

Commercial Crops Situation and Outlook

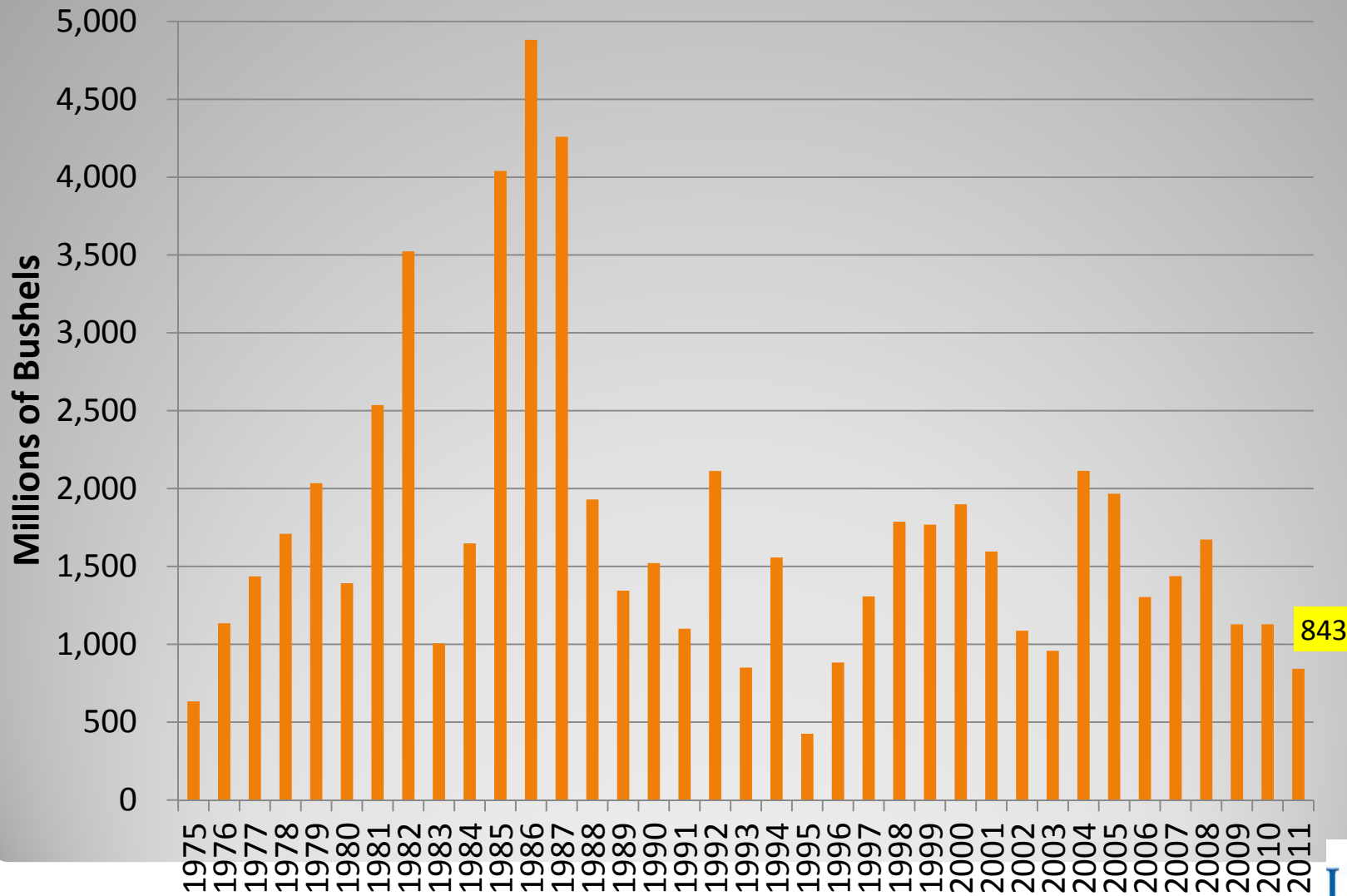
Cory Walters



