

Grain Market Update

Pennyroyal Farm Analysis Annual Meeting

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Grain Outlook

- Key Issues
 - E15
 - Value of Dollar
 - Size of corn crop
 - Size of soybean crop
 - Demand for corn and soybeans
 - Yeonpyeong
 - Marketing thoughts
 - Water boy vs. player ?

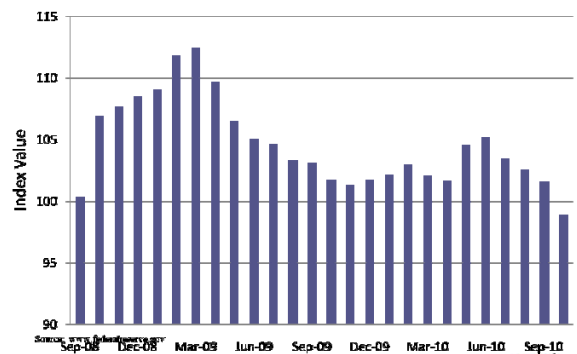
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E-15

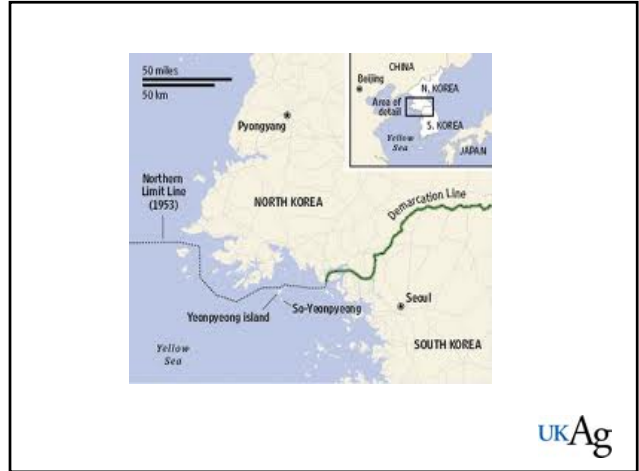
- Environmental Protection Agency raises the ethanol blend limit to 15%
 - Applies to vehicles build in 2007 and newer
 - We must wait for the decision for vehicles from 2001 to 2006
 - Denied use in vehicles built on and before 2000
- Impact?
 - For now, very limited
 - Need delivery infratructure

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Nominal Broad U.S. Dollar Index



