

KEY INDICATORS

March 11, 2013

Volume 5 Number 10



THE MARKETS WE GREET THIS WEEK...

- ...are casting the US as the world economic health leader.
- *The Wait: The New York Times* says prospective employers are taking their time... American employers have a variety of job vacancies, piles of cash and countless well-qualified candidates. But despite a slowly improving economy, many companies remain reluctant to actually hire, stringing job applicants along for weeks or months before they make a decision. If they ever do. The number of job openings has increased to levels not seen since the height of the financial crisis, but vacancies are staying unfilled much longer... <http://nyti.ms/Wv5Paa>
- *Back in the Saddle: The Wall Street Journal* reports on consumers reclaiming strength... American consumers' belt-tightening is finally coming to an end. For the past four years, U.S. consumers have repaired their balance sheets from the damage of the housing crash and recession by paying down their debt or walking away from it—a process economists call "deleveraging." Now fresh data suggest a growing number of Americans are reversing course and becoming more comfortable borrowing—a development that could fuel more spending and give the sluggish recovery a lift. U.S. households ramped up their borrowing at an annualized rate of 2.4% in the final three months of 2012, the biggest jump since the beginning of 2008, according to a Federal Reserve report released Thursday. <http://on.wsj.com/14yLxhw>
- *USA Yes: Warren Buffet* published his annual letter to shareholders. As ever, it is a good read... There was a lot of hand-wringing last year among CEOs who cried “uncertainty” when faced with capital allocation decisions (despite many of their businesses having enjoyed record levels of both earnings and cash). At Berkshire, we didn't share their fears, instead spending a record \$9.8 billion on plant and equipment in 2012, about 88% of it in the United States... Charlie and I love investing large sums in worthwhile projects, whatever the pundits are saying. We instead heed the words from Gary Allan's new country song, “Every Storm Runs Out of Rain.” We will keep our foot to the floor... Opportunities abound in America. <http://bit.ly/XLLAjo>
- Reports this Week: Retail Sales (Wed); PPI (Thu); CPI, Capacity Utilization (Fri).

FINANCIAL US EQUITIES



- US equities continued to run, with the S&P500 closing at 1,551.2, up 2.2%, the Dow Industrials reaching a new record and closing at 14,397.1, up 2.2% and the NASDAQ at 3,244.4, up 2.3%.
- The New York Times reports: *No member of the Dow industrials has done better in the stock market since the last peak than Home Depot. Shares of the company are 108% higher than they were in October 2007, closing at \$70.47 on Tuesday. The company's market value has risen by \$50 billion.*

KEY INDICATORS

FINANCIAL US DOLLAR



- The US Dollar strengthened, with the USDX closing at 82.77, up 0.6% to the highest level since August. Euro/USD: 1.3006, down 0.8%.
- CNBC: *Societe Generale believes there is more [US Dollar strength] to come... "The dollar rally is just beginning," the bank's forex experts said in a research note... "The Fed's DNA hasn't changed, the dollar is still the world's reserve currency and that allows Ben Bernanke to keep rates absurdly low, but U.S. economic recovery, however 'new normal', is dollar-positive."*

FINANCIAL CHINA EQUITIES



- The Shanghai Composite closed at 2,318.6, down 1.7%.
- Outgoing Premier Wen: *We should unswervingly take expanding domestic demand as our long-term strategy for economic development.*
- Wen also issued a 2013 GDP growth rate target of 7.5%, same as for 2012, and acknowledged, according to wire reports, a “growing conflict between downward pressure on economic growth and excess production capacity.”

FINANCIAL VOLATILITY



- As US equity prices rallied, volatility was tamed, dragging the VIX back down to 12.59, down 18.0% on the week.
- *The Wall Street Journal reports: “The VIX points to a rational move higher for stocks,” said Mark Sebastian, COO at consulting firm OptionPit. “The market looks much more comfortable with what is going on than it did back in 2007... The summer of 2007, the market was not slow. That period was crazy, with things moving around pretty aggressively...”*