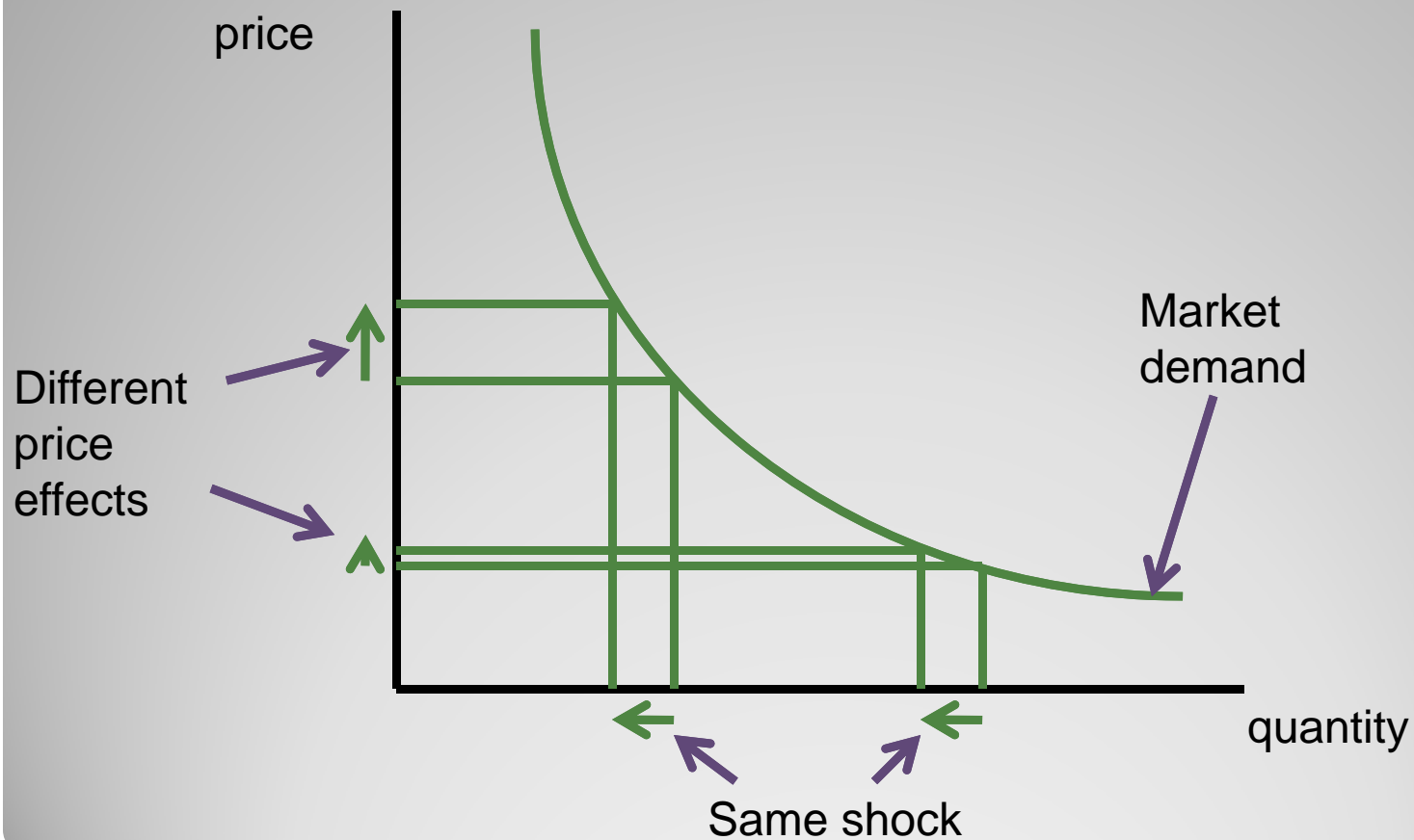
Expected percent change in ending stocks from 2010/11 to 2011/12



