PRO-DAIRY Program

Richard A. Brock, President

BROCK ASSOCIATES

rabrock@brockreport.com
www.BrockReport.com
2050 W. Good Hope Road
Milwaukee, WI 53209
(414) 351-5500

Advice from Curtis & Leroy:

Limit all US politicians to two terms...
One in office
One in prison
Illinois already does this

Some Old Truths

1. I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle. *Winston Churchill*

2. A government which robs Peter to pay Paul can always count on the support of Paul. *George Bernard Shaw*

3. Government's view of the economy could be summed up in a few short phrases…If it moves..tax it. If it keeps moving…regulate it. And if it stops moving…subsidize it.
Ronald Reagan (1986)

4. I don't make jokes. I just watch the government and report the facts.
Will Rogers

5. If you think health care is expensive now…wait until you see what it costs when it's free. *P.J. O'Rourke*

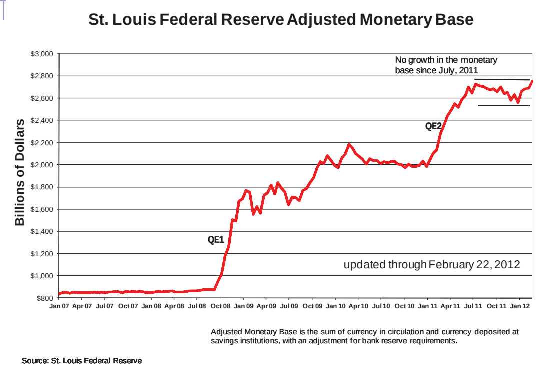
6. A government big enough to give you everything you want….is strong enough to take everything you have. *Thomas Jefferson*

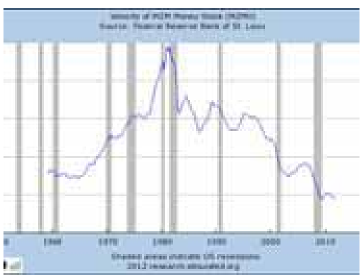
Can the crisis in Europe be resolved?

Are we headed for inflation?

"Credit thrown on top of credit to solve a problem that was caused by too much credit in the first place is a dangerous game to play"

R. Brock



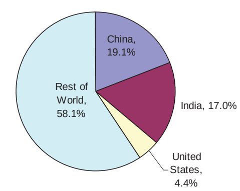


Velocity is a ratio of nominal GDP to a measure of the money supply. It can be thought of as the rate of turnover in the money supply--that is, the number of times one dollar is used to purchase final goods and services included in GDP. (quarterly data through Q4 2011)

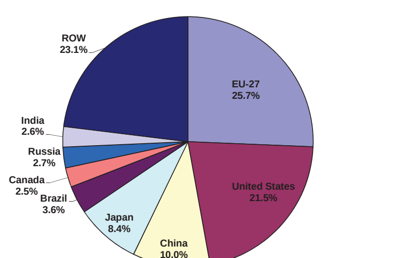
Global Population, 2011

Global Population: 2011		Number	% of total
	World	7,000,000,000	
1	China	1,336,718,015	19.1%
2	India	1,189,172,906	17.0%
3	United States	313,232,044	4.5%
4	Indonesia	245,613,043	3.5%
5	Brazil	203,429,773	2.9%
6	Pakistan	187,342,721	2.7%
7	Bangladesh	158,570,535	2.3%
8	Nigeria	155,215,573	2.2%
9	Russia	138,739,892	2.0%
10	Japan	126,475,664	1.8%
	Other	2,945,489,834	42.1%
Top Ten Countries		4,054,510,166	57.9%

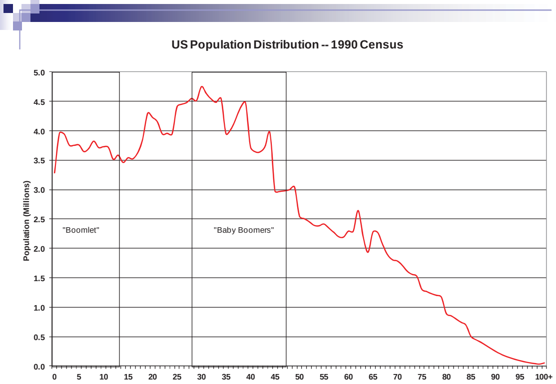
Source: US Census Bureau, CIA World Factbook

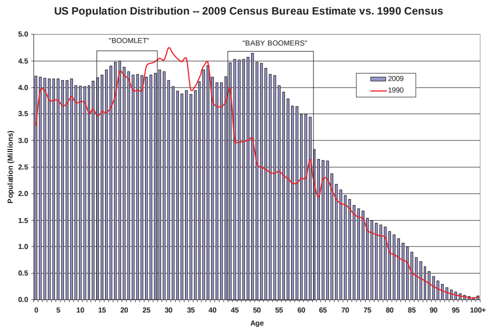


Selected Countries as a percentage of 2011 Global GDP



Source: IMF; Total GDP: $70.0Trillion





BROCK ASSOCIATES 2012

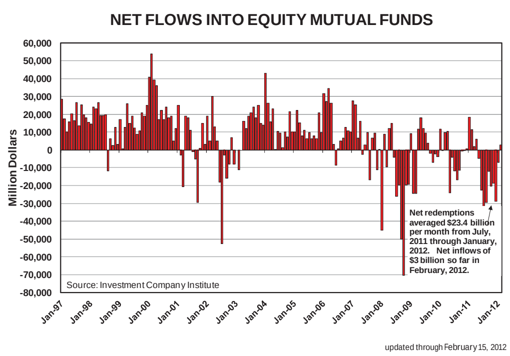
Who Pays the Taxes

2008 Individual Income Tax Returns

Income Category	% of Total Returns Filed	Share of Tax
$200,000 and Over	3%	52%
$100,000 - 200,000	10%	23%
$50,000 - 100,000	22%	18%
$30,000 - 50,000	18%	6%
$15,000 - 30,000	21%	2%
Less than 15,000	25%	0%

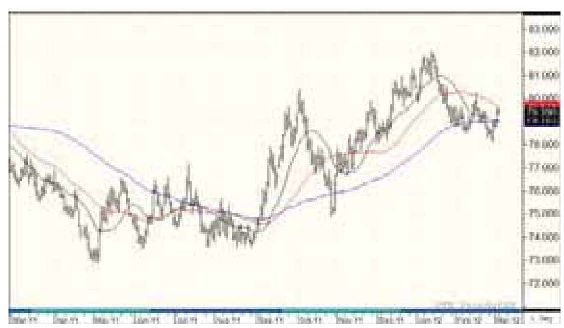
Source: Internal Revenue Service

BROCK ASSOCIATES 2012



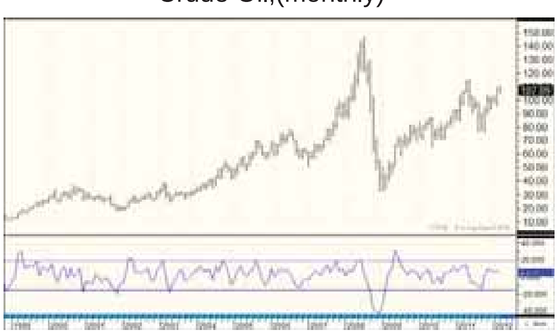
BROCK ASSOCIATES 2012

U.S. Dollar Index



BROCK ASSOCIATES 2012

Crude Oil,(monthly)