FINANCIAL GOLD

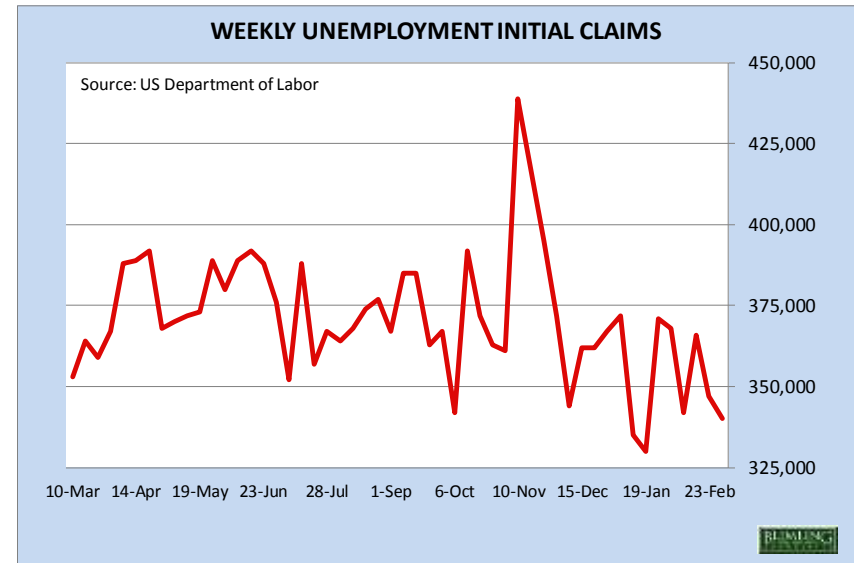


- The gold market had shaky moments but held on, closing unchanged at \$1,576.40 per ounce.
- CNBC reports: *Nomura forecast gold prices will fall in 2013, on Thursday, becoming the latest bank to turn bearish... “For the first time since 2008, in our view, the investment environment for gold is deteriorating as economic recovery, rising interest rates and still benign Western inflation (for now) will likely leave some investors rethinking their cumulative \$240 billion investment in gold over the past four years.”*

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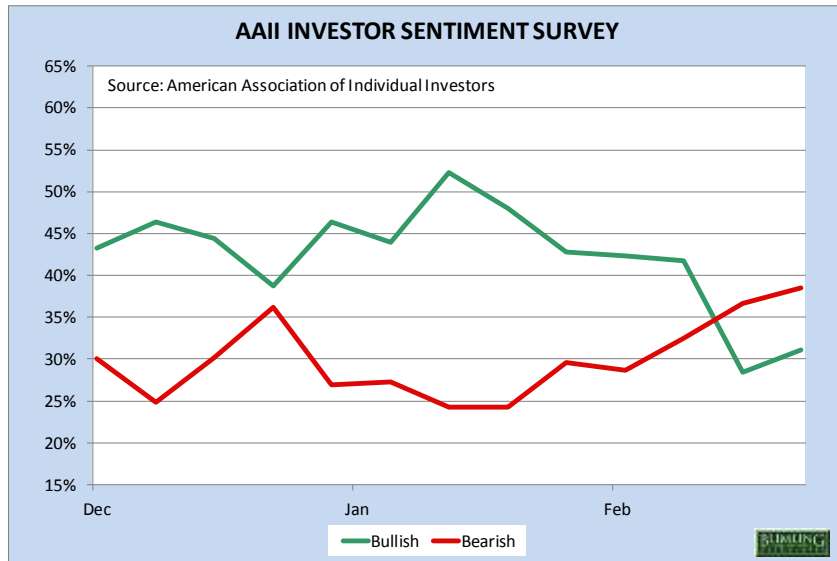
March 11, 2013 - 5 -

MACRO JOBLESS CLAIMS



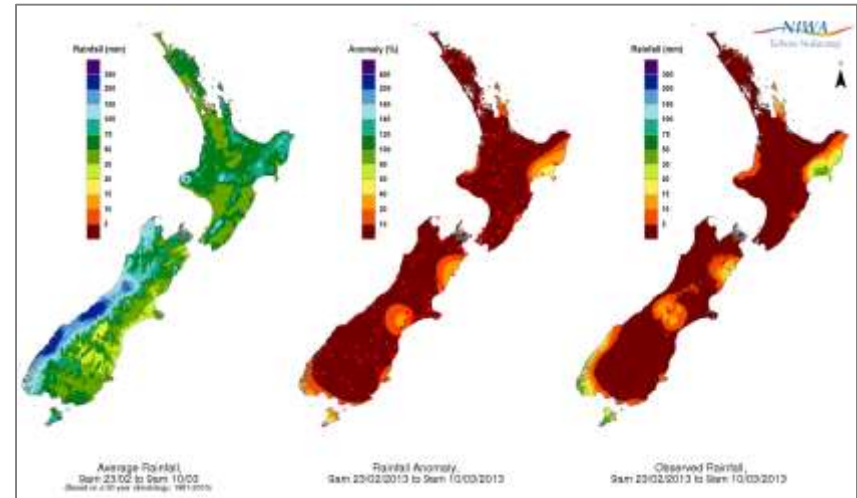
- Initial jobless claims fell during the week ending March 2, with the US Department of Labor reporting 340,000 filings, down 7,000 from the week prior and down 25,000 year-over-year.
- Gallup: *The U.S. Payroll to Population employment rate (P2P), as measured by Gallup, was 43.3% for the month of February, down from 43.6% in January. This also reflects a decline from the 43.6% P2P rate of February 2012, and is the lowest P2P rate since April 2011's 43.3%.*

MACRO AAII BULL/BEAR



- Individual investor sentiment was net negative for the second consecutive week, with the AAI survey showing 31% bullish (up from 28%), 30% neutral (down from 35%) and 39% bearish (up from 37%).
- SentimenTrader says that 46% of the “Smart Money” is confident in a rally, with 58% of the “Dumb Money” confident in same.
- Market Vane’s survey shows 69% bullish, which is in the upper end of the historical range.