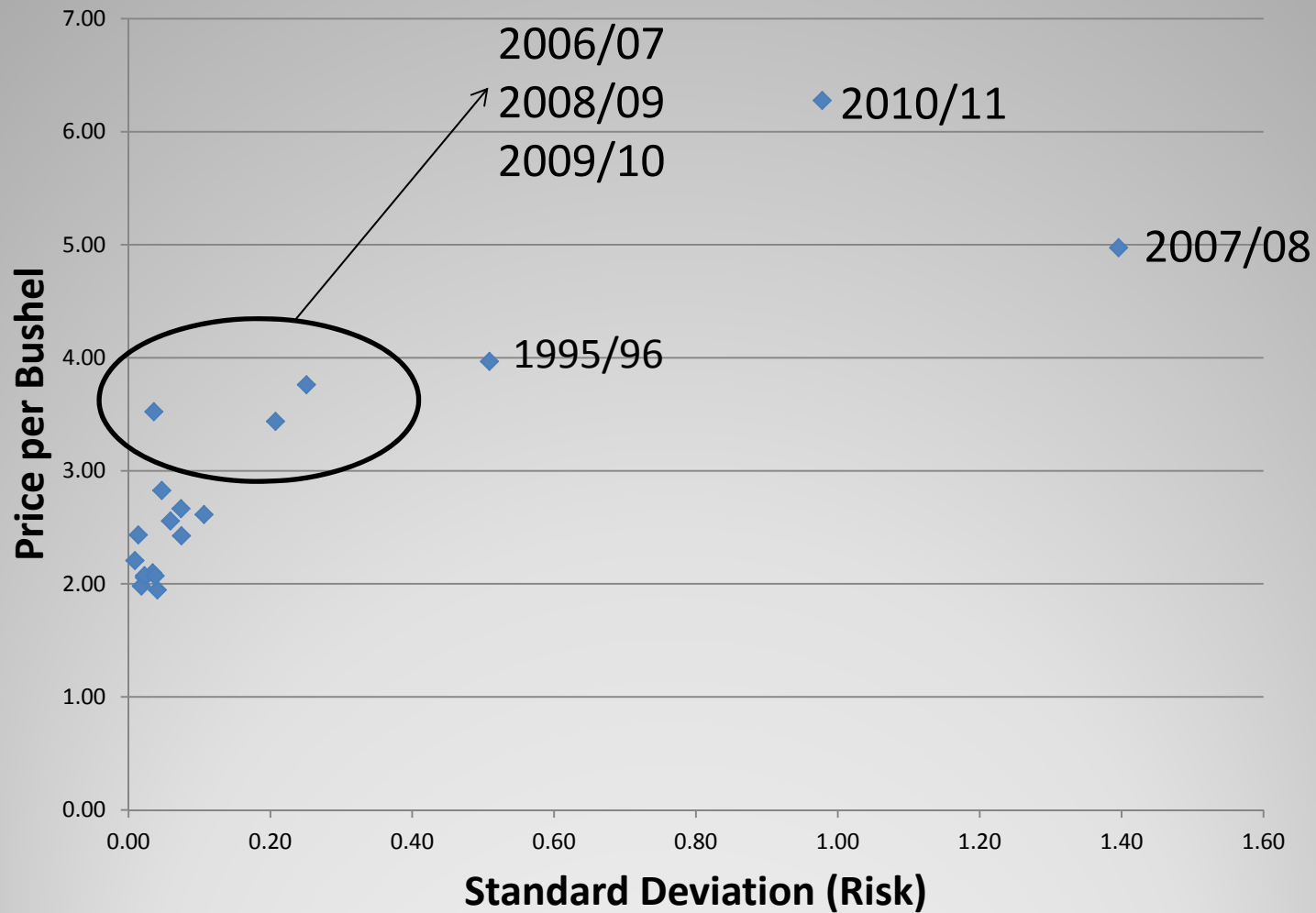
U.S. Corn Ending Stocks



- In times of short supply prices are more sensitive to changes in quantities:



