



2009 Market Outlook

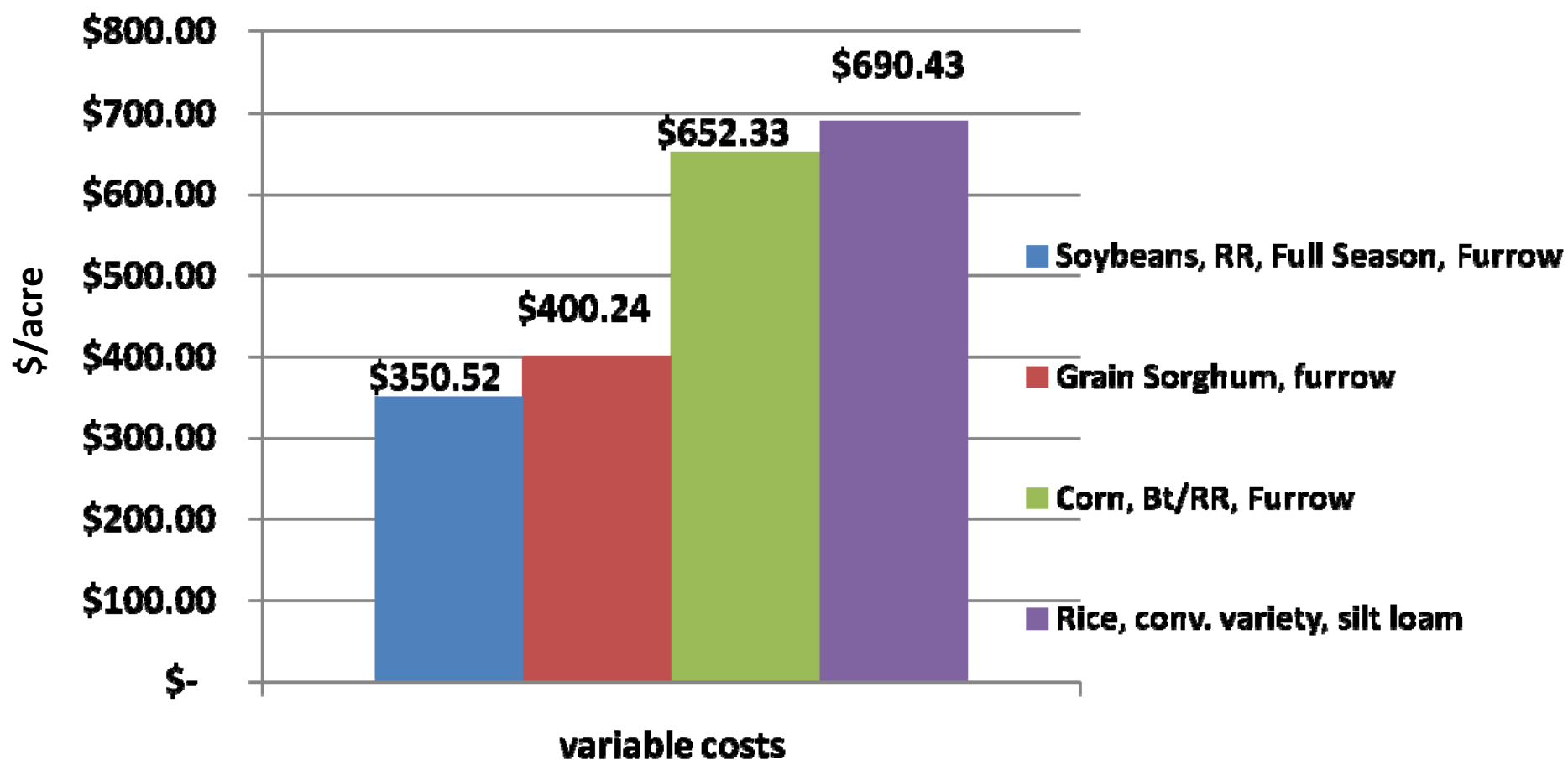
H. Scott Stiles
Extension Economist
University of Arkansas, Cooperative Extension Service



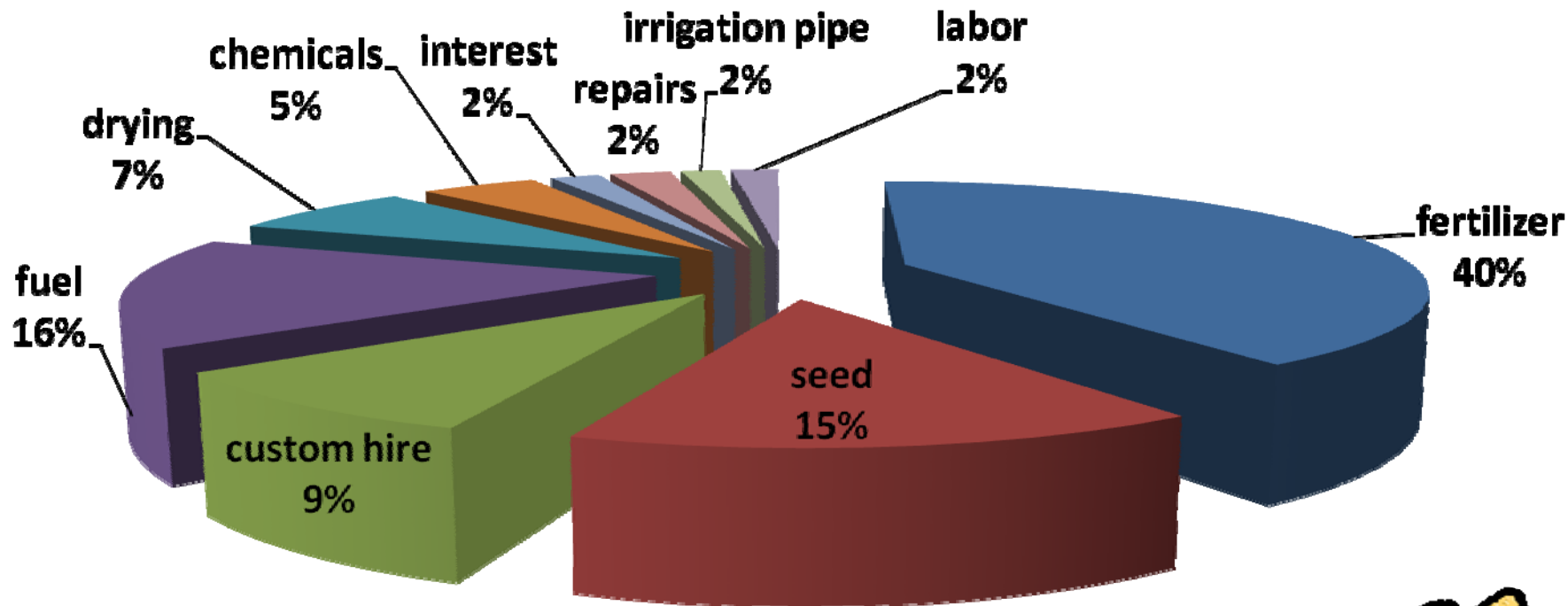
Corn and Grain Sorghum 2009 PRODUCTION COSTS



2009 Production Cost Comparison



Corn Production Costs



Source: 2008 UA Corn Research Verification Program



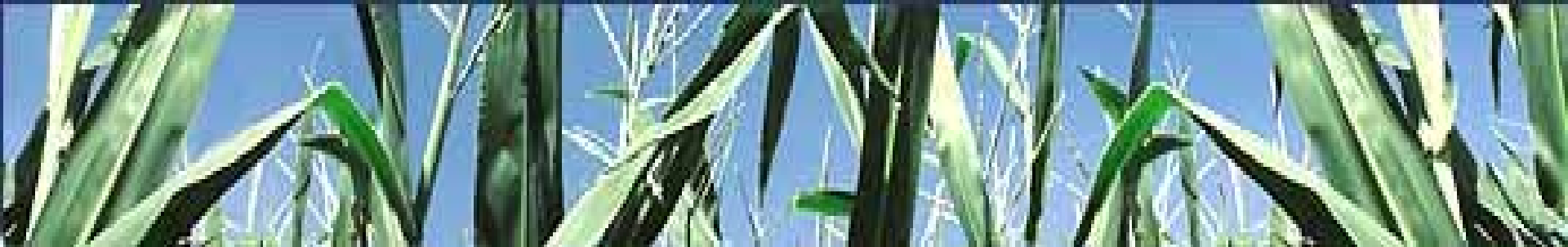
Estimating 2009 Costs of Production
Corn, Bt/RR, Furrow Irrigated, Loamy Soils
 AG-1199-11-08