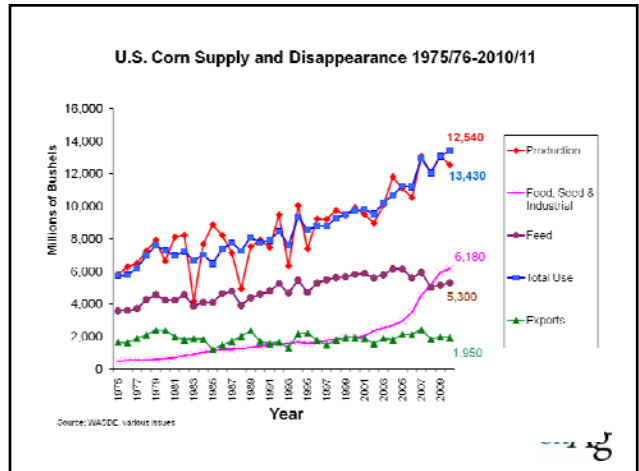
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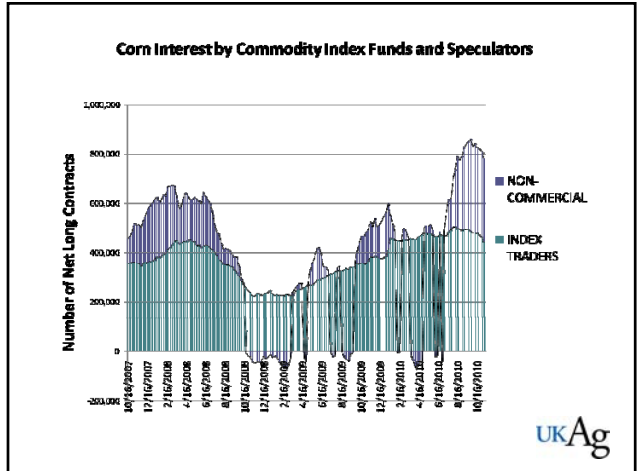
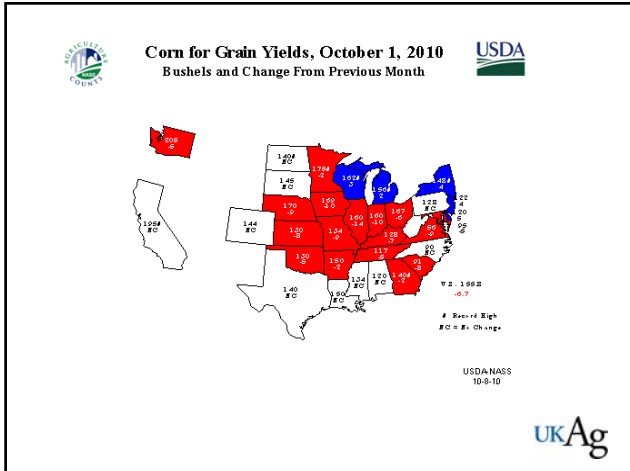
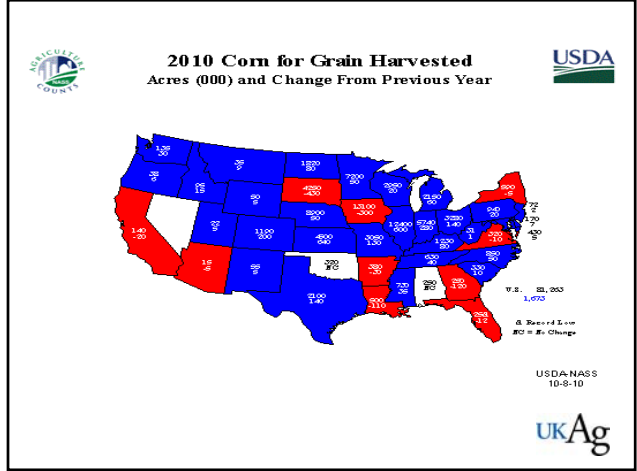
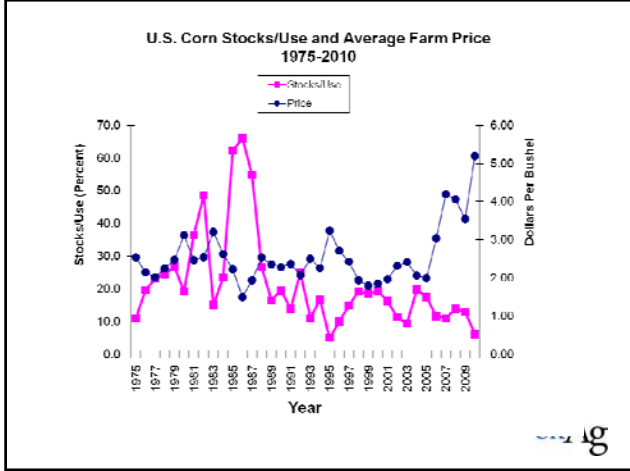


