

## Grain Market Prospects for The Coming Year: *Surviving the Wild Commodity Ride We Are On*

Bill Lapp  
Advanced Economic Solutions  
January 2009

## Things To Watch In 2009

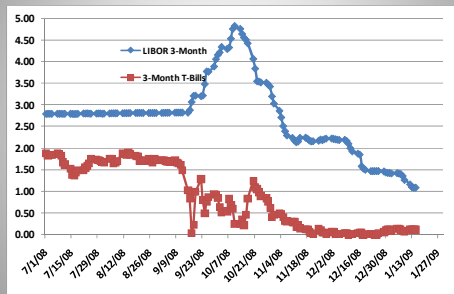
- Sharp decline in GDP during 08Q4 & 09Q1, but improvement as we move through the year
- Extreme Congressional /Presidential efforts to mitigate the recession
  - Will include both tax cuts and large-scale spending
  - As Congress and Obama dance, who will lead and who will follow?
- Govt spending will determine winners and losers among industries at least in 2009
- Deficits will be large, but largely ignored for next two years
- World recovery precedes US recovery
  - Likely means risk of weaker US\$ and rebounding commodity prices

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## Sharp Decline In LIBOR Suggests Financial Crisis Is Abating

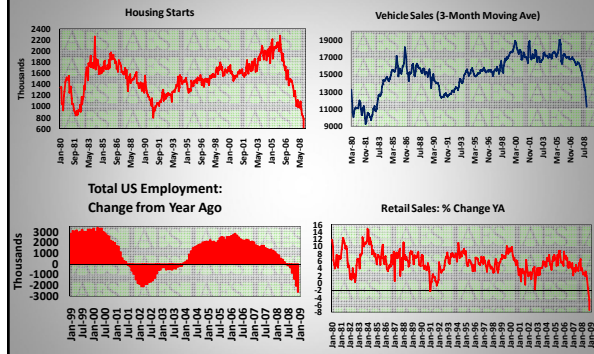


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## Economic Conditions Continue To Deteriorate



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## CRB Index of Commodity Prices Bottoming Out After A 56% Decline?

CRB Index of 17 Commodities



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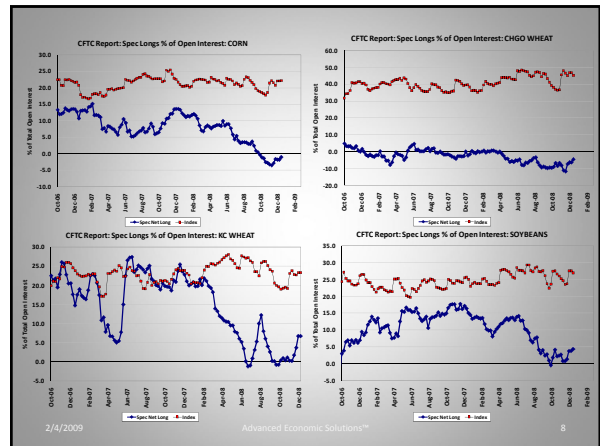
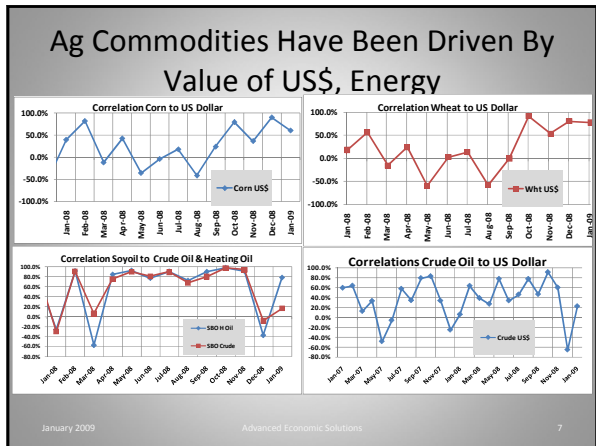
## Value of US Dollar Strengthens 20% During July-Nov But Now Headed Lower?



