

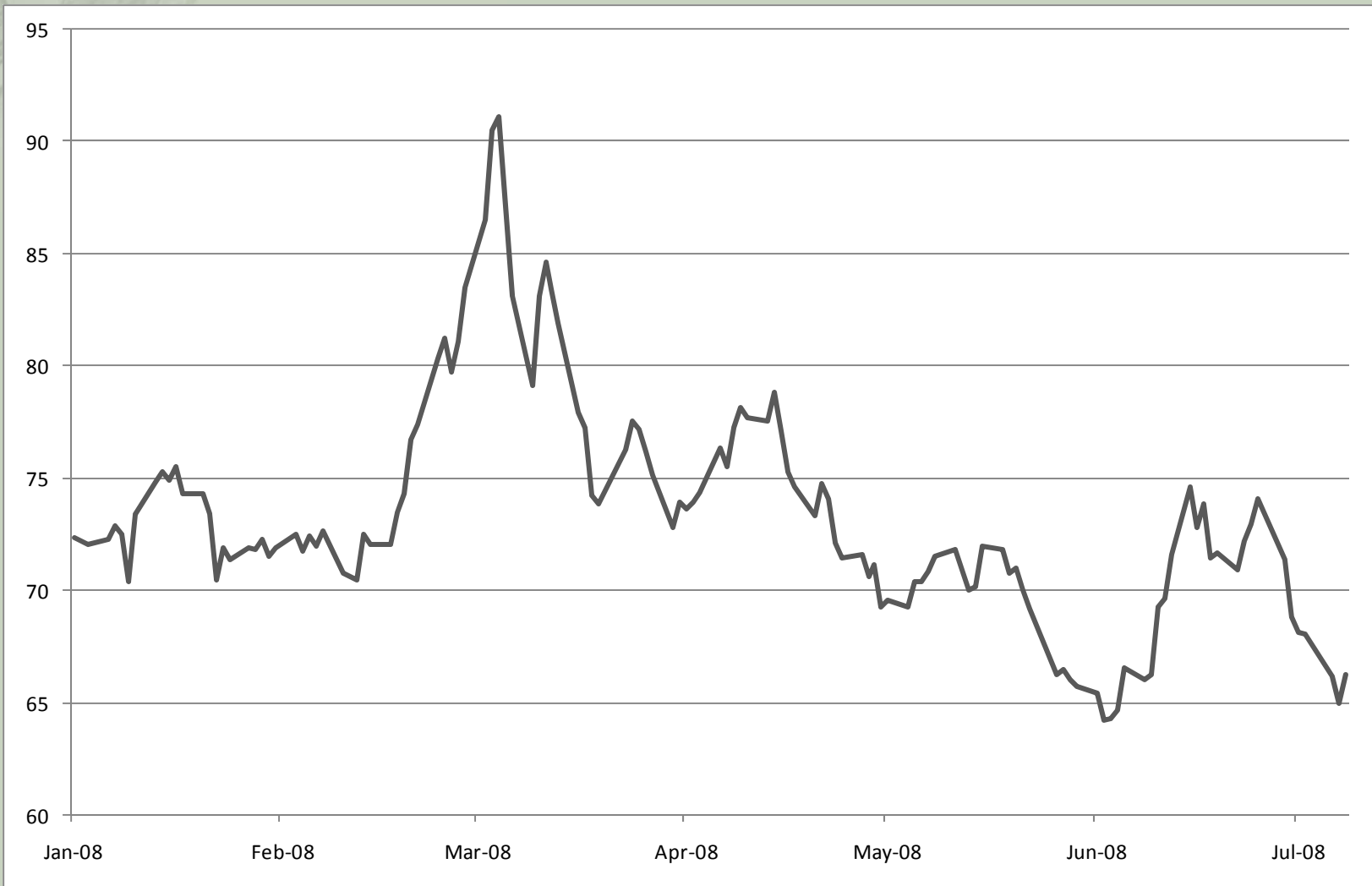
USDA Agricultural Outlook Forum 2009

From an Index/Hedge Fund Perspective: Commodities as an Investment – Impact on Futures Markets