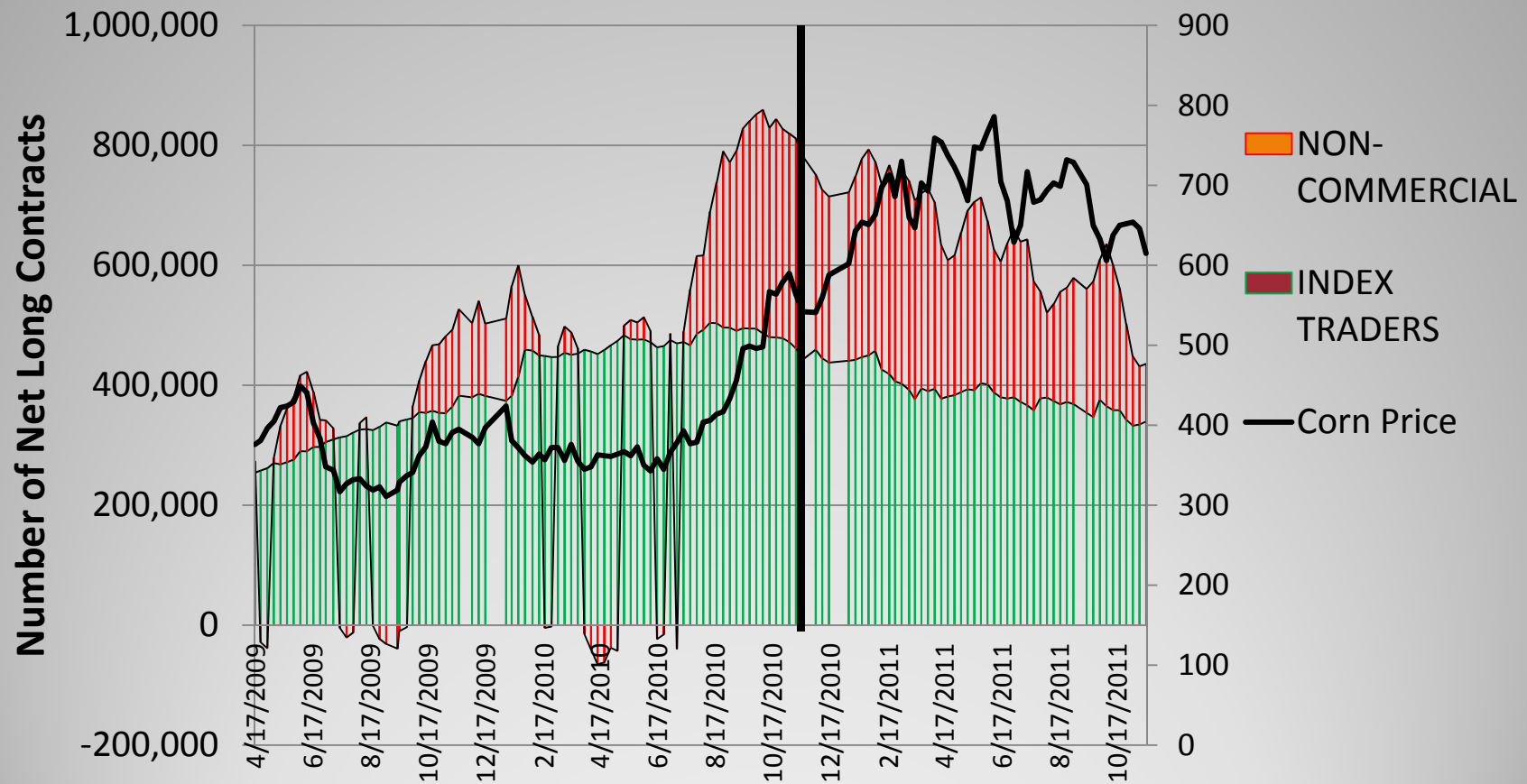
Historical Corn Average Price and Standard Deviation



USDA SUPPLY/DEMAND BALANCE SHEET FOR CORN

| | 11/12 Projections | Percent Change from a year ago |
|---|---------------------|--------------------------------|
| | Millions of Acres | |
| Acres Planted | 91.9 | +4.2% |
| Acres Harvested | 83.9 | +3.1% |
| Bu./Harvested Acre | 146.7 | -4.0% |
| | Millions of Bushels | |
| Beginning Stocks | 1,128 | -34.0% |
| Production | 12,310 | -1.1% |
| Total Supply | 13,453 | -5.1% |
| Use: | | |
| Feed and Residual | 4,600 | -4.2% |
| Food, seed, & industrial | 6,410 | -0.1% |
| Ethanol for fuel | 5,000 | -0.4% |
| Exports | 1,600 | -12.8% |
| Total Use (Demand) | 12,610 | -3.4% |
| Ending Stocks | 843 | -25.3% |
| Ending Stocks, % of Use | 6.7 | -22.6% |
| U.S. Season Avg. Farm Price, \$/ Bu. | \$6.70 | +29.3% |

