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Conference Call Transcript

ADM - Q2 2011 Archer Daniels Midland Company Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2011 Archer Daniels Midland Company earnings conference call. My name is Diana and I will be the operator for today. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions).

As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over your host for today, Mr. Dwight Grimestad, Vice President of Investor Relations.

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Dwight Grimestad - *Archer Daniels Midland Company - VP IR*

Good morning and welcome to ADM's second-quarter earnings conference call. Before we begin, I would like to remind you that we are webcasting this presentation on our website, ADM.com. The replay will also be available at that address.

For those following the presentation, please turn to slide two, the Company's Safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, the Company performance and financial results.

Statements are based on many assumptions and factors, including availability and prices of raw materials, market conditions, operating efficiencies, access to capital and actions of government. Any changes in such assumptions or factors could produce significantly different results.

To the extent permitted under applicable law, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events.

Slide three lists the matters we will discuss on our conference call today. I will now turn the call over to our Chairman and Chief Executive Officer, Pat Woertz.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Thank you, Dwight. And welcome everyone to our second-quarter conference call. This quarter we are hosting our conference call from Europe, as we have spent a week with our European team and ADM's Board of Directors reviewing our operations here.

I will begin, as always, with safety. During the quarter we reduced our lost workday injury rate by another 5% and total recordable incident rate by 15% compared to fiscal 2010. We continue to make important progress on safety.

Turning to our financial results, this morning we reported net earnings of $732 million or $1.14 per share on a fully diluted basis, a 30% improvement versus the prior year. Operating profits improved by 40%. Excluding the large LIFO charge and other specified items that Ray will discuss in a moment, ADM earned $1.29 per share.

I am very happy to say that the ADM team delivered outstanding performance across the board, resulting in record operating profit. Amid strong demand and regional dislocations, we used our vast global network to deliver for our customers and for our shareholders.

During the quarter we continued executing our strategy to drive profitable growth. In North America at the end of December we acquired the remaining 50% interest in Golden Peanut, the largest US handler, processor and exporter of peanuts. This is a business that fits well with our existing US oilseed and export operations and will support our growth objectives in the global oilseeds business.

We are enhancing our US origination footprint with the construction of an elevator in South Dakota and two elevators in Nebraska. In South America we opened the first large-scale fertilizer blending plant in Paraguay. This plant, located on the Paraguay River in Villeta will strengthen ADM's connection to the country's growing agricultural sector. The soybean processing facility that we discussed last quarter is being constructed adjacent to the plant.

Also in January we founded the ADM Institute for the Prevention of Postharvest Loss at the University of Illinois. This global institute will work with farmers in the developing world to help reduce the 10% to 20% of the global grain harvest lost to mishandling and postharvest operations each year.

Looking ahead, global markets remain dynamic. In this environment we used ADM's exceptional capabilities, our unique global asset base, and the insights of our team to drive value and to serve vital needs.

Now I will turn the call over to Ray, who will review our results.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

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Thanks, Pat, and hello to everyone on the call today. I'm very happy to be with you to share our second-quarter results. Slide five lists our financial highlights for the quarter. We will discuss the quarterly results. We will also list the cumulative six-month results for your reference.

Overall, financial results this quarter were very strong. Segment operating profit was $1.36 billion, up $392 million or about 40% from a year ago. In a moment I will review our results on a segment by segment basis.

Quarterly net earnings were $732 million, up $165 million from last year's second quarter. Earnings per share were $1.14 compared to last year's EPS of $0.88.

Looking at our effective income tax rate for the quarter we recorded taxes at 27%, similar to our first quarter, and just down over 1% compared to second quarter of last year.

As you can see from the waterfall chart at the bottom of the page, we have called out a few items. You will note that there was a significant change in our LIFO inventory reserves due to sharp rises in commodity prices over the last three months. We recorded a charge of $158 million after-tax or approximately $0.25 per share compared to a $0.05 charge in the same period last year.

Also, we had net gains of other specified items of $64 million or $0.10 per share. These were comprised of, 1., a gain of $44 million after-tax or $0.07 per share as a result of revaluing our prior 50% interest in Golden Peanut to fair value in conjunction with our purchase of the remaining interest.

2., mark-to-market gains on interest-rate swaps that contributed $34 million after-tax or $0.05 per share. 3., startup costs this quarter of $14 million after-tax or $0.02 per share. We will discuss these in greater detail when we review our corn segment.

For simplicity these specified items are grouped together here on the waterfall chart, and we have broken them out for you in the appendix. Adjusting for these specified items, ADM earned $1.29 per share.

I would also like to note that in the second quarter we updated our estimates of the remaining service lives of various machinery and equipment assets. The new estimates of the economic lives of these assets are based upon manufacturing engineering data and analysis from completion of our major investments. The lower depreciation charge improved second-quarter earnings by $24 million after-tax or $0.04 per share. And this change will also favorably impact future quarters by a similar amount.

Slide six shows the breakdown of our segment operating profit. You will note that all segments contributed meaningfully to this quarter's record operating profit.

Let's turn to slide 7 to begin a review of each segment in greater detail. We will start with Oilseeds Processing on slide 7. Oilseeds operating profit in the second quarter was $325 million. Crushing and origination results increased $7 million to $200 million for the quarter. We balanced our operating rates by region, which enhanced overall margins.

Our acquisition of the controlling interest in Golden Peanut and the resulting revaluation generated a pretax gain of $71 million, which is included in the crushing and origination results.

