Grain Market Outlook

RISK AND PROFIT Conference

Daniel M. O'Brien
Kansas State University

Grain Market Outlook for 2004-05

- Major Grain Market Factors
- Feedgrain, Oilseed & Wheat Market Outlook
  - Futures & Cash Prices
  - Supply-Demand Prospects
  - Price Prospects for 2004-05
  - Likely Causes & Timing of Price Volatility

Major Market Factors

- U.S. / Foreign Crop Prospects for 2004/05
- Expanding Ethanol Usage thru 2008
- China Grain Production / Exports / Imports
- Oilseed Product Demand: Past & Future
- WTO Impact on Programs and Trade????
- The Market's "Comfort" with Lower Stocks

U.S. Crop Prospects for 2004/05
August 2004 Crop Report

- **Corn Crop Record**: 10.923 Billion Bu
  - Most Planted/Harvested acres (81/73.4 mln) since '85
  - 148.9 bu/ac. → Record U.S. Yield (+3.9 bu over '03)
  - ***Headed for 11+ Billion Bushels???***
- **Soybean Crop Near-Record**: 2.877 Bln Bu
  - Most Planted/Harvested acres (74.8/73.7 mln.) EVER
  - 39.1 bu/ac. → Record U.S. Yield (41.4 bu in 1994)
  - ***Headed for 2.7 or 3.0 Billion Bushels???***

Foreign Crop Prospects for 2004/05
August 2004 Crop Report

- **World Wheat Crop**: 609 mmt
  - Near-Record (610 mmt in 1997/98)
  - Larger crops in Argentina, Canada, EU-25, China, India, Russia, & Ukraine
- **Oilseed Production**: 379 mmt
  - ↑ 43 mmt over 2003/04 (at least 8 year high)
  - ↑ Production for South American Soybeans in '05
  - ↑ Canola PRODN in Canada, EU-25; SF in Russia

Expanding U.S. Ethanol Use

- **U.S. Ethanol Plant Statistics**
  - Corn processing capacity: 20-25 mln bu /plant /year
  - 50-55 plants currently *in operation*
    → *1.370 million bushels for 2004/05 (August Report)*
  - 12 under construction + 60 more planned by 2008
    → *IF 72 plants using corn are actually built, then 1.44-1.8 million bu more used by 2008*
- **@Issue**: What impact would Ethanol use have on feed use, exports, prices, crop acreage, etc.?

China Grain Production & Use

- **China is projected to stop *exporting* corn & become a net corn *importer* sometime during the 2005 (FAPRI) to 2008 (USDA) period**
- Corn Use > Production since 1999/00
  - Domestic Use Up 9% to 132 mmt in 2004/05
  - Level yields since 1999 (90 bu/acre max)
- Soybean Use 50%+ > Production (since '02/03)
- Wheat Use 13-21% > Production (since '02/03)

China Corn Trade & Scenarios

- **Chinese Corn Export Impact upon the U.S.**
  - In 2004/05 China to export 520 mln bu of corn
  - IF China stops exporting corn in 2005/06, the U.S. would likely fill the export void/need
- **Possible Chinese/U.S. Grain Scenarios**
  - IF China KEEPS exporting Corn, U.S. Ethanol-based grain use will be met more easily (less $ impact)
  - IF China STOPS exporting Corn, then U.S. Ethanol use & U.S. exports will "compete"

Oilseed Product Demand

- **Situation: A tight Oilseed Supply-Demand situation led to high Oilseed product & crop prices during Spring-early Summer 2004**
  - Prices declined this summer as new crop prospects in the U.S. have become less uncertain
  - Normal-large South American soybean production is projected for 2005
- **@Issue**: Extremely volatile markets may result IF World Oilseed crop prospects fall short