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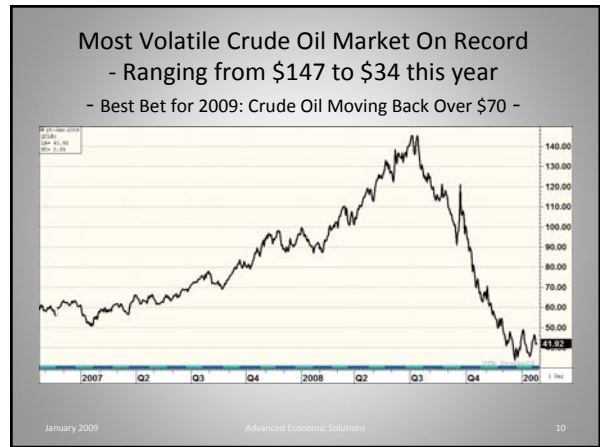
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### Impact of "Roll Yield Loss" Jan 2007 – Jan 2009

	1/1/2007	1/28/09	Roll Yield Loss	Net 1/28/09
Crude Oil	\$59.41	\$42.16	-\$3.83	\$38.33
Corn				
Chgo Wheat				
Soybeans				

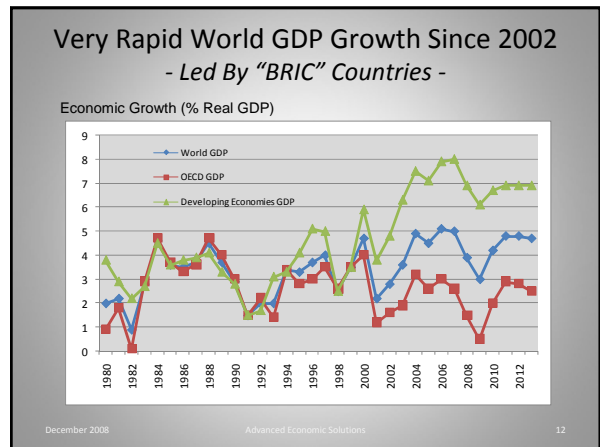
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### World Energy Supply/Demand

	2004	2007	2008	2009
<b>Crude Oil Consumption</b>				
World	82.3	85.8	86.4	86.9
US	20.7	20.7	19.9	19.8
China	6.4	7.6	8.0	8.4
<b>Crude Oil Produced</b>				
World	84.3	84.4	85.9	86.8
US	5.4	5.1	5.0	5.3
OPEC	36.1	35.4	37.1	37.3
<b>US Ethanol Produced</b>	.24	.54	.72	.79
<b>% of World Crude</b>	0.3%	0.6%	0.8%	0.9%

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### Key Drivers of Food Commodities In Next Year

- Value of US Dollar
- Extent of global economic slow-down
- Acreage battle & production shifts in 2009
- US weather in 2009 and beyond
- Govt bio-fuels policy – probably more bullish news than bearish
  - Watch for EPA proposed rules in next 60 days
- **These questions probably suggest more upside than downside from current levels**

### Summary of USDA Key Figures

	Year ago	Actual	Pre-Report
Corn Crop	13074	12081	12020
Soybean Crop	2676	2958	2921
Corn Stocks	10278	10084	9745
Soybean Stocks	2360	2276	2180
Wheat Stocks	1132	1422	1379
HRW Acres	32.0	30.2	32.5
SRW Acres	11.0	8.3	9.5
White Winter	3.2	3.0	3.6

### 2009 Initial Acreage Ideas

	2007	2008	2009	09 vs 08
Corn	93.6	85.9	88.0	+2.1
Soybeans	64.7	75.9	75.0	-0.9
Wheat	60.7	63.3	58.8	-4.5
Cotton	10.8	9.4	10.0	+0.6
CRP	36.8	34.7	33.5	-1.2
Less SB 2X Crop	-5.2	-6.8	-3.8	+3.0
Total Above	261.4	262.4	261.5	-0.9