Corn Interest by Commodity Index Funds and Speculators



Commitment of Traders Data

- Go to: <http://www.ca.uky.edu/agecon/>
- Click on 'Extension' – Left hand side
- Under commodity programs
 - Click on 'Grains' or picture of corn
- Click on 'Basis and Commitment of Traders data' – below USDA reports
- In a new window
 - Open excel file titled 'Kentucky Basis and Commitment of Traders Data'
 - Follow tabs at the bottom of excel
 - Update graphs as needed

2012 Corn Outlook

- **What we know**

- High prices rationed supply to highest value users
 - Total supply– down 1.1 % from last year
- Declining net long positions for speculators and index funds
- Tight ending stocks – lowest since 1995

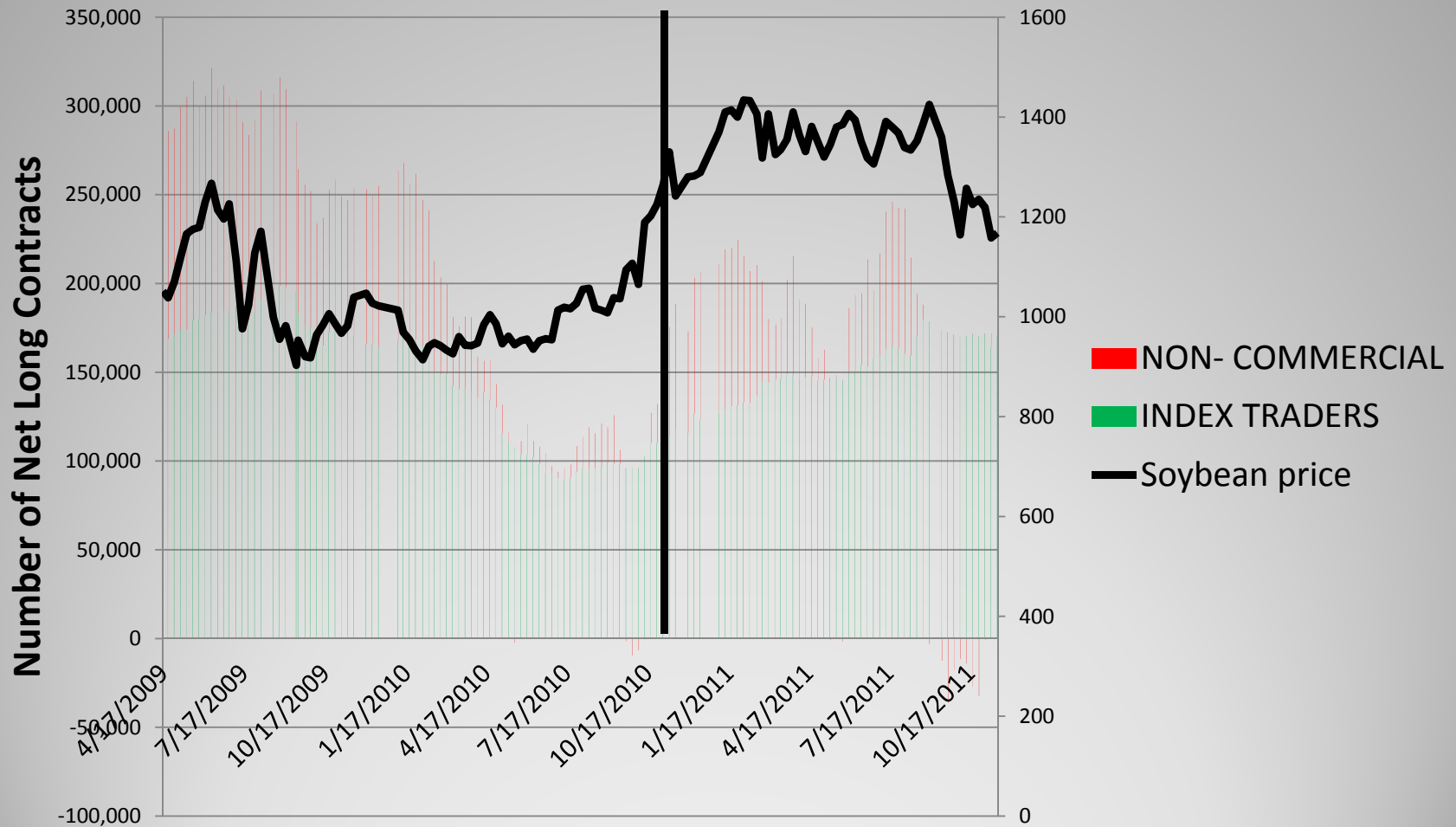
- **What we don't quite know**

- USDA predicting 3.4% decrease in use over last year
 - Ethanol industry – almost unchanged at -.4%
 - Exports – down 12.8% from last year
- When will speculators and index funds change direction (i.e., more long positions)

USDA SUPPLY/DEMAND BALANCE SHEET FOR SOYBEANS

| | 2011/12 Projections | Percent change from a year ago |
|---------------------------------------|---------------------|--------------------------------|
| | Millions of Acres | |
| Acres Planted | 75.0 | -3.1% |
| Acres Harvested | 73.7 | -3.8% |
| Bu./Harvested Acre | 41.3 | -5.1% |
| | Millions of Bushels | |
| Beginning Stocks | 215 | +42.4% |
| Production | 3,046 | -8.5% |
| Total Supply | 3,275 | -6.3% |
| Use: | | |
| Crushing | 1,635 | -0.9% |
| Exports | 1,325 | -12.8% |
| Seed & Residuals | 120 | -4.0% |
| Total Use | 3,080 | -6.5% |
| Ending Stocks | 195 | -9.3% |
| Ending Stocks, % of Use | 6.3 | -3.0% |
| U.S. Season Average Farm Price, \$/Bu | \$13.15 | +16.4% |

Soybean Interest by Commodity Index Traders and Speculators



2011 Soybean Outlook

- **What we know**

- High prices rationed supply to highest value users
 - Total supply– down 6.3% from last year
- Increasing index fund long positions
- Speculators are split between long and shorts
- Less than average in ending stocks