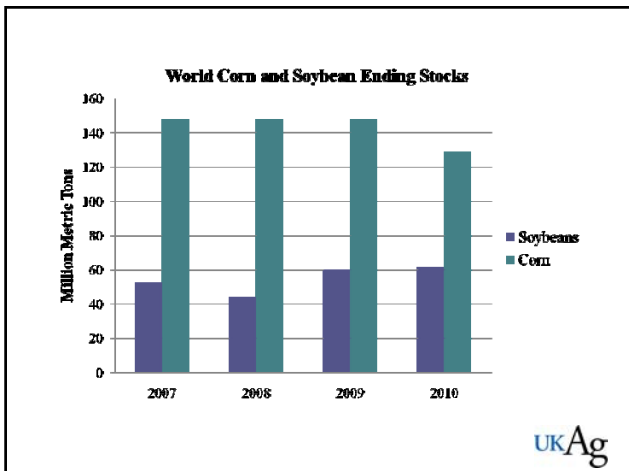
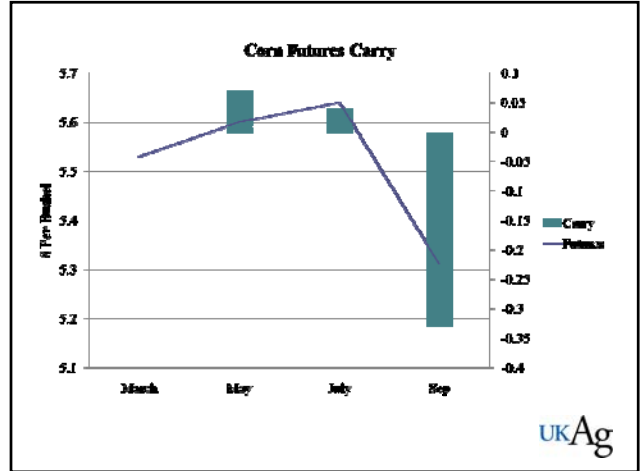
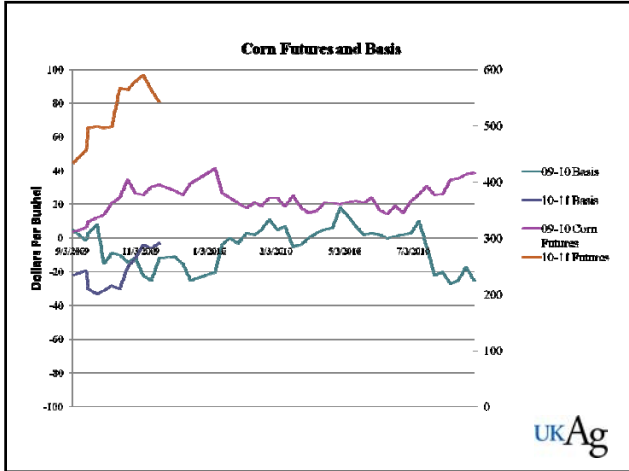
USDA SUPPLY/DEMAND BALANCE SHEET FOR CORN

	08-09	09-10 Est	10-11 P	%Δ
Millions of Acres				
Acres Planted	86.0	86.5	88.2	2.0%
Acres Harvested	78.6	79.6	81.3	2.1%
Bu./Harvested Acre	153.9	164.7	154.3	-6.3%
Millions of Bushels				
Beginning Stocks	1,624	1,673	1,708	2.1%
Production	12,092	13,110	12,540	-4.3%
Total Supply	13,729	14,791	14,257	-3.6%
Use:				
Feed and Residual	5,182	5,167	5,300	2.6%
Food, seed, & industrial	5,025	5,930	6,180	4.2%
Ethanol for fuel	3,709	4,560	4,800	5.3%
Exports	1,849	1,987	1,950	-1.9%
Total Use (Demand)	12,056	13,084	13,430	2.6%
Ending Stocks	1,673	1,708	827	-51.6%
Ending Stocks, % of Use	13.9	13.1	6.2	-52.8%
U.S. Season Avg. Farm Price, \$/ Bu.	\$4.06	\$3.55	\$5.20	46.5%

Source: USDA, WASDE







2010/11 and 2011/12 Corn

- 100% risk
 - From every direction
 - Market price is NOT a function of just supply and demand
- Small futures carry – indicates we are not running out of corn
- Dec 2011 corn is trading around \$5.07
- Down \$.30 on Friday
- Dec 2012 corn is trading around \$4.85
- Marketing plans based on what worked last year is not recommended

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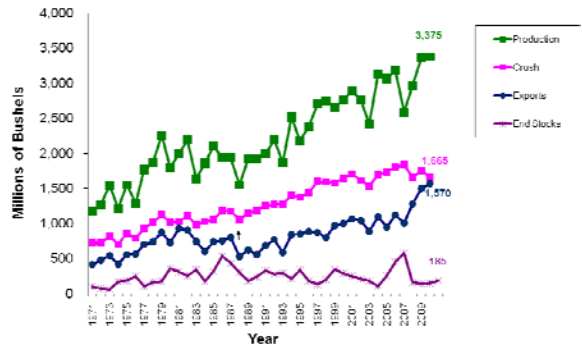
USDA SUPPLY/DEMAND BALANCE SHEET FOR SOYBEANS

