Agricultural Markets Situation & Outlook

VP's Outlook & Policy
3 December 2012

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The Big Questions

• Progress of ‘winter’ crops:
  – SA soybean & corn
  – NA winter wheat

• US export pace

• US moisture

• Adjustment in Animal Inventories
Chinese Meat Consumption 90-13

Thousand Metric Tonnes

Beef and Veal  Swine  Broiler
Chinese Oilseed Consumption Growing by 13%/yr since 1990
Chinese Grain Consumption Climbing by 4%/year since 2006.
The real currency of agriculture is land.

- Chinese soybean imports in 2011 are about 1.9bn bushels, or 45m acres.
- US Ethanol usage is 5bn bu, net of DGS is about 3.4bn bu, or 22m acres
- Plus Chinese feed grains, Indian demand, etc.,
Global Corn Inventories Very Low

![Graph showing global corn inventories and production. The graph illustrates the stocks-to-use ratio and the production and use over the years from 1985 to 2011. The stocks-to-use ratio is shown in percent, ranging from 13.8% in 2011 to 36.0% in 1985. Production is shown in MMT (millions of metric tons), with a peak of 900 MMT in 2011. Use is shown in MMT, with a peak of 854 MMT in 2011. The graph highlights the significant increase in stocks-to-use ratio and production over the years.]
Global Stocks Situation Tight, Not Dire

• But it assumes:
  – Solid Harvests in FSU & Europe
  – Record Harvests in S.Am, which are behind in planting.
  – Good WW harvests in US, which are in historically poor condition.
## CORN

<table>
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<tr>
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<td><strong>Million Acres</strong></td>
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<td>Area Planted</td>
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<td>Area Harvested</td>
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<td><strong>Bushels</strong></td>
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<td>Yield per Harvested Acre</td>
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<td><strong>Million Bushels</strong></td>
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<td>Ethanol &amp; by-products 3/</td>
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<td>41</td>
<td>50</td>
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<td>Avg. Farm Price ($/bu) 4/</td>
<td>5.18</td>
<td>6.22</td>
<td>7.10 - 8.50</td>
<td>6.95 - 8.25</td>
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Even including DDGS, Feeding at 1996 Levels.
# Energy Independence and Security Act of 2007
## Renewable Fuels Standards

<table>
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<tr>
<th>Calendar Year</th>
<th>Total</th>
<th>Convent’l Biofuel (min 20% GHG reduc after 2010)</th>
<th>Advanced Biofuel (min 50% GHG reduction)</th>
<th>Cellulosic Biofuel (min 60% GHG reduction)</th>
<th>Advanced Non-Cellulosic Biofuel</th>
<th>Biobased Diesel</th>
<th>Advanced non-Cellulosic non-Biodiesel Biofuel</th>
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<td>2008</td>
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<td>9.00</td>
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<td>2009</td>
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<td>12.00</td>
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<td>12.60</td>
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<td>1.00</td>
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<td>2013</td>
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<td>13.80</td>
<td>2.75</td>
<td>1.00</td>
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<td>2014</td>
<td>18.15</td>
<td>14.40</td>
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<td>1.75</td>
<td>2.00</td>
<td>?</td>
<td>1.00</td>
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<tr>
<td>2015</td>
<td>20.50</td>
<td>15.00</td>
<td>5.50</td>
<td>3.00</td>
<td>2.50</td>
<td>?</td>
<td>1.50</td>
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</table>
Ethanol Production Volumes Down in Last Three Months

900kbpd = 13.8bgpy
High Prices have Rationed Exports

Million Bushels

Year

70 75 80 85 90 95 '00 '05 '10

510 1220 2350 1328 2420 2436 1150
Corn Inventories Are Incredibly Tight, even with current harvest.

Production 10.73
Use 11.17
Stocks-to-Use Ratio (%)
But weather remains key...

• Very wet in Argentina—corn plantings significantly delayed.
US Corn Belt remains very dry.
Summary

• What will happen to yields in the January final crop report?
• Lots of anecdotes, modest data.
• I expect total harvest to increase somewhat based on basis levels and prices over the past 3 months.
Soybeans:

• Global Situation Very Tight
  – 2012 Drought in US
  – 2012 Drought in S. Am

• All eyes on South America
  – Brazilian conditions are improving
  – Argentine conditions are worsening
S.Am ‘13 forecast is 33mmt greater than ‘12 production...
Domestic Soybean Demand Declining?
Soy exports lower, but rising...
South American Moisture

- Brazilian moisture improving in last 10 days.
Soybean Summary

• Global Markets Very Tight, Dependent on S. Am Crop.

• Export Demand underestimated.
  – What will happen if Mississippi River closes?

• Room for higher prices w/ Soy.
World Wheat Supplies Far Better Situation than ’07/08

Source: WOAB, USDA
Even with low plantings, SRW stocks are and will remain ample.
Marketing in short crop years
Why is marketing different in short vs. normal years?

• Storage Pressure
  – Little or no spread improvement, only basis...

• Market’s desire for buffer stocks
  – Following year almost always lower...
Dec/Nov New Crop Corn Price v Final Old Crop Corn Yield (1975-2010)

Low Yield, Rising Price (3)

2010

Low Yield, Falling Price (10)

High Yield, Rising Price (10)

High Yield, Falling Price (11)
Dec/Nov New Crop Corn Price v Final Old Crop Soybean Yield (1975-2010)

High Yield, Rising Price (14)

Low Yield, Rising Price (4)

2002

Low Yield, Falling Price (8)

High Yield, Falling Price (7)
Most Years’ Yields are above trend.

40% are below trend
19% are 10% or more below
32% are 5% or more below
Soybeans are similar...

42% are below trend
13% are 10% or more below
29% are 5% or more below
What about animal industries?
Livestock Marketing Information Center

Data Source: USDA-NASS
DAIRY COW SLAUGHTER
Federally Inspected, Monthly

Thou. Head

Livestock Marketing Information Center
Data Source: USDA-NASS

C-S-21
11/23/12
SOW SLAUGHTER
Federally Inspected, Monthly

Livestock Marketing Information Center
Data Source: USDA-NASS

H-S-02
11/23/12
Livestock Marketing Information Center

Data Source: USDA-NASS
Summary

• Markets are very, very tight, and prices reflect that...

• How much feed demand has been destroyed? Will it come back?

• How much will we plant in 2013?
  – Corn wants acreage
  – Soybeans want acreage
  – Cotton can give some acreage
  – Wheat won’t give acreage; will probably increase.
To Do for 2013

• Crop Producers:
    • Over time, early marketing (between now & Jan) and call purchasing is best strategy for post short crop years.
  – Hold 2012 crop, hedge it, buy calls, look to profit from basis improvements—wait for desperation—but basis will fall if Mississippi closes.

• Livestock Producers/End Users:
  – Right now, you are holding all of the risk. Purchase 50% of needs through March 1, if MS River closes, purchase remainder on weaker basis.
  – On corn, current prices are an opportunity for pricing through March 1. In the March/April frame, buy summer heavily in anticipation of high basis.
Questions?

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