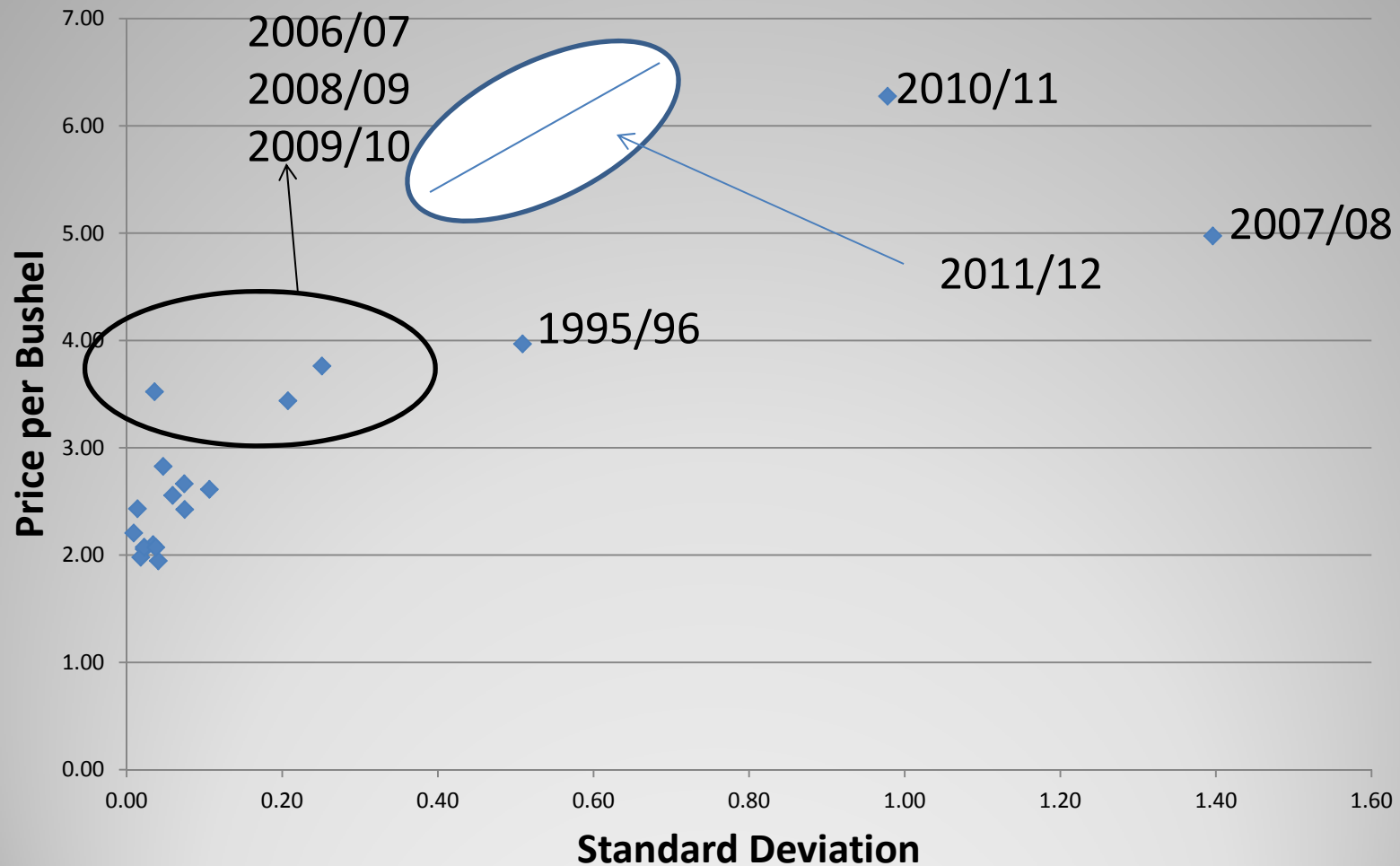
- **What we don't quite know**

- USDA predicting 6.5% decrease in use over last year
 - Exports – down 12.8% from last year
- Which way will speculators go? (net long or net short)
- Size and condition of South American crops

USDA SUPPLY/DEMAND BALANCE SHEET FOR WHEAT

| | 2011/12 Projections | Percent change from a year ago |
|---------------------------------------|---------------------|--------------------------------|
| | Million Acres | |
| Acres Planted | 54.4 | +1.5% |
| Acres Harvested | 45.7 | -4.0% |
| Bu./Harvested Acre | 43.7 | -5.6% |
| | Million Bushels | |
| Beginning Stocks | 862 | -11.7% |
| Production | 1,999 | -9.4% |
| Imports | 120 | +23.7% |
| Total Supply | 2,982 | -9.1% |
| Use: | | |
| Food/Seed | 1,018 | +2.1% |
| Feed & Residual | 160 | +21.2% |
| Exports | 975 | -24.4% |
| Total Use | 2,153 | -10.9% |
| Ending Stocks | 828 | -3.9% |
| Ending Stocks, % of Use | 38.5 | +7.8% |
| U.S. Season Aver. Farm Price, \$/ Bu. | \$7.40 | +23.0% |

