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THE OHIO STATE UNIVERSITY

Grain Marketing Outlook Monthly Update

Spetember Stocks Reports, October Crop Reports Send Markets Spiraling

In late September, the USDA released its Grain Stocks report, which reports the amount of grain in storage across the US. **This report is considered the 'final word' on the ending stocks** of the prior marketing year. The biggest surprise in the September report was the higher-than-expected level of soybean stocks. While the USDA had been projecting soybean ending inventories of approximately 140m bushels for the 2007/08 marketing year, **actual inventories were 205m bushels, a significant jump**, and a large enough increase to significantly affect the 2008/09 balance sheet, as the carryin increased by 65m bushels. For corn, **the difference was less dramatic,** as there were only 50m more bushels in storage than expected.

But given the direction of all commodity prices in the previous two months, **increased availability of corn and soybeans only added fuel to the fire driving prices lower.** For December 2008 corn futures, the peak was reached on June 27, when prices closed at 7.87. November 2008 soybeans peaked a few days later on July 3 at 16.31. Since then, **the markets have marched steadily lower,** as fears of **flooding**-related damage abated, then the **dollar** began to strenghten, weakening support, and **oil prices** fell, weakening biofuels demand for corn and soybean oil. Since September 24, the fall has accelerated, as the weight of **higher inventories** from grain stocks reports combined with bearish crop forecasts from the WASDE and increasing financial turmoil saw prices fall yet further.

At this point, **every participant in every market is shell-shocked**. New revelations are made seemingly each day, causing uncertainty to grow yet more. For growers, right **now is the time to focus on the correct marketing decision for the current crop**. Soon, the attention of the markets will turn to the acreage needs of the 09/10 marketing year, and the prices it will take to get those needs met. It is my guess that prices will continue to fall until that takes place. Whether they continue to fall past that point, or turn around will depend greatly on one's assumptions for the ethanol industry.

With the sharp contraction in the credit markets and the tight margins for ethanol production, everyone agrees that capacity expansion will slow next year. No one is yet quite sure how much. The second question is what will happen to global feed grain demand? Is this 1998 all over? Based on relatively conservative estimates of 09/10 export and ethanol demand—specifically assuming that exports are at 1.95bn bushels, down 500m from 07/08 and down 100m bushels from current '08/09 projections, and ethanol usage is 4.4bn bushels, up 400m bushels from '08/09, then the US needs to plant 2-3m more acres of corn in 2009 than in 2008. Unlike previous years, in which corn or soybeans had to draw acres, while the other

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couldn't readily spare acres, **this year, soybeans acreage could be reduced by 1.5m acres without much difficulty in the soybean market.** However, with input prices at current levels (based upon the surveys conducted by my colleague, Barry Ward, available at http://aede.osu.edu/Programs/FarmManagement/FertStats.htm) **corn prices must significantly increase simply to maintain current acreage.** The latest OSU enterprise budgets project variable costs of $450-$500/acre to plant corn, and a break-even price (including labor and land) of about $4.50/bushel. Contrast this to soybeans, for which the variable cost of planting is $240-$270 and the all-in breakeven is $9-$10. Right now, based upon CBOT futures and current basis levels, Central Ohio 09 new crop price indications should be in the $4.10-$4.20 range for corn and $8.75 for soybeans. This makes it hard for me to see many growers getting excited about planting corn acres, much less expanding corn acres. Therefore, something must change between now and February. That something could be significantly lower fertilizer prices or higher crop prices, especially higher corn prices compared to soybeans. While I believe that we will see nitrogen prices begin to abate in the coming months, I am not optimistic about P or K prices; so I think that the market will be forced to bid for acres. **Don't look for $6 corn this winter, but you should have some opportunities for your old crop at prices 75c-$1 above current levels.**

Be fearful when others are greedy, and be greedy when others are fearful. -Warren Buffett

Success is a lousy teacher. It seduces smart people into thinking they can't lose. -Bill Gates