

# The AGRI-FOOD VALUE VIEW

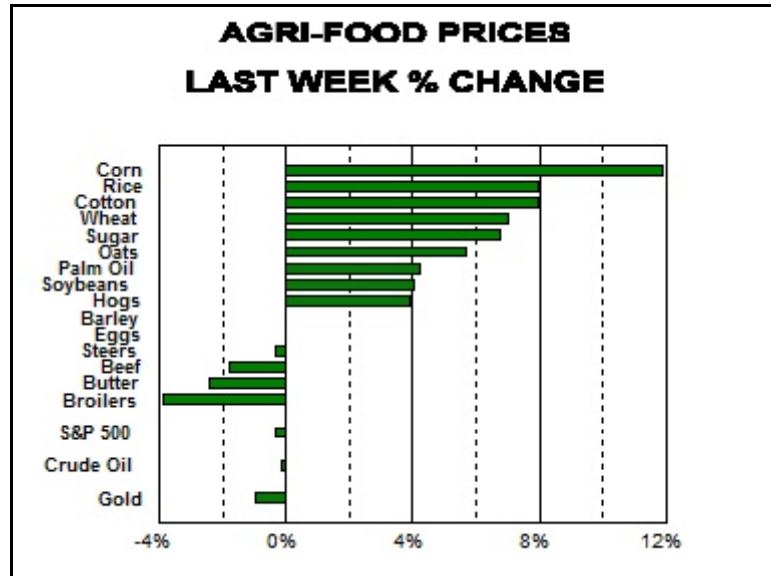
“Wealth Creation Through Global Agri-Food Investments”

INTERIM COMMENT

23 May 2011

*And now, some special public announcements.* First, no wheat will be harvested this year in Kansas. Second, farmers all across the Midwestern U.S. have parked their tractors, and no corn will be planted this year.

We, of course, are exaggerating the situation. Supply bears have not been above exaggerating, and panic buying set in this past week. Kansas wheat will be harvested, though the crop will not be as large as last year. Do note that last year’s crop was large, but not necessarily good. A crop has two characteristics, size and food quality. We will have to wait to determine the quality.



Corn is where the supply bears were really running wild. Mining for news was the activity of the week. The most bearish item in the USDA planting report was all that was discussed. In USDA report on plantings for 15 May, Ohio corn acreage was reported as only 7% planted versus an average of about 70% at this time. That number was widely talked about, and was largely the justification for near 12% advance in cash corn prices.

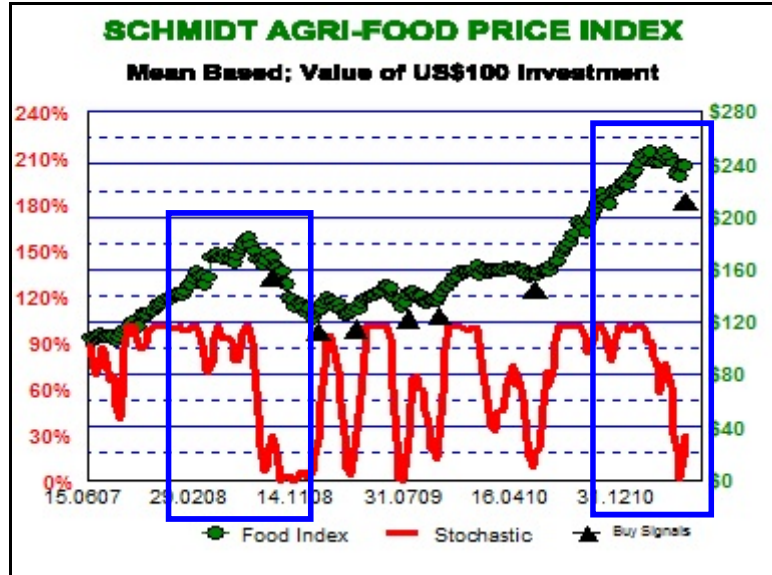
While Ohio is important, the situation is not representative of the national planting situation. Nationwide, 63% of corn acres had been planted as of the 15 May report. That is down from 75% average. However, it was up from 40% the week before. ***In one week, 23% of U.S. corn acres were planted.*** Farmers do know how to run those tractors 24/7 when the Sun shines. While wet conditions are going to hamper in some areas, in particular Ohio and Indiana, much of the U.S. corn crop will be planted by next weekend.