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Cotton - July 2008 Contract



All Funds Are Not Alike

> Traditional Speculators

- CTAs
- Locals

> The New Guys

- Index replicators
- ETFs

Commodities As An Asset Class

> Traditional Role of Speculative Capital

- Bridge between buy side and sell side hedgers
- Two sided nature of the asset class

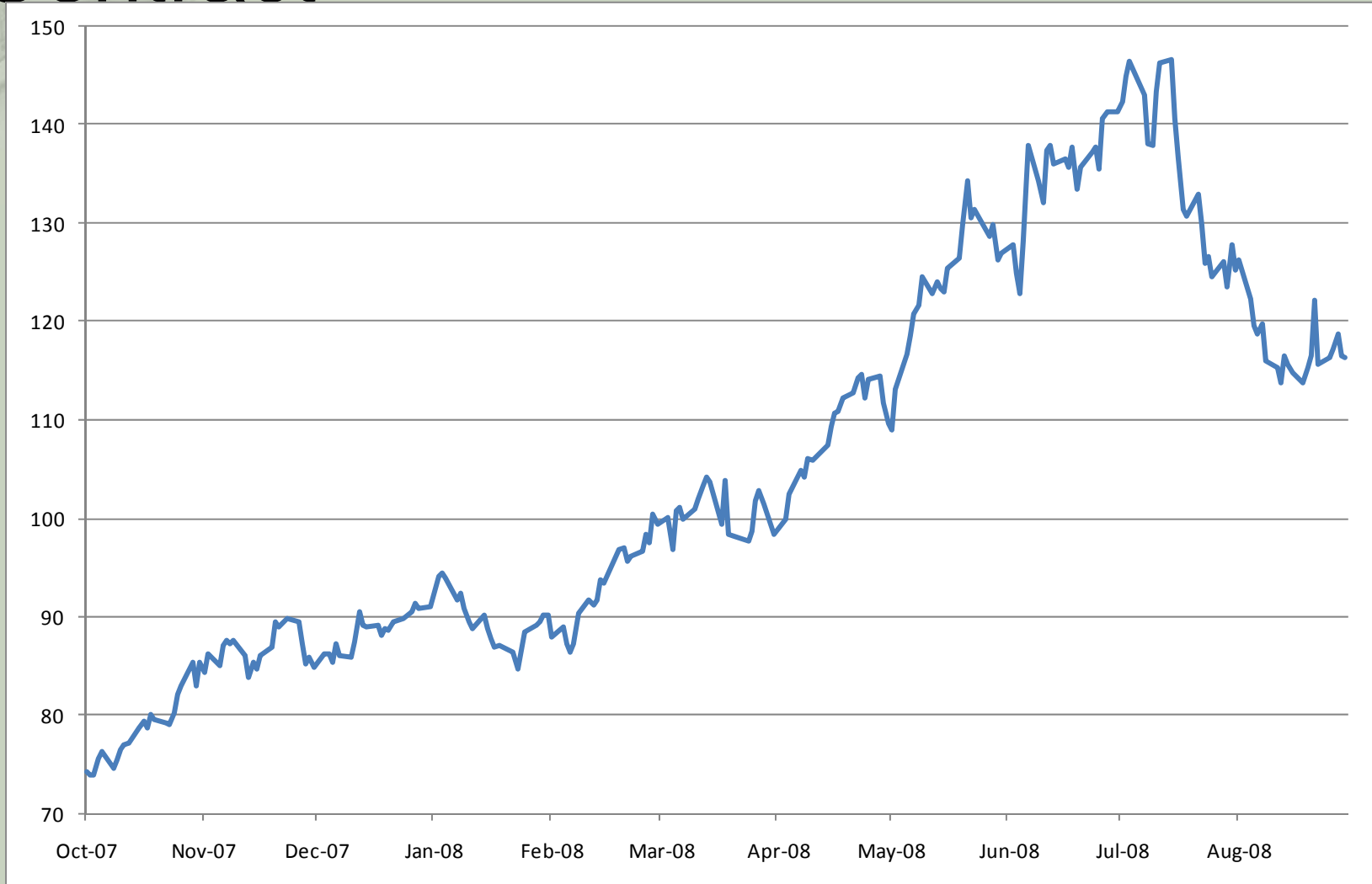
> Nouveau View

- Long only commodities for portfolio diversification
- Rationale for Return has Changed
 - From “Roll Yield” to ...
 - Let’s get Long