	08-09	09-10 Est.	10-11 P	%Δ
Millions of Acres				
Acres Planted	75.7	77.5	77.7	0.3%
Acres Harvested	74.7	76.4	76.8	0.5%
Bu./Harvested Acre	39.7	44.0	43.9	-0.2%
Millions of Bushels				
Beginning Stocks	205	138	151	9.4%
Production	2,976	3,359	3,375	0.5%
Total Supply	3,185	3,512	3,536	0.7%
Use:				
Crushing	1,662	1,752	1,665	-5.0%
Exports	1,279	1,498	1,570	4.8%
Seed & Residuals	106	111	117	5.4%
Total Use	3,047	3,361	3,315	-1.4%

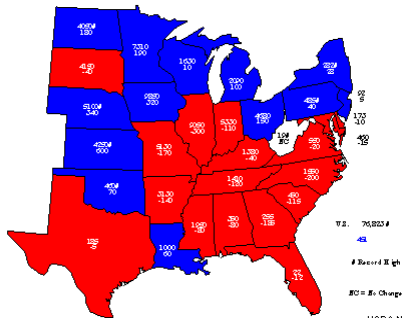
Ending Stocks	138	151	185	22.5%
Ending Stocks, % of Use	4.5	4.5	5.6	24.2%
U.S. Season Average Farm Price, \$/Bu	\$9.97	\$9.59	\$11.45	19.4%

Source: USDA, WASDE

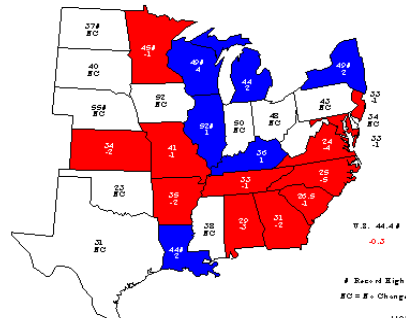
U.S. Soybean Supply and Disappearance 1971/72-2010/11

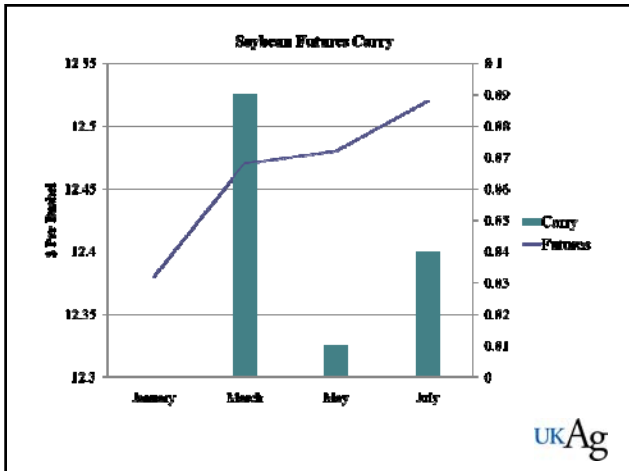
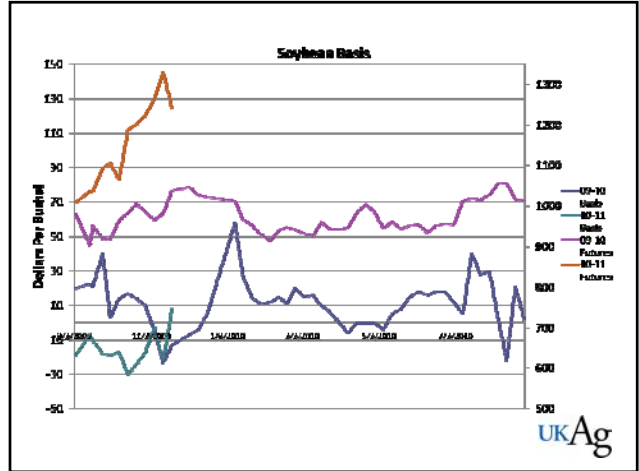
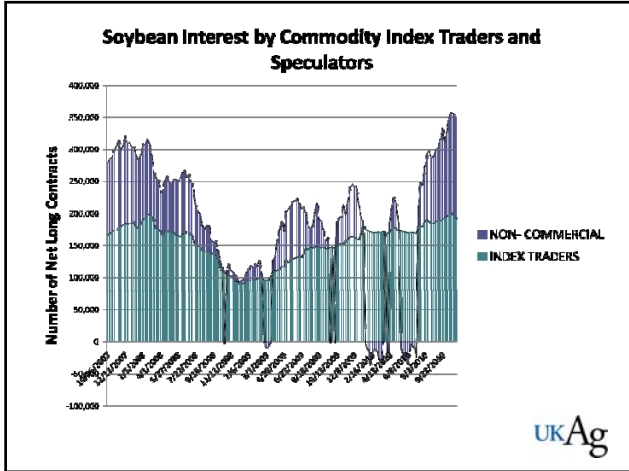