Brad Watkins, Extension Economist

Jeffrey Hignight, Program Associate

Jason Kelley, Extension Agronomist – Wheat and Feed Grains

ITEM	UNIT	PRICE	QUANTITY	AMOUNT	YOUR FARM
		dollars		dollars	
DIRECT EXPENSES					
FERTILIZERS					
70-75-75	acre	197.79	1.0000	197.79	_____
Urea, Solid (46% N)	lb.	0.30	325.0000	97.50	_____
Agrotain	lburea	0.02	325.0000	7.80	_____
HERBICIDES					
Bicep II Magnum	qt	9.46	1.5000	14.19	_____
Glyphosate Plus	pt	4.82	4.0000	19.28	_____
Atrazine 4L	pt	1.69	2.0000	3.38	_____
Callisto 4SC	oz	4.61	3.0000	13.83	_____
IRRIGATION SUPPLIES					
Irrppip+lay+pickup	acre	13.50	1.0000	13.50	_____
CROP SEED					
Corn Seed Bt/RR	thous	2.97	33.0000	98.01	_____
CUSTOM HIRE					
Cstm Ap Grd Fert	acre	6.00	2.0000	12.00	_____
Cstm Ap Grd. Herb	acre	6.00	3.0000	18.00	_____
Haul Corn	bu	0.22	175.0000	38.50	_____
GIN/DRY					
Dry Corn	bu	0.19	175.0000	33.25	_____
Corn Checkoff	bu	0.01	175.0000	1.75	_____



Break-Even Prices to Cover Variable Costs

	Soybeans	Corn	Grain Sorghum	Rice
Variable Costs	\$350.52	\$652.33	\$400.24	\$690.43
Yield	45	175	100	160
Break-Even Price	\$7.79/bu.	\$3.73/bu.	\$4.00/bu.	\$4.32/bu.
2009 Bids – Memphis 12/9	\$7.49/bu.	\$3.09/bu.	\$2.62/bu.	

Variable production costs derived from 2009 UA Extension Service estimates.
Variable production costs do not include items such as equipment and land costs.



Web Resources

www.uaex.edu

Ag Economics and Agribusiness

- **“Current Cost of Production”**
2009 Corn & Grain Sorghum Budgets
- **“Crop Planning Budgets * (MS Excel)”**
Create personal crop budgets





Web Resources

- www.uaex.edu **Ag Economics and Agribusiness**
- **Commodity Basis Charts**
 - Corn
 - Cotton
 - Soybean
 - Wheat

Provided with assistance from:





Market Fundamentals and Price Trends

CORN FUTURES

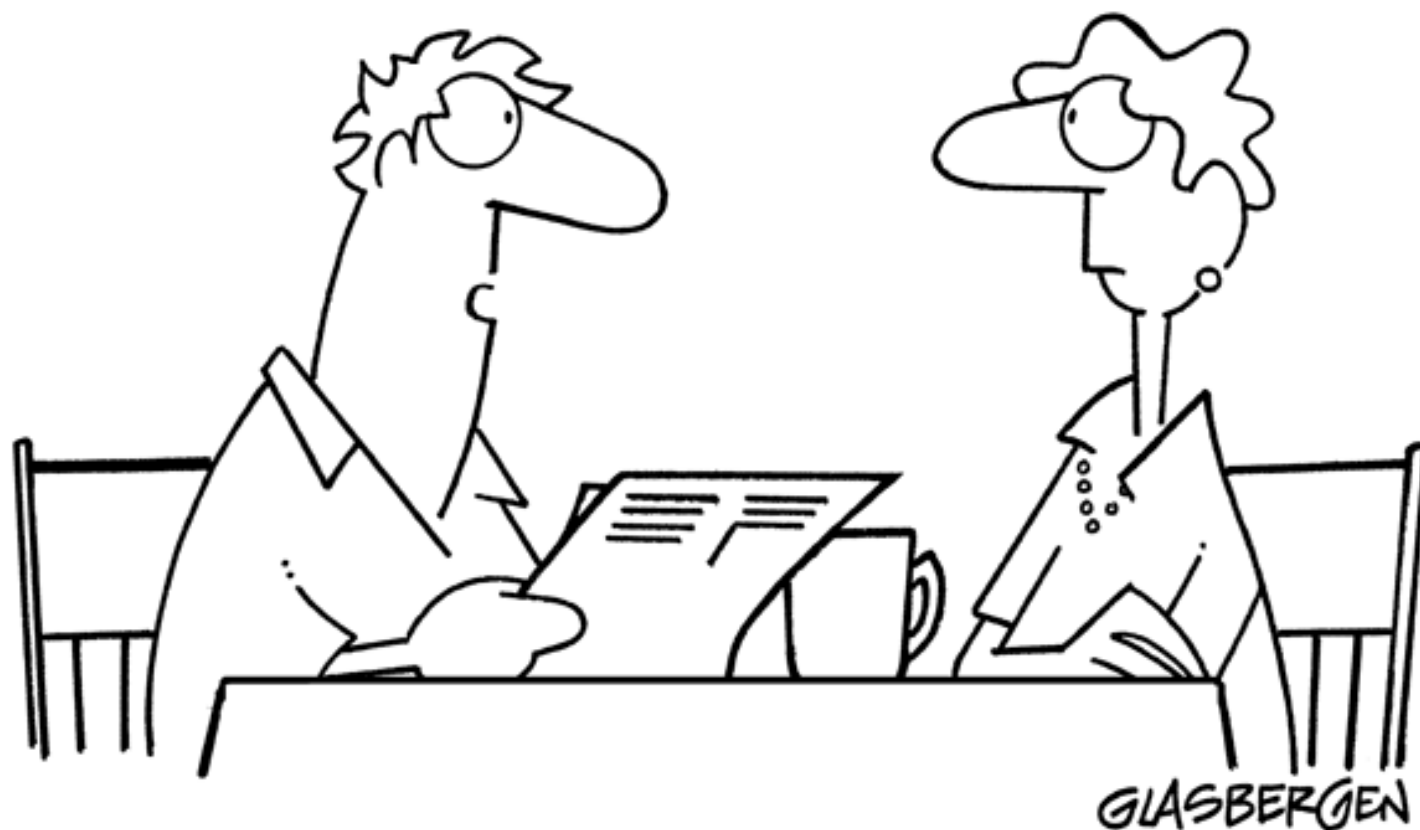




C H9 [10] - CORN (DAY) LAST: 327'6 CHANGE: ▼ 2'2 HIGH: 336'2 LOW: 325'2 **12/9/2008**



down 62% since June



“Liquidity. That’s when you look at your investments and wet your pants.”



C H9 [10] - CORN (DAY) LAST: 327'6 CHANGE: ▼ 2'2 HIGH: 336'2 LOW: 325'2 **12/9/2008**



Drop of .72 1/4 cents for the week ending Dec. 5



- **Last Week's Sell Off:**
- pressure from crude oil, a higher US dollar, weak demand (global economic concerns).
- anticipation that the next USDA report will show a larger ending stocks number.
 - a 1,124-1,400 billion bushel range is possible assuming 0-300 (500?) million bushel decline in exports and corn for ethanol.
- until the estimates for ending stocks stop going up, corn prices will have a tough time doing anything but going down.