WEATHER NEW ZEALAND



- Conditions in New Zealand are dry, with little rainfall across the country over the past 15 days.
- *The New Zealand Herald reports: The drought is rapidly working its way down the country, and with NIWA predicting no change to the weather until at least mid-March, farmers from as far afield as Southland are suffering. Northland, Auckland, Waikato, Bay of Plenty and Hawkes Bay have all been officially declared drought zones, while farmers from Manawatu-Rangitikei hope to follow suit next week.*

MACRO EMPLOYMENT

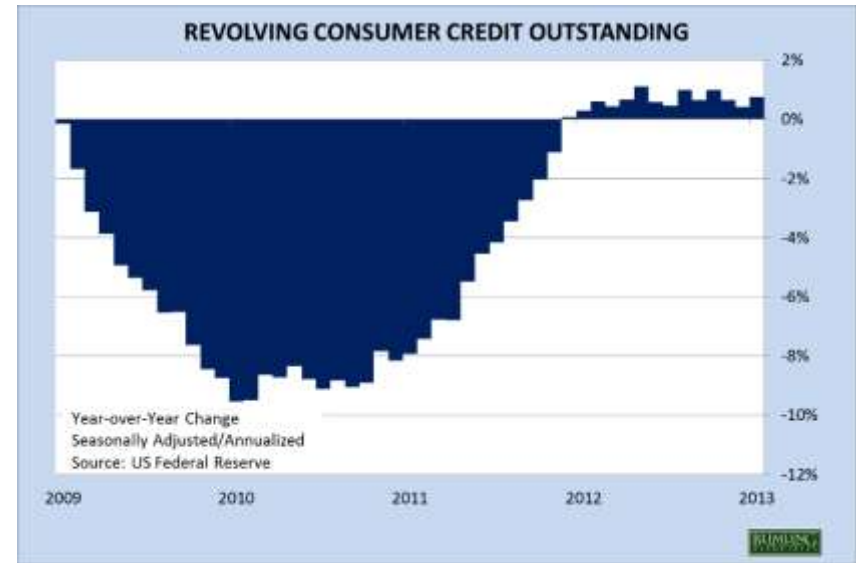


- Net employment in the US grew by 236,000 jobs in February, outpacing expectations.
- Performance compared to +119,000 in January and +271,000 in February 2012.
- The US Department of Labor said the unemployment rate was 7.7%, down from 7.9% in January.
- Average workweek was unchanged at 34.5 hours.
- Labor participation rate was down to 63.5%.

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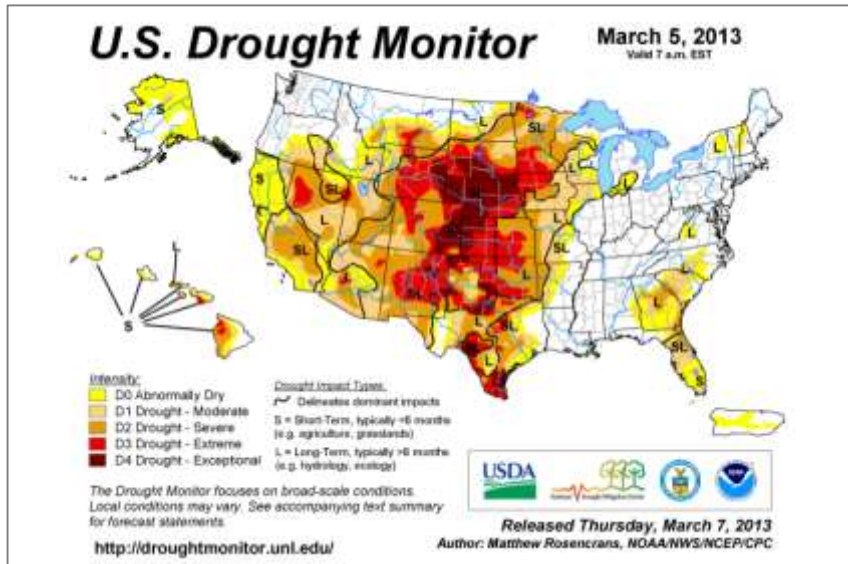
March 11, 2013 - 8 -

MACRO CONSUMER CREDIT



- Consumer credit expanded in January, with Federal Reserve data showing the total outstanding up 0.6% month-to-month and up 5.8% year-over-year on an annualized, seasonally-adjusted basis.
- Revolving credit was unchanged from December and up 0.8% year-over-year while non-revolving credit gained 0.8% and 8.2%, respectively.
- Actual growth in credit outstanding was up \$16.2 billion, well ahead of expectations.

