

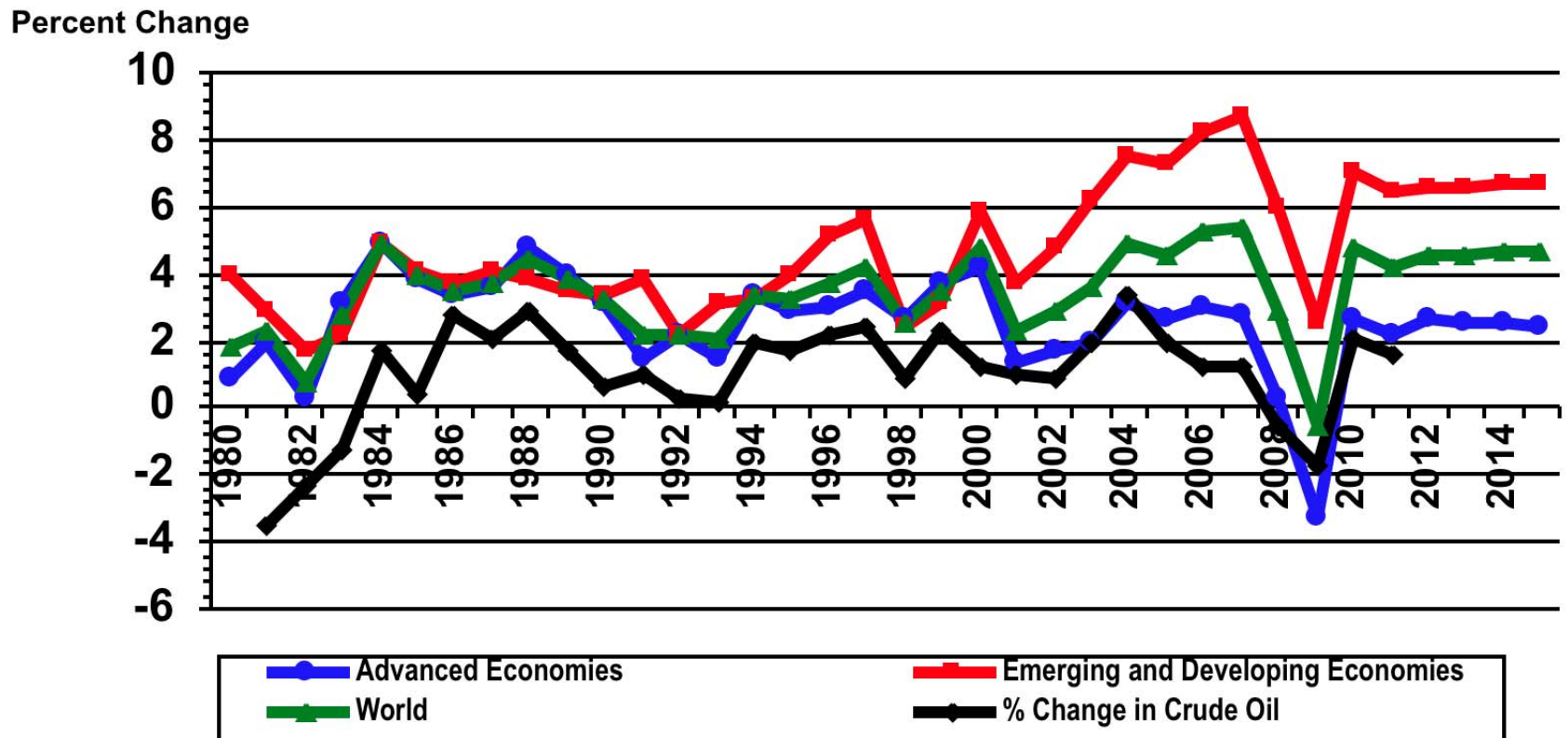
Crop Market “Outlook”

Darren Hudson

Combest Chair of Agricultural Competitiveness

Texas Tech University

Background Conditions – Economic Growth and Oil Price



Source: IMF and EIA

Background

- Rapid increase in commodity prices
 - Declining U.S. dollar
 - Some signs of economic recovery
 - Strong commodity demand from developing countries