C H9 [10] - CORN (DAY) LAST: 327'6 CHANGE: ▼ 2'2 HIGH: 336'2 LOW: 325'2 **12/9/2008**





C Z9 [10] - CORN (DAY) LAST: 372'2 CHANGE: ▼ 1'4 HIGH: 381'0 LOW: 369'4 **12/9/2008**

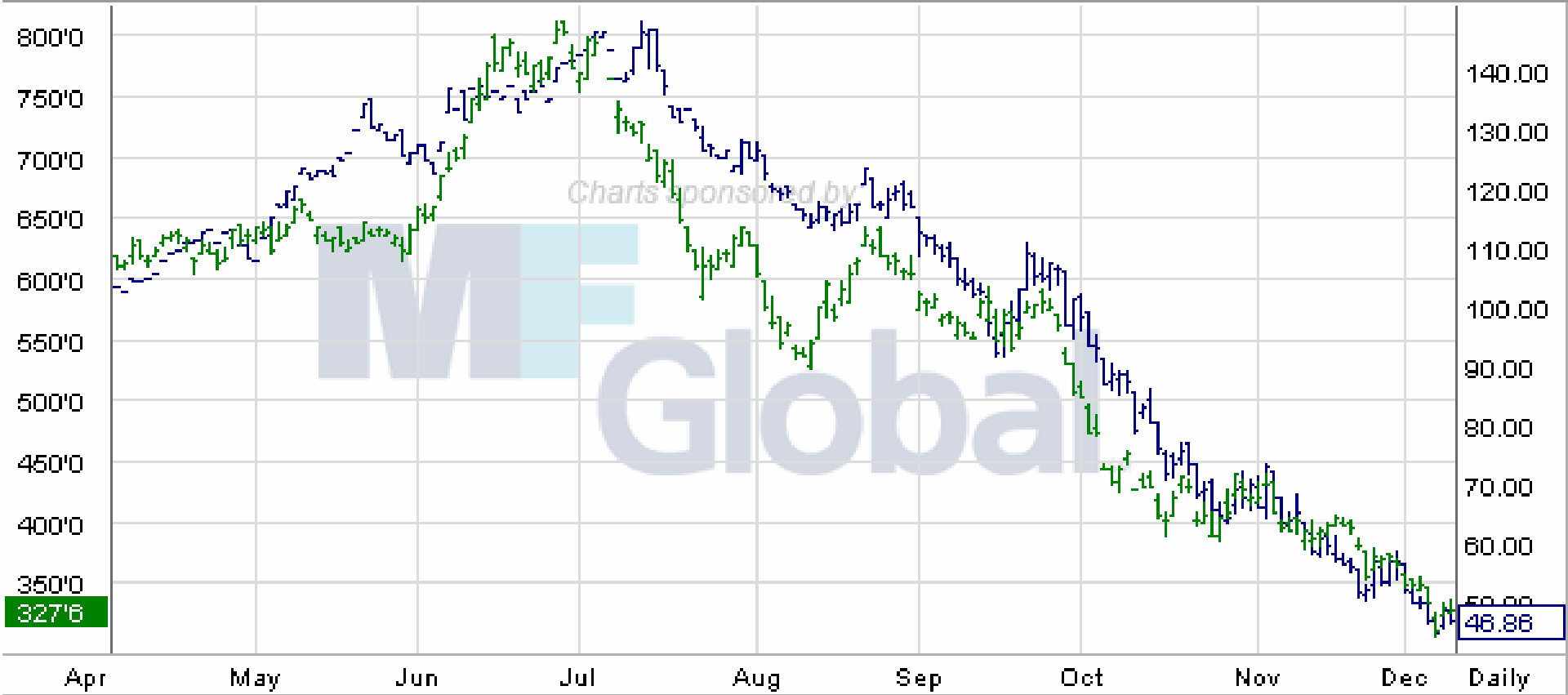




- **The Monday Rebound:**
- **several macro economic plans for world economies**
 - President-elect Obama's outline for a new US infrastructure program to boost employment
 - A possible resolution to the US auto industry rescue package
 - Recent interest rate reductions by major world economies
 - China stimulus plan
 - Chinese leaders are meeting this week to create a plan to keep Chinese growth at 8% or better in 2009.
- **OPEC to make a sizeable cut in oil output next week**

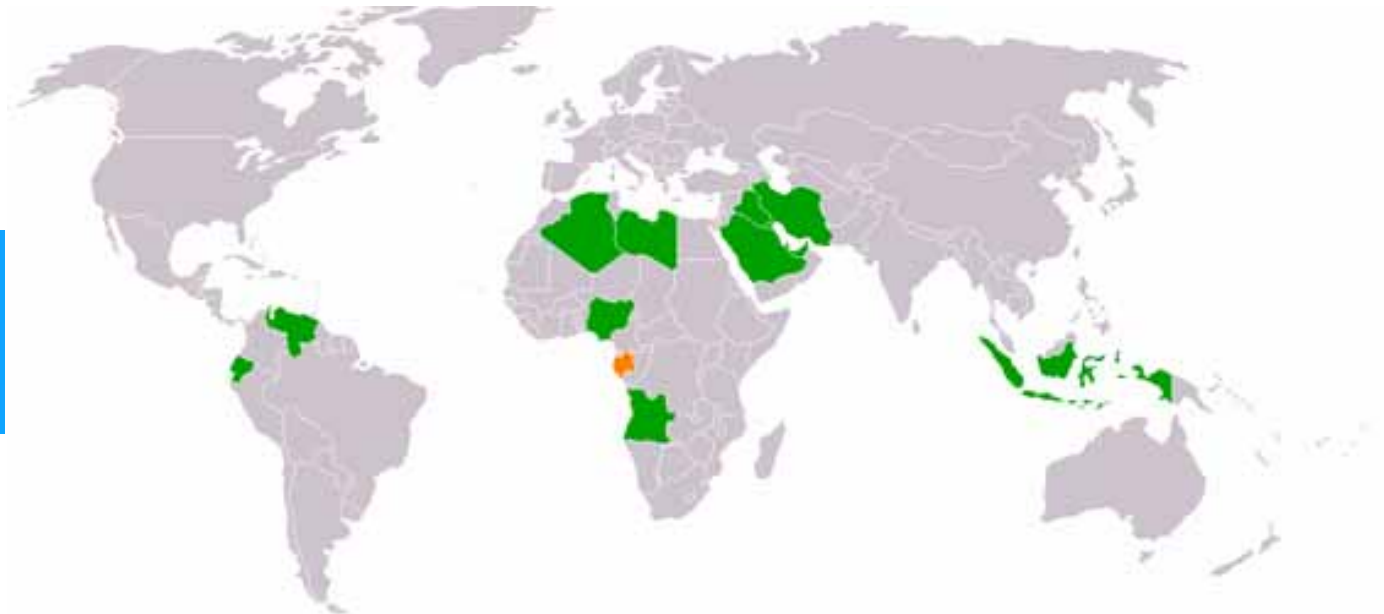


CL H9 [30] - LIGHT CRUDE OIL	LAST: 47.91	CHANGE: ▲ 1.05	HIGH: 47.91	LOW: 46.99	12/10/2008
C H9 [10] - CORN (DAY)	LAST: 327.6	CHANGE: ▼ 2.2	HIGH: 336.2	LOW: 325.2	12/9/2008



Crude Oil Market Outlook

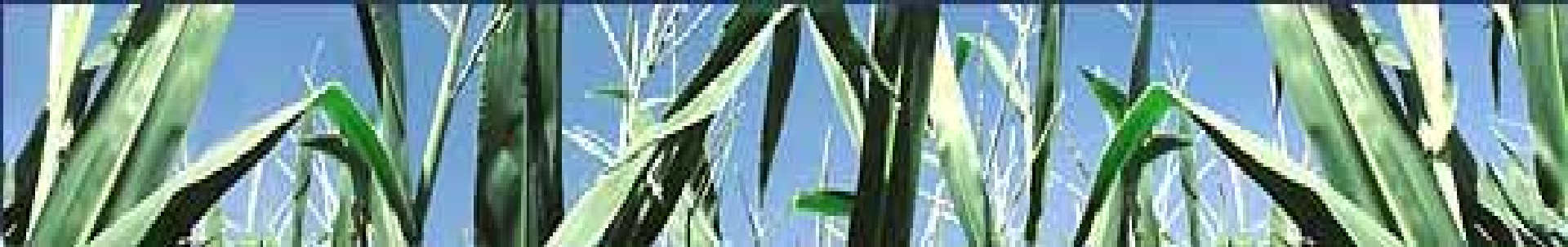
- **OPEC production cuts will likely continue for the next 12 months**
 - Next meeting on December 17th





- **Turnaround Tuesday:**
 - Equity Markets and Crude Oil down
 - Traders waiting for Thursday's USDA report
 - Rainfall in corn growing areas of South America
 - Monday's corn export numbers





2008-09 Corn Exports

2008-09	2008-09	2008-09	Year Ago	Year Ago
Week Ending	Weekly Total	Cumulative Total	Weekly Total	Cumulative Total
November 27	32,580	398,337	56,746	638,552
	43% behind same week year ago	38% behind year ago total		
Weekly pace needed to reach USDA estimate: 37,921				



December 5, 2008

Australia's GrainCorp said the winter harvest continues to be plagued by wet weather and that 1 mmt of wheat has already been downgraded to feed quality.