Soybeans are also now starting to go in the ground as farmers finish up corn. As of 15 May, 22% of soybean acres were planted. Five year average is 31%, meaning soybeans are only slightly behind normal

U.S. corn production does have some risk if the plantings are delayed in some areas, but some risks exist every season. Where it is going in the ground, soil moisture is going to be very supportive of the crop in the early stages. What is important in all this is that nothing in the reports justified most of the action pictured in the above chart, portraying percentage change in prices last week in cash Agri-Food markets. Also note that commodity prices elicit a response. Farmers are responding to high commodity prices, and planting every square inch they can.

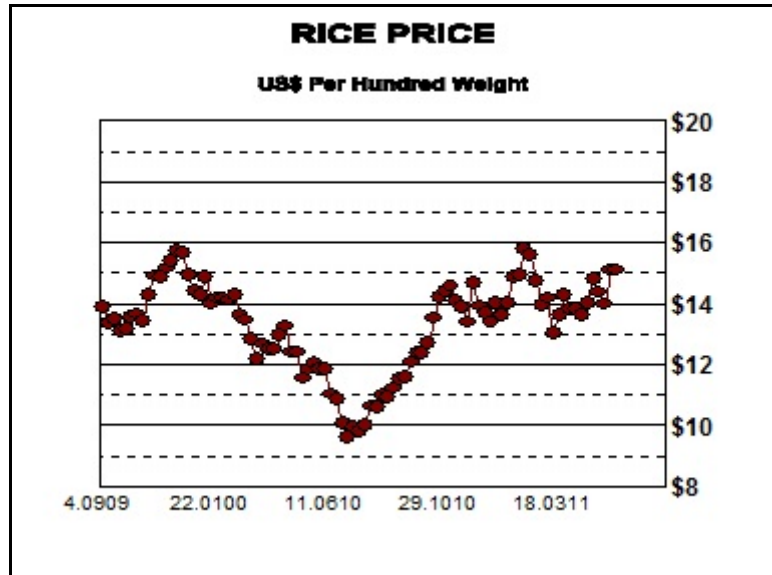
**Buyers were in a panic mode because of all the bearish supply talk.** A lot of high-priced grains were put away last week. Some of those buyers may develop buyers' regrets, cause a lot of reporting will occur before harvesters hit the fields in the U.S. this Fall.

**At this time, last week's action looks a lot like a typical bear market rally.** Such rallies are sharp upward moves that then wither. It did not have the character of a bull market move. Top chart to the right is of the Agri-Food price index and stochastic associated with it. We have highlighted the recent experience and that of 2008.



First, what is a stochastic? That tool is an attempt to guess, which is what name means, where in channel price is trading. It gave a poor reading in 2008 when price broke down out of the existing channel, and moved into a bear trend.

This measure appears to be now giving a similar signal. Note similarities in the action of the stochastic to that which occurred in 2008. We always have a problem with whether or not to report these first stochastic signals. To avoid confusion, we report them as they happen, and then provide discussion. **At this time we think stochastic signal is a sign of channel failure, as it was in 2008.**



Rice may be the case where U.S. plantings might have a material effect. Remember, only 7% of global rice production trades internationally. U.S. exports represent about 11% of the global trade in rice. Because of the thin market, small supply changes can have a greater impact on prices. In the U.S. the problem is in the Southern portion of the Mississippi River Valley. Severed flooding is going to have a material impact on production in Louisiana, western Mississippi, and eastern Texas, all major rice producers..