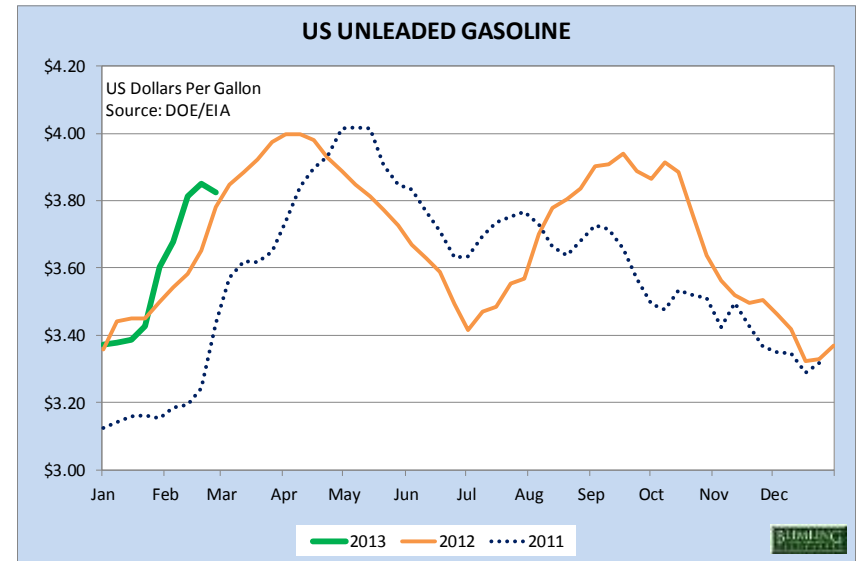
WEATHER US DROUGHT



- From Climate Central: According to the latest NOAA outlook, drought is forecast to develop and persist in both Texas and Florida this spring, but also may expand in the West and intensify in California and southern Oregon. The normal wet season in California begins to wind down in March, and precipitation is usually scarce by May. Parts of the West have already had well below normal amounts of precipitation for the winter season, and if that trend continues through spring, the drought could intensify significantly.

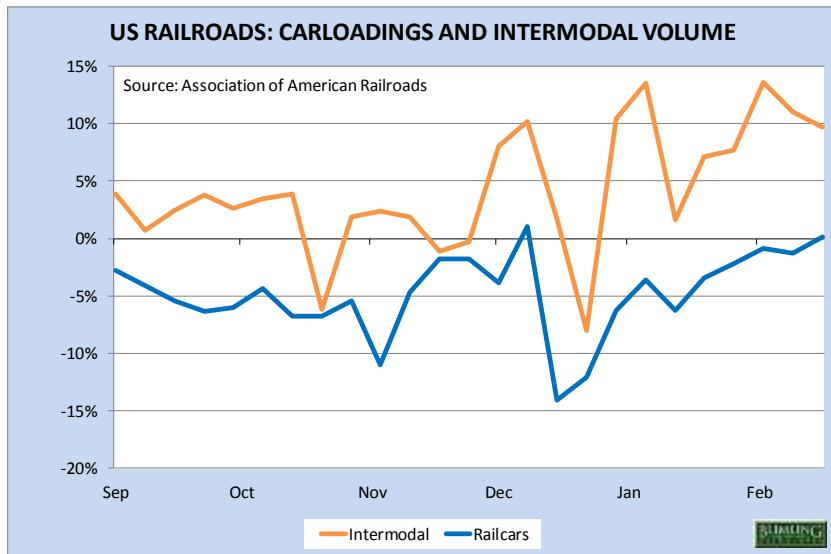
KEY INDICATORS

COMMODITIES GASOLINE



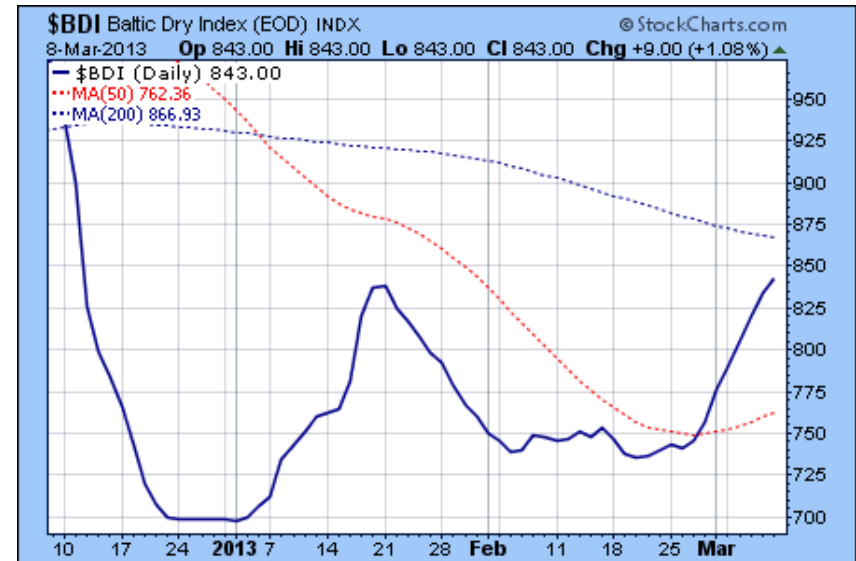
- Unleaded gasoline prices declined for the first time in 11 weeks during the week ending March 4, with all grades of unleaded averaging \$3.826 per gallon, down two cents.
- CNBC reports: Analysts said the gasoline price slide could continue. “The savings could widen out to 20 cents to 25 cents per gallon this month,” said OPIS analyst Tom Kloza. “The expanding gap should come as much cheaper wholesale prices work their way downstream...”