South America gained from the improved fertilizer and grain origination results. European results were lower due to mark-to-market timing effects, essentially differences in how we account for changes in valuations of inventory and corresponding futures and other contracts. This negative impact was only partially offset by improved margins, including the strong softseed positioning.

Refining, packaging, biodiesel and other profit increased $2 million to $78 million for the quarter on good demand for value-added products and improved European biodiesel results, offset by weak results from South America.

Oilseed results in Asia declined $36 million to $47 million for the quarter, reflecting ADM's share of the weaker results of our equity investee, Wilmar International Ltd.

Looking at the crop, the US soybean crop, as reported by the USDA, was 3.3 billion bushels, with a yield of 43.5 bushels per acre, a slightly lower yield than the prior year. The projected US soybean carryout is 140 million bushels, which is a tight supply.

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In South America the soybean harvest has begun and its prospects seem to be improving, given better weather conditions. Blended acres were up modestly, and industry estimates put the South American soybean crop somewhere between 124 million and 127 million metric tons, down from last year's record 134 million metric tons. The global canola and rapeseed stocks to use ratio is tight, reflecting good demand and lower supplies.

As we look at current oilseed processing market conditions, global protein meal demand is projected to grow by 6% for the '10/'11 crop year led by strong demand in Asia. There has been little forward buying by protein meal customers. And US vegetable oil inventory levels remain high, but should be reduced by expected biodiesel demand.

Moving to Corn Processing on slide eight. For the quarter Corn Processing results increased $109 million to $399 million, as we were well-positioned as corn prices rose. During the second quarter Corn Processing volumes were up 24%, reflecting the ramp up of our new dry mills in Columbus, Nebraska and Cedar Rapids, Iowa.

Sweeteners and starches operating profit decreased $52 million from the prior year to $119 million due to lower average selling prices and higher net corn costs. Sales volumes were up due to improved exports sweetener shipments and stronger US demand for industrial starches.

As a reminder, our sweeteners and starches line is impacted by the transfer of starch at a market price to the bioproducts group. A year-over-year decline in this transfer price, while net neutral to Corn Processing segment, increased our reported profits in bioproducts while reducing reported profits in sweeteners and starches.

Bioproducts profit in the quarter rose $161 million to $280 million. In the quarter our ethanol volumes improved, reflecting the ramp up of our new dry mills.

And our ethanol margins rose as high world sugar prices made US ethanol the most competitive for export. This resulted in tightening of US supply and demand leading to an increase in prices, which kept up the increase in corn cost.

Bioproducts results also benefited from good lysine margins. In the quarter bioproducts recorded $22 million pretax startup costs relating to our PHA facility and our propylene ethylene glycol facility. Startup costs from these projects should become insignificant by the end of the fiscal year.

Now turning to the crop. The US corn crop, as estimated by USDA, was 12.5 billion bushels, with a yield of about 153 bushels per acre, down from the prior year's yield of 165 bushels per acre.

The corn carryout is projected to be tight at 745 million bushels, which will be a factor as farmers make their planting decisions in the next few months. As we look at current market conditions, ethanol spot margins are at or below unleaded gasoline before the $0.45 per gallon blenders' credit. Spot ethanol margins are near breakeven.

US ethanol industry exports were about 360 million gallons for the calendar year 2010, which helps support overall demand. The one-year extension of the blenders' credit and the US EPA's recent decision on enhanced blending are supportive of ethanol. Exports are expected to grow in 2011 as US corn-based ethanol remains the most competitive in the global market.

Lysine demand remained strong. Industry corn sweetener volumes, driven by exports to Mexico and Canada, continue at high levels. Industry export volumes to Mexico were about 1.5 million metric tons in 2010, up 90% versus 2009, and are projected to grow slightly in 2011.

ADM has completed sweetener contract discussions for calendar year 2011, and realized an approximately 25% price increase on sweetener contracts, which should be sufficient to improve margins despite increased corn costs.

Now let's turn to slide nine and review the operating performance of our Agricultural Services business segment. Profits in Ag Services increased $276 million to $426 million for the second quarter. Merchandising and handling profit increased $273 million to $376 million.

Conditions were very favorable for merchandising and handling in the quarter. ADM's growing global origination and export infrastructure moved large quantities of grain. We also had record ADM export volumes from the US.

In addition, the global merchandising team was successful through the quarter navigating the volatile markets. Favorable conditions included a large US harvest and strong international demand.

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Earnings from transportation operations improved on the higher barge freight rates and volumes. As you look at current market conditions, global supplies of corn, soybeans, canola and rapeseed remain dynamic. Global supply of wheat is ample, though there are some regional dislocations and quality issues.

South American farmers have begun harvesting their crops. In North America farmers are considering planting decisions. We are monitoring and will adapt to the many variables that impact global markets, including geopolitics, regional crop conditions, and potential changes in export and import regulations.

Slide 10 is an operating profit analysis of our other business units. In the second-quarter profits were $212 million, up $34 million from the prior year. Our wheat, cocoa and Gruma processing results were very similar to last year's strong results.

Other financial results rose $33 million, primarily due to reductions in provisions in our captive insurance subsidiary.

We are carefully assessing the evolving and sensitive situation in Cote d'Ivoire and the impact of the European Union sanctions on our business. A primary concern is the safety and welfare of our employees, and we hope for a quick and peaceful resolution.

Turning to slide 11, slide 11 shows the major components of our corporate line. Market prices for our LIFO-based inventories rose sharply last quarter, resulting in a charge of $254 million compared to a charge of $54 million last year.

