 1.914 billion bushels, above pre-report estimates of 1.880 billion bushels. This indicates Q1 disappearance of 711 million bushels which represents a 28% drop from last year's usage over the same period. Spring wheat harvest is nearly complete with NASS recently reporting 94% of the crop reaped. Weather moving forward should have little impact on the spring crop harvest, but could impact winter plantings in the event we experience a short fall season. Winter wheat plantings are estimated to be 43% complete versus 36% on a 5-year average. On the demand side, U.S. wheat remains non-competitive with foreign export sources. Although prices have fallen substantially since May, prices in competing countries have fallen equally as far. Adding to the issue of late has been the USD rally. The falling confidence in foreign governments is causing their currency to tumble, resulting in ever-more competitive prices for foreign buyers. The Russian government is in the process of planning an intervention purchase plan of wheat from farmers as price stabilization is needed. The artificial support could help stem the decline in U.S. prices and provide a period of price stabilization. Given the historically weak margins presently, new margin protection strategies look unattractive. Our consultants continue working with clients to protect these forward margins with flexible strategies on existing coverage that will allow for potential margin improvement over time. Some of our clients are considering adjustments to current protection strategies that would capitalize on the falling prices while still preserving the opportunity to participate in higher prices should the market rebound.



The estimated yield for the 2014 crop is 67 bushels per acre and the non-land operating cost is \$366 per acre. Land cost for 2014 is estimated at \$163 per acre¹. Basis for the 2014 crop is estimated at \$-0.42 per bushel.



The estimated yield for the 2015 crop is 72 bushels per acre and the estimated operating cost is \$328 per acre. Land cost for 2015 is estimated at \$158 per acre¹. Basis for the 2015 crop is estimated at \$-0.2 per bushel.

¹ The Wheat Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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