MACRO US RAIL TRAFFIC



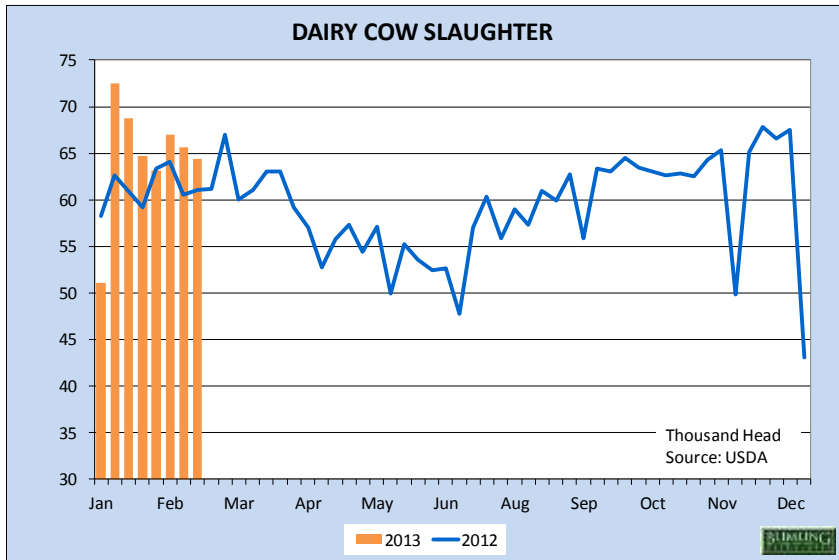
- Railcar loadings for the week ending March 2 gained 0.2% year-over-year, the first increase in 2013. Intermodal traffic was up 10% on a year-over-year basis.
- AAR SVP John T. Gray: *Rail intermodal traffic continues to grow... February saw the first double-digit year-over-year increase in two years. Shippers find intermodal appealing for a lot of reasons, including fuel savings, higher trucking costs, and service that has become much better in recent years.*

MACRO BALTIC DRY INDEX



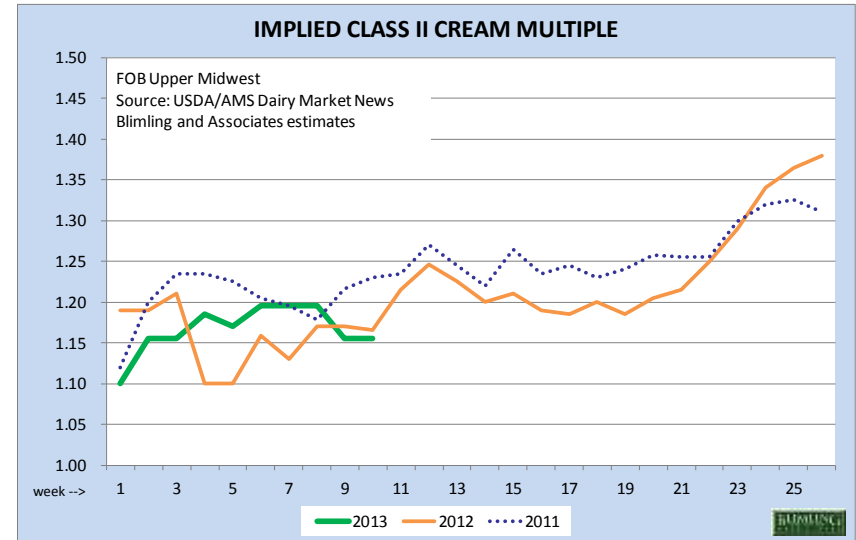
- The Baltic Dry Index rose to its highest level this year, with settlement Friday at 843, up 8.6%.
- The *Financial Times* reports: *Brazil's Congress is expected to release a R\$54bn reform package for the country's ports to boost their capacity and make them more efficient. But, for once, getting the measure passed will be the easy part. The improvements, which have generally been welcomed by analysts, faces opposition from port operators and dockside unions, who staged a strike last month against the plans.*

DAIRY SLAUGHTER



- US dairy cow slaughter is still running ahead of year-prior levels, if not quite squarely in the herd contraction zone. For the week ending February 23, USDA reported slaughter at 64,369 head, down 1.9% from the week prior but up 5.4% on a year-over-year basis.
- Reuters reports: *Investors cited cash cattle that traded in the southern Plains at \$128 per cwt, which was steady with last week. But traders had anticipated a higher cash market given strong beef demand and improved beef packer margins.*

DAIRY CREAM MULTIPLES

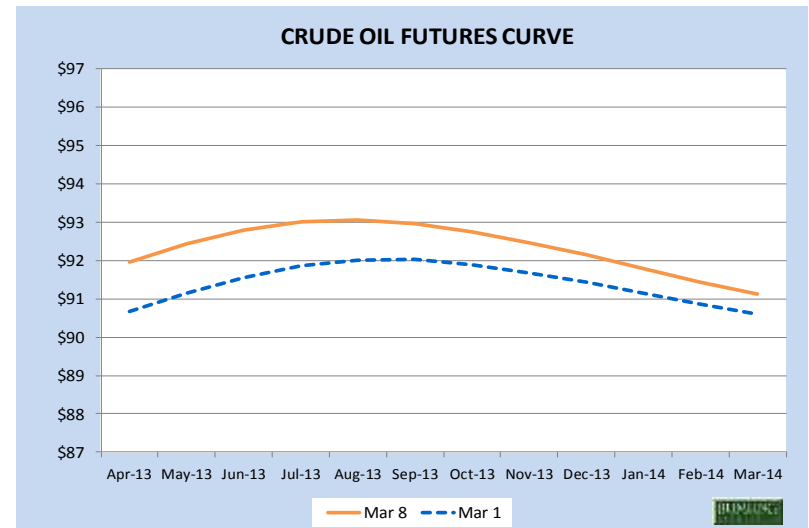
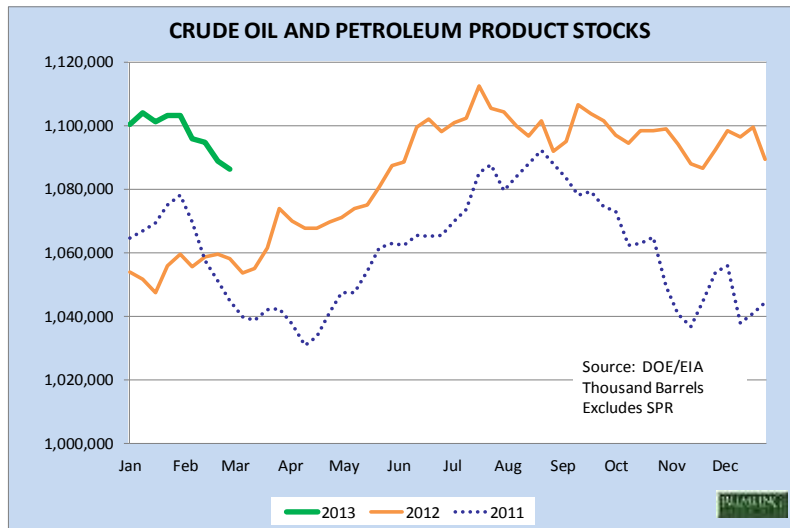