-2009 total acreage down 1 mm? This could be realistic due to 1) lower prices, 2) less double crop of wht-sb, 3) slippage from CRP exits  
 - USDA Prospective Plantings Report released 3/31/09

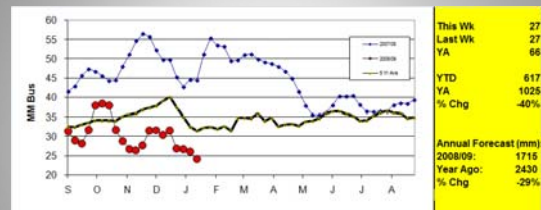
### Weekly Soybean-Corn Price Ratio



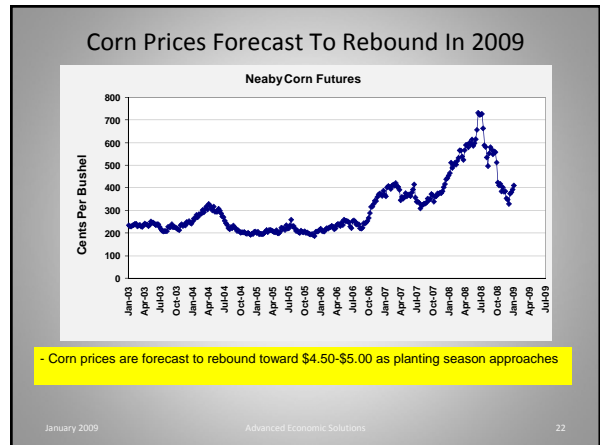
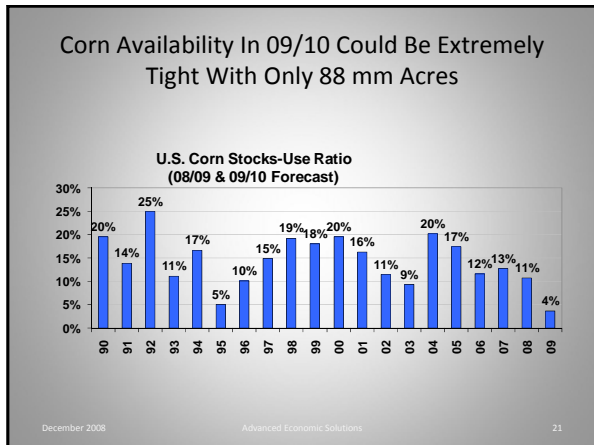
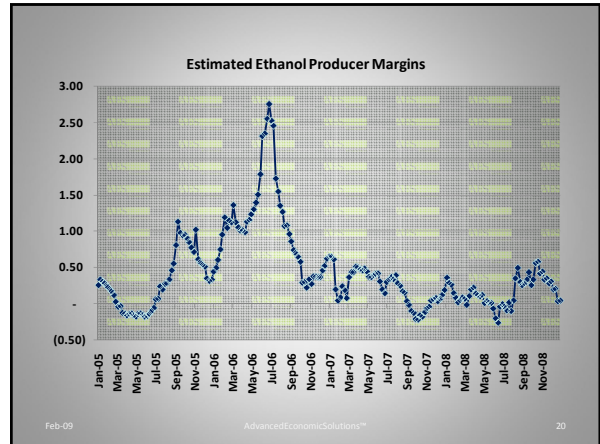
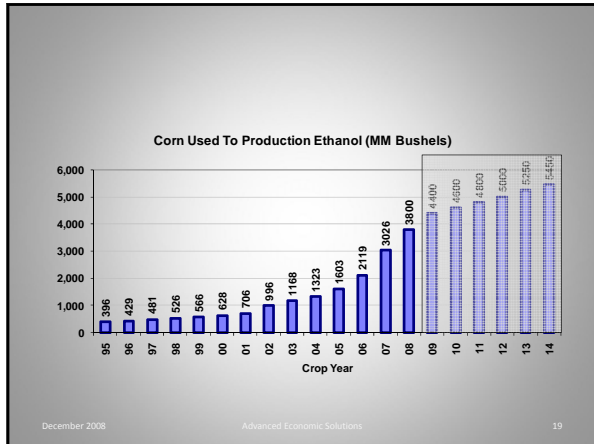
### US Corn Supply/Demand