WTO Impact on U.S. Farm Programs

- "Don't panic, but pay attention" (Pat Westhoff, FAPRI-University of Missouri)
  - Too soon to know long run WTO impact
- Brazilian WTO Case vs U.S. Cotton Program
  - WTO panel found in favor of Brazil, i.e., that U.S. cotton loan program is/was "trade distorting"
- **Likely long run impact**: Some "marginal effect" on U.S. farm programs, but no major impacts
  - Issues of "green", "amber", & "blue" boxes

Grain Markets are more "Comfortable" with Low Grain Stock Levels

- **World Grain Markets appear to be less concerned (*i.e., less price responsive*) to the existence of smaller grain stock amounts**
  - Lower market demand for grain stocks
- **Better coordination of physical supply/demand**
  - Info re: amount & location of stocks
  - Grain handling/transportation improvements
- **Market Impact**:
  - More tolerance of tight supplies ("living on the edge")

Corn Futures Prices

CBOT Closes, Thursday, August 19, 2004

Futures	Closing	*Carry/mo*
September '04	$2.29	---
December 2004	$2.40 1/4	---
March '05	$2.48 1/2	*+$0.02 3/4*
May '05	$2.54 1/4	*+$0.02 7/8*
July '05	$2.58 3/4	*+$0.02 1/4*
September '05	$2.60 1/2	*+$0.00 7/8*
December 2005	$2.63 3/4	---

Cash Corn Prices

Thursday, August 19, 2004

Location	Cash$	Basis (Sep)	LDP
Atchison	$2.21	–$0.08	($0.04)
Manhattan	$2.34	+$0.05	($0.04)
Columbus	$2.17	–$0.12	($0.04)
Salina	$2.25	–$0.04	$0.00
Pratt	$2.35	+$0.06	$0.00
Goodland	$2.34	+$0.05	$0.00
Garden City	$2.46	+$0.17	$0.00
Atchison NC	$2.17	–$0.23 Dec	---
Garden City NC	$2.43	+$0.03 Dec	---

Cash Grain Sorghum Prices

Thursday, August 19, 2004

Location	Cash$	Basis (Sep)	LDP
Atchison	$2.15	–$0.14	($0.06)
Manhattan	$2.00	–$0.29	($0.06)
Columbus	$1.80	–$0.49	($0.06)
Salina	$2.15	–$0.14	($0.09)
Phillipsburg	$1.89	–$0.40	($0.09)
Pratt	$1.89	–$0.40	($0.09)
Goodland	$1.85	–$0.44	($0.09)
Scott City	$1.90	–$0.39	($0.09)
Garden City	$1.93	–$0.36	($0.09)

U.S. Feedgrain Market Outlook

Bearish Factors

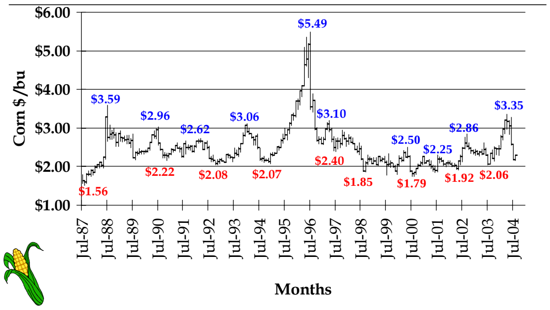
1) Record Feedgrain Crop
   ↑ Corn Yield thru Harvest???
2) ↑ World Coarsegrains
3) Recovery in Chinese Corn Yields?
4) World Grain Market now more "*comfortable*" with lower grain stock levels

Bullish Factors

1) Strong Domestic Use
   ↑ FSI / Ethanol Use
   Strong Feed Use
2) Export Prospects
   ↑ World Coarsegrain Use
   ??? Chinese Corn Exports
3) Production ≈ Use
   - Tight U.S. & World Stocks
   - Price volatility likely in Spring '05 due to acreage uncertainty