Rabobank lowered its Australian wheat estimate to 19.5 mmt from 20.5 last month.

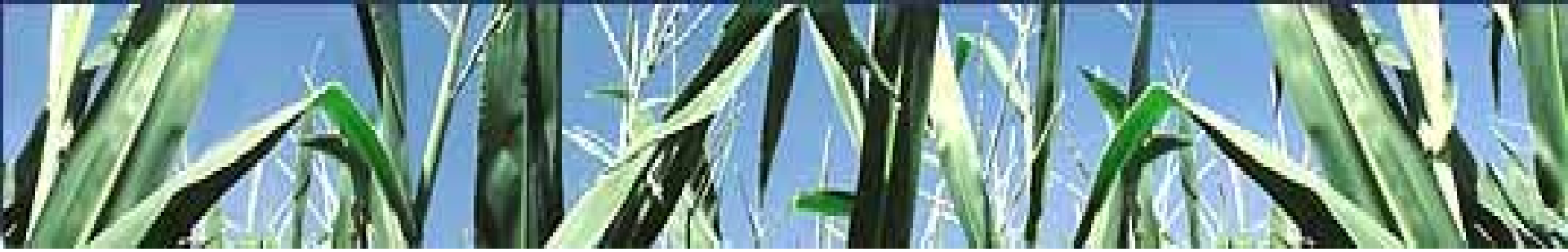
Source: *The Brock Report*



- Thursday's USDA supply/demand report will contain bearish demand news for corn futures.

Average trade guesses for US ending stocks (Dec. 11, 2008).

	Average	Range	Nov 2008-09 USDA	2007-08 USDA
Corn	1.238	1.124-1.400	1.124	1.624
Soybeans	0.202	0.190-0.215	0.205	0.205



- **USDA is likely to raise projected U.S. corn ending stocks**
 - Cut projection for 2008-09 corn exports
 - Adequate world wheat supply
 - Dollar Strength
 - Slowing Global Economy
 - Cut projected usage of corn for ethanol

The Ethanol Sector

- The ethanol sector is facing challenges.
- VeraSun Energy filed for bankruptcy protection on October 31
 - High corn prices
 - Falling energy prices

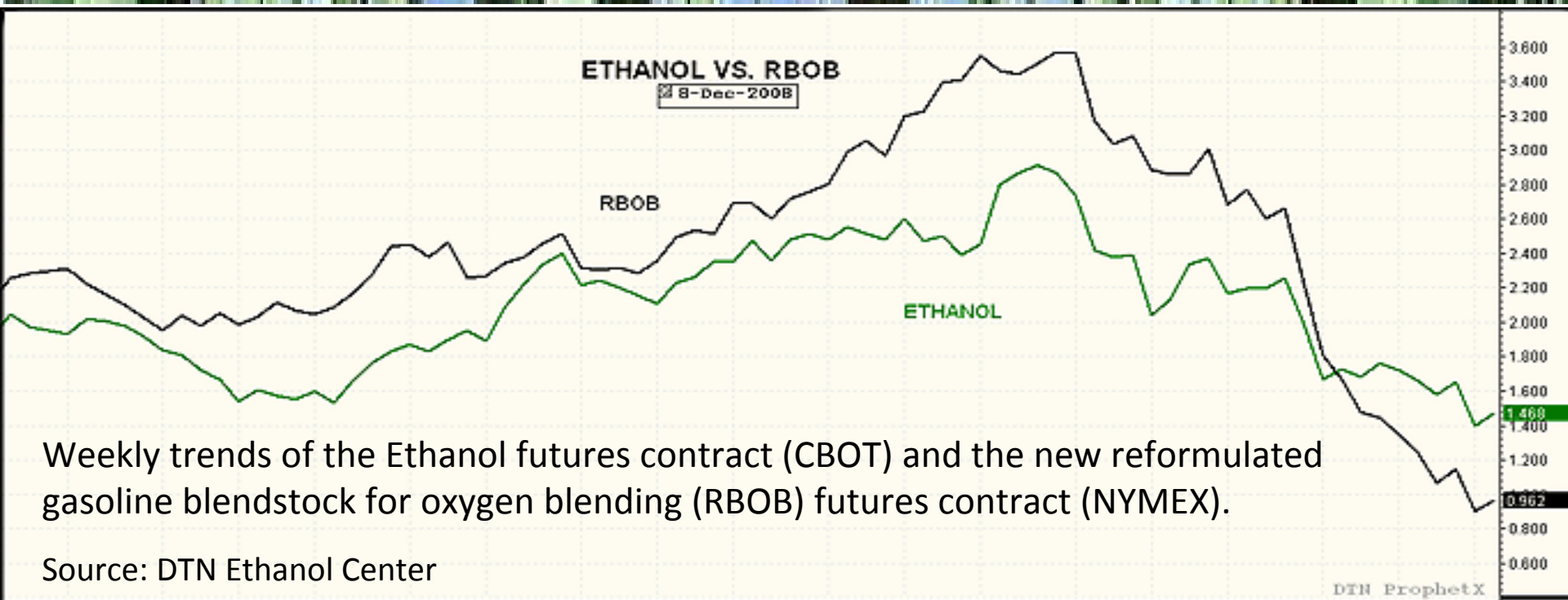


- Poet LLC, largest ethanol producer in buyout talks with several companies
- Industry will consolidate



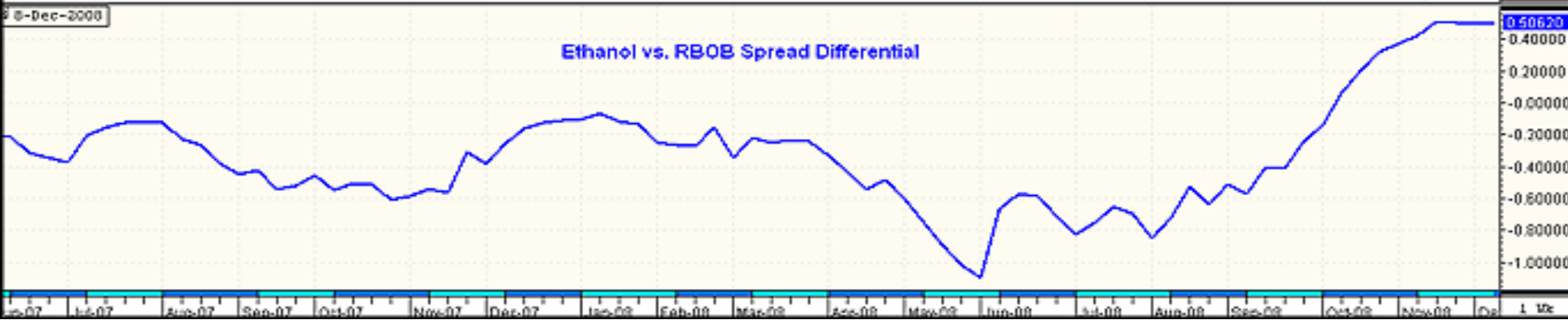
“Ethanol is an ugly baby, but.....”

Ethanol and Gasoline Prices



Weekly trends of the Ethanol futures contract (CBOT) and the new reformulated gasoline blendstock for oxygen blending (RBOB) futures contract (NYMEX).

Source: DTN Ethanol Center





The Ethanol Sector

- Ethanol's 50 cent per gallon premium to gasoline offsets the blender's credit and confounds the economics of ethanol/gasoline blending.
- As a result, ethanol prices could come under increasing pressure.
- The ethanol mandates will underpin demand, but corn for ethanol production will likely fall short of USDA's current 4.0-billion bushel projection.



The Ethanol Sector

- **2009 / 2010 Ethanol Outlook:**
- Markets may have trouble absorbing the 11.1 billion gallons of biofuels mandated for 2009.
- With gasoline demand declining due to the economic recession, ethanol is already coming close to making up 10% of gasoline use with the 10% maximum blending rate currently allowed.
- The Environmental Protection Agency (EPA) is considering raising the blending limit, but is trying to determine the implications for the environment and for warranties for various types of engines.