2010 Soybeans Harvested
Acres (000) and Change From Previous Year



Soybean Yields, October 1, 2010
Bushels and Change From Previous Month





2010/11 and 2011/12 Soybeans

- 100% risk
 - From every direction
 - Market price is NOT a function of just supply and demand
- Futures market is not rewarding those who store
- Nov 2011 soybeans are trading around \$12.20
- Down \$.70 on Friday
- Nov 2012 soybeans are trading around \$11.73

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2010/11 and 2011/12 Wheat

- Safety Nets

- Crop Insurance

- CRC Base Price
 - » 2010 - \$5.29 /bu
 - Revenue Protection
 - » 2011 - \$7.14 /bu

- ACRE - 90 % of Guarantee price - \$5.25/bu. FSA expecting \$5.50/bu

- July 11 Chicago wheat is trading around \$8.16
- July 12 Chicago wheat is trading around \$8.15

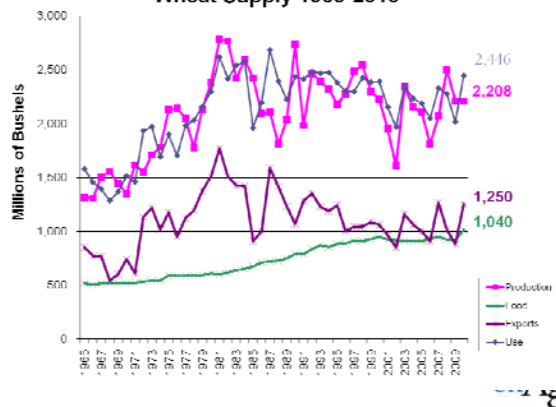


USDA SUPPLY/DEMAND BALANCE SHEET FOR WHEAT

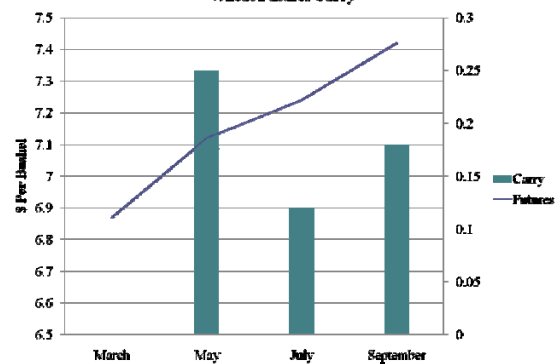
	08/09	09/10 Est	10/11P	%Δ
Million Acres				
Acres Planted	63.2	59.2	53.6	-9.5%
Acres Harvested	55.7	49.9	47.7	-4.4%
Bu./Harvested Acre	44.9	44.5	46.4	4.3%
Million Bushels				
Beginning Stocks	306	657	976	48.6%
Production	2,499	2,218	2,208	-0.5%
Imports	127	119	100	-16.0%
Total Supply	2,932	2,993	3,294	10.1%
Use:				
Food/Seed	1,005	986	1,016	3.0%
Feed & Residual	255	150	180	20.0%
Exports	1,015	881	1,250	41.9%
Total Use	2,275	2,018	2,446	21.2%
Ending Stocks	657	976	848	-13.1%
Ending Stocks, % of Use	28.9	48.4	34.7	-28.3%
U.S. Season Aver. Farm Price, \$/ Bu.	\$6.78	\$4.87	\$5.50	11.5%