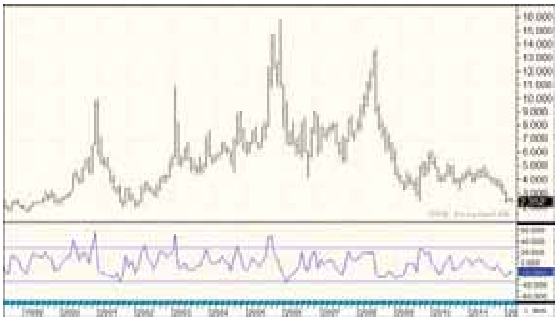


BROCK ASSOCIATES 2012

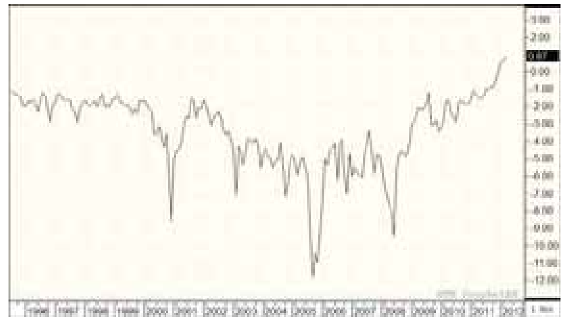
Crude Oil, July

BROCK ASSOCIATES 2012

Natural Gas (monthly)



Diesel Fuel – Natural Gas spread



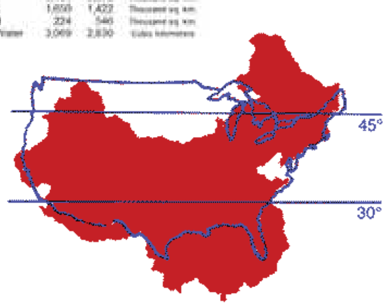
China?

U.S.and China Meat and Grain Production (Million Metric Tons)

2012 Projection	China Production	U.S. Production	World Production	China % of Production	U.S. % of Production
Pork	51.3	10.5	103.4	50%	10%
Poultry	13.8	19.2	88.4	16%	22%
Beef	5.5	11.5	56.8	10%	20%
Milk, Whole Milk Powder	1.2	0.0	4.5	26%	0%
Milk, Fluid	33.5	90.0	538.3	6%	17%
Milk, NFDM	0.1	0.9	3.8	1%	23%
2011/12 Crop Year					
Corn	192.0	314.0	864.0	22%	36%
Wheat	117.9	54.4	692.9	17%	8%
Rice	140.5	5.9	462.7	30%	1%
Soybeans	13.5	83.2	251.5	5%	33%

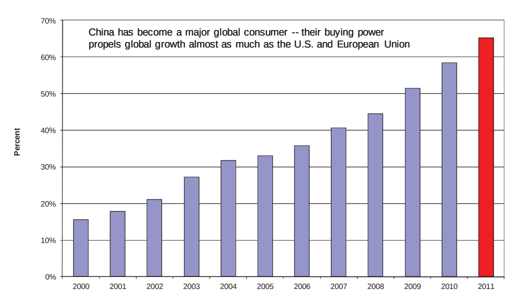
Source: USDA

	USA	China	
Land	9,161	9,570	Thousand sq. km.
Arable land	1,650	1,422	Thousand sq. km.
Irrigated land	224	546	Thousand sq. km.
Renewable Water	3,069	2,830	Cubic kilometers

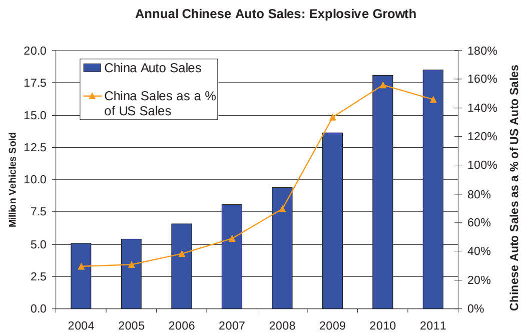


Source: Continental Grain

Dollar Value of Chinese Imports Compared to US Imports

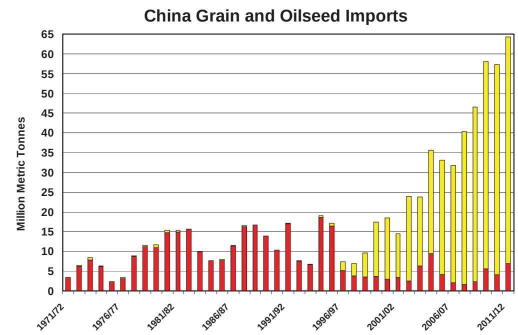


Source: US Census Bureau, US/China Business Council, Brock Estimate



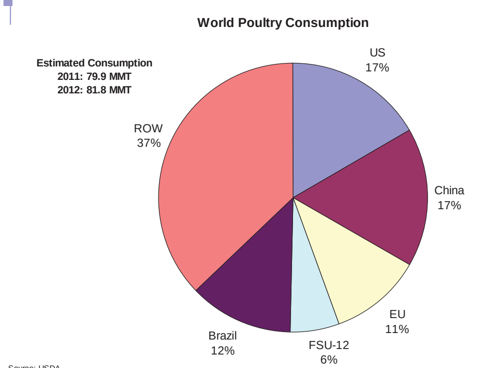
Sources: China Auto Review, Wall Street Journal, China Association of Auto Manufacturers, Wards, Brock Projections

BROCK ASSOCIATES 2012



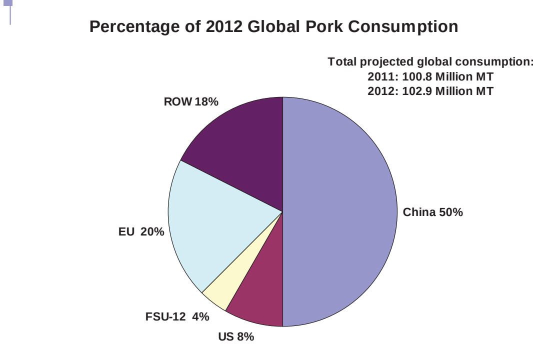
Source: USDA FAS

BROCK ASSOCIATES 2012



Source: USDA

BROCK ASSOCIATES 2012



Source: USDA

BROCK ASSOCIATES 2012

Food Trends in China

- Most livestock is grown on very small farms and most food is sold via the traditional "wet market."
- Low labor costs makes this method highly cost-efficient and makes it difficult for Western agricultural methods to compete. It also reduces the need for large-scale distribution of animal feed.
- Most meat is slaughtered, sold, and consumed within 1 day. Chilled meat accounts for less than 10% market share and serves the 100 million person "middle class."
- China has difficulty obtaining enough milk, in part due to a heavy reliance on baby formula.