Interest expense net is higher in the current year by $12 million. During last year's quarter approximately $21 million of our interest cost was capitalized in connection with the construction projects in progress. This has declined significantly this year, as most of the assets have now been put into service. Helping to mitigate this effect, interest cost on our long-term debt was down approximately $11 million as a result of debt retirements.

We also recognized $55 million of unrealized gains on interest rate swaps, which, as we have discussed in our first-quarter call, are related to future debt remarketing.

Our corporate costs were up due mainly to higher eliminations of minority interest income related to improved earnings of non-fully owned subsidiaries.

Slide 12 shifts to the financial statement view and shows Statement of Earnings highlights fourth quarter. Net sales and other operating income increased 32% to almost $21 billion, due to generally higher average selling prices associated with higher prices for underlying commodities and higher sales volumes as global demand was strong.

Gross profit increased $181 million or 17% this quarter due to improved volumes and higher average selling prices, offset partially by higher costs to acquire agricultural commodities and $254 million of pretax LIFO charges discussed earlier.

Selling, general and administrative expenses increased 15% to $412 million, due primarily to higher employee and benefit related costs. Other income increased $87 million to $176 million due in part to the gain on our Golden Peanut transaction, the unrealized gains on interest rate swaps, and offset by higher expense for the elimination of minority interests. And I covered the changes in income taxes earlier in the call.

On slide 13 we are comparing selected balance sheet highlights at December 31 against our June 30 balance sheet. Operating working capital has increased by $6 billion to almost $15 billion, principally on higher inventories.

Inventories have risen by about $5 billion due to a combination of significantly higher commodity prices and a seasonal buildup of inventory from the North American harvest. Inventory includes approximately $8.3 billion of readily marketable commodities as of December 31 compared to $4.9 billion at the end of June.

Total debt increased by $5 billion, mainly from borrowings of commercial paper and money market lines to help finance the higher inventory balances. Shareholders equity increased $1.3 billion during the past six months.

During the second quarter we increased the size of our US commercial paper program from $4.2 billion to $6.5 billion, and $4.3 billion was drawn at the end of the quarter.

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We continue to evaluate options to further increase and diversify our funding sources, including the debt remarketing associated with the equity units we issued in 2008. We will evaluate these funding options in conjunction with our expected needs for liquidity, including working capital to support our business and investments. Although leverage has increased, we continue to have good financial flexibility to support both our ongoing business and growth initiatives.

Slide 14 shows the significant items impacting our cash flows for the past six months compared to the prior-year's six-month period. Cash generated from operations was $1.5 billion, down slightly from the prior-year period.

Working capital increased $5.6 billion in the past six months due to significantly higher commodity prices and higher inventories, including the seasonal buildup associated with the North American harvest. The increase in working capital was funded with about $5 billion in net debt increase.

Investments in property, plant and equipment were $645 million for the past six months, significantly lower than the $939 million spent in the prior-year period. This reflects the completion of the majority of our greenfield projects.

We expect fiscal year 2011 capital spending to be approximately $1.3 billion to $1.4 billion. In fiscal year 2012 spending is expected to be below fiscal year 2011 levels, aside from any significant strategic investments. Also, in the six-month period we bought back 3 million shares for a total spend of $86 million.

In June our equity units will convert to about 44 million common shares. Consistent with our objective to increase shareholder value, our intent is to continue to buy back shares to offset within two years of the date of conversion the impact of the dilution.

Of course, we will want to ensure our balance sheet remains strong enough to support both the underlying business and to undertake significant strategic investments, and that could have an impact on the timing and the number of shares we repurchase.

Turning to slide 15, which depicts our financial return measure comparing our historical four-quarter trailing return on invested capital against our trailing four-quarter weighted average cost of capital. As you can see, our ROIC was 10%. And our WACC is currently running slightly below 7%, for a 3% positive return over our cost of capital.

At this time I will turn the call back over to Pat.

Pat Woertz *- Archer Daniels Midland Company - Chairman, CEO*

Thank you, Ray. John Rice, Steve Mills will join Ray and me for our question and answer session. So, operator, if you could please open the line for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Vincent Andrews, Morgan Stanley.

Vincent Andrews *- Morgan Stanley - Analyst*

Thanks, and good morning everyone, and congratulations on a nice quarter. Maybe just a couple of questions. First, I just want to try to reconcile some of the statements you made about the ethanol business in the quarter. First and foremost, you talked about being well-positioned on corn, which is a carryover from last quarter as well. How much longer is that well-positioned going to exist, because some of the other comments you made I want to make sure are relative to the industry versus you in terms of spot ethanol margins being about breakeven. So can we just start there?

John Rice *- Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

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Sure, Vincent, this is John. When we started the quarter ethanol margins were positive, and as we kept going through the quarter they kept getting closer to a breakeven standpoint. So right now we are close to on an overall industry basis when you look at that, fairly close to breakeven.