	US Corn Supply/Demand (Million Acres/Bushels)					
	2004/05	2005/06	2006/07	2007/08	2008/09F	2009/10F
Planted Acres	80.9	81.8	78.3	93.6	85.9	88.0
Harv. Acres	73.6	76.1	70.6	86.5	78.2	80.6
Yield (bu./acre)	160.4	147.9	149.2	151.1	154.8	166.6
Production	11807	11112	10535	13074	12191	12601
Carryin	956	2114	1967	1304	1614	1370
Total Supply	12776	13236	12514	14388	13745	13982
Fuel	1323	1603	2119	3026	3800	4400
Total FSI (incl Fuel)	2867	2961	3467	4364	5160	5760
Feed & Resid	6158	6204	5618	6974	5500	5800
Exports	1807	2133	2125	2436	1715	1800
TOTAL USE	10632	11298	11210	12774	12375	13360
Ending Stocks	2144	1967	1304	1614	1370	622
% of Use	20.2%	19.2%	11.6%	12.6%	11.1%	4.7%

### YTD Corn Export Pace Very Slow



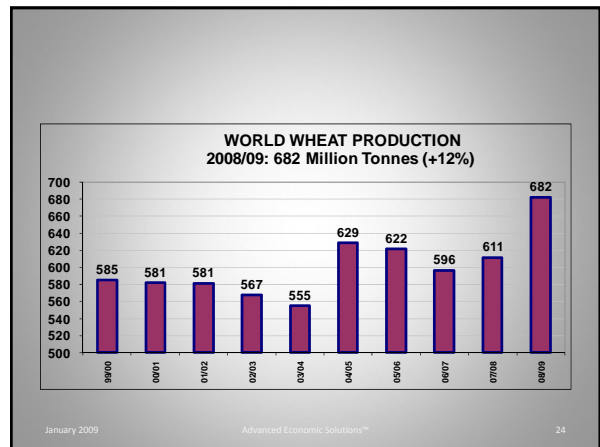
1715 annual implies a pace of 36 mm per week going forward (vs. 45 mm YA)



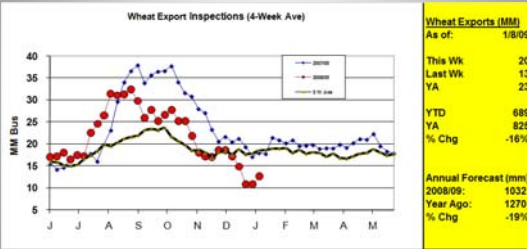
### US Wheat Supply/Demand (Million Acres/Bushels)

	2004/05	2005/06	2006/07	2007/08	2008/09F Proj	2009/10F Proj
Planted Acres	60.6	58.0	57.7	60.7	63.3	58.8
Harv. Acres	49.9	49.9	46.9	51.0	55.7	48.8
Yield (bu./acre)	43.2	42.2	38.7	40.5	44.9	42.9
Production	2158	2105	1812	2067	2499	2093
Carryin	546	540	570	457	306	662
Imports	71	81	123	112	110	100
Total Supply	2775	2726	2505	2636	2915	2855
Exports	1063	1009	909	1264	1032	1075
Feed & Resid	183	153	121	30	185	200
Seed	79	79	85	89	91	80
Domestic Food Use	910	915	933	948	945	950
TOTAL USE	2235	2155	2048	2330	2253	2305
Ending Stocks	540	570	457	306	662	550
% of Use	24.2%	26.5%	22.3%	13.1%	29.4%	23.9%