Corn Futures Prices

CBOT Monthly Corn Prices Since July 1987



U.S. Corn Supply-Demand

August 2004 USDA Est. *(Million Bu.)*

	2002/03	2003/04	2004/05
Beginning Stocks	1,596	1,087	914
Production	8,967	10,114	10,923
Total Supplies	**10,578**	**11,214**	**11,852**
Food, Seed, Ind. Use	2,340	2,575	2,770
(Ethanol for Fuel)	*(996)*	*(1,200)*	*(1,370)*
Exports	1,592	1,925	2,100
Feed & Residual	5,558	5,800	5,850
Total Use	**9,491**	**10,300**	**10,555**
End Stocks	1,087	914	1,132
US Ave Farm $	***$2.32***	***$2.40***	***$2.05-$2.45***

U.S. Grain Sorghum Supply-Demand

August 2004 USDA Est. *(Million Bu.)*

	2002/03	2003/04	2004/05
Beg. Stocks	61	43	44
Production	361	411	465
Total Supplies	**422**	**454**	**509**
Food, Seed, Ind. Use	24	20	50
Exports	186	200	225
Feed & Residual	169	190	180
Total Use	**379**	**410**	**455**
End Stocks	43	44	54
US Ave Farm $	***$2.32***	***$2.38***	***$2.00-$2.40***

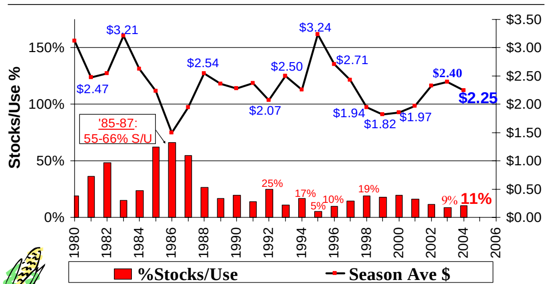
Foreign Coarse Grain S/D

August 2004 USDA Est. (Million Metric Tons)

World Supplies	2002/03	2003/04	2004/05
Beg. Stocks	150	134	99
Production	***628***	***624***	***659***
Imports	100	98	96
World Use			
Feed Use	447	459	466
Food, Seed, Other Domestic	240	253	256
Exports	***58***	***46***	***44***
End Stocks	**134**	**99**	**93**

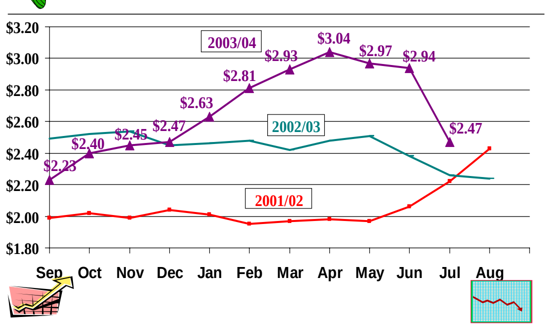
U.S. Corn Prices & % Stocks/Use

1980/81 Through 2004/05 (August 2004 USDA Report)



Monthly Kansas Corn Prices

2001/02 thru 2003/04 Market Years



U.S. Corn Price 2004/05 Prospects

Wisner-ISU, August 2004

Scenario:	High$	Medium$	Low$
Likelihood:	***15%***	***60%***	***20%***
U.S. Yield/a	145.0 bu	148.9 bu	152.0 bu
Corn Prod'n (mln bu)	10.614	10.929	11.157
Stocks/Use%	10.2%	12.9%	13.8%
U.S. Cash $/bu	$2.40	$2.25	$2.20
DEC Corn Fut. @ Harvest 2004	$2.35	$2.20	$2.10

More Corn Price Info for 2004/05

- **Illinois Extension Forecasts** (Good, Univ. Illinios)
  - Using both Price Models & Basis adj. Futures
    - **S/U Model**: Ave Cash $ = $2.28/bu
    - **Futures** (Basis adj) : Ave Cash $ = $2.30/bu
- **General thoughts on Price Direction**
  - 2004/05 a "Big Crop" Year, harvest lows with post harvest price increase
  - Typically a $0.75-$0.80 price ↑ from Fall lows to Spring Planting highs ($0.45 minimum)
    - Advantage to storage (on farm)