Now how the corn would come into play is like we have mentioned in the past, it is always on a mark-to-market at the end of any given period. Really you have to kind of look at this over a little bit longer period.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, and then the other thing I'm trying to piece out of it, is there a cost savings that you're getting from greater economies of scale from these plants as part of this too? It is just, you put up a very big number in that segment this quarter, and I think lots of people are going to want to understand what type of number to put in going forward and whether they should even consider multiplying this by 4.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Well, I was just out visiting our Columbus plant, and I was very happy with how it is operating and how the efficiencies are. And the group is still working on additional cost savings. And as we look at our metrics and what we looked before building this operation, we are very happy on the cost of this plant.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, I will leave it there and let some other probably ask the same questions.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Can I take a step back and look at a little bit bigger picture? You have the big seven projects that are out there that you guys have largely completed. Can you talk about the return on costs -- return relative to cost on capital to these projects, when you think you will be earning a return above the cost of capital for these projects, and what metrics we should think about?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

I will start, Ken, and maybe Ray or John want to jump in. I think you want to think about -- always our objective is to beat our cost of capital and in excess of that, so we looked at that going into these plants. Two of the bigger plant projects, of course, are our two dry ethanol plants. And that really depends on one's assumptions, whether they be yours or the markets' assumptions about margins associated with ethanol over the future.

We like the long-term future of ethanol. And we think that that is not only why we put these plants in place, but why we continue to run the size of our wet corn milling business the way we do as one of the options of our products from that.

So we do still expect the returns on that business to be above our cost of capital over the long-term. And, again, it depends on your views about timing of the actual markets.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

One thing I would say too is also on our two cogeneration operations are both up and running, and we are happy with the early results on that. But we are also cognizant of the fact that one time for about a two month period natural gas got very cheap. And in some of our operations we

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were able to shut down our coal boilers and actually run natural gas at those operations. So we are always looking at running whatever makes the most cost effective operation at any given time.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Great. Then my next question is on cocoa and wheat, can you talk -- you didn't really elaborate on what actually happened on the good side there. Can you just talk about is it sustainable? Have we -- what actually happened in the quarter and how sustainable it is.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

We have been -- I think last quarter we have been mentioning that cocoa margins have been getting better, have been improving. We are seeing very good demand on the powder side of the business. So we have been happy, and that seems to be the same going forward.

And the milling side, as pretty much everybody knows now that there is quality issues around the world, and we are working very well within our system to make sure we have very good quality wheat, working with our customers. That has been pretty steady going -- steady in the past, and we see that the same going forward.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Okay, thank you. Great.

Operator

Terry Bivens, JPMorgan.

Terry Bivens - ***JPMorgan - Analyst***

My question -- I just want to make sure I understand the discretionary blending picture a little bit here. Can you walk me through that briefly? And where do you think that goes given some of the things you talked about this morning with the volumes, the exports, etc.?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Maybe I will start a little bit with the update of the situation of what I think you're referring to as higher blending levels, the E15, maybe just to clarify, is that what you meant?

Terry Bivens - ***JPMorgan - Analyst***

Yes, exactly.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Okay, back in mid-October the EPA announced their approval of E15 blends for 2007 in newer vehicles. And then they did another announcement mid-January approving E15 for model years 2001 and newer, so a greater number of automobiles.

We certainly support E15, but where it can -- not all cars -- it is not necessarily widely accepted or a speed with which E15 will be within this structure. So I think it will take some time to see higher levels of blend regularly at the pumps, if you will. Maybe, John, you want to comment on the export markets.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

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The export market, as Ray mentioned in his comments, we are very competitive in the world, so that we keep seeing that increase, especially with the high price of sugar.

Terry Bivens - ***JPMorgan - Analyst***

And you would expect that level of export to continue say over the next couple of quarters at least?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Based on what we see today -- now price of sugar comes way down things can change, and relative to the price of corn, but right now, yes, especially with the South American sugar harvest pretty much complete and the ethanol industry slowing down down there right now.

Terry Bivens - ***JPMorgan - Analyst***

Okay, thank you very much.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - ***Deutsche Bank - Analyst***

Congratulations on a great quarter. John, I wanted to understand oilseeds a little better. For one, I was confused a little bit about the mark-to-market, because I thought usually there is hedge accounting. So I wanted to understand that mark-to-market issue and whether it comes back to you in future quarters.

Then, also, if you could talk about US crush margins, because they initially strengthened as the calendar turned, but then now they seem to have weakened. And we have more clarity around biodiesel and the tax incentive, so you would think that crush margins in the US would start to be stronger.

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

It is Ray here. Let me address the mark-to-market one and then John can address the margins in the future. In our inventory valuations there are certain inventories that we value at mark-to-market, and certain inventories that we value at costs. Of course, most of that we have offsetting hedge positions on it.

So in the case of the oilseeds business, we saw some mark-to-market timing effects, which primarily were related to certain inventories which we had to value at cost. So the offset was on the other side, which is basically the hedge positions, which are mark-to-market, and we took losses on those.

Over time these things will reverse. But it is going to be a function of pricing and inventory levels as well. So it is very difficult to determine when and the exact amount, but directionally you're correct, over time this should reverse.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I will answer the question on the North American crush margins. Your read was absolutely correct. We are seeing a -- we monitored our crash rates accordingly to balance supply and demand. What we see going forward with the mandate and the tax credit, we see biodiesel demand growing here in the last half of this year -- the last three quarters of this year. And things are looking a little bit better right now, I totally agree.

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Christina McGlone - ***Deutsche Bank - Analyst***

Okay, and can you explain -- I think Ray said that biodiesel in South America was weak. And I know you're expending your capacity there. So can you talk to that if that it's short-term or what exactly happened?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

That just was a short-term oversupply in the market issue. But as they keep growing their mandate we see that not being a problem going forward. I believe this is just more of a timing issue quarter-to-quarter maybe.

Christina McGlone - ***Deutsche Bank - Analyst***

Okay, and then on Ag Services if I think about the conditions in the December quarter, it seems like they're even getting better in March in terms of wheat dislocation, because now there is less European milling wheat to compete with.