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## Wheat Export Inspections

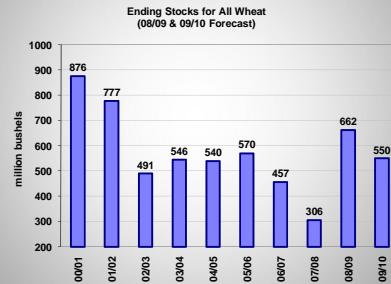


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## Wheat Ending Stocks: 08/09F 662 // 09/10F 550

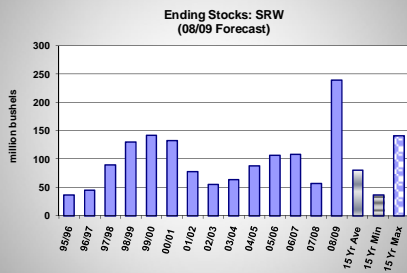


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## SRW 08/09 End Stocks Expected To Be Extremely Large



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## Initial 2009 US Wheat Crop Prospects

11/2008	US Wheat Acreage / Yield / Production									
	Acreage Planted					Acreage Harvested				
	2006	2007	2008	2009	% YA	2006	2007	2008	2009	% YA
HRW	29.3	32.9	32.0	30.2	-9%	21.3	25.7	26.9	22.7	-16%
SRW	7.4	8.6	11.0	8.3	-28%	6.2	7.1	9.9	7.9	-20%
W. WINTER	3.9	3.4	3.2	3.6	11%	3.6	3.2	2.8	3.3	18%
TOT WINTER	40.6	45.0	46.2	42.1	-9%	31.1	36.0	39.6	33.1	-18%
HRW	14.4	12.7	13.5	13.0	-3%	13.4	12.4	12.8	12.4	-4%
WHITE	0.8	0.8	1.0	1.0	4%	0.6	0.6	0.7	0.7	11%
DURUM	1.9	2.1	2.7	2.7	-1%	1.8	2.1	2.6	2.5	-2%
TOTAL	57.7	62.7	63.3	58.9	-7%	46.9	51.0	55.7	49.9	-12%
	Yield					Production				
HRW	32.0	37.4	38.6	39.0		662	962	1035	897	-14%
SRW	63.3	60.7	61.9	61.0		390	368	614	430	-30%
W. WINTER	62.1	61.5	77.5	66.0		226	197	219	217	-1%
TOT WINTER	41.7	42.2	47.2	46.3		1298	1516	1869	1534	-18%
HRW	32.3	36.2	39.9	36.0		432	449	512	432	-15%
WHITE	51.0	54.6	52.1	56.0		29	30	35	41	18%
DURUM	29.5	33.9	32.8	34.0		53	72	86	86	2%
TOTAL	36.7	40.5	44.9	42.9		1812	2067	2499	2093	-16%

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## Weekly Chicago Wheat Futures



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## Soybean Fundamentals

- Weak crush / strong exports
- S American crop prospects declining
- 2008/09 SB Ending Stocks 155 mm (5.1% of use)
  - A very tight Stocks Use Ratio
- But 09/10 SB stocks rise unless acreage declines
- Soybean use declining – much more rapidly than animal numbers
- Soybean food use set to decline for 4<sup>th</sup> consecutive year
  - But overall fats/oils consumption forecast to rise 2.1%
- Bio-diesel use flat – no margin improvement
  - But beware of EPA final rules on biodiesel RFS
- Ending stocks off but still ample
- Soybean prices still closely tied to crude oil & heating oil