BROCK ASSOCIATES 2012

Source: Continental Grain

BROCK ASSOCIATES 2012

7 Eleven

Source: Continental Grain

US Hog Producers by Size Group		
Herd Size	# of Operations	% of Herd
50K+	130	57.0%
20K-50K	175	8.6%
10K-20K	360	7.7%
5K-10K	675	7.5%
2000-5000	2300	10.1%
1000-2000	2050	4.2%
500-1000	1920	2.1%
100-500	4450	2.0%
>100	48400	0.8%

Source: USDA

Structure of Chinese Pig Industry - 2008

Slaughtered	No. of Farms	(%) Share	Total Slaughtered(1,000)	(%) Share
1~9	101,963,901	94.483	347,731	52.867
10~49	4,815,474	4.462	120,945	18.388
50~99	851,429	0.789	58,999	8.970
100~499	249,016	0.231	59,639	9,067
500~2999	33,844	0.031	36,477	5.546
3000~9999	3,388	0.003139	17,420	2.648
10000~49999	911	0.000844	14,181	2.156
Above 50000	30	0.000028	2,358	0.359
	107,917,993	100	657,750	100

Source: Continental Grain

"Wet Market"

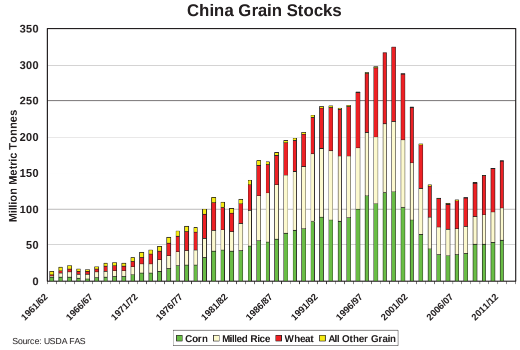
BROCK ASSOCIATES 2012

BROCK ASSOCIATES 2012

BROCK ASSOCIATES 2012

BROCK ASSOCIATES 2012

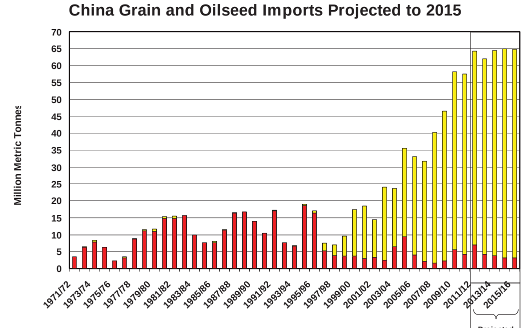
China Grain Stocks



Source: USDA FAS

BROCK ASSOCIATES 2012

China Grain and Oilseed Imports Projected to 2015



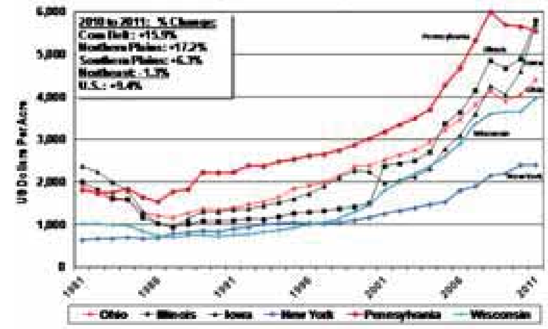
Source: USDA, Brock Projections

BROCK ASSOCIATES 2012

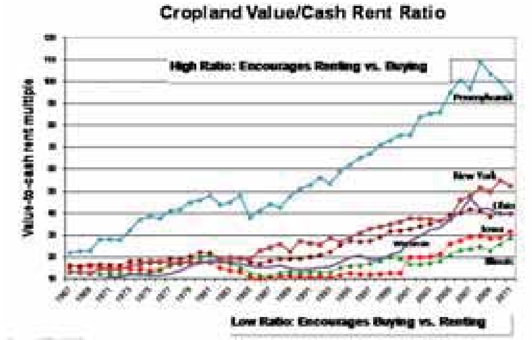
Conclusions

- A massive amount of wealth creation and economic growth is occurring.
- China may have 1.3 billion people, but the market for agribusiness modeled after the US system (large scale production, selling packaged meat in grocery stores) is much smaller – 100 million people now, 200 million in 20 years.
- Operating large-scale businesses in China is very challenging with government hassles, legal protection and cultural differences playing a part.
- Large-scale pork producers cannot compete with small-scale producers on a cost basis.
- Food safety issues also cause challenges – if a multinational company has a health-related problem in China (such as a milk supplier artificially boosting protein levels through additives) then their reputation will be ruined globally.
- The "wet market" system is culturally ingrained and will be difficult to change.

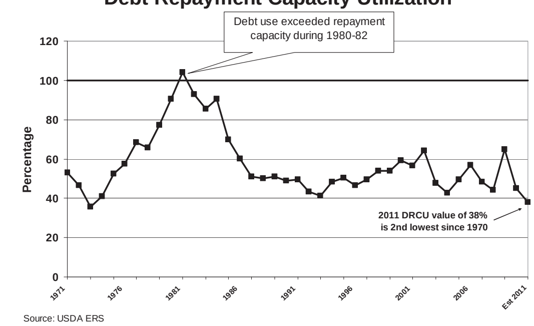
Average Value of Cropland



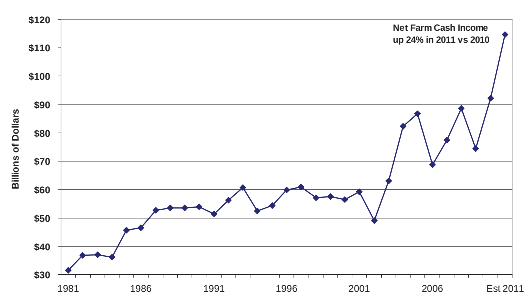
Cropland Value/Cash Rent Ratio



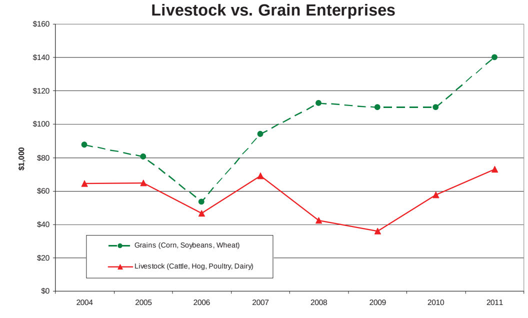
Debt Repayment Capacity Utilization



National Farm Cash Income



Average Farm Business Net Cash Income: Livestock vs. Grain Enterprises



Marketing……like many other endeavors

Typically ends with ---- the top 20%

and

---- the bottom 80%

Marketing Basics

1. Short crops peak early and have a long tail.
2. Short crops almost always peak just before, during or just after harvest.
3. NEVER store a short crop. Always store a big crop.

