

5/27/06
C&S Grain Market Consulting
C&S Thoughts for Week 22
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1. As we prepare to enjoy this Memorial Day Weekend, I give thanks to all those who have served and to those who continue to serve our nation for the cause of freedom. I attended a funeral this morning for my neighbor's twin stillborn sons. As I grieve with them and as I reflect upon life and the words of the Lord that were read this morning about love, I realize anew the importance of love in our lives.
2. Life unfolds one heartbeat at a time. Too often I take that heartbeat for granted! Thank you Lord, for life, for love, and for the hope that you bring to all that wait upon You.
3. Both the Corn and Soybean markets are resting, biding time, waiting for new energy inputs. Those inputs will probably be related to weather forecasts and events, but the "outside" factors will also ebb and flow.
4. **Two weeks ago many analysts and writers were thinking the "Commodity Bubble" peaked on Thursday, May 11, 2006. Until prices start making New Highs, they are right. Long-term, however, they are wrong, in my opinion. Why do I say that? Because their are still too many Bears on the prowl. They haven't all gone into hibernation. At the top of Commodity Markets, Bullish stories are the only ones being published!**
5. **We need to reset our expectations about the size of corrections in the Futures markets as time unfolds. The volatility of the Seventies will return. In June 1973, Daily trading ranges in July Soybeans went as high as 17.73% of the Daily Closing price. Hang on, as we haven't seen anything yet. There is about 344 weeks until the end of 2012. Between now and then, just about everything that can possibly happen in terms of high prices and excruciating declines will probably occur. Get used to it!**
6. This week's Energy Watch shows the U.S. using 20.810 Million Barrels Per Day (MB/D) versus 20.750 last week, versus 20.153 a year ago. (Each week these are 4-week averages.) The average retail price for Regular Gasoline is up 35.7% over a year ago, 288.3 this week versus 294.7 last week, versus 212.5 last year, according to the Weekly Petroleum Status Report. Including the Strategic Petroleum Reserve (SPR), We now have 81.9 days of energy stocks on hand versus 84.7 days a year ago, assuming no new production and no imports. The U.S. imported 60.03% of its energy needs last week versus 60.60% a week ago, versus 59.57% a year ago. Refinery capacity is at 89.6% versus 89.2% last week versus 93.6% a year ago.
7. **Here are a series of inputs as they have entered my world this past week.**
8. This past week I wrote a letter to an investment advisor who doesn't always think Ethanol is the best choice for Alternative Energy sources. I am going to list some of my points for your use at this time.
9. **In order for Ethanol to become an important and lasting alternative fuel that will help the US become energy self-sufficient, it needs two things: An adequate supply of feedstocks and an efficient production and delivery process.**

10. The pump of Research and Development must be primed to accomplish that, and tax dollars are a good way to begin the process. Although the Federal Government is now providing a 51-cent per gallon blender's subsidy, how much are they providing for R&D? The 51-cent per gallon subsidy goes to the Big Oil blenders and profits neither the Ethanol Plant Owners nor the Farmers. It's the reality of the Big Oil Lobby in Washington! Eventually, if the Ethanol Industry is to stand on its own merit, it needs to be taxed so that it generates its R&D dollars for both private and government sponsored research. Relative to the Crude Oil Industry, the Ethanol Industry is still in grammar school, so it will take time.
11. At the present time most of the Ethanol made in the US is from Corn because Corn is the most abundant feedstock available for cellulose conversion to sugar. In 2005, the US grew Corn in all states but Alaska and Hawaii totaling 75.107 million acres for harvest. At the same time, Sugarcane was grown in only four states, Florida, Hawaii, Louisiana and Texas, totaling .922 million acres. Likewise, in 2005, the US harvested 1.239 million acres of Sugarbeets in eleven states. Even if Sugarcane or Sugarbeets are a better source of sugar, the available feedstocks are nil compared to Corn.