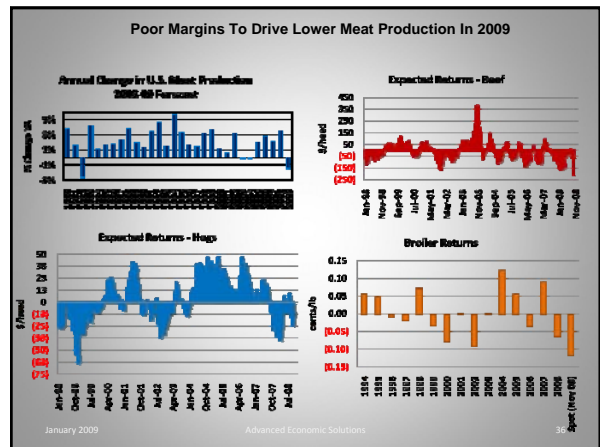
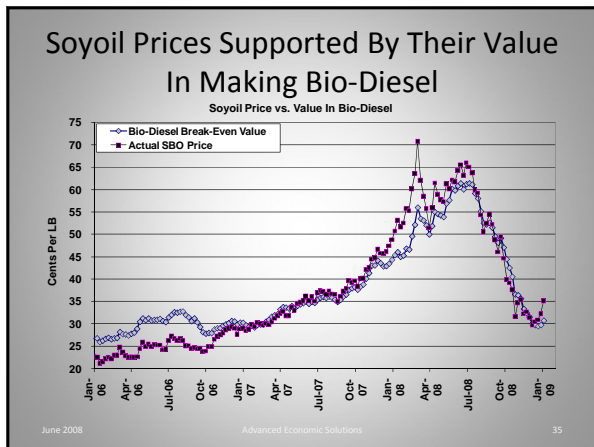
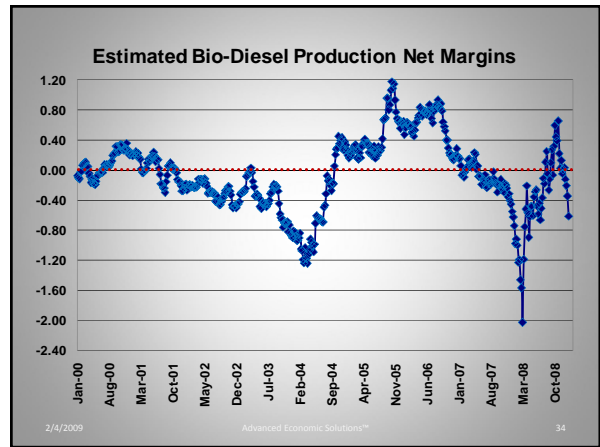
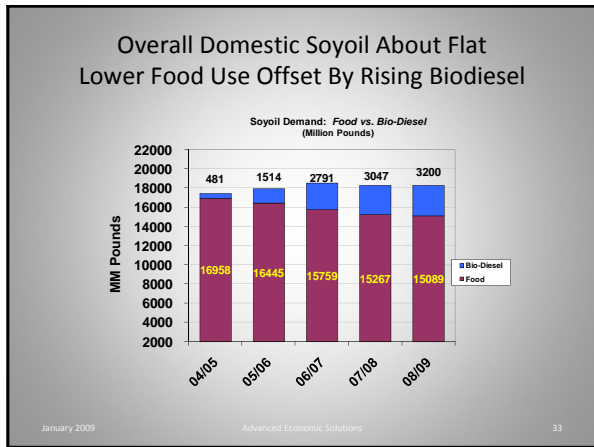
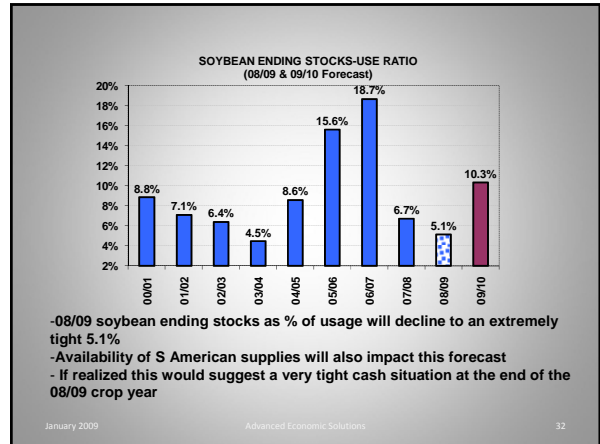
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US Soybean Supply/Demand (Million Acres/Bushels)							
(Sept-Aug, MM Bus)	03/04	04/05	05/06	06/07	07/08	08/09 Proj	09/10 Proj
Acres Planted (mil.)	73.4	75.2	72.0	75.5	64.7	75.9	75.0
Acres Hvstd. (mil.)	72.5	74.0	71.3	74.5	64.1	74.4	74.0
Yield (bu./acre)	33.9	42.2	43.0	42.8	41.7	39.8	42.5
Production	2454	3124	3063	3188	2676	2958	3145
Carryin	178	112	256	449	574	205	160
Imports	5	6	3	10	10	10	10
<b>TOTAL SUPPLY</b>	<b>2637</b>	<b>3242</b>	<b>3322</b>	<b>3647</b>	<b>3260</b>	<b>3173</b>	<b>3315</b>
Crush	1530	1698	1739	1806	1800	1716	1775
Exports	888	1103	945	1118	1161	1138	1075
Seed/Stock Adj	107	186	189	149	94	159	150
<b>TOTAL USE</b>	<b>2525</b>	<b>2986</b>	<b>2873</b>	<b>3073</b>	<b>3055</b>	<b>3013</b>	<b>3000</b>
Ending Stocks	112	256	449	574	205	160	315
% of Use	4.5%	8.6%	15.6%	18.7%	6.7%	5.3%	10.5%

