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Crops hit perfect storm of supply & demand

Well, this certainly is a wild ride. After three years of diminished crop production worldwide, we find ourselves with more demand than supply.

The question now is: How high will market prices have to get to lower demand to meet the existing supply?

We have had short crops around the world, with Australia and Russia having short wheat crops, while Argentina, Brazil, China and the United States have had short soybean and corn crops. This happens from time to time, but rarely does it all happen within a two-and-a-half-year period.

Also, it's been tough to supply the world with enough grain, considering what has happened to demand. China, and to a lesser extent, India have been the game changers. The middle classes in those countries have grown dramatically, thus increasing their demand for

Cliff's Notes

By Cliff Meeuwsen

quality food and energy products.

India was an exporter of grain in the past, but now consumes most of its grain domestically. China just keeps

on buying grain, as well as livestock products, from the cheapest source possible.

With the value of the U.S. dollar kept low by the federal government, we seem to be the cheapest, most reliable source.

The bottom line is we have a large and growing demand for agricultural products, and with the past three years production of short crops around the world, it is no wonder the Chicago Board of Trade has seen record high prices for most all commodities.

Now we get back to the big question: How high will the market have to go in order to lower demand to match the supply?

The market is slowly adjusting. First, demand is slowly decreasing, with the livestock producers cutting back demand by downsizing herds. Next, we have ethanol plants (34 and counting) being shut down. We also have world economy slowdowns, thus people begin to eat differently, with less industrial use.

We see that demand is beginning to slow, so now we look at supply. Brazil



Stock photo

HUNGRY FOR MORE: Though China's agricultural output is the largest in the world, it is not capable of producing enough grain to feed its growing population. Corn imports there have quadrupled since 2010.

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Service

Service is at the heart of everything we at NCP do. The employees of NCP strive to provide superior customer service and quality products that enhance the profitability of our customers.

Processing Plant Update

By Eric Meeuwssen

At NCP, we have been running a series of enzyme trials at the plant. As we search for ways to increase efficiency and lower costs, we are looking for enzymes that will be able to increase our ethanol yield.

In ethanol production, enzymes help efficiently convert starches into sugar, which is then converted to ethanol by adding yeast.

While yield is important, we must also find enzymes that work well with

the plant design at NCP.

As always, we are looking for ways to reduce energy and water consumption.

Along with our routine maintenance, we are beginning to plan for projects for our annual spring shutdown.

The 720,000 bushel storage bin added in 2012 has allowed producers to deliver corn to NCP at their convenience, adding to our level of customer service.



NCP photo

EXTRA SPACE: The storage bin added in 2012 allows customers to deliver corn to NCP at their convenience.

Corn Update

By Keith Brooks

With harvest 2012 coming to a close, it is safe to say that we didn't have the yields we were hoping for.

The dryland yields were disappointing to say the least, but surprisingly we had some pretty good irrigated yields. However, with prices being what they were, a lot of bushels came to town during harvest.

With corn supply as tight as it is, you would expect to see relatively good prices. But we have learned that just because corn is short, it doesn't mean prices have to go up. The January report showed we had 10.78 billion bushels of corn for 2012, and they had the carryout pegged at 602 million bushels.

On Dec. 1, the quarterly stocks were at 8.030 billion bushels, which is as tight as we have seen it in a decade. That would imply that usage for the quarter was higher than expected, since exports were down.

The wildcard going forward is going to be the exports, which have been lagging significantly. If they don't pick up, then we will have enough corn and there will be a lot of topside resistance. If they pick up, we could see the potential for higher prices.

The other thing to consider is that domestic demand could slow as feedlot numbers are down, and a number of ethanol plants and processors with negative margins are slowing down or shutting down until margins improve.

The exports are going to be weather driven. South American weather is

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Cliff: Producers finding it hard to keep up with demand

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and Argentina have the capacity to produce much larger crops. But can they get their products to the market? Logistics is an issue there. Transportation is very expensive and slow as their socialist governments are not very good at providing transportation infrastructure. The United States also has the capacity to increase its production.

So if you look at the supply that could be produced in the world with good crop production, it could increase by 4 or 5 billion bushels. With that kind of supply possible, and demand being cut, be on the lookout for lower prices in the future.

A couple of keys to look for are big world crops and good weather - and not just in the United States. Remember, we are in a world market. The next factor is demand. Demand for

energy. Demand from industry. Demand for food and demand for fuel.

Another key component, and a big one for the United States, is the value of the dollar. If it strengthens against other currencies, it will make our products more expensive than products from other countries, thus slowing our exports. Watch this area, as we are in a very inflationary-type market, driven by cheap dollars. If this changes, exports will slow.

It is a demand-driven market right now. But if you are in business to survive long term, watch for changes and use your risk management skills to keep your business profitable.

We hope you all had a great, safe harvest. At NCP, we are very thankful for you, our valued customers, and we thank you for the opportunity you have given us to serve your families.



Stock photo

HOME GROWN: India was once a large exporter of grain, but is now consuming most of its grain domestically and importing even more.

Wet Cake Update

As ethanol margins remain difficult, two ethanol plants in Nebraska - one in Ravenna and one in York - are planning to shut down production, at least temporarily. Other plants are also reducing production, hoping margins return.

With those two plants off-line for

the time being, look for the wet cake market to tighten up considerably as supply will drop off some.

If wetcake is a portion of your feed rations, plan ahead for your future needs in anticipation of the drop in WDGS production.

At NCP, we will continue to service our customers as scheduled.

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Corn: Exports key as domestic demand begins to slow

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going to be a key factor as those countries have been exporting a lot of bushels. If things go well down there, we could see South America continue to be a big exporter, and U.S. corn could take a back seat in the world market.

The anticipated new crop acres are also going to provide resistance. With 99 million acres being the projected planting, there is going to be a lot of corn to come. Because some of those acres are likely to be harvested early, old crop prices will be impacted in the coming months. It should provide significant resistance on new crop prices, as well as old crop prices.

As always, determine the price at which you are willing to sell the corn and have your orders in place. Try to take advantage of rallies in the board and sell on positive spikes in the market. With nor-

mal rainfall, new crop prices could take a significant drop toward \$5 per bushel.

If you are looking to move grain and need some money to use, but are not quite ready to sell, we do have some options at NCP that may be advantageous for you. If you would like to sell on a basis contract and get the corn moved, we will advance up to 80 percent of the value of the contract that day. That means whatever your cash price would be that day if you were to sell, we will advance 80 percent of that.

Keep in mind that if the board would go down significantly and start to get near the value of the grain, you would have to either put money back in to stay in the market or sell the corn. This will allow you to move the corn when it is convenient, take payment to use in production and still allow you some time to set your cash price on the grain.

If, because of the current conditions, it takes longer than expected to get the corn priced, those basis contracts can be rolled ahead at little to no cost. The only requirement is that something be done with them in the current crop year.


At NCP, we have a number of other marketing options, so please feel free to call and ask what we can do for you.

As always, we would like to thank our customers for their support. Despite the challenges that we faced this year, at NCP we were able to fill our bins at harvest thanks to you. That support is going to be a key factor in the success of NCP this year and in the future.

If you have any questions or concerns, please feel free to call me in the office at (308) 697-3954 or on my cell at (308) 340-1208.

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