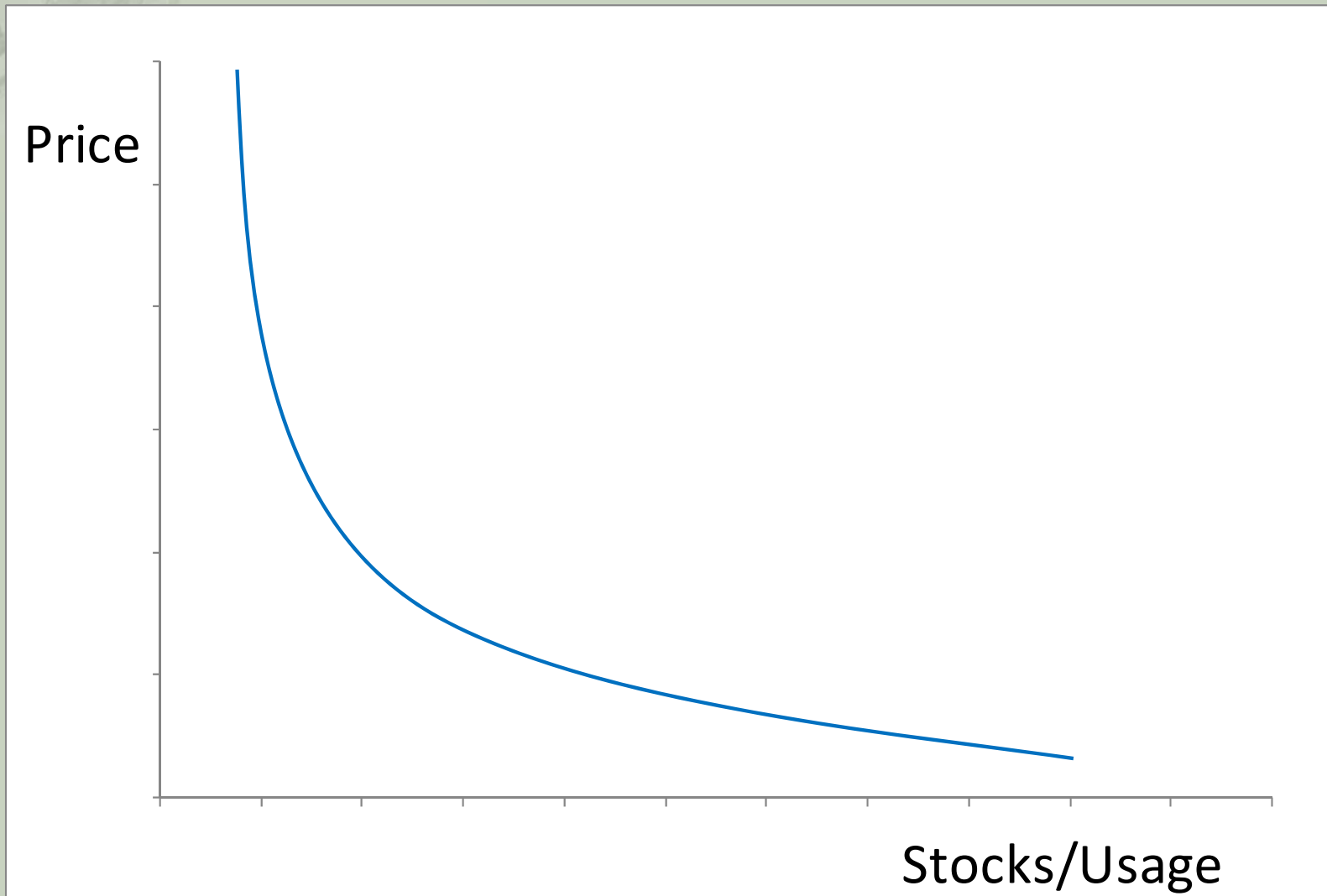
Impact On The Market

- > Index players are a large well capitalized long
- > Leads to:
 - Higher Prices
 - It's a short Squeeze
 - Basket Effects
 - Basket traders force strange correlations
 - Basis Impact
 - Very strange activity as contracts go off the board