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## US Agricultural Policy In 2009

- Budget, what budget?
  - Already \$2 Trillion committed
  - New support for dairy, livestock?
- EPA influence Trumps USDA?
  - Watch for released of rules for Renewable Fuels Standards in next 60 days
- DC agricultural leadership – very Midwestern
  - Vilsack (IA) Secretary of Agriculture
  - Harkin (IA) Senate Ag Chairman
  - Petersen (MN) House Ag Chairman
- Biofuels still favored (by most)
  - Subsidies in tact (\$.45 per gallon ethanol, \$1 per gallon biodiesel)
  - Usage mandates in tact (ethanol 10.5 B gallons in 2009, biodiesel 0.5 B gallons)
  - (By 2015, ethanol mandate grows to 15 B, biodiesel to 1.0 B)
  - 10% blend limit on ethanol raised by EPA to 12-15%?
  - Biodiesel defined as coming from vegoil?
- Trade battles looming?

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## Other Issues Influencing Markets

- Implications of Verasun bankruptcy / contracts voided
- Ocean freight declining sharply
- In 2009, will the winners/losers decided by govt?
- Conflicting Washington DC Priorities:
  - *Economic Growth vs. Green vs. Budget vs. Energy Independence*
- Arguments for Weak Dollar / Higher Commodities:
  1. The “flocking” to the US dollar will subside as financial concerns ease
  2. Economic recovery will be sooner & greater outside the US (led by China)
  3. The financing of our deficit will “force” US interest rates much higher

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## Grain Market Prospects for The Coming Year: *Surviving the Wild Commodity Ride We Are On*

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## USDA Corn Supply/Demand

Item	2006/07		2007/08		2008/09 Projections	
	Actual	Est.	Actual	Est.	December	January
CORN	Million bushels					
Area	Million acres					
Planted	78.3	93.5	85.9	86.0		
Harvested	70.6	86.5	78.2	78.6		
Yield per harvested acre	149.1	150.7	153.8	153.9		
Beginning stocks	1,967	1,304	1,624	1,624		
Production	10,531	13,038	12,020	12,101		
Imports	12	20	15	15		
Supply, total	12,510	14,362	13,659	13,740		
Feed and residual	5,591	5,938	5,350	5,300		
Food, seed & industrial	3,490	4,363	5,035	4,900		
Ethanol for fuel 2/	2,119	3,026	3,700	3,600		
Domestic, total	9,081	10,302	10,385	10,200		
Exports	2,125	2,436	1,800	1,750		
Use, total	11,207	12,737	12,185	11,950		
Ending stocks, total	1,304	1,624	1,474	1,790		