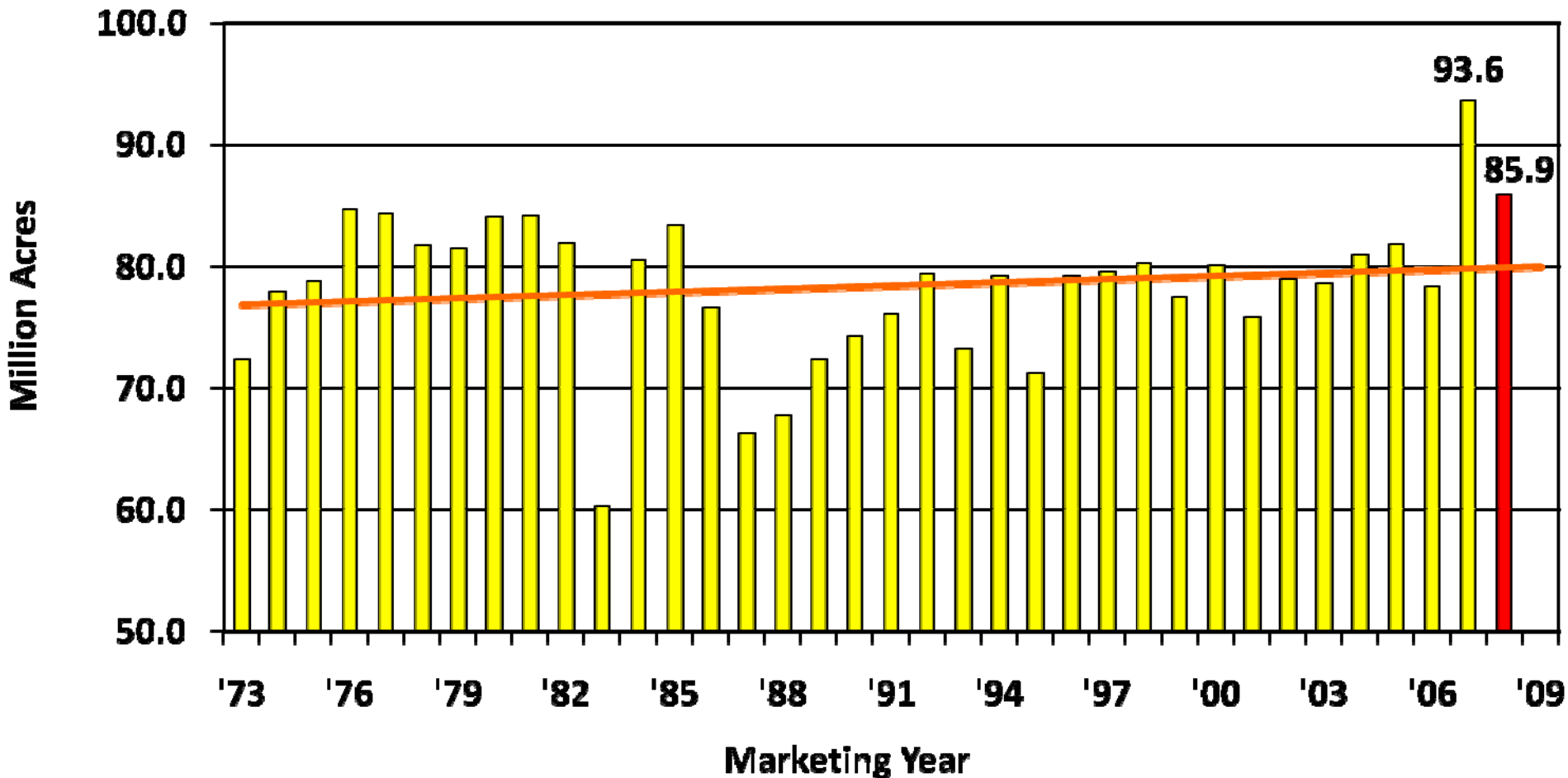


2008-09

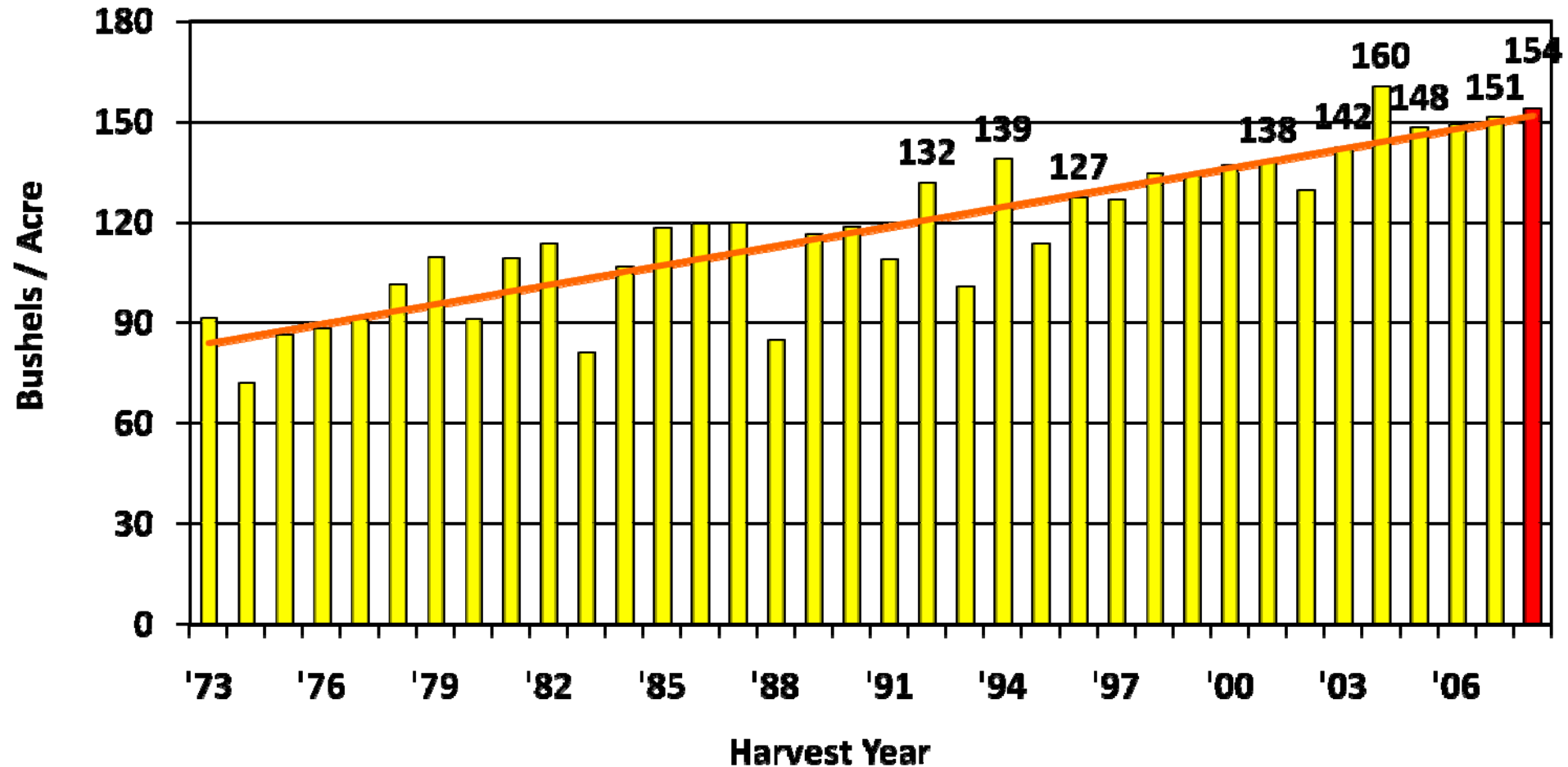
U.S. CORN SUPPLY & DEMAND



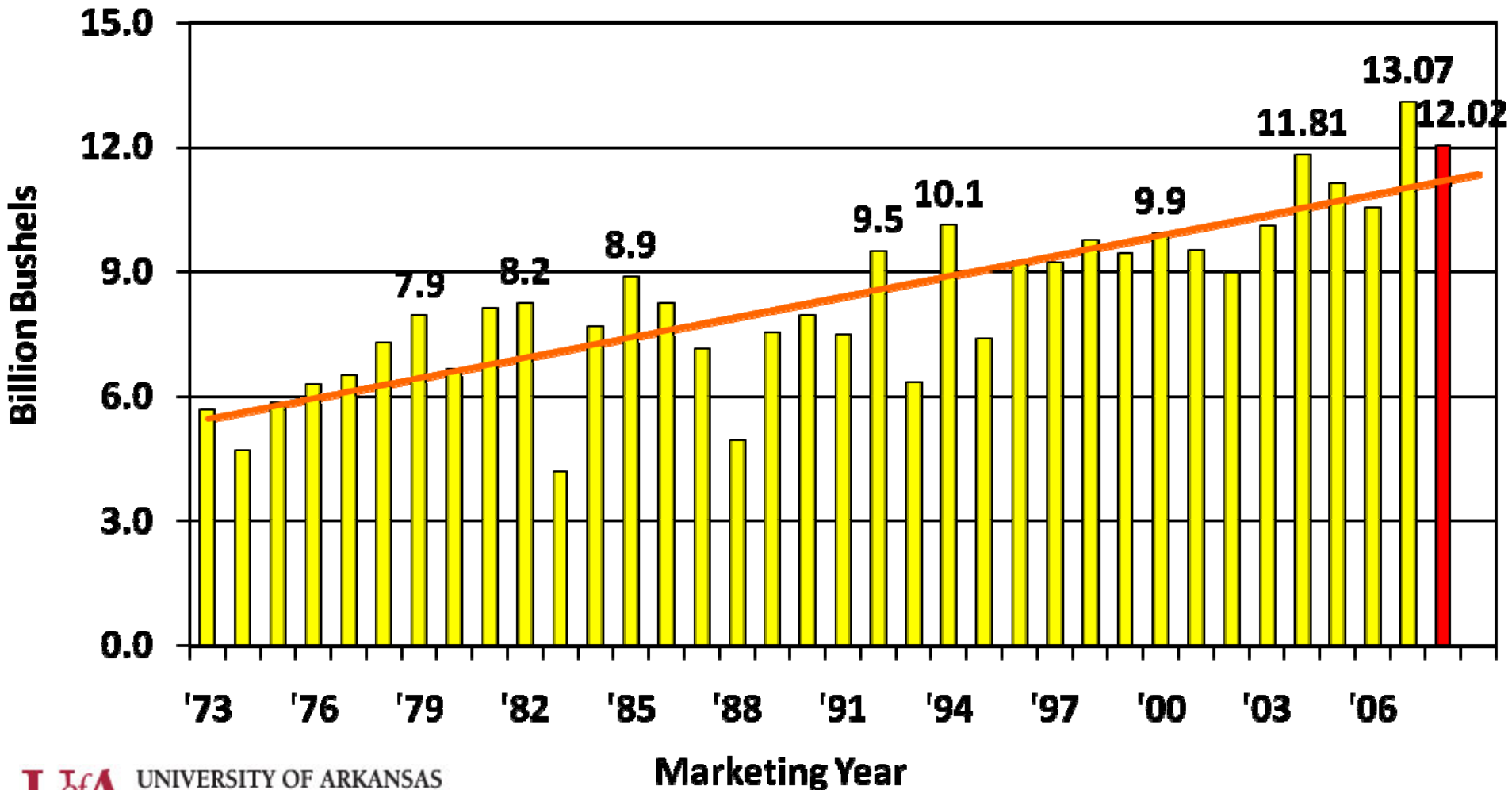
U.S. Corn Planted Acreage 1973-2008



U.S. Corn Yields 1973-2008



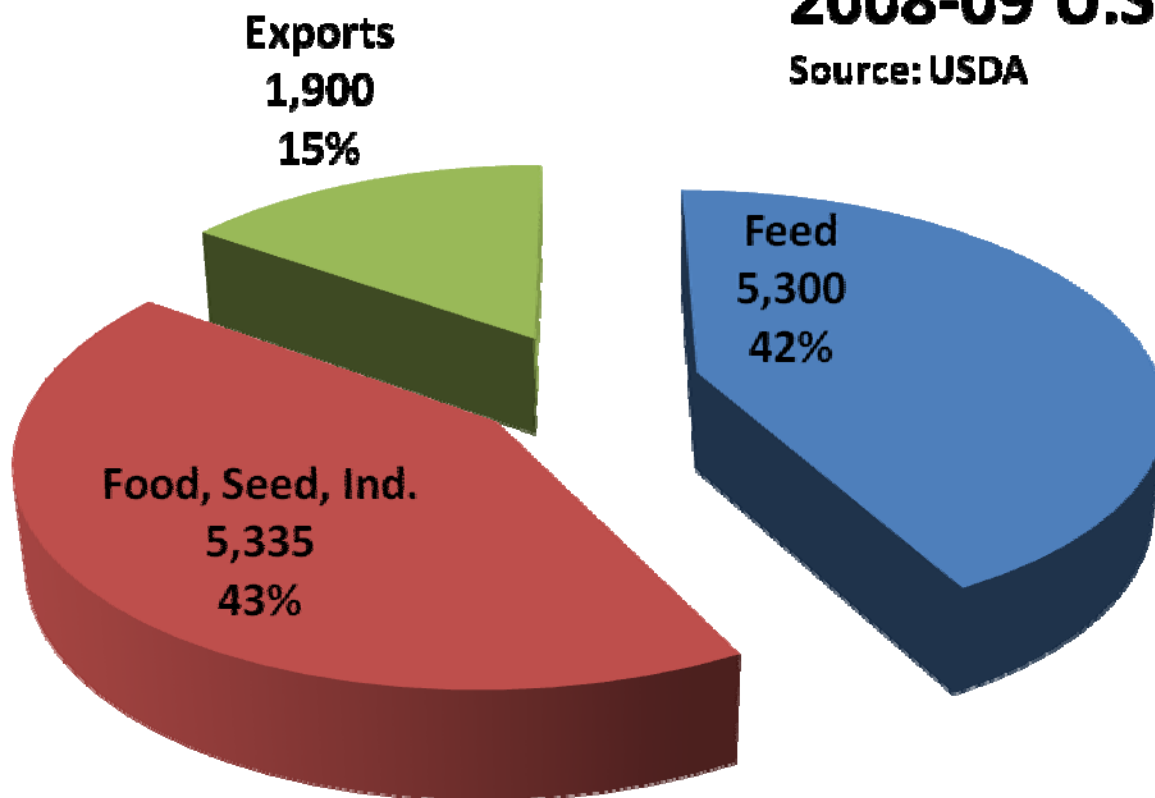
U.S. Corn Production 1973-2008





2008-09 U.S. Corn Usage

Source: USDA



4 billion bu. for ethanol use

U.S. Corn Supply-Demand

	2007/08	2008/09 November	2008/09 December
Planted Ac. (mln.)	93.6	85.9	85.9
Harvest Ac (mln.)	86.5	78.2	78.2
Yield (bu./ac.)	151.1	153.8	153.8
Beg. Stocks	1,304	1,624	1,624
Production	13,074	12,020	12,020
Total Supplies	14,398	13,659	13,659
Ethanol	3,026	4,000	<u>3,950</u>
Food, Seed, Industrial	1,338	1,335	1,335
Exports	2,436	1,900	<u>1,850</u>
Feed & Residual	5,974	5,300	5,300
Total Use	12,774	12,535	12,435
End Stocks (%S/U)	(12.7%) 1,624	(9%) 1,124	(9.8%) 1,224
<i>U.S. Ave. Farm \$</i>	\$4. ²⁰	\$4.40	