And I am wondering if I am reading that right, if we can think that the conditions we saw in December are as good or if not better currently?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

You know that it's always tough to say. Things are always dynamic; they are moving. We have harvest will be coming here this summer, and so a lot has to do with how people are inventoried. Did they over-buy? But I think for the short-term here for the next couple two, three months I do agree that the US has the most high-quality milling wheat in the world, so I do expect wheat exports out of the United States.

Christina McGlone - ***Deutsche Bank - Analyst***

John, can you talk -- are you seeing anything with Egypt you are hearing about port disruptions and maybe revised LOC requirements from Egyptian traders?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

We are monitoring that situation right now. There is nothing -- we don't have any boats in the port right now, and anything we have going over there we can always divert if the situation doesn't resolve itself here.

Christina McGlone - ***Deutsche Bank - Analyst***

Last question, last year you had a mark-to-market gain in the wheat and cocoa division. And I am curious, just going back to Ken Zaslow's question, if you had any sort of gain in this quarter or if this is just purely a function of good fundamentals?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

There were some mark-to-market effects, but it was immaterial from our perspective and that is the reason why we didn't call it out.

Christina McGlone - ***Deutsche Bank - Analyst***

Okay, I will pass it on. Thank you.

Operator

Jeff Farmer, Jefferies.

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Jeff Farmer - *Jefferies - Analyst*

I just wanted to follow up on an earlier question. It sounded like you were very well-positioned in the December quarter, especially with corn. Is it fair to assume that a big chunk of that positioning rolled into the March quarter?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

No. I am sitting here trying to think exactly how to answer that question. We buy corn as we make our sales, and timing difference can come on how you bring your material costs to market.

Jeff Farmer - *Jefferies - Analyst*

Okay, and then --.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

But, Jeff, we don't provide guidance, so we are really only talking about current conditions, not expectations for our quarters' results or positioning.

Jeff Farmer - *Jefferies - Analyst*

Caller: Okay, fair enough. Then in terms of your contracted sweetners you mentioned that was up 25%. Can you give us some sense of what percentage of your volume in the sweeteners and starches segment that would represent or actually falls under that umbrella of the contract?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Somewhere between 50% to 60%.

Jeff Farmer - *Jefferies - Analyst*

Okay, and then just finally, obviously the HFCS pricing has been reset at a higher level, so the discount of sugar is going to narrow. Based on past experience what, if anything, might this mean spot demand in coming quarters? I guess, I am really trying to get at could demand or volume growth begin to trail off now that that delta between, again, HFCS and spot sugar has narrowed?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

It has not narrowed enough yet for people to switch out. And we keep seeing more of the demand coming from Mexico, as Mexico blends high fructose and then ships their sugar off to the United States. So that delta hasn't narrowed enough to affect it.

Jeff Farmer - *Jefferies - Analyst*

Okay, thank you.

Operator

Bryan Spillane, Bank of America.

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Bryan Spillane - ***Bank of America - Analyst***

Just a couple of follow-up questions on Corn Processing. The first one is just the differential in the profit trends year-on-year between bioproducts and sweeteners and starches. And I guess my basic question is, if you were well-positioned in corn and the pricing and demand -- supply/demand dynamic in sweeteners and starches was so good, why the profitability wasn't better compared year-on-year?

Is it just purely a function of the transfer between sweeteners and starches and bioproducts or is the corn you're using in sweeteners and starches more higher cost than the corn in bioproducts? Just to try and get a better clarification on that.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Well, it is annual contracting, first of all. Then last year there was a different contract -- or transfer price between our sweetener and starch division over to our bioproducts. So that was probably the biggest difference there.

Bryan Spillane - ***Bank of America - Analyst***

So the transfer price is probably the bigger difference?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Yes.

Bryan Spillane - ***Bank of America - Analyst***

Then just in terms of the HFCS contracts for calendar 2011, are the tolling rates up 25% or is that 25% for the contracts, for the customers that don't toll? I'm trying to get a sense for whether some of your customers that have tolling arrangements are going to see that same rate of inflation or not?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

We don't necessarily break everything down that way to everyone.

Bryan Spillane - ***Bank of America - Analyst***

I was under the understanding that there were some customers that actually had two-year contracts last year, is that true?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Yes.

Bryan Spillane - ***Bank of America - Analyst***

Okay, so they wouldn't necessarily have seen much of a change in their contracts or are there escalator clauses, anything that would have caused the rates to go up?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

It depends on the contract.

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Bryan Spillane - *Bank of America - Analyst*

Okay.

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Most contracts, it varies.

Bryan Spillane - *Bank of America - Analyst*

Okay, all right. Thank you.

Operator

David Driscoll, Citi Investment Research.

David Driscoll - *Citi Investment Research - Analyst*

First off, congratulations on a great quarter. Just a couple of follow-ups. I think most of the areas have been hit. Can you talk about your expectations for volume improvement in the starches and sweeteners operation?

So the way I look at it is in certain areas within starches and sweeteners this is not just a fructose question, we have not actually seen a full rebound back to 2008 levels. That is my impression. Is that impression correct, and would you expect volume growth in calendar '11?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

You are correct. We are still not back to the 2008 level. I think it is tied to the economy. And as the economy keeps growing, I think our volumes will keep increasing.

David Driscoll - *Citi Investment Research - Analyst*

Okay, so it is generally a positive for -- the way I want to phrase this whole situation up, is contract pricing went very well, and you're looking for continued volume growth in 2011. Is that fair?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

When it comes to the starch business, the way we see it today, yes.