Crude Oil – December 2008 Contract



The First Thing I Learned



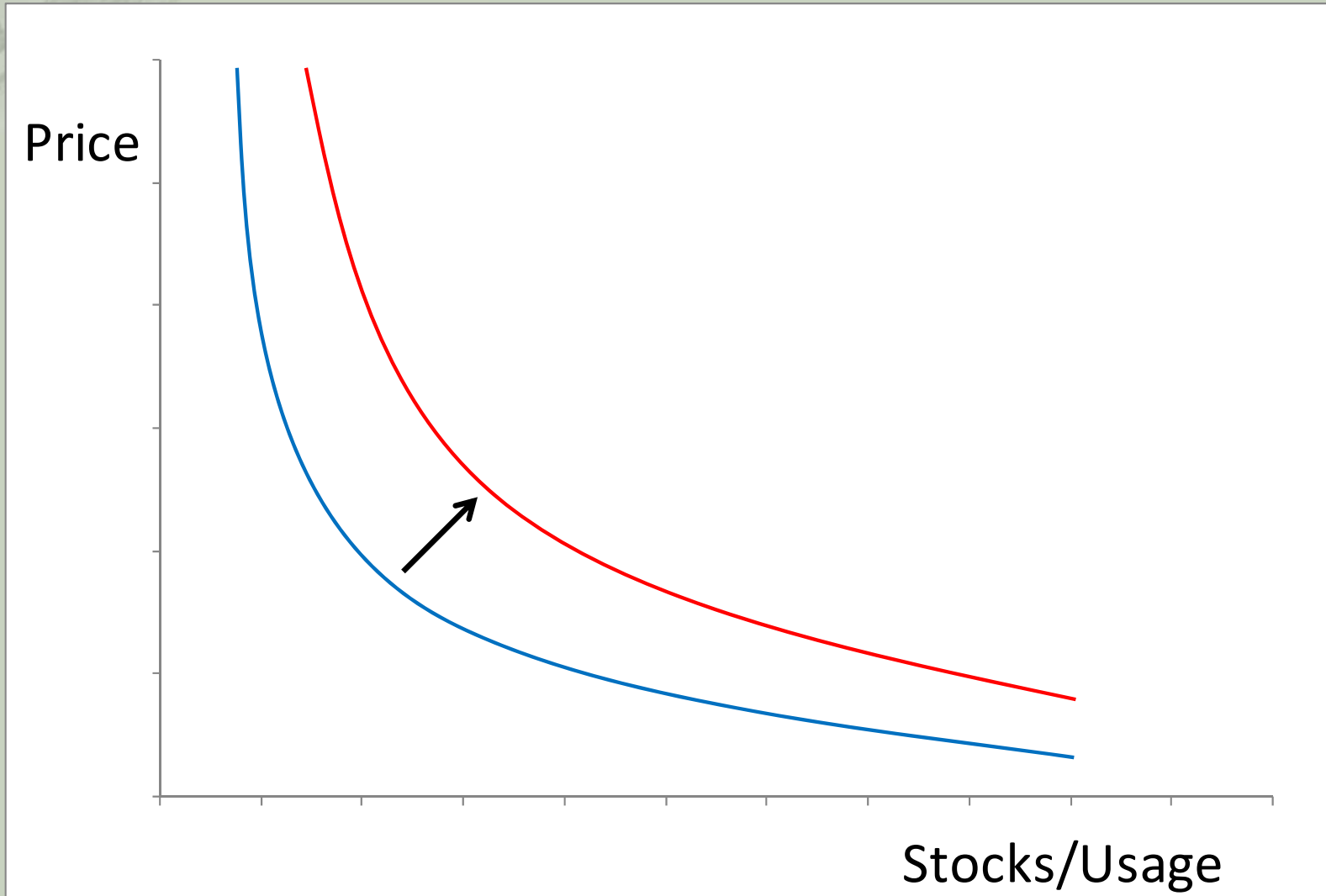
Balance Table: Corn

Exhibit 1: U.S. Corn Supply & Use

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08E	Jan 2008/09E	Feb 2008/09E
Area (Millions of Acres)												
Planted	80.2	77.4	79.6	75.7	78.9	78.6	80.9	81.8	78.3	93.6	86.0	86.0
Harvested	72.6	70.5	72.4	68.8	69.3	70.9	73.6	75.1	70.6	86.5	78.6	78.6
Yield per Harvested Acre	134.4	133.8	136.9	138.2	129.3	142.2	160.4	148.0	149.1	151.1	153.9	153.9
Beginning Stocks (M bushels)	1,308	1,787	1,718	1,899	1,596	1,087	958	2,114	1,967	1,304	1,624	1,624
Production	9,759	9,431	9,915	95	8,967	10,089	11,807	11,114	10,535	13,074	12,101	12,101
Imports	19	15	7	10	14	14	11	9	12	20	15	15
Supply, Total	11,085	11,232	11,639	11,412	10,578	11,190	12,776	13,237	12,514	14,398	13,740	13,740
Feed and Residual	5,471	5,664	5,842	5,864	5,558	5,789	6,162	6,141	5,598	5,974	5,300	5,300