- USDA/AMS data implied a cream multiple of 116, steady with the week prior and down one point from a year ago.
- Dairy Market News reports: *Cream multiples retreated from some gains on the low side of the range. Central Class II cream multiples range from 1.10 to 1.21. Cream market participants indicate ice cream and mix plants are producing at seasonal rates but those rates diverge from North to South.*

COMMODITIES

CRUDE OIL

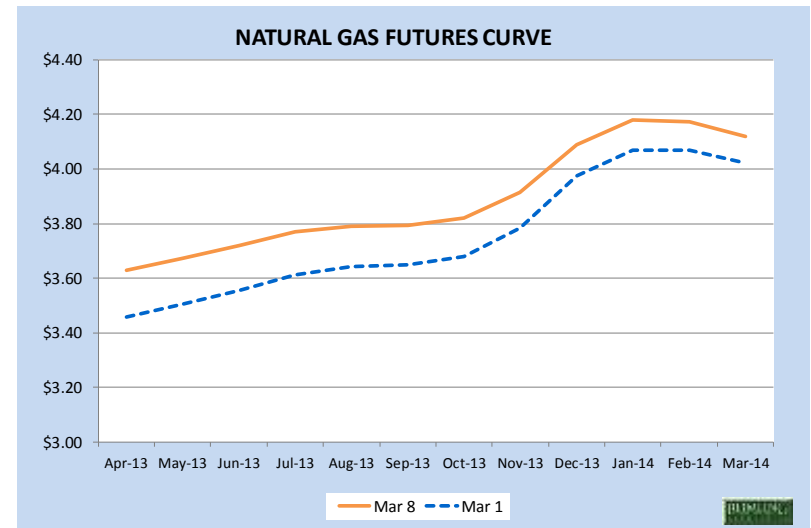
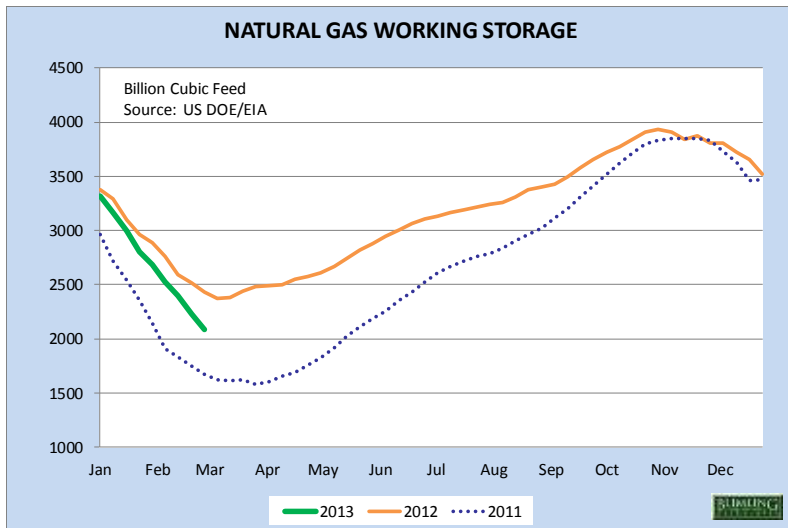
- WTI crude oil prices moved higher, with nearby futures closing at \$91.95 per barrel, up 1.4%.
- Petroleum inventories: up 2.7% year-over-year.
- The *Financial Times* reports: Brent oil prices have found a new normal: the five-year forward futures have been anchored in the \$90-\$110 per barrel range for some time. But in a recent paper, the OECD forecasts a Brent price of \$190 per barrel in today's money by 2020, with the possibility of it climbing to as high as \$270 a barrel.