Historical Yearly Average Corn Price and Standard Deviation



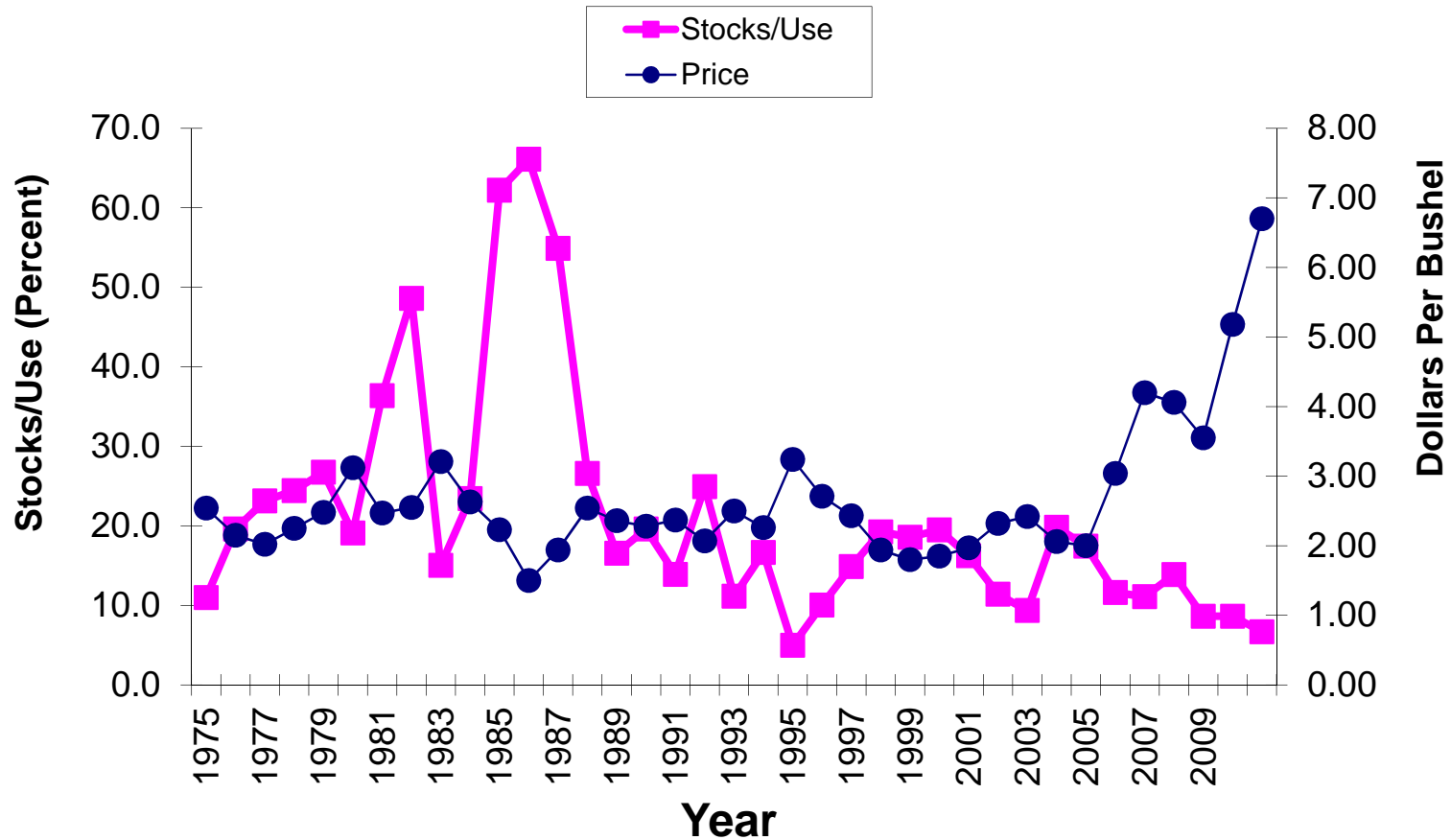
2012 Outlook

- **Expect price volatility**
 - Use crop insurance – revenue insurance with higher buy up, sell in small percentages, set price levels, identify risk levels (debt structures)
 - Higher risks – more pre-harvest marketing sales
- **Corn, soybean, and wheat prices will continue to be influenced by:**
 - Value of U.S. Dollar (exports)
 - Ending stocks (i.e., supply and demand)
 - World economic situation
 - Role of Speculators and Index Funds
- **Strong pressure to increase corn/soybean acreage to rebuild supply-demand balances**

Summary

- No evidence of a lack of production
- No clear evidence of an increase in demand from exports
- Ethanol demand has rapidly expanded over the past decade
- 2011 weather added to price movements
- KEYS:
 - Short term: In times of short stocks, prices are more sensitive to changes in quantity – thus could experience a spike
 - Long term: Currently takes almost 34 Kentucky corn crops to meet ethanol demand for one year
 - Or 2 Iowa corn crops
- Have we really encountered a true shortage in world food markets? I don't think so.

U.S. Corn Stocks/Use and Average Farm Price 1975-2012



Interesting chart, stocks-to-use is low but price has sky rocketed, why? We have seen stocks-to-use at similar values , for example in 2003, but price is now more than 2.6 times higher.