David Driscoll - *Citi Investment Research - Analyst*

On the cocoa and wheat and other segments, last quarter you are $46 million in profit. Ray, John, you both made it sound like the profit margins in these businesses from last quarter to this quarter were unchanged. I mean, the sequential change in profits is absolutely enormous. Can you just help me out in understanding why?

There is some of the -- it is good news because it is such a big profit number, but there's a little bit of whiplash going on here in trying to make the models work. How do you go from $46 million to $200 million?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

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I guess part of it is just due to the mark-to-market timing effects that distort some of the numbers from the prior quarter. When we look at the fundamental business in the cocoa business, we are seeing improving press margins in the business. And so from our perspective we believe that the business is actually running well. The trend is actually favorable for our business as we see it.

David Driscoll - ***Citi Investment Research - Analyst***

So then what gives rise to those big mark-to-market? Can you just describe the situation that we all should be looking for it, so that we are not punching in $200 million in profits and the next quarter it is $46 million?

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

Similar to the oilseeds, there is going to be certain effects relating to how we mark the inventory relative to how we mark the offsetting hedge positions. For cocoa it is a little bit more complicated. There are some other complexities in the cocoa accounting, which probably are not worthwhile talking about today.

But all I am saying is there are timing effects, and as result, when you see volatility in terms of prices, you do see some of these effects flowing through the reported statement.

David Driscoll - ***Citi Investment Research - Analyst***

Ray, if there is any way we could follow up on this one I would appreciate it, because I am having a hard time with that segment. The last question, Pat, you said E15 -- I think you made comments and you said that this is going to be a slow build. I want to translate that comment in saying that E15 is not likely in calendar '11. This is something like a 2012 event at the earliest, because of all the state gasoline regulations that have to change.

Is that where -- am I saying basically the same thing that you were saying earlier?

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Well, I think it is a slow go. Maybe I will ask John for a recent update of customers that are having any pull. A full few customers have said that they are interested and even buying, but I think as a wholesale infrastructure basis, so to speak, it is going to be slow.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Yes, I agree with what Pat said. But it is positive news to have out there just as the car fleet keeps getting more turned over. We should see more of our customers put up an E15, especially with the price spread we see right now.

David Driscoll - ***Citi Investment Research - Analyst***

Okay, I appreciate the comments. Thanks a lot. Great quarter.

Operator

Todd Duvick, Bank of America Merrill Lynch.

Todd Duvick - ***Bank of America - Merrill Lynch - Analyst***

I wanted to ask about your debt structure, if I could. The last time the industry saw a similar run-up in commodity prices you had a working capital build. And I think at that time in 2008 you decided to turn out about $3 billion of debt in the long-term debt capital markets. And so far

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this time you have not issued any long-term debt. And so I am wanting to know if you can talk a little bit about what may be different today. Do you see greater visibility for the direction of commodity prices? And how are you thinking about the long-term debt capital markets?

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

Right now as we are looking at our capital plans, we are analyzing, of course where we think commodity prices are going. We are analyzing where we are heading in terms of potentially strategic investments. Of course, we have a debt remarketing decision coming up in front of us, which we have made no decision yet so far.

So there's a number of variables that we are analyzing right now in terms of determining what our actual capital raising strategy will be. This actually will be something that we will be working on, frankly, over the next several quarters.

So the important thing is we do have a lot of financial flexibility. We've got a lot of funding options, so stay tuned. We will update you as we start moving through some of these different options.

Todd Duvick - ***Bank of America - Merrill Lynch - Analyst***

Okay, fair enough. Then just, I guess, related to that, you have as a Company talked about acquisition appetite over the last year or so. And I am just wondering if the elevated short-term debt level, if it somewhat tempers your acquisition appetite in the near term or maybe for larger acquisitions? Can you comment on that?

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

A lot of our short-term debt is really designed for working capital funding or higher inventory balances associated with the seasonal buildup. We will see our inventories come down over the next couple of quarters as we sell off some of our North American stock. So, as you know, there is a cycle in terms of our inventory balances against our short-term borrowings. So from our perspective we believe we've got flexibility in order to enter into strategic investments.

Todd Duvick - ***Bank of America - Merrill Lynch - Analyst***

Okay.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

You know, it is always important, Todd, to keep our balance sheet strong, and to -- you always want to undertake the underlying business. We don't feel though that that will hamper our ability to do our M&A.

Todd Duvick - ***Bank of America - Merrill Lynch - Analyst***

Thank you.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - ***Cleveland Research - Analyst***

You guys mentioned several times the tight global balance sheets for oilseeds and corn. I am just wondering are you seeing any signs of rationing of demand at the higher levels? We have seen a few disease outbreaks in Asia that could impact demand, but I'm just wondering what big picture if you are seeing anybody pull back at the higher prices?

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John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Overall demand, we have seen maybe a little bit of slowdown in China, but that -- it also had very large arrivals in the previous month. You're also coming into the Chinese New Year. But right now we really have seen more people looking at substitution, maybe more feed wheat instead of corn, DDGs instead of corn, lysine, soybean meal. So we are seeing more of that. But I guess the overall demand still seems to be very good.

Christine McCracken - *Cleveland Research - Analyst*

On the Argentine situation, I know it seems to happen every year with these port strikes, but it does sounds like it is slowing things down into some of the crushing facilities down there and kind of mucking things up. I am just wondering is this a short-term situation that you don't expect to have a material impact on the quarter, or is it just too soon to say?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

I think you were right on your first comment. This seems to be an ongoing situation -- fluid down there. It always seems to work itself out. I think that is the best answer I can give at this time.