4. What worked last year will rarely work this year. As Will Rogers said, "I have a great memory. It is just short."

5. This year is going to be different.

6. Markets are cyclical. Bad times don't last forever…neither do the good.

7. Every price is good or bad based on a comparison. Compare to the averages. Not the absolute top or bottom.

8. The bigger the BULL…….the bigger the BEAR.

9. Most grain sales are emotionally driven. Too many sales are based on….I need the money, I need the bin for next year's crop or it's starting to smell.

The #1 reason for the potential of poor grain marketing results in 2012…..

…..Too much money and too much time!

US CORN SUPPLY AND DEMAND

	USDA		Brock Est.		
	10/11 Est.	11/12 Est.	11/12	12/13	13/14
ACREAGE					
Planted Area	88.2	91.9	91.9	94.5	93.5
Harvested Area (million)	81.4	84.0	83.9	87.0	86.0
Yield	152.8	147.2	147.2	161.0	163.0
SUPPLY					
Beg. Stocks (Sep 1)	1,708	1,128	1,128	821	1,943
Production	12,447	12,358	12,358	14,007	14,018
Imports	27	20	15	15	10
Total Supply	14,182	13,506	13,501	14,843	15,971
USAGE					
Feed & Residual	4,803	4,600	4,600	4,700	4,850
Food/Seed/Ind	6,415	6,405	6,380	6,450	6,600
Ethanol & By-Products	5,020	5,000	4,950	5,100	5,150
Domestic Use	11,218	11,005	10,980	11,150	11,450
Exports	1,835	1,700	1,700	1,750	1,850
Total Use	13,053	12,705	12,680	12,900	13,300
Ending Stocks (Aug 31)	1,128	801	821	1,943	2,671
CCC	0	0	0	0	0
Privately-Owned	1,128	801	821	1,943	2,671
Stocks/Use	8.6%	6.3%	6.5%	15.1%	20.1%
Farm Price ($/Bu)	$5.18	5.80-6.60	$5.75-6.50	$4.25-5.75	$4.00-5.00

Year begins Sept 1. *Farmer-owned reserves, loans & free stocks. In million bushels.

BROCK ASSOCIATES 2012

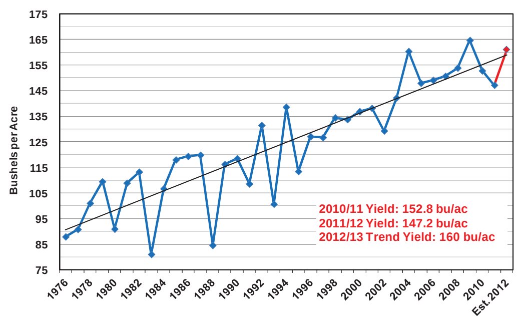
U.S. CORN SUPPLY AND DEMAND

2012/13 Bullish vs. Bearish Scenarios

	Bullish Scenario	Average	Bearish Scenario
ACREAGE (Mil. Acres)			
Planted Area	93.5	94.5	95.0
Harvested Area	85.1	87.0	87.5
Yield	156.0	161.0	164.0
SUPPLY (Mil. Bushels)			
Beg. Stocks (Sep 1)	801	821	821
Production	13,276	14,007	14,350
Imports	20	15	10
Total Supply	14,097	14,843	15,181
USAGE (Mil. Bushels)			
Feed & Residual	4,800	4,700	4,600
Food/Seed/Ind	6,550	6,450	6,500
Ethanol & By-Products	5,200	5,100	5,000
Domestic Use	11,350	11,150	11,100
Exports	1,850	1,750	1,800
Total Use	13,200	12,900	12,900
STOCKS (Mil. Bushels)			
Ending Stocks (Aug 31)	897	1,943	2,281
Stocks/Use	6.8%	15.1%	17.7%
Farm Price ($/Bu)	$5.50-6.50	$4.25-5.75	$4.00-4.50

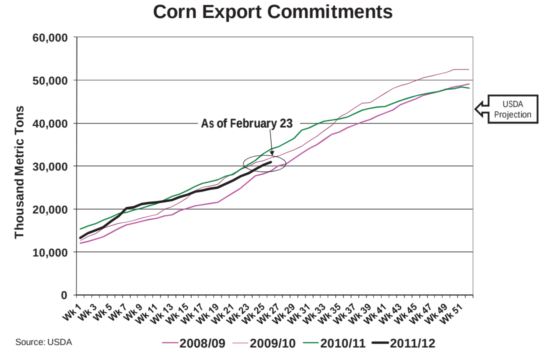
BROCK ASSOCIATES 2012

US Corn Yield

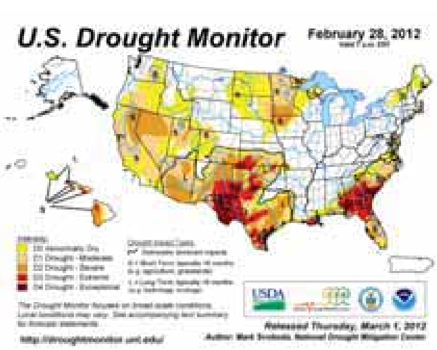


BROCK ASSOCIATES 2012

Corn Export Commitments



BROCK ASSOCIATES 2012



BROCK ASSOCIATES 2012

Ethanol

BROCK ASSOCIATES 2012

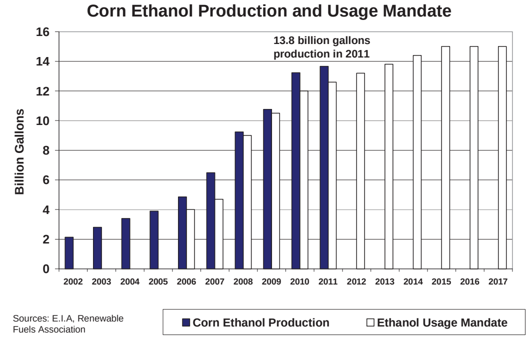
Ethanol Plants in the United States

	Number of Plants	Average NameplateCapacity (mmgy)	Total Nameplate Capacity (GPY)
All Operating Plants	209	71	14.744 Billion
Corn Ethanol Plants in Operation	187	74	14.217 Billion
Corn Ethanol Plants Under Construction/Expansion	13	21	271 Million
Idled Plants	9	32	256 Million