Soybean Futures Prices

CBOT Closes, Thursday, August 19, 2004

Futures	Closing $	Carry/mo
August '04	$6.52	---
September '04	$5.98 1/4	–$0.53 3/4
November '04	$5.89 1/2	---
January '05	$5.95	+$0.02 3/4
March '05	$6.03 1/4	+$0.04 1/8
May '05	$6.08 1/4	+$0.02 1/2
July '05	$6.11 1/2	+$0.01 5/8
November '05	$5.92 3/4	---

Cash Soybean Prices

Thursday, August 19, 2004

Location	Cash$	Basis (Sep)	LDP
Atchison	$6.40	+$0.42	*($1.01)*
Manhattan	$5.79	–$0.19	*($1.01)*
Columbus	$6.54	+$0.56	*($1.01)*
Salina	$6.39	+$0.41	*($1.01)*
Pratt	$4.94	–$2.04	*($1.01)*
Goodland	$5.70	–$0.28	*($1.01)*
Garden City	$6.05	+$0.07	*($1.01)*
Atchison NC	$5.60	–$0.30 Nov	---
Garden City NC	$5.40	–$0.50 Nov	---

U.S. Oilseed Market Outlook

Bearish Factors

1) Large South American Crop expected in 2005
   Large soybean exports in Spring '05 from Brazil & Argentina
2) ↑ World Supplies
   Up 10% to 419 mmt in '04/45
3) ↑ World Stocks
   Up 35% to 54 mmt in '04/45

Bullish Factors

1) World Use Strong '04/05
   +7% & +12% over last 2 years
2) Frost Risk-North U.S.
3) Market Questions in '05
   So. American Crop Uncertainty
   U.S. Crop Acreage concerns in Spring 2005
   Strength of feed demand?
   Long run crop disease issues?

World Oilseed Supply-Demand

August 2004 USDA Est. (Million Metric Tons)

World Supplies	2002/03	2003/04	2004/05
Beg. Stocks	37	44	41
Production	***330***	***336***	***379***
Total Supply	367	380	419
World Use			
Trade	71	68	77
Total Use	***267***	***280***	***300***
End Stocks	**44**	**41**	**55**

U.S. Soybean Supply-Demand
August 2004 USDA Est. (Million Bu.)

	2002/03	2003/04	2004/05
Beg. Stocks	208	178	105
Production	2,756	2,418	2,877
Total Supplies	**2,969**	**2,602**	**2,988**
Crushings	1,615	1,515	1,625
Exports	1,044	890	1,030
Seed	89	91	90
Residual	41	0	53
Total Use	**2,791**	**2,497**	**2,798**
End Stocks	178	105	190
US Ave Farm $	*$5.53*	*$7.40*	*$5.40 - 6.40*

U.S. Soybean Meal Supply-Demand
August 2004 USDA Est. (Thousand Short Tons)

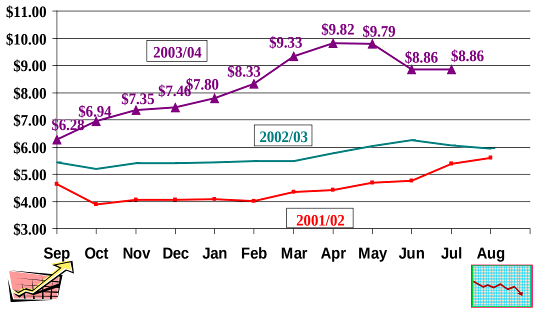
	2002/03	2003/04	2004/05
Beg. Stocks	240	220	175
Production	38,213	35,905	38,710
Imports	166	250	165
Total Supplies	**38,619**	**36,375**	**39,050**
Domestic Use	32,379	31,900	33,600
Exports	6,019	4,300	5,200
Total Use	**38,399**	**36,200**	**38,800**
End Stocks	220	175	250
***US Ave $*** *($/ sht.ton)*	*$181.57*	*$260.00*	*$180-$210*

U.S. Soybean Oil Supply-Demand
August 2004 USDA Est. (cents per lb.)