COMMODITIES

NATURAL GAS

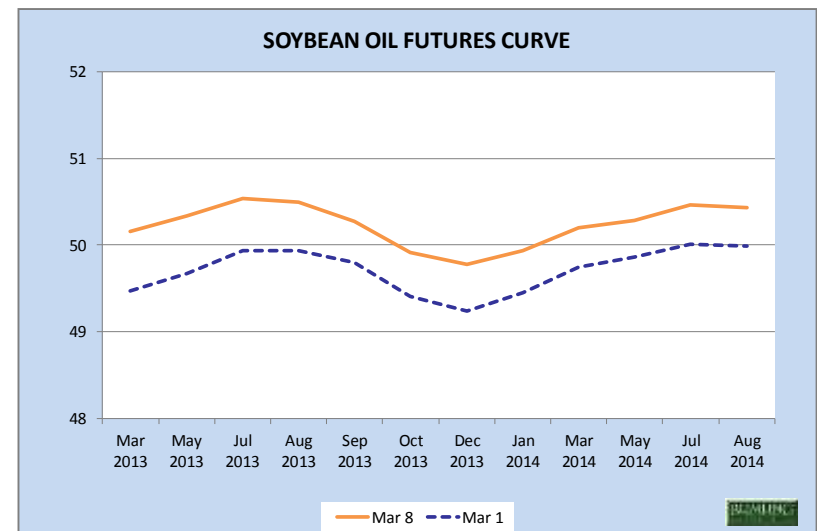
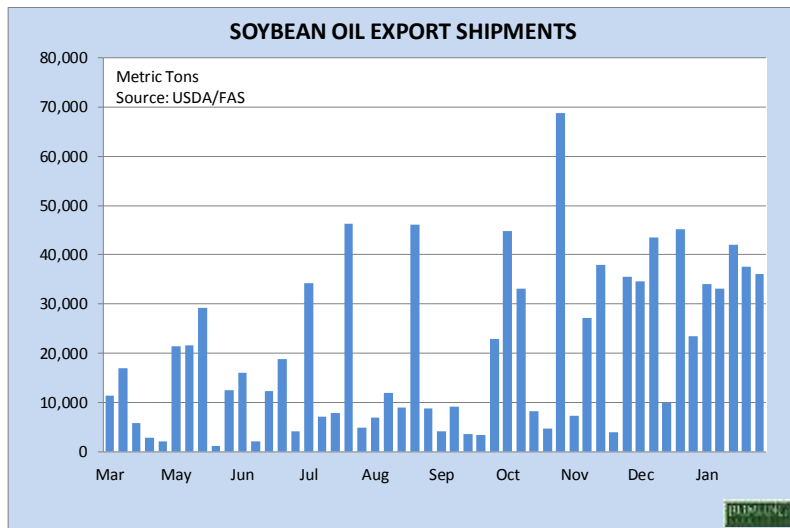
- Natural gas prices climbed to the highest level since November, with nearby futures closing at \$3.629 per mmbtu, up 5.0%.
- Inventories came in at -6.6%, well ahead of the five-year average of -5.5%.
- The Wall Street Journal* reports: “We had a real bullish surprise in terms of today's [inventory] number,” said Brison Bickerton of Freepoint Commodities. “The market really got this number wrong.” Current weather forecasts call for below-normal temperatures to persist.



COMMODITIES

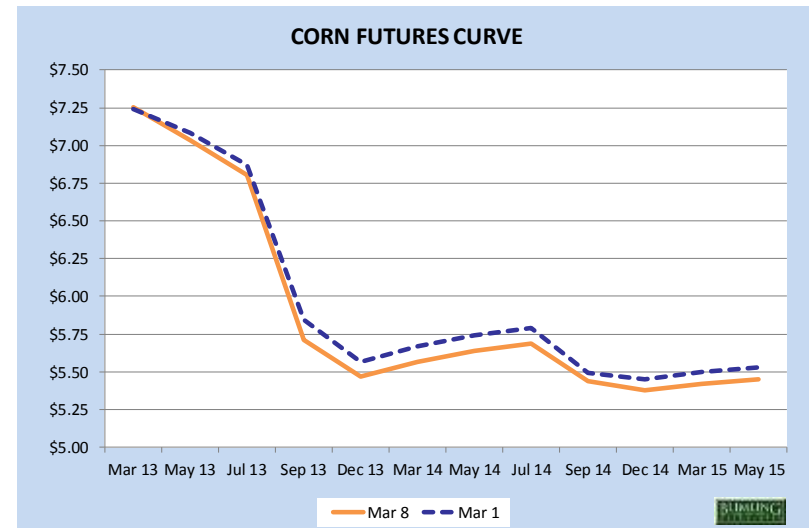
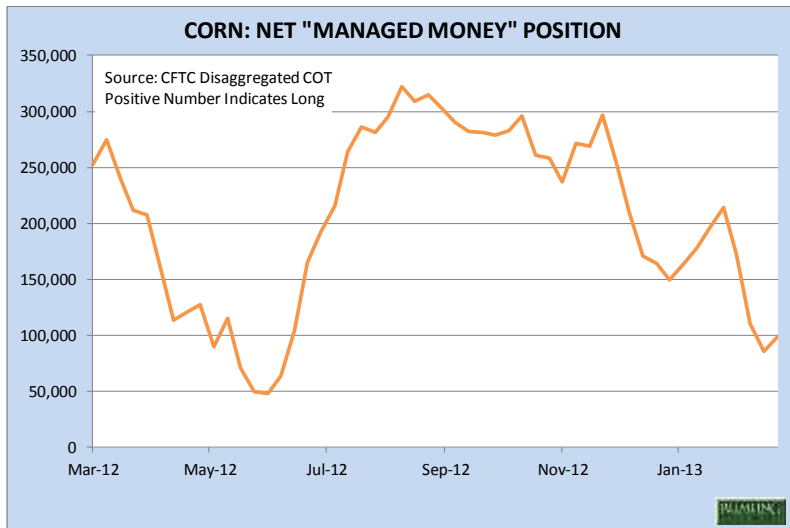
SOYBEAN OIL