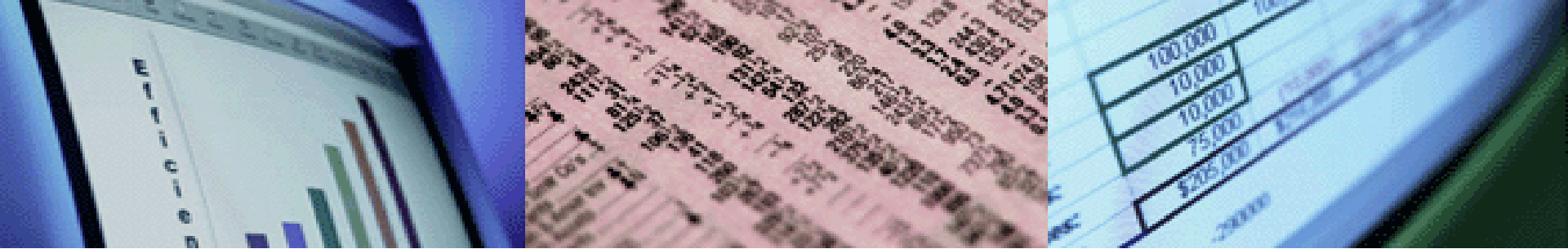


- **more corn acres for next year?**
- the USDA Chief Economist expecting corn acres to be close to 90 million acres.
- 2009 Informa corn acreage est.: 86.8 million



U.S. Corn Supply-Demand

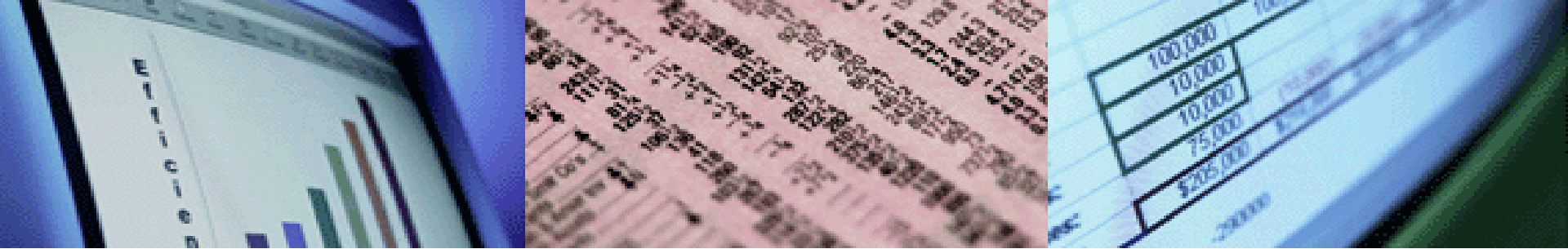
	2008/09	2009/10
Planted Ac. (mln.)	85.9	88.4
Harvest Ac (mln.)	78.2	80.4
Yield (bu./ac.)	153.8	156.5
Beg. Stocks	1,624	1,424
Production	<u>12,020</u>	<u>12,590</u>
Total Supplies	13,659	14,029
Ethanol	4,000	4,400
Food, Seed, Industrial	1,335	1,320
Exports	1,900	1,875
Feed & Residual	<u>5,300</u>	<u>5,175</u>
Total Use	12,535	12,770
End Stocks (%S/U)	(9%) 1,124	(9.9%) 1,259
U.S. Ave. Farm \$	\$4.40	\$4.00



Implications for Corn

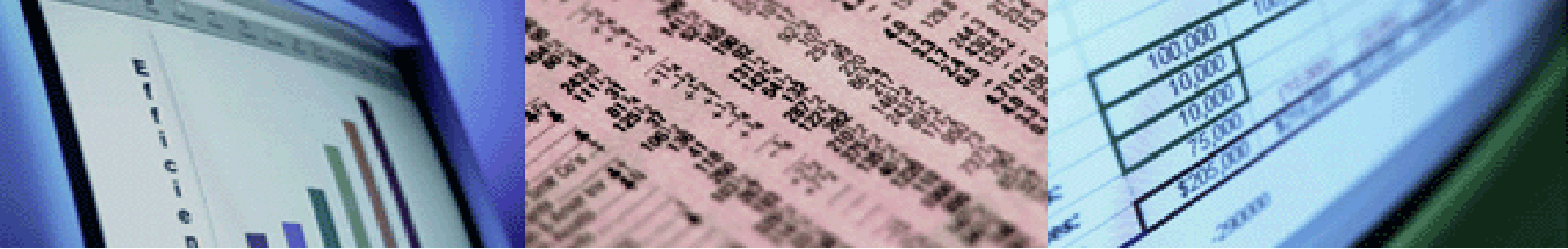
2009 ECONOMIC OUTLOOK



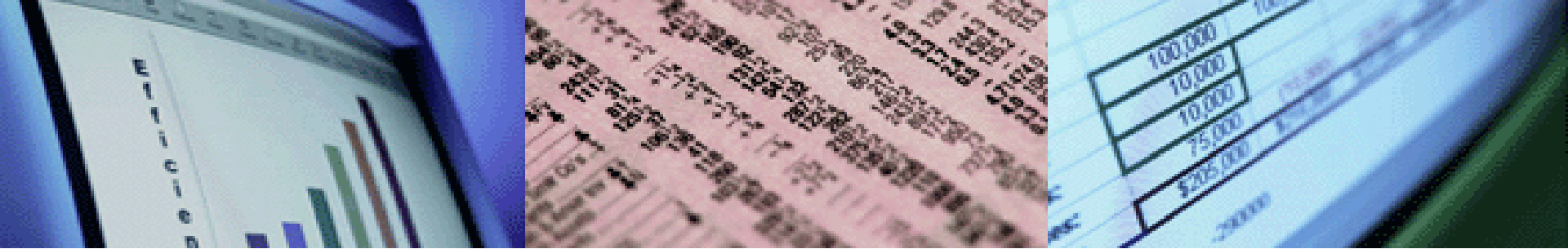


- **How long, how bad, and how much impact on commodity prices?**
 - Post-World War II:
 - 10 recessionary periods in the U.S. economy
 - Varied in length from 6 months to 16 months
 - Average length of 10 months





- **How long, how bad, and how much impact on commodity prices?**
 - If the current economic downturn is of **average duration**, it will extend into **spring 2009**.
 - If the downturn **equals the most severe** since WWII, it will extend through **all of 2009**.

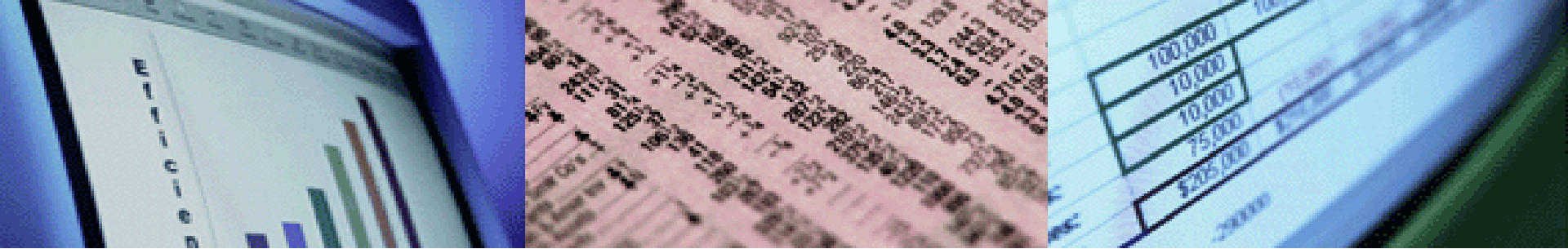


- **2009 Outlook:**

- Poor performance in the U.S. and world economy will continue to reduce demand for ag products.

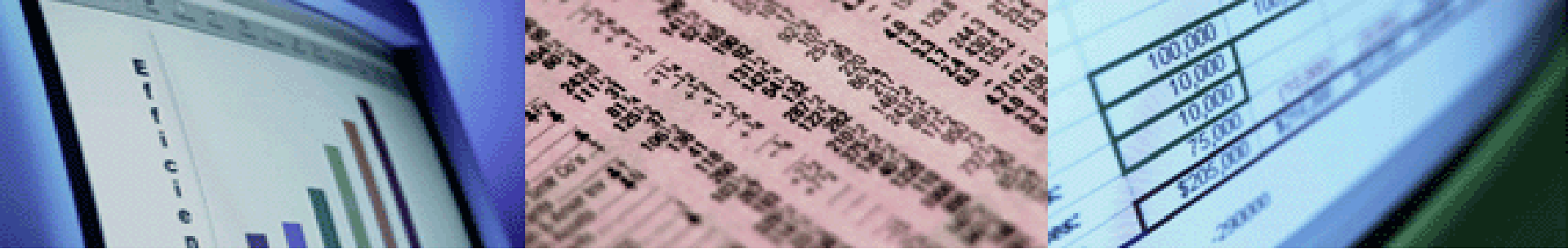
- feed and fuel
- Investor confidence must return