	2002/03	2003/04	2004/05
Beg. Stocks	2,358	1,491	1,051
Production	18,438	16,825	18,280
Imports	46	285	105
Total Supplies	**20,843**	**18,601**	**19,436**
Domestic Use	17,089	16,700	17,200
Exports	2,263	850	1,050
Total Use	**19,352**	**17,550**	**18,250**
End Stocks	1,491	1,051	1,186
US Ave $ *(cents/lb.)*	*$22.04*	*$30.00*	*$23-$26*

Monthly Kansas Soybean Prices

2001/02 thru 2003/04 Marketing Years



U.S. Soybean Price 2004/05 Prospects

Wisner-ISU, August 2004

Scenario:	High$	Medium$	Low$
Likelihood:	***22%***	***65%***	***13%***
U.S. Yield/a	37.0 bu	39.1 bu	40.0 bu
Soyb. Prodn (mln bu)	2.720	2.877	2.991
Stocks/Use%	3.1%	6.3%	7.9%
U.S. Cash $/bu	$6.70	$5.50	$5.30
NOV Soyb. Fut. @ Harvest 2004	$6.55	$5.40	$5.20

More Soybean $ Info for 2004/05

- **Illinois Extension Forecasts** (Good, Univ. Illinios)
  - Using both Price Models & Basis adj. Futures
    - **S/U Model**: Ave Cash $ = $5.44/bu
    - **Futures** (Basis adj) : Ave Cash $ = $5.84/bu
- **General thoughts on Price Direction**
  - Opportunity for Cash$ increases through Fall, then U.S/So. American weather drives market
  - **New Concept**: "6 month crop marketing years", first for U.S., then for South America

Wheat Futures Prices

KCBT Closes, Thursday, August 19, 2004

Futures	Closing$	*Carry/mo*
September '04	$3.23 3/4	---
December '04	$3.36 3/4	*+$0.04 1/3*
March '05	$3.46 1/2	*+$0.03 1/4*
May '05	$3.51 1/2	*+$0.02 1/2*
July 2005	$3.56	---
September '05	$3.64	*+$0.04*
December '05	$3.70	*+$0.02*

Cash Wheat Prices

Thursday, August 19, 2004

Location	Cash$	Basis (Sep)	LDP
Atchison	$3.04	–$0.20	*($0.23)*
Manhattan	$2.93	–$0.31	*($0.23)*
Columbus	$3.00	–$0.24	*($0.23)*
Salina	$3.23	–$0.01	*($0.23)*
Pratt	$2.98	–$0.26	*($0.23)*
Phillipsburg	$2.89	–$0.35	*($0.23)*
Goodland	$2.79	–$0.45	*($0.23)*
Garden City	$2.88	–$0.36	*($0.23)*

U.S. Wheat Market Outlook

Bearish Factors

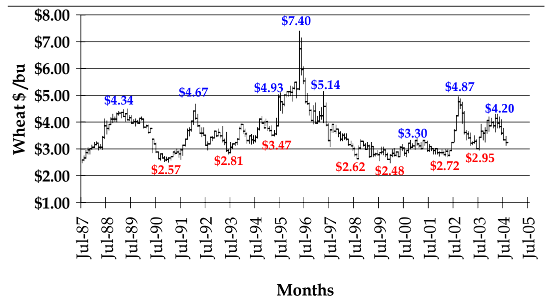
1) "Flat" U.S. Wheat Use
   U.S.: Steady Food #s, ↕Exports
   World: Stagnant use as diets change in developing world
2) Large expected'04/05 World Wheat Crops
3) HRW Gulf vs PNW Transportation Cost
4) Poor HRW Quality

Bullish Factors

1) Declining Wheat Acres
   U.S.: 59.7 mln ac (61.7 last yr)
2) World Prod'n ≥ Use in 2004/05 mktg yr
   Prodn < Use in 2002/03 & 2003/04
3) Tight World Stocks/Use
   24% Stocks/Use in 2004/05 Vs 23% in 2003/04
4) Chinese Imports???