12. The cure for high prices is high prices, but the cure is not immediate, and the timeline depends on the profitability of developing the alternatives. **High-energy prices are one of the best things to happen to America, in my opinion, over the long run, even if it is painful at the gas pump in the meantime.**
13. Because of increased profit incentive, technology is forging ahead in the field of Ethanol Production. These new technologies are being applied in two different areas of the process. The first area is in the pre-processing of the Corn kernel to remove both the hull (fiber) and the germ (oil) prior to the starch extraction process. That development will lead to new co-products.
14. The second area is in the ongoing development of new enzymes that enhance both the extraction of starch from the corn mash, along with greater efficiencies in converting those starches to sugars. Likewise, in addition to that, increased abilities to convert those sugars to Ethanol are being added. A bushel of #2 Corn weighs 56 pounds per bushel. The older Ethanol processes and technologies that have been used over the last 20 years or so yielded about 2.4-2.6 gallons of Ethanol per bushel with about 16 to 18 pounds of Dry Distillers Grains, with Solubles (DDGS) remaining, but new technologies are changing all of these results.
15. Even the construction of the Ethanol Production Plants is undergoing rapid changes that are improving the efficiencies in all areas. **Nothing improves efficiencies better than strong profit motives that drive new research and technology.**
16. At the present time, the Ethanol Industry is averaging about 2.8 gallons of Ethanol per bushel of Corn, but that will soon increase to 3.0 gallons per bushel, and even more, with the new technologies and high yielding, and high starch Corn varieties, that are currently under development.
17. With average weather, an acre of prime Midwest Corn land can produce at least 200 bushels of Corn per acre, even though the U.S. national average for all acres was 147.9 Bu/A in 2005. Some of the older studies tried to say that it took more energy to produce Ethanol than what was generated. Most of those studies were sponsored or done by people with vested interests in Big Oil. Much research is being done in all areas of cellulose conversion, and co-products. Vijah Singh at the University of Illinois is one of the leading researchers in that area. He may be reached at vsingh@uiuc.edu
18. At the present time, Corn is the only practical feedstock for Ethanol Production in the Midwest. Major investors like Bill Gates and Vinod Khosa, however, are promoting another area of cellulose conversion research. This research centers on Ethanol Production that will be made from plants themselves, rather than from the grain.

19. When this technology is fully developed, we will probably have a dual Ethanol Production System here in America. The first one will continue to be one where Corn is used as a feedstock, centered primarily here in the Midwest. The second one will be from other sources of cellulose feedstocks that will be scattered around the nation, using each area's climate and soils to produce whatever cellulose crop that will grow the best in that area.
20. **All we need are continuous profit potentials along with ongoing technological research to bring the US to a point of energy self-sufficiency in another few years.** Federal Government sponsorship of \$50 billion dollars for alternative energy research is a drop in the bucket compared to what is being wasted in the Middle East. It might be the best investment ever made if it is properly administered.
21. We live in a new era of world economic expansion with the world's two most populous countries, China and India, moving toward economic improvement and acceleration. It is being done at a time of no local or world Gold standards, only floating paper currencies relative to one another. Likewise, it is being done at time of high-energy prices that are primarily the result of narrowing the excess pumping capacity of the world, coupled with a terrorist premium. Where does it lead in terms on asset values and wealth? That is the basic question the markets are trying to answer on almost a 24/7 electronic trading level. Oh, and by the way, at the present time, the world has to pay for that energy in U.S. Dollars.
22. What do you suppose is going to happen to the U.S. Dollar when the world starts paying for Crude Oil in something other than Dollars? You say it can't happen? Don't bet on it. Russia is set to start trading Crude Oil and Gold in Rubles on June 8 on the RTS, the Russian Trading System.
23. In the Seventies, America had a strong manufacturing and job base, and was not saddled with massive Budget Deficits, Trade Deficits and Current Account Deficits, and the American homeowner wasn't using their home as an ATM cash machine. Now that we have shipped too many of our jobs to other nations, and will likely lose out status as having the World's Reserve Currency in a few more years, won't the price of commodities become interesting, especially Gold and Oil?
24. The Power and Interest News Report (PINR), an independent organization at <http://www.pinr.com> believes, "Soaring Commodity Prices Point Toward Dollar Devaluation."