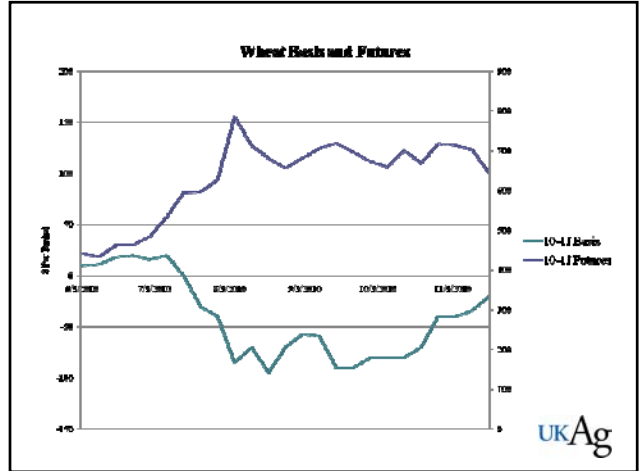
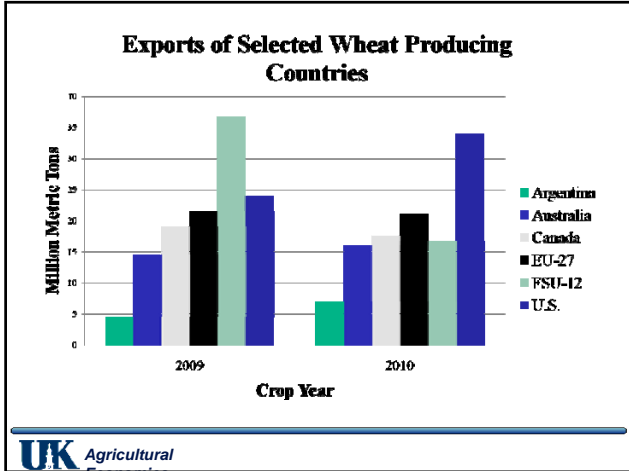
Source: USDA, WASDE

Wheat Supply 1965-2010



Wheat Futures Carry





Crop Insurance when Prices Rise

- Crop Insurance –
 - If **harvest** price is greater than **base** price
 - Then revenue guarantee is re-calculated using **harvest** price
 - Implied “Long Call” (i.e., you get more for your grain) in a revenue policy should have a positive value provided there is a yield loss
 - Helps with significant price gains between base and harvest price periods
 - 2010 Corn CRC Base price - \$3.99, Harvest price \$5.46
 - A 37% increase in guarantee
 - 2010 Soybean CRC Base price - \$9.23, Harvest price \$11.63
 - A 26% increase in guarantee

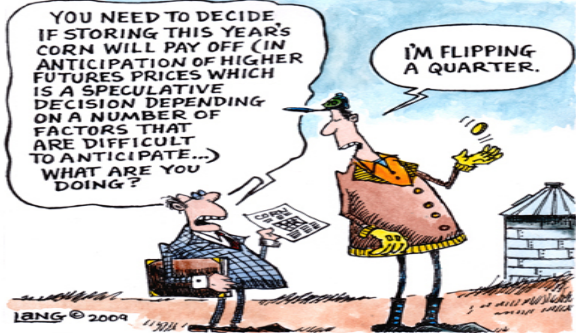
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Marketing 2011 Expected Production

- Decisions on whether to lock in a percent of expected production should be based upon expected profit
 - Keeping in mind that you hope they are the worst prices you see all year
 - Recommended contracts; Cash, Hedge –to- Arrive, Futures
 - If your looking for upside potential while putting a floor in your price
 - » Sell harvest futures or cash
 - » Then, buy an out-of-the money call using March or May Futures – this gets you protection into the spring

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Corn Time by Bob Lang



Marketing 2011 Expected Production

- It is very difficult to plan
 - Because the future is uncertain
 - Therefore we must plan – knowing about the uncertain future
 - It takes guts to do this

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