Wheat Futures Prices

KC HRW Monthly Wheat Prices Since July 1987



World Wheat Supply-Demand

August 2004 USDA Est. (Million Metric Tons)

World Supplies	2002/03	2003/04	2004/05
Beg. Stocks	202	167	132
Production	***567***	***551***	***609***
Imports	108	103	103
World Use			
Feed	113	98	106
Food, Seed, Oth. Domestic	489	488	493
Exports	***108***	***107***	***106***
World End Stocks	**167**	**132**	**142**

Foreign Wheat Supply-Demand

August 2004 USDA Est. (Million Metric Tons)

Foreign Supplies	2002/03	2003/04	2004/05
Beg. Stocks	181	154	117
Production	***523***	***487***	***551***
Imports	105	101	101
Foreign Use			
Feed	109	93	100
Food, Seed, Oth. Domestic	462	461	466
Exports	***85***	***75***	***80***
World End Stocks	**154**	**117**	**127**

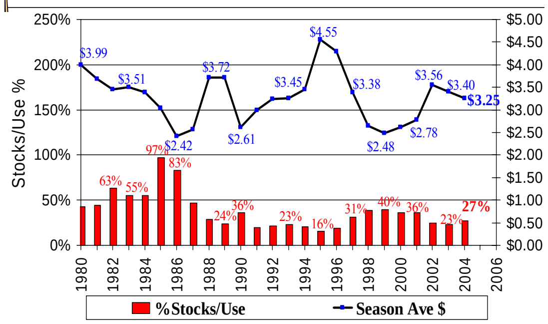
U.S. Wheat Supply-Demand

August 2004 USDA Est. (Million Bu.)

	2002/03	2003/04	2004/05
Beg. Stocks	777	491	546
Production	1,606	2,337	2,123
Total Supplies	**2,468**	**2,900**	**2,729**
Food	923	912	920
Seed	84	80	81
Exports	850	1,195	950
Feed & Residual	119	203	200
Total Use	**1,976**	**2,354**	**2,151**
End Stocks	491	546	578
US Ave Farm $	***$3.56***	***$3.40***	***$2.95-$3.55***

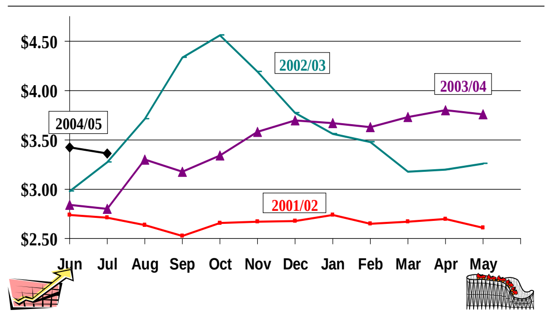
U.S. Wheat Prices & % Stocks/Use

1980/81 Through 2004/05 (August 2004 USDA est.)



Monthly Kansas Wheat Prices

2001/02 through 2003/04



Wheat $ Info for 2004/05

- **Problems for KS Hard Red Winter Wheat**
  - Gulf vs PNW transportation disadvantage
  - HRW Quality Problems
  - HRW $ strength to lag behind other U.S. classes
- **HRW $ Strength in ’04/05 depends on...**
  - Export buying (China?) to work though low quality HRW supplies
  - Unforeseen weather/production problems in World/U.S.???