Christine McCracken - *Cleveland Research - Analyst*

And nothing tied to the smaller crop down in Argentina that would have any material impact on your outlook for South American margins?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Well, it is going to depend on the size of the crop, but February weather is also still very important in the Argentine crop, and they have been getting some rains lately.

Christine McCracken - *Cleveland Research - Analyst*

Okay, sure thing. Well, great quarter. Thanks.

Operator

Ann Gurkin, Davenport.

Ann Gurkin - *Davenport - Analyst*

Congratulations on a great quarter. I wanted to start -- just to make sure I understand, were there any pull through of future orders into this quarter that would impact the second half? Was there any material movement in the business that we should be worried about?.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

No, there was -- no, nothing that you mentioned in terms of pulling ahead orders or pulling ahead sales, no.

Ann Gurkin - *Davenport - Analyst*

Okay, great. On the corn side, John, do you care to comment at all on expectations for US plantings in the corn crop or yield, do you have any insight?

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John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

No, how is that? We have opinions, but I guess right now is not the time to share them.

Ann Gurkin - *Davenport - Analyst*

Okay, great. Then last, in terms of swing volume for the wet mill can you comment where that excess volume -- is it going towards sweeteners or ethanol right now?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Just due to the pickup in the Mexican shipments we tend to see more sweetener shipments to Mexico, and that tends to balance out the peaks and valleys a little bit more than what we have seen in the past. So it is still very fluid, but it is not unusual to be shipping more steady volumes year around to Mexico. In the United States it still tends to peak a little bit more in the summer.

Ann Gurkin - *Davenport - Analyst*

Okay, great. Thank you all.

Operator

Ian Horowitz, Rafferty Capital Markets.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Ray, just a quick question. You mentioned the startup charges at the PHA and the propylene glycol facilities, do you have those broken out at all?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Well, they are pretty small. I am not sure -- in terms of breaking out between the two -- the different plans? No. I think typically we refer to start up costs. Again, they are pretty small, and they're going to be phased out over the remainder of the fiscal year. So it is -- from our perspective it is fairly insignificant.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

I understand that. I am just trying to look from the other side of that perspective, especially on the PHA side.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

No, we're not going to break it out. I think that from our perspective the key is that they are being phased out, the startup costs.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Then on the Ag Services segment, a fantastic quarter to say the least. I am just wondering from a throughput standpoint will any growth that we have going forward come more from a pricing and a rate basis rather than a volume or utilization basis? Were these assets basically maxed out throughout the quarter?

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John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

We did see record exports. And we have increased the capacity at our Destrehan facility. And we have added another export elevator that they already did have idled here about two years ago. We brought that online last year.

So we had very good volumes through it, but a lot has to do with the weather, the type of ships, when the barges, when the railcars come. The group did a fantastic job on handling a lot of the logistics and that helped with the volume.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

You might want to keep in mind that the global origination and transportation network as well, and so I think that allows for our utilization of those assets, and we have added more.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Sure, so when we look to build our forecasts we can still see a volume increase going forward?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

I think it depends on where the shipments are coming out of. It is coming out of United States, South America or Europe. You have to find out who is the most competitive at any given time.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

There is normally a seasonal -- there is a seasonal pattern to US harvests, and normally that would be translating to higher volumes to the US network there as well.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

John, can you comment on the 2011 ethanol business? What do you think -- I know, it is early in the year, but how much of the business do you think is going to be supplied by financial versus physical?

And then on a follow-up to that, how do you see the business right now? Is it very prompt? Is it elongated at all, and is it different than we have seen in recent years?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Well, I don't think much of it is going to be financial. Just currently depending on the markets here and you could be easily $0.10 to $0.20, forgetting the blenders' credit, underneath unleaded gasoline. So people are still going to blend as much as they can.

I think maybe a little bit more of the dynamic we are seeing this year is we have had very poor weather in the east, so we have seen a little bit of slowdown in demand there. But overall we still have a little bit extra capacity in the market. So that is going to put a damper on the market.

But long-term as E15 comes more into play, exports are there. We are real still very positive on the business, and we are very happy with the efficiency of our plants. The market still is very, very spot buyers. You always get some people wanting to buy a little forward, but it is very spot.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

It is very spot. Do you have any understanding or estimate on how many [RENs] are available this year?

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Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

About 2.4 billion RENs are available that could be used to offset [the] purchase.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Just a last question. I know that the E15 uptick is going to be kind of elongated or slow or however you want to put it, but what percentage or what volume of gasoline does 2000 or earlier represent currently -- or 2001 or earlier.

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

It is the cars. Ray has a better handle. I think the fleet turns over every --.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

I think it is about 60% of the fleet. I don't know if I have that number handy.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

I think there has been a lot of studies. That sounds about right. As you would expect, it is going to quickly decrease. These cars are getting pretty old, so it is going to quickly decrease over the next three or four years.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

So right now 50% of the fleet is 2001 or earlier, and would that represent a linear percentage of the --?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Newer.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

The newer vehicles are the larger number. I think it is greater than 50%, but I --. Sorry, what was your question?

Ian Horowitz - *Rafferty Capital Markets - Analyst*

Would that represent a similar percentage of the gasoline pool or do newer cars drive further miles. Older cars are the local commuter and not (multiple speakers)?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

The answer is yes, and we have those numbers, I think they are on the Renewable Fuels Association website, but I don't have them handy. Anybody have (multiple speakers) will get back to you, Ian.