* Source: Renewable Fuels Association,Nebraska Energy Office, October 2011

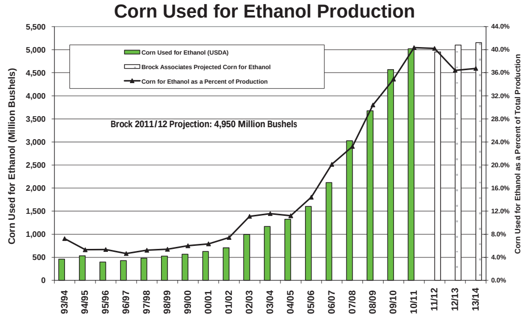
Ethanol Plants in Production

Corn Ethanol Production and Usage Mandate

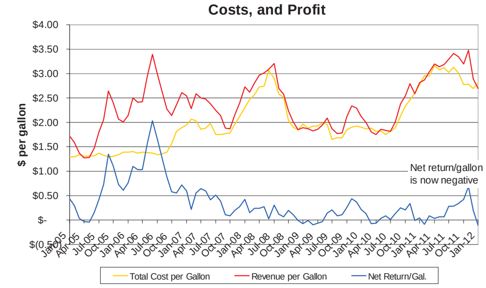


Sources: E.I.A, Renewable Fuels Association

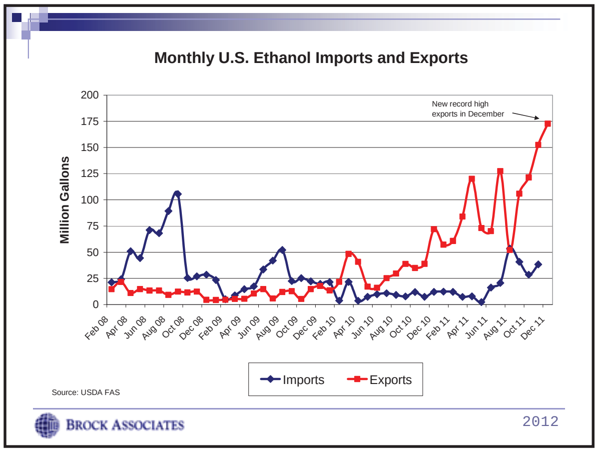
Corn Used for Ethanol Production



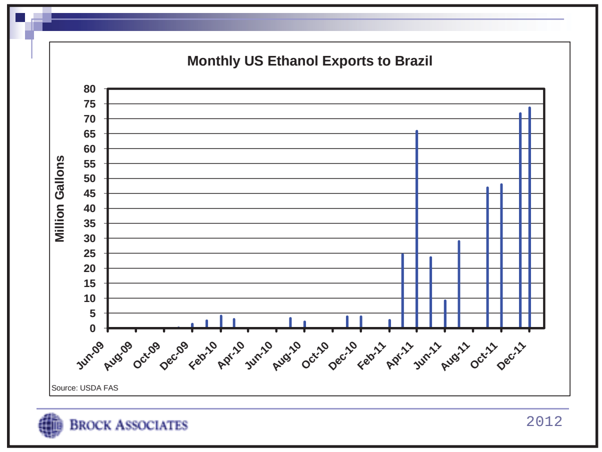
Ethanol Production Revenue, Costs, and Profit



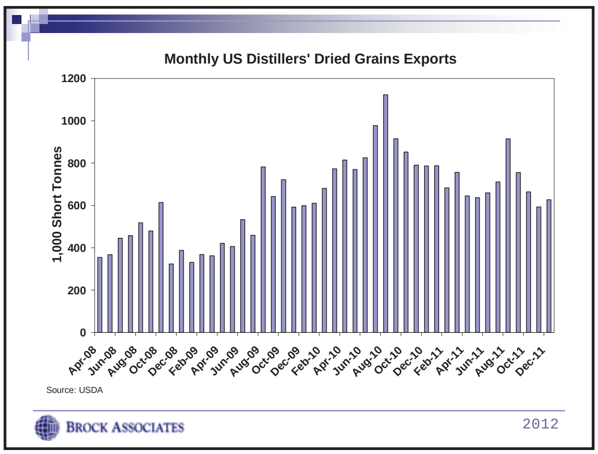
Source: USDA AMS Iowa Ethanol Report, EIA



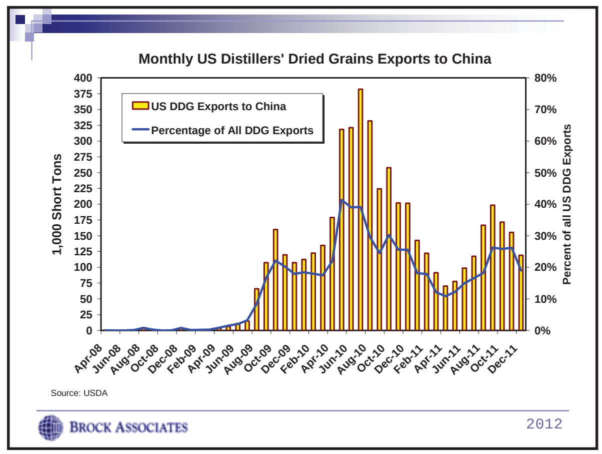
Monthly U.S. Ethanol Imports and Exports
Million Gallons
New record high exports in December
Imports
Exports
Source: USDA FAS
Brock Associates
2012



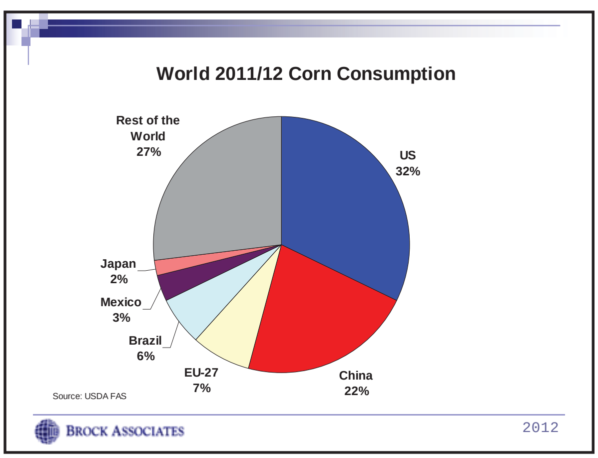
Monthly US Ethanol Exports to Brazil
Million Gallons
Source: USDA FAS
Brock Associates
2012



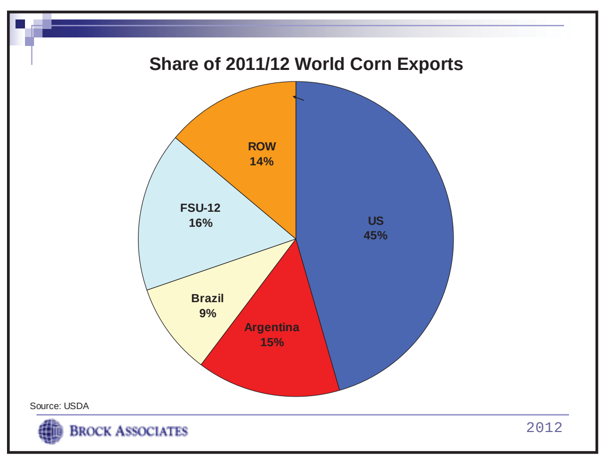
Monthly US Distillers' Dried Grains Exports
1,000 Short Tonnes
Source: USDA
Brock Associates
2012