Food, Seed & Industrial	1,846	1,913	1,957	2,046	2,340	2,537	2,686	2,981	3,488	4,364	4,900	4,900
Ethanol for Fuel	NA	NA	NA	NA	NA	1,168	1,323	1,603	2,117	3,026	3,600	3,600
Domestic, Total	7,318	7,578	7,799	7,911	7,898	8,335	8,848	9,122	9,086	10,338	10,200	10,200
Exports	1,981	1,937	1,941	1,905	1,592	1,897	1,814	2,147	2,125	2,436	1,750	1,750
Use, Total	9,298	9,515	9,740	9,815	9,491	10,232	10,662	11,270	11,210	12,774	11,950	11,950
Ending Stocks, Total	1,787	1,718	1,899	1,590	1,087	958	2,114	1,967	1,304	1,624	1,790	1,790
Stocks/Use Ratio	19.2%	18.1%	19.5%	16.2%	11.5%	9.4%	19.8%	17.5%	11.6%	12.7%	15.0%	15.0%
Avg. Farm Price (\$/bu) LOW	\$1.94	\$1.82	\$1.85	\$1.97	\$2.32	\$2.42	\$2.00	\$1.95	\$3.00	\$4.10	\$3.55	\$3.65
Avg. Farm Price (\$/bu) HIGH	\$1.94	\$1.82	\$1.85	\$1.97	\$2.32	\$2.42	\$2.10	\$2.00	\$3.08	\$4.30	\$4.25	\$4.15

Source: USDA WASDE

Higher Prices?



Alternative Reasons

- > Everyone tells me its different
 - China
 - Ethanol
 - People have to eat
- > Market still has to clear