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## USDA Wheat Supply/Demand

Item	2006/07		2007/08		2008/09 Projections	
	Actual	Est.	Actual	Est.	December	January
Area	Million acres					
Planted	57.3	60.5	63.0	63.1		
Harvested	46.8	51.0	55.7	55.7		
Yield per harvested acre	38.6	40.2	44.9	44.9		
Beginning stocks	571	456	306	306		
Production	1,808	2,051	2,500	2,500		
Imports	122	113	110	110		
Supply, total	2,501	2,620	2,915	2,915		
Food	938	947	950	950		
Seed	82	88	82	80		
Feed and residual	117	15	260	230		
Domestic, total	1,137	1,050	1,292	1,260		
Exports	908	1,264	1,000	1,000		
Use, total	2,045	2,314	2,292	2,260		
Ending stocks	456	306	623	655		

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## USDA Wheat By Class

Year Beginning	Hard		Soft		Total	
	June 1	Winter	Spring	Red	White	Durum
2007/08 (estimated)	Million bushels					
Beginning stocks	165	117	109	44	21	456
Production	956	450	352	221	72	2,051
Supply, total 3/	1,121	615	475	275	134	2,620
Domestic use	446	242	211	68	84	1,050
Exports	538	305	209	170	42	1,264
Use, total	984	547	420	238	126	2,314
Ending stocks, total	138	68	55	37	8	306
2008/09 (projected)	Million bushels					
Beginning stocks	138	68	55	37	8	306
Production	1,035	512	614	254	85	2,500
Supply, total 3/	1,174	620	694	300	128	2,915
Domestic use	466	250	351	106	87	1,260
Exports	460	210	190	120	20	1,000
Use, total	926	460	541	226	107	2,260
Ending stocks, total	248	160	153	74	21	655
January	205	160	153	84	21	623
December						

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## USDA Soybean Supply/Demand

Item	2008/09 Projections			
	2006/07	2007/08 Est.	December	January
<b>SOYBEANS:</b>				
Million acres				
Area				
Planted	75.5	64.7	75.9	75.7
Harvested	74.6	64.1	74.4	74.6
Bushels				
Yield per harvested acre	42.9	41.7	39.3	39.6
Million bushels				
Beginning stocks	449	574	205	205
Production	3,197	2,677	2,921	2,959
Imports	9	10	7	9
Supply, total	3,655	3,261	3,133	3,173
Crushings	1,808	1,801	1,715	1,685
Exports	1,116	1,161	1,050	1,100
Seed	80	93	90	90
Residual	77	0	72	73
Use, total	3,081	3,056	2,927	2,948
Ending stocks	574	205	205	225

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## USDA Soyoil/Soymeal Supply/Demand

Item	2008/09 Projections			
	2006/07	2007/08 Est.	December	January
Million pounds				
<b>SOYBEAN OIL:</b>				
Beginning stocks	3,010	3,085	2,483	2,483
Production	20,489	20,568	19,550	19,210
Imports	37	65	50	50
Supply, total	23,536	23,718	22,083	21,743
Domestic	18,575	18,327	18,000	17,850
For methyl ester	2,762	2,981	3,100	3,100
Exports	1,877	2,908	2,050	1,750
Use, total	20,451	21,235	20,050	19,600
Ending stocks	3,085	2,483	2,033	2,143
Average price (c/lb) 2/	31.02	52.03	31.00-	32.00-
			35.00	35.00
Thousand short tons				
<b>SOYBEAN MEAL:</b>				
Beginning stocks	314	346	294	294
Production	43,054	42,242	40,741	39,841
Imports	156	141	165	165
Supply, total	43,524	42,729	41,200	40,300
Domestic	34,374	33,155	32,500	31,600
Exports	8,804	9,280	8,400	8,400
Use, total	43,178	42,435	40,900	40,000
Ending stocks	346	294	300	300

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