25. Have you heard about RFID Hacking? It seems the RFID tags on merchandise, and on security systems used all over the world can be hacked quite easily, and even reprogrammed. They can steal your smartcard, lift your passport, jack your car, even clone the chip in your arm, and you won't feel a thing, according to an article in Wired at <http://www.wired.com>. A hacker by the name of Grunwald said, "I was at a hotel that used a smartcard, so I copied one and put the data into my computer. Then I used RFDump to upload the room key card data to the price chip on a box of cream cheese from the Future Store. And I opened my hotel room with the cream cheese."
26. The cold war is getting warmer. Russia will supply Iran with sophisticated anti-aircraft missiles, it has reported again this past week.
27. Most of us have no idea of how derivatives work, or how they might not work when push come to shove, or vice-versa. It is now reported that the value of the global over-the-counter derivatives market grew to \$285 Trillion dollars in the second half of last year, an increase of 5% in the last 6 months of 2005, according to the Bank for International Settlements.
28. Have you heard about the "Amero"? There are forces at work, primarily driven by the Council on Foreign Relations (CFR) that are thinking of merging Canada, the U.S. and Mexico into the North America Union. They started writing about it a year ago.

29. Many are hoping the new government in Iraq will pull off the impossible, by somehow uniting the Shia, the Sunnis and the Kurds. According to Stratfor Geopolitical Intelligence, Iraq is at a Break Point, at least for America. George Friedman says, "Regardless of whether the deal holds, the U.S. war in Iraq is going to end: U.S. troops either will not be needed, or will not be useful." I hope he is right, and I hope he tells Washington. I wonder if the Pentagon or the White House reads Stratfor?
30. When the kettle calls the stove black, misunderstanding and blindness are at a peak. Washington and the Pentagon are all in a huff about China's military buildup. **We seem to think that we own the seas and the world!**
31. According to LEAP/E2020, at <http://www.europe2020.org/en/home.htm> "A global systemic crisis develops following a complex process where 4 phases can be distinguished, overlapping one another". The first phase is called the "Trigger" phase. The second phase is called the "Acceleration" phase, where general awareness of a coming crisis becomes common. They think the world is going to enter Phase 2 in June 2006. The third phase is called the "Impact" phase where the system starts to transform radically, and the fourth phase is called the "Decanting" phase, where a new system is born. Stay tuned, as we are living in very exciting times!
32. A really bright spot for using coal for alternative energy can be read about at FutureGen. Go to <http://www.futuregenalliance.org/> FutureGen is a model of an integrated system showing a near "zero" emissions power plant without a smokestack. The goal is to capture all of the energy and heat in burning coal and piping the exhaust into the ground into several different layers, as much as 10,000 feet deep to force out other energies and to dissipate the CO2 and the other bad emissions. Tuscola Illinois may be considered for a site in the days ahead.
33. By now you know I try and cover the geopolitical situation with these Weekly Thoughts, and those things that impact our lives and many of the markets we are interested in, especially the commodity markets. I do not intend to be presenting doom and gloom. I just want you to be prepared and somewhat forewarned of coming changes. Most of these things we can not change or stop, but we can be forewarned. Being forewarned helps us make better decisions in faith, investing, life, thinking, and reactions. We all need Hope and Psalms 27:14 is an excellent source for words of hope and courage.
34. **Once again, it is time for some good news again. Remember that God can thwart the plans of the nations, mankind, and evil. The good news is that evil is not sovereign. Only God, (Elohim, Jehovah, Yahweh) is Sovereign. This is a very important Biblical fact that we need to understand.** If you choose to not believe this, that is your privilege. Personally, I prefer to believe and live in faith and not fear, but we are all free to choose.
35. You have my encouragement and permission to forward my Weekly Thoughts to your friends if I ever say anything that blesses you. Likewise you have my permission to hit the "Delete" button if I waste your time. If you have a friend that would like to be added to my mailing list, just have send me a request by e-mail.
36. We live in very exciting and challenging times. They can be times of fear, or times of hope and opportunity. I encourage you to continue reading Psalms 91 in the week ahead, Read it every day. It contains wonderful promises from God. Likewise, read I Corinthians 13:1-13, the Love Chapter, and meditate about the love you share in your life.