Monthly US Distillers' Dried Grains Exports to China
US DDG Exports to China
Percentage of All DDG Exports
1,000 Short Tons
Percent of all US DDG Exports
Source: USDA
Brock Associates
2012

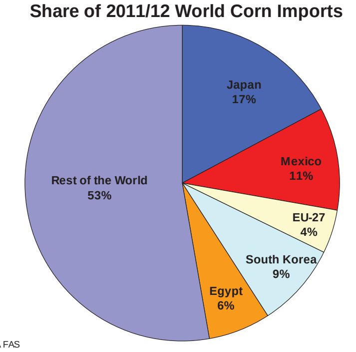


World 2011/12 Corn Consumption
US 32%
China 22%
EU-27 7%
Brazil 6%
Mexico 3%
Japan 2%
Rest of the World 27%
Source: USDA FAS
Brock Associates
2012



Share of 2011/12 World Corn Exports
US 45%
Argentina 15%
Brazil 9%
FSU-12 16%
ROW 14%
Source: USDA
Brock Associates
2012

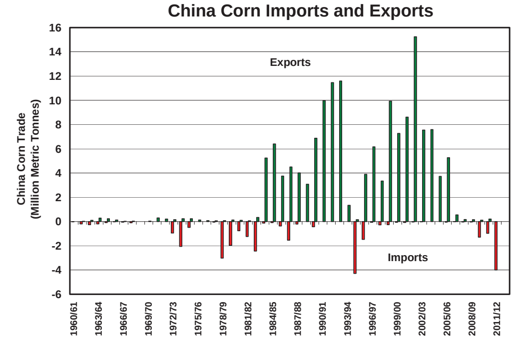
Share of 2011/12 World Corn Imports



Source: USDA FAS

Brock Associates 2012

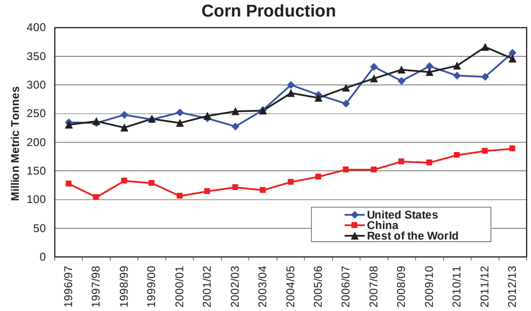
China Corn Imports and Exports



Source: USDA FAS

Brock Associates 2012

US, China and Rest of the World Corn Production



Source: USDA Data/Projections, Brock Associates Projections

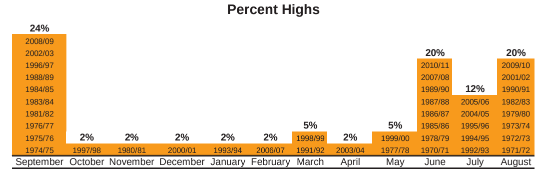
Brock Associates 2012

Corn Seasonality

1970/71-2010/11

Central Illinois

Percent Highs



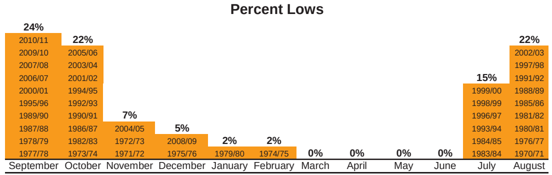
Brock Associates 2012

Corn Seasonality

1970/71-2010/11

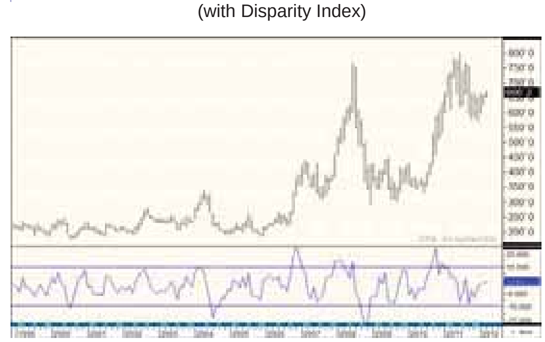
Central Illinois

Percent Lows



Brock Associates 2012

Monthly Corn Chart (with Disparity Index)



Brock Associates 2012

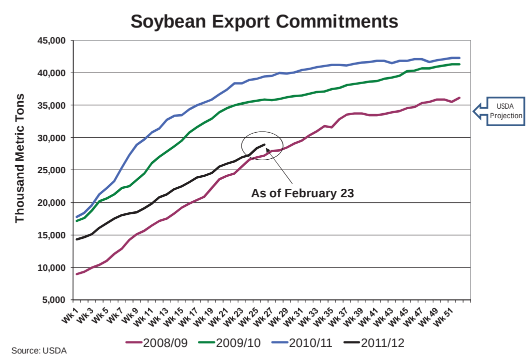
July 2012 Corn

December 2012 Corn

US SOYBEAN SUPPLY AND DEMAND

	USDA		Brock Est.		
	10/11 Est	11/12 Est	11/12	12/13	13/14
ACREAGE					
Planted Acres (Million)	77.4	75.0	75.0	74.5	74.5
Harvested Acres	76.6	73.6	73.6	73.5	73.5
Yield	43.5	41.5	41.5	44.0	44.5
SUPPLY					
Beg. Stocks (Sep 1)	151	215	215	298	399
Production	3,329	3,056	3,056	3,234	3,271
Imports	15	15	15	15	15
Total Supply	3,495	3,286	3,286	3,547	3,685
USAGE					
Crush	1,648	1,615	1,600	1,640	1,640
Exports	1,501	1,275	1,275	1,400	1,450
Seed	87	88	88	88	88
Residual	43	32	25	20	20
Total Use	3,280	3,011	2,988	3,148	3,198
Ending Stocks (Aug 31)	215	275	298	399	487
CCC	0	0	0	0	0
Privately-Owned	215	275	298	399	487
Stocks/Use	6.6%	9.1%	10.0%	12.7%	15.2%
Farm Price ($/Bu)	$11.30	$11.10-12.30	$10.50-12.25	$9.50-11.25	$9.00-11.00

Year begins Sept 1. *Farmer-owned reserves, loans & free stocks. In million bushels.