A move above \$16 seems increasingly likely given U.S. situation and other issues, Thailand and Japan, about which we have talked previously. India may increase exports, but that government is more worried about domestic inflation than pocketbooks of farmers. A move above \$16 would be like waving a flag in front of traders of rice futures and rice. It could gap up materially. **Reason we mention rice is in part because of**

*global political tensions, particularly in the Middle East and Africa. Higher rice prices could be like throwing gasoline on a fire.*

May has continued to be tough on Tier One. We had postulated that Tier One would be hurt as Agri-Food commodity prices consolidated. All three tractor stocks can be found at the bottom of the top chart.

Interesting is that again Asian Agri-Equities held four of the top five positions in top chart. DAR continues to move higher, but some risk may be developing in that stock. DAR made a major acquisition in December. Most of the earnings gain for March quarter was due to that acquisition. Computer algorithms, like many of their creators, are not very bright and do not differentiate between organic earnings growth and merger driven gains. As that merger influence dissipates the computer algorithms may become disappointed.

FEED and CAGC.pk are on the bottom of the list, and the temptation to do the “newsletter shuffle” has been strong. That is the tendency for newsletters to just throw a bad card out, shuffling it into the deck as if it never existed. We may not like what the market does, but we are in it with you.

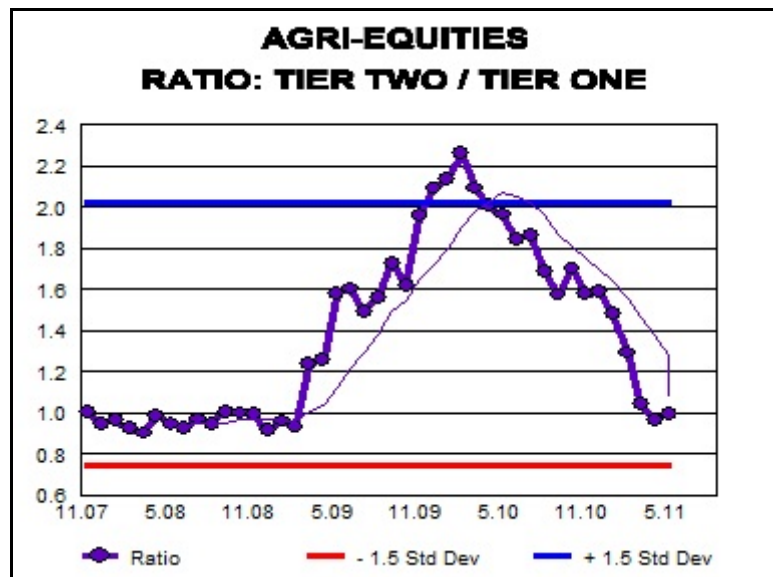
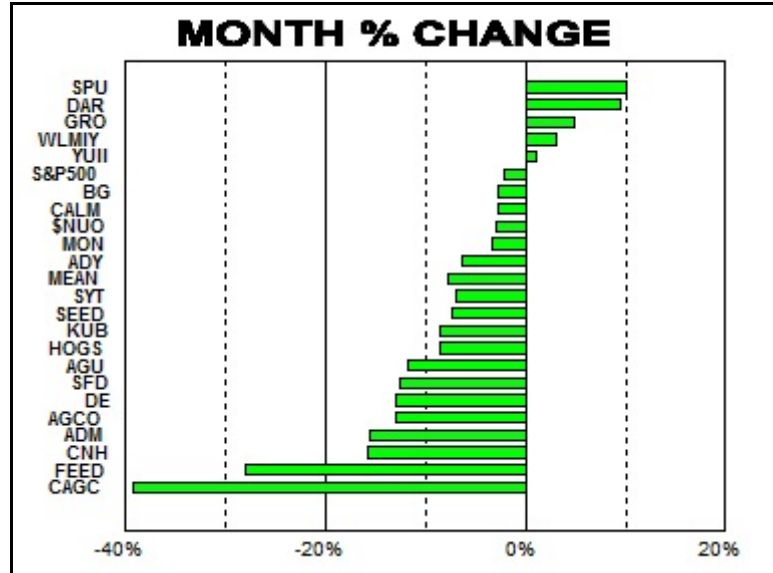
We have seen in some Tier Two stocks the same kind of mindless selling witnessed during the 2009 bottom. Normalized trading volume in FEED was about 500 thousand a day in March. One day that month saw almost four million shares sold. In May, thus far, volume averaged more than a million shares a day. All this is heavy selling presumably. What kind of mindless portfolio managers attempt to dump that much stock, well over average trading, in a dealer market like the NASDAQ? That is panic selling, it seems.