- **Bearish Factors:**

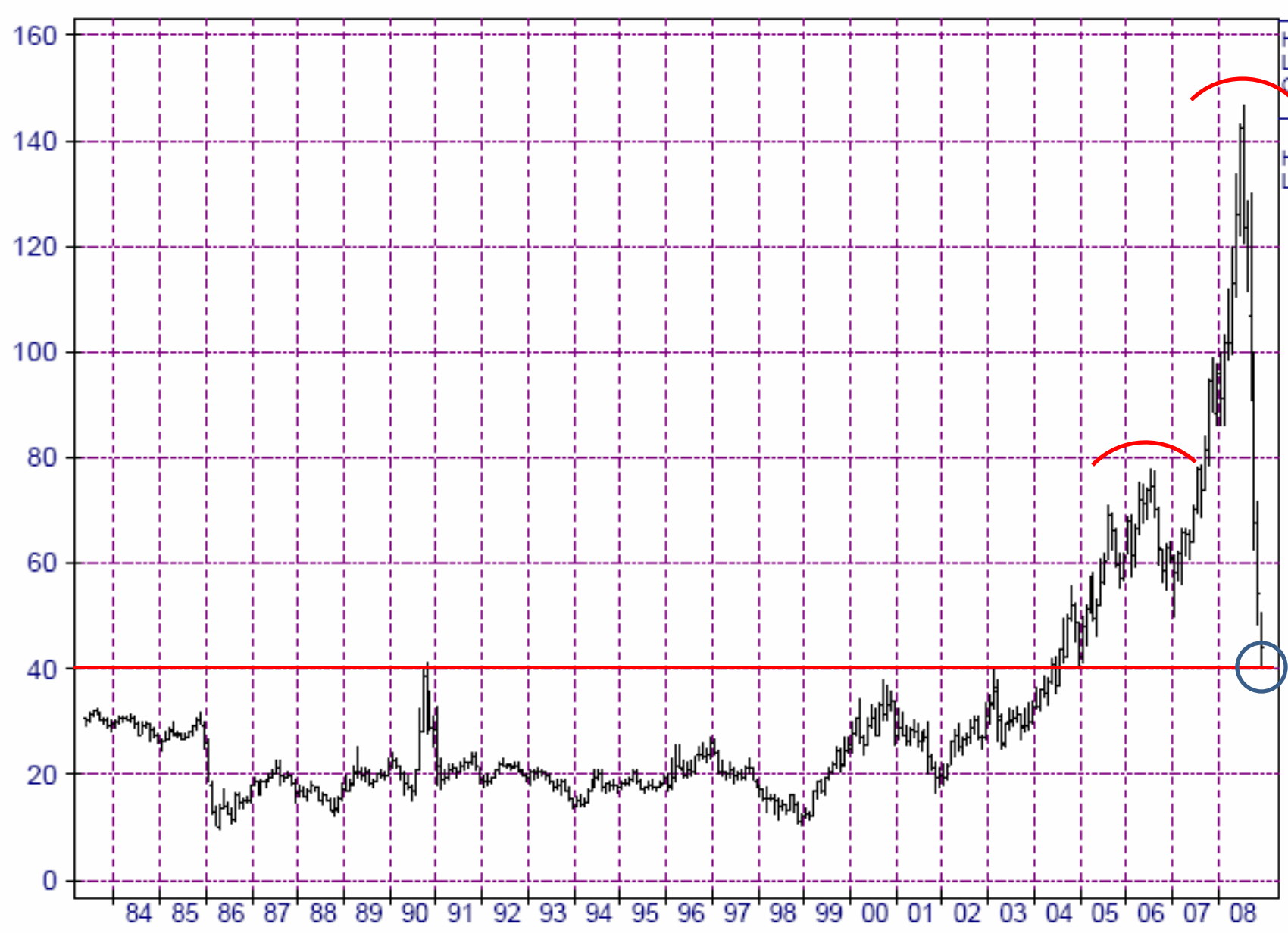
- Corn outlook is bleak with crude under \$50 and a negative supply demand picture.
- a sharp upward revision in USDA's corn ending stocks prediction could impact the market throughout the winter and into spring '09.
- If carryover gets pushed above 1.3 billion bushels, the corn market will have less incentive to pull more 2009 acres into production.



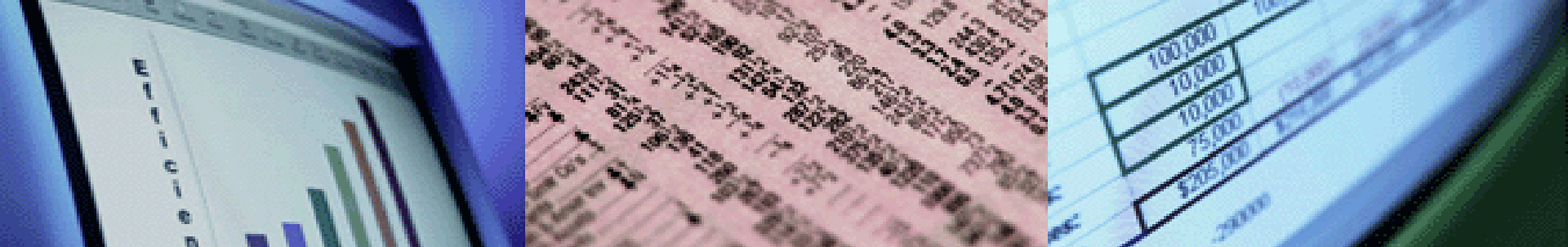
- **Bullish Factors:**

- After the first of the year there will be more attention on new-crop acreage.
- If the market doesn't spark an increase in corn plantings next spring, projections suggest favorable yields will be necessary to meet demand forecasts.
- This should help boost prices into the spring.
- A rally in crude oil would support corn prices

Monthly Nearby Crude Oil(NYM)

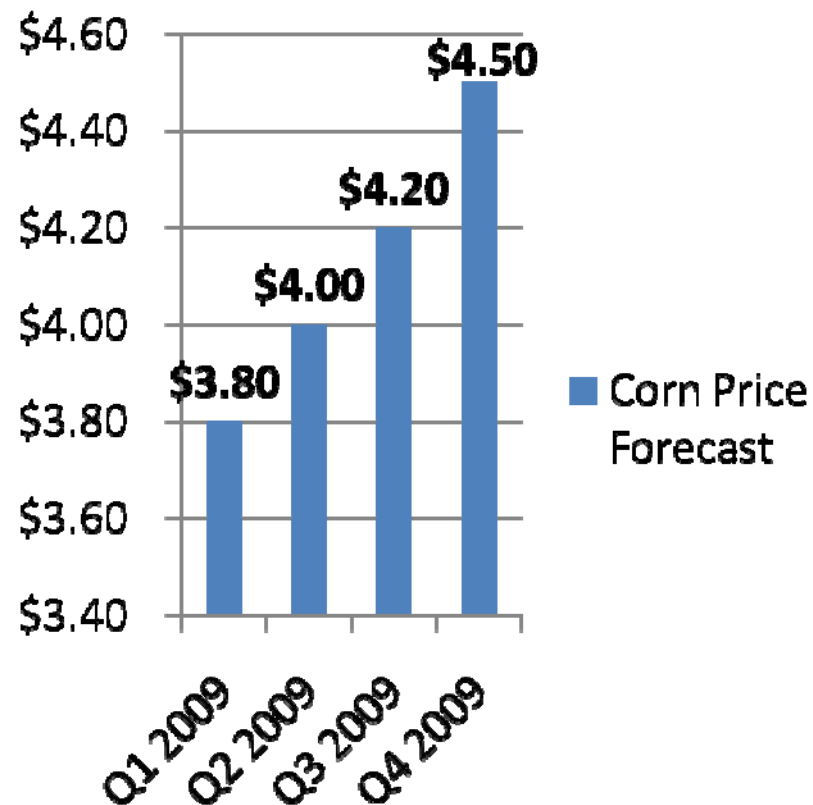


12/08	H	50.55
	L	40.50
	C	44.00
		-10.43
Chart	H	146.73
	L	9.75



- **2009 Price Outlook:**
 - A continuation of the economic slowdown through 2009 places new crop corn values in the upper \$3 to mid-\$4 range.

Corn Price Forecast



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