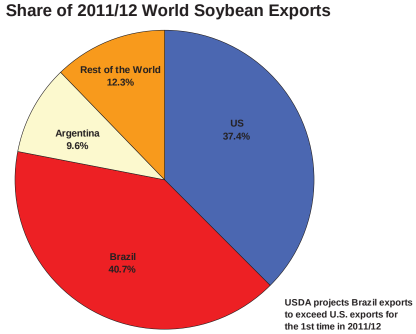
World Soybean Supply and Demand

Million Metric Tonnes

Year	Beginning Stocks	Production	Consumption	Ending Stocks	Stocks/Use Ratio
1997/98	16	158	146	28	18.9%
1998/99	28	160	158	29	18.5%
1999/00	29	160	159	30	18.9%
2000/01	30	176	172	34	19.7%
2001/02	34	185	183	36	19.5%
2002/03	36	197	189	43	22.8%
2003/04	43	187	192	38	19.9%
2004/05	38	216	205	48	23.5%
2005/06	48	221	216	53	24.8%
2006/07	53	236	228	62	27.3%
2007/08	62	220	231	52	22.3%
2008/09	53	212	221	44	19.9%
2009/10	43	261	244	60	24.4%
2010/11	**60**	**264**	**255**	**69**	**26.9%**
2011/12	**69**	**257**	**262**	**63**	**24.2%**

Bold Figures are USDA Projections.

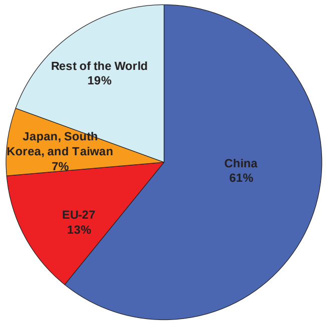
Share of 2011/12 World Soybean Exports



USDA projects Brazil exports to exceed U.S. exports for the 1st time in 2011/12

Source: USDA FAS

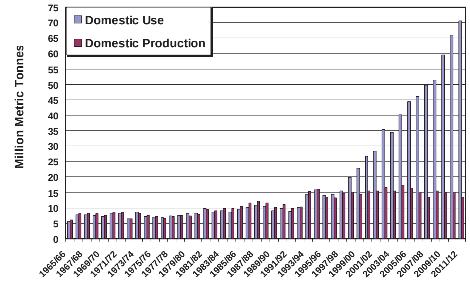
Share of 2011/12 World Soybean Imports



Source: USDA FAS

BROCK ASSOCIATES 2012

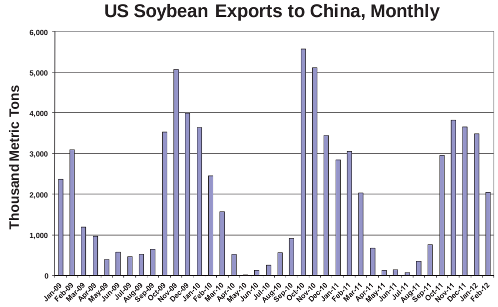
China Soybean Domestic Use vs. Production



Source: USDA FAS

BROCK ASSOCIATES 2012

US Soybean Exports to China, Monthly

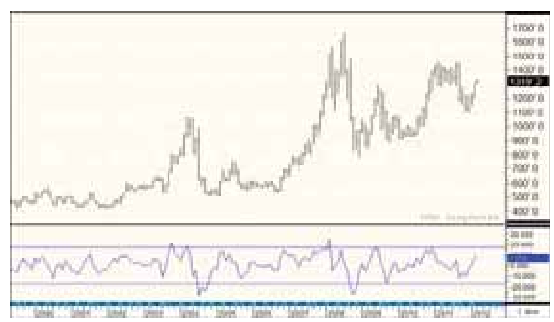


Source: USDA FAS

February data through Feb 23, 2012

BROCK ASSOCIATES 2012

Monthly Soybean Chart (with Disparity Index)



BROCK ASSOCIATES 2012

July 2012 Soybeans

BROCK ASSOCIATES 2012

November 2012 Soybeans

BROCK ASSOCIATES 2012

Dairy Outlook

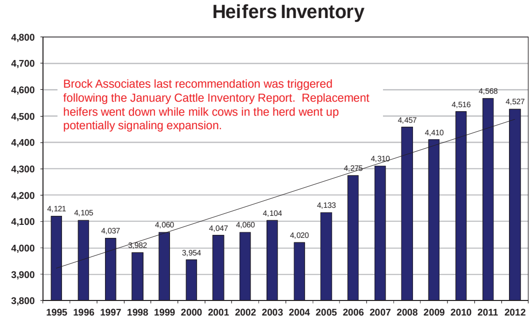
BROCK ASSOCIATES 2012

US MILK SUPPLY AND DEMAND
Million Pounds

	2008	2009	USDA Est. 2010	2011	2012
Cow Numbers (1,000 Head)	9,315	9,200	9,117	9,194	9,200
Production/Cow	20,396	20,576	21,030	21,346	21,539
Milk Production	189,992	189,259	192,819	196,245	198,761
Farm Use	1,200	1,200	1,000	1,000	1,000
SUPPLY (Milkfat Basis)					
Beg. Com. Stocks (Jan 1)	10,400	10,100	11,300	10,900	11,400
Imports	3,900	3,900	5,600	4,100	3,200
Marketings	188,792	189,400	189,401	189,401	189,402
Total Supply	203,092	203,300	206,201	204,301	204,002
USAGE (Milkfat Basis)					
Commercial Usage	184,300	187,300	187,800	188,200	192,000
ENDING STOCKS					
End. Com. Stocks (Dec 31)	10,000	11,300	10,900	11,400	11,500
CCC Net Removals	-	-	-	-	-
Class III Milk ($/CWT)	17.44	11.36	14.41	18.37	15.80-16.90