Updated valuations are on the next page.

Eat well and prosper,

**NED**

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## VALUATIONS FOR TIER ONE &amp; TIER TWO (Prices = 21 May 1600 EDT)

See comments which follow for Priority explanation.

<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier I</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>	<i>Tier II</i>
Priority	Company	Price	Value / Potential %	Priority	Company	Price	Value / Potential %
C-10	<sup>1</sup> WLMIY	\$4.44	\$9.0 / +102%	E-6	FEED	\$1.16	\$12.3 / +958%
C-10	ADM	\$31.3	\$43.5 / +39%	E-6	SPU	\$3.52	\$10.1 / +188%
C-10	MON	\$65.8	\$75.3 / +14%	E-6	ADY	\$10.0	\$20.0 / +100%
C-10	AGU	\$79.9	\$88.8 / +11%	E-6	YUII	\$5.63	\$11.1 / +98%
C-10	BG	\$73.4	\$81.0 / +10%	E-6	HOGS	\$15.2	\$28.5 / + 87%
C-10	AGCO	\$50.0	\$55.2 / +10%	C-10	SEED	\$7.18	\$9.1 / +26%
F-6	<sup>2</sup> NUO	\$75.8	\$81.4 / + 7%				
F-6	CALM	\$28.1	\$29.8 / + 6%				
F-6	SFD	\$20.6	\$21.1 / + 2%				
F-6	KUB	\$43.5	\$43.0 / - 1%				
C-10	CNH	\$40.7	\$31.9 / -22%				
C-10	SYT	\$65.8	\$48.3 / -27%	F-6	GRO	\$1.27	<sup>3</sup>
C-10	DE	\$84.9	\$61.6 / -27%	E-6	CAGC.PK	\$3.85	<sup>4</sup>
F-6	DAR	\$17.7	\$12.6 / -29%				
TIER	ONE	Mean	+ 7%				
TIER	ONE	Median	+ 7%				

<sup>1</sup>Wilmar Intl. primary market is Singapore. WLMIY is U.S. ADR symbol, representing 1:10

<sup>2</sup>NUO is the symbol on Euronext.com for Nutreco.

<sup>3</sup> Valuation suspended till financials statements filed.

<sup>4</sup>Valuation suspended till audited results for 2010 are available.

**PRIORITY CODING NOTES**

**Core 10** consists of 10 stocks that, as the name implies, should be the core holdings for Agri-Food exposure. This group will tend to be larger and more multinational companies. That said, some may not be if their businesses have special long-term advantages. **These stocks are labeled C-10.**

Second group we call **Extend 6, and are label E-6** in the tables. This group includes those stocks with the best exposure to the Agri-Food trends being created by China and India. They will be smaller stocks, and have higher business risk. We do expect the long-term results on these to be better than average. We also expect their business risk and stock price volatility to be significantly higher than average stock.

**Final 6** are those that round out the portfolio. Their businesses help to complete the circle. While likely to benefit from global Agri-Food trends, their activities may be more tangential. **These stocks are labeled F-6.**

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**Questions or comments? Email us at: [ned@agrifoodvalueview.com](mailto:ned@agrifoodvalueview.com)**

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