- Soybean oil prices moved higher, with nearby futures closing at 50.16 cents per pound, up 1.4% on the week.
- USDA forecast soybean ending stocks at 125 million bushels, unchanged from the February estimate but ahead of the consensus pre-report call for 120 million bushels.
- Export shipments totaled 36,016 metric tons. Net sales reflected cancellations: -19,681 metric tons, the worst showing for any week since 2010.



COMMODITIES CORN

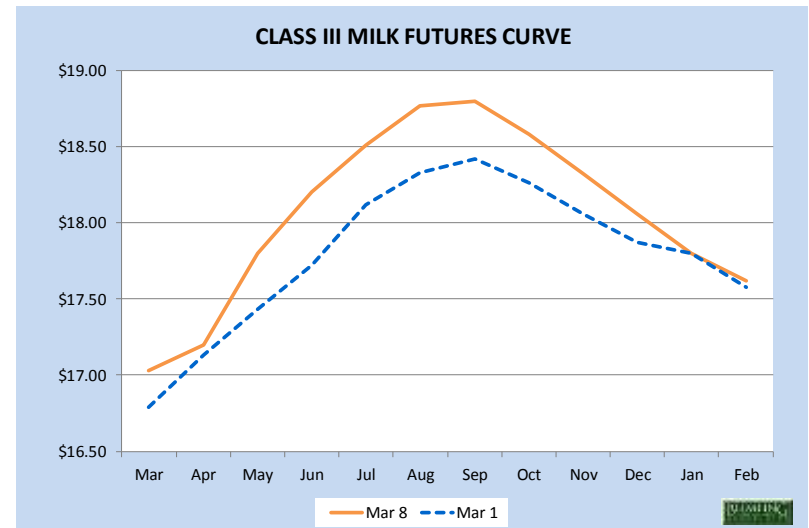
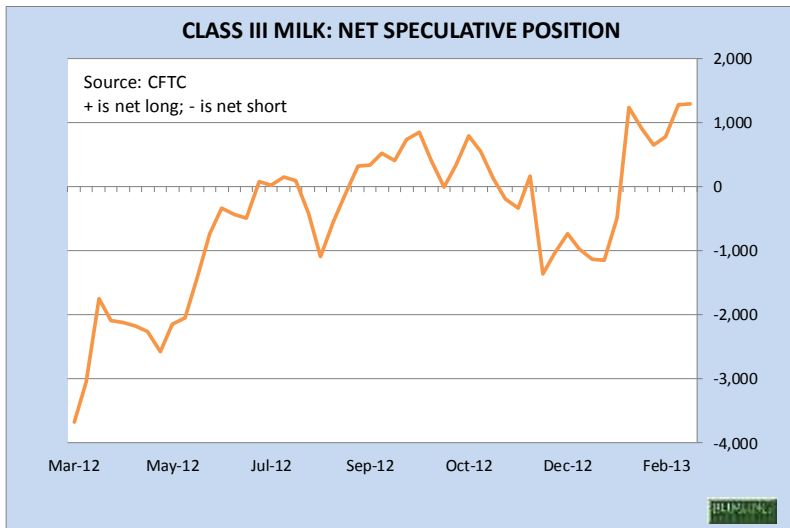
- May corn futures prices managed to hang onto the \$7 per bushel level, but not without struggle. Settlement Friday was at \$7.0350 per bushel, down 0.7%, with trading between \$6.8200 and \$7.2175.
- The market managed to rally off its lows on Friday after the USDA called for ending stocks at 632 million bushels, unchanged from the February figure but below the average pre-report estimate for 643 million bushels.
- Export shipments totaled 367,240 metric tons.



COMMODITIES

CLASS III MILK

- New Zealand drought and resulting strength in the latest GlobalDairyTrade auction were likely the primary driver of stronger dairy commodity prices in the US – including an uptick in the block and barrel cheddar markets.
- As a result, Class III milk futures traded higher, with March 2013 through February 2014 contracts closing at an average of \$18.06 per hundredweight, up 27 cents; contracts for the second quarter of 2013 closed at \$17.75, up 31 cents, with July through December gaining 33.



COMMODITIES

SOFTS

- The sugar market bounced back, with nearby futures closing at 18.75 cents per pound, up 5%.
- Bloomberg reports: *Sugar output in Brazil's center south, the main growing region, may be little changed from last year even as the cane crop rises because producers are set to make more ethanol, according to Deutsche Bank AG.*
- Cocoa prices moved higher, too, with nearby futures closing at \$2,120 per metric ton, up 2%.
- Coffee prices were basically unchanged, with nearby futures at \$1.4405 per pound.





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