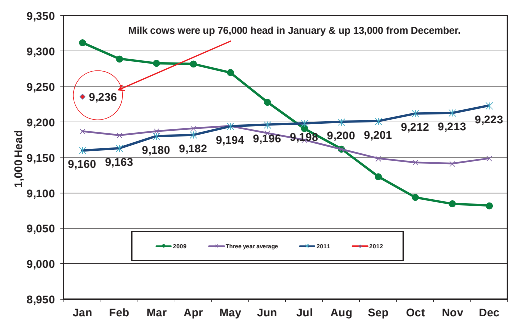
BROCK ASSOCIATES 2012

January Milk Replacement Heifers Inventory



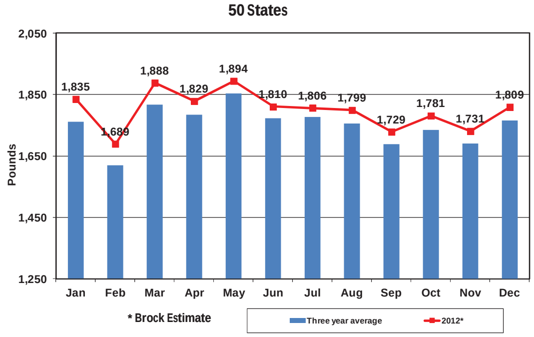
BROCK ASSOCIATES 2012

US Milk Cow Numbers



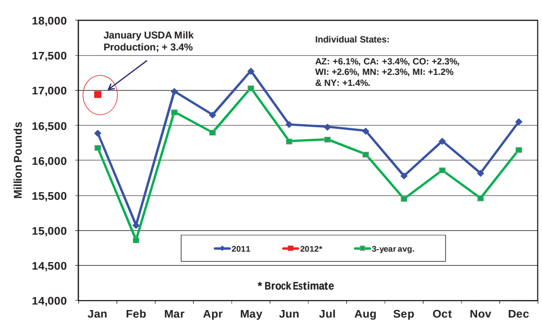
BROCK ASSOCIATES 2012

US Milk Per Cow
50 States



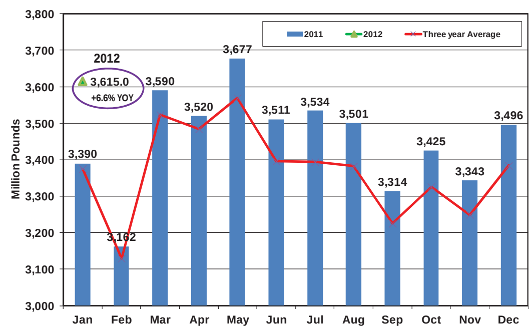
BROCK ASSOCIATES 2012

US Milk Production



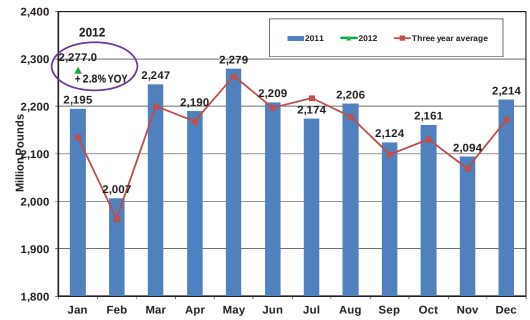
BROCK ASSOCIATES 2012

California Milk Production



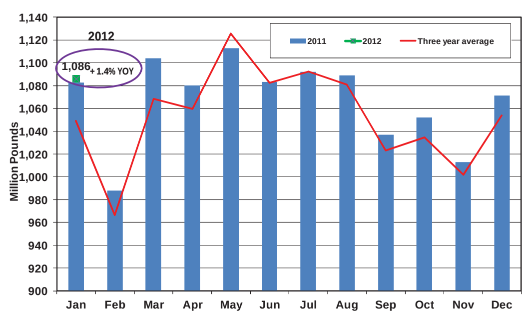
BROCK ASSOCIATES 2012

Wisconsin Milk Production



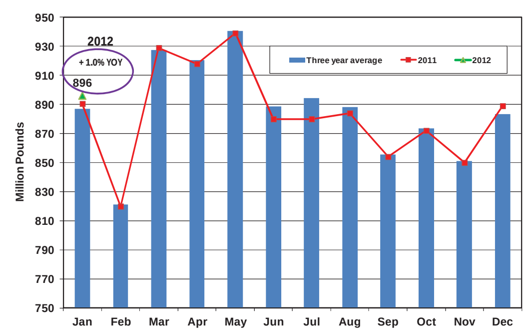
BROCK ASSOCIATES 2012

New York Milk Production



BROCK ASSOCIATES 2012

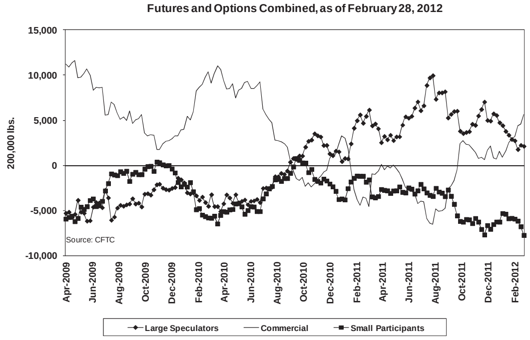
Pennsylvania Milk Production



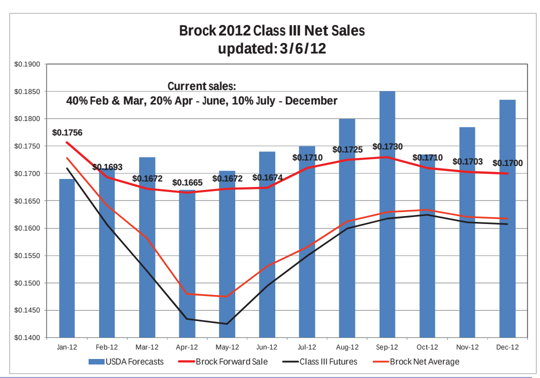
BROCK ASSOCIATES 2012

Class III Milk: Commitments of Traders

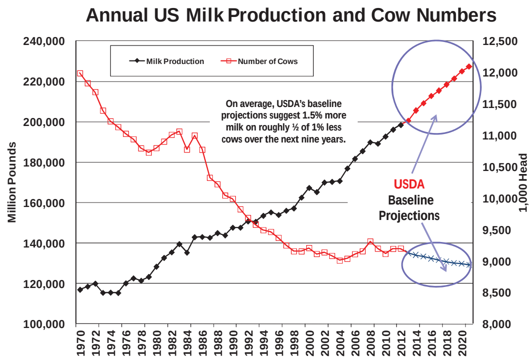
Futures and Options Combined, as of February 28, 2012



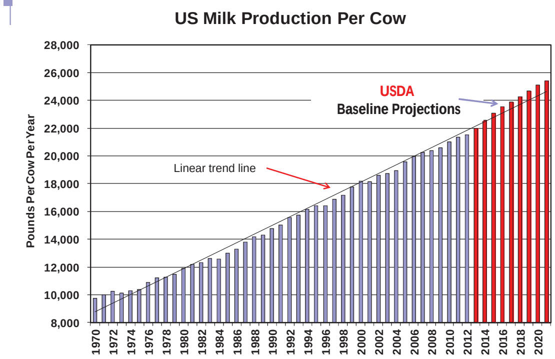
BROCK ASSOCIATES 2012



BROCK ASSOCIATES 2012



BROCK ASSOCIATES 2012



BROCK ASSOCIATES 2012

Dairy Summary

- The current oversupply of milk will cause cheese inventory to build.
- Processors would rather hedge forward expected demand than own an inventory, easy to get out if the business doesn't show up.
- Powder and butter exports will need to pick up to balance the current excess milk supplies.
- Greek yogurt growth & sales remains exponentially high.
- Dairy cow slaughter will trend up after cow milk production peak out.
- Principal crops will see higher planted acres in 2012 but not hay acres.

BROCK ASSOCIATES 2012

In Summary

- **The world economic climate is one of the biggest issues impacting commodity prices today.**
- **China growth continues to be the biggest factor for soybean and cotton prices.**
- **Forget what worked in marketing last year. It will not work this year.**
- **Enjoy the good times!**

BROCK ASSOCIATES 2012

BROCK ASSOCIATES

For More Information on the Brock Report, write, email or call

BROCK ASSOCIATES
2050 W. Good Hope Rd.
Milwaukee, WI 53209
(800) 558-3431
www.brockreport.com
rabrock@brockreport.com

BROCK ASSOCIATES 2012