Ian Horowitz - *Rafferty Capital Markets - Analyst*

That would be great. All right, thanks a lot, guys.

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Operator

Robert Moskow, Credit Suisse.

Robert Moskow - ***Credit Suisse - Analyst***

You guys are giving us a lot of possible places for allocating capital. And some you have already done and some that might be done in the future. You've got grain elevators in South Dakota, Nebraska. You have acquisitions, which I think will be in emerging market in oilseeds. You took over the other part of Golden Peanut. You also talked about buying back stock, and then remarketing the debt.

Can you just give us -- how do you look at the return profile of these different possibilities? And I know you say you want to update us later, but is it fair to say anyway that the acquisitions would be higher return investments with maybe a longer-term profile? And maybe grain elevators in South Dakota/Nebraska, I imagine those are safe bets, but lower return ideas. Thanks.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Maybe I will start and Ray can jump in. I think your theory is actually right on, that you could look at different investments over different time frames and chunk them into short and sooner or lower and father, or more strategic for the emerging market. So we look at all of that, along with always comparing to a share buyback as another option.

So when you listed those off, we are nodding yes, because they all fit into the strategy of filling out the global footprint, which includes both the global networks, which continue to add to our storage and transportation, etc., in the Ag Services arena, and then also the emerging market and our 7% to 10% growth we want to do in crush.

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

I think it is fair to say that we have a portfolio approach towards growth. We are simply not going to M&A our way to growth. We found that there has been a lot of fundamental investments, smaller investments, that actually generate very, very good returns and very low risks. That is a basic foundation of how we are growing ADM from a profitability perspective.

So we are going to continue to allocate capital to these areas, recognizing that some of the strategic investments that we are going to look at -- we're looking at right now, we may have a different risk tolerance, because strategically we may feel that we need to enter these types of markets or these types of areas.

So there is not one-size-fits-all approach towards how we evaluate investments. It really is a portfolio approach that we are taking to this.

Robert Moskow - ***Credit Suisse - Analyst***

Okay, I will follow up off-line. Thank you.

Operator

(Operator Instructions). Christina McGlone, Deutsche Bank.

Christina McGlone - ***Deutsche Bank - Analyst***

John, I wanted to ask how you thought Oilseeds Processing utilization rates will progress as we move through this calendar year? And I guess as we look to the fall, are we able to get back to the 90%, 95% utilization rate?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

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I think that is going to depend on the South American harvest and how that comes. The protein demand, as you know, has not been real good on the United States. But we have, with the bio diesel demand increasing, it could make the -- excuse me -- it could make the crush rates go up and actually make our protein meal more competitive to the world market. So I think it is still -- still have to see, but the possibility are there, yes.

Christina McGlone - ***Deutsche Bank - Analyst***

Okay, thank you.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - ***Morgan Stanley - Analyst***

Thank you for taking up the follow-ups. They are a couple of quick ones. John, I just wanted to ask in the last Ag Services cycle, your balance sheet and credit availability, and maybe it was more towards the tail end, but it was a distinct advantage. Is that the case here as well?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I am sorry, I didn't understand the question.

Vincent Andrews - ***Morgan Stanley - Analyst***

My question was the size of your balance sheet, your commercial paper access and so forth during the last Ag Services boom was a distinct advantage to you relative to some of your competitors that don't enjoy the same type of access. Is that an impactful situation here as well in the current environment?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I don't think it is as impactful this time as last time or we haven't seen it. But you still -- when you have commodity prices running up and people having to make margin calls, it is tougher for them to hold inventories.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, and then just another follow-up on that same line. In the last cycle freight costs were very high, and many believed that there was a freight arbitrage of you guys having long-term freight contracts, of being able to charge the spot. And now freight is very low, so is that actually an disadvantage to you if you have longer-term contracts, or have you been able to change your contracts around?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

We are always looking at hedging freight, so we are always monitoring that market on a global basis. We are always charging it off to our customers at market prices, so I wouldn't say it is an advantage or disadvantage.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, and then, lastly on this line, is there anything in particular that was positive about this particular Ag Services cycle that is unique to today relative to something that we didn't see last time around that you want to call out for us?

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Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Well, I think volumes continue to be something -- we talked about record exports from the US and our global system moving a lot of grain. I think this quarter generally should reset discussions relative to the total earnings power of ADM's global network. It is global demand and it is a global network that is ready to serve that.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, and then last for Ray. Just on interest expense, is this quarter -- assuming commodity prices flat-line from here, would this be a run rate or is it going to trend a little higher from here?

Ray Young - ***Archer Daniels Midland Company - SVP, CFO***

As you know, we have increased our short-term borrowings, so there is going to be a little bit of higher interest expense, but it is going to be insignificant in the whole scheme of things. So from our perspective, whether this is a run rate or not, it is probably going to be indicative.

Vincent Andrews - ***Morgan Stanley - Analyst***

Okay, great. Thanks again for taking all the follow-ups.

Operator

This concludes today's question-and-answer session. I will now turn the call back to Pat Woertz, Chairman and CEO, for closing remarks.

Pat Woertz - ***Archer Daniels Midland Company - Chairman, CEO***

Great. Well, thank you everyone for your time today. We appreciate all your questions. Slide 17 shows our upcoming investor conferences. And we certainly look forward to talking with you on our next call in May. Bye now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you again for your participation. You may now disconnect. Have a great day.

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