Cotton Prices

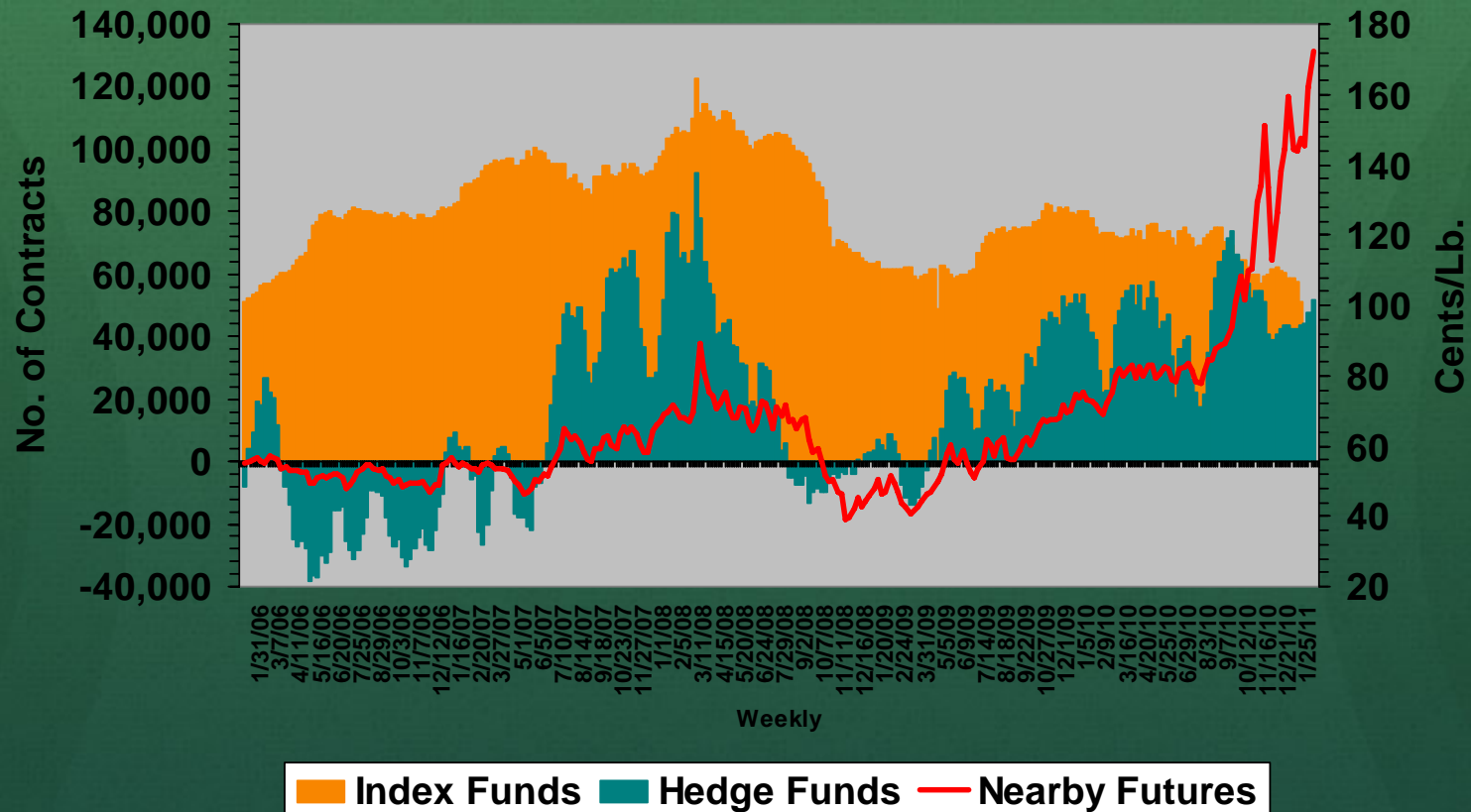
CT K1 [30] - COTTON	LAST: 187.93	CHANGE: ▼ 7.00	HIGH: 189.22	LOW: 187.93	2/22/2011
CT Z1 [30] - COTTON	LAST: 119.39	CHANGE: ▼ 7.00	HIGH: 121.90	LOW: 119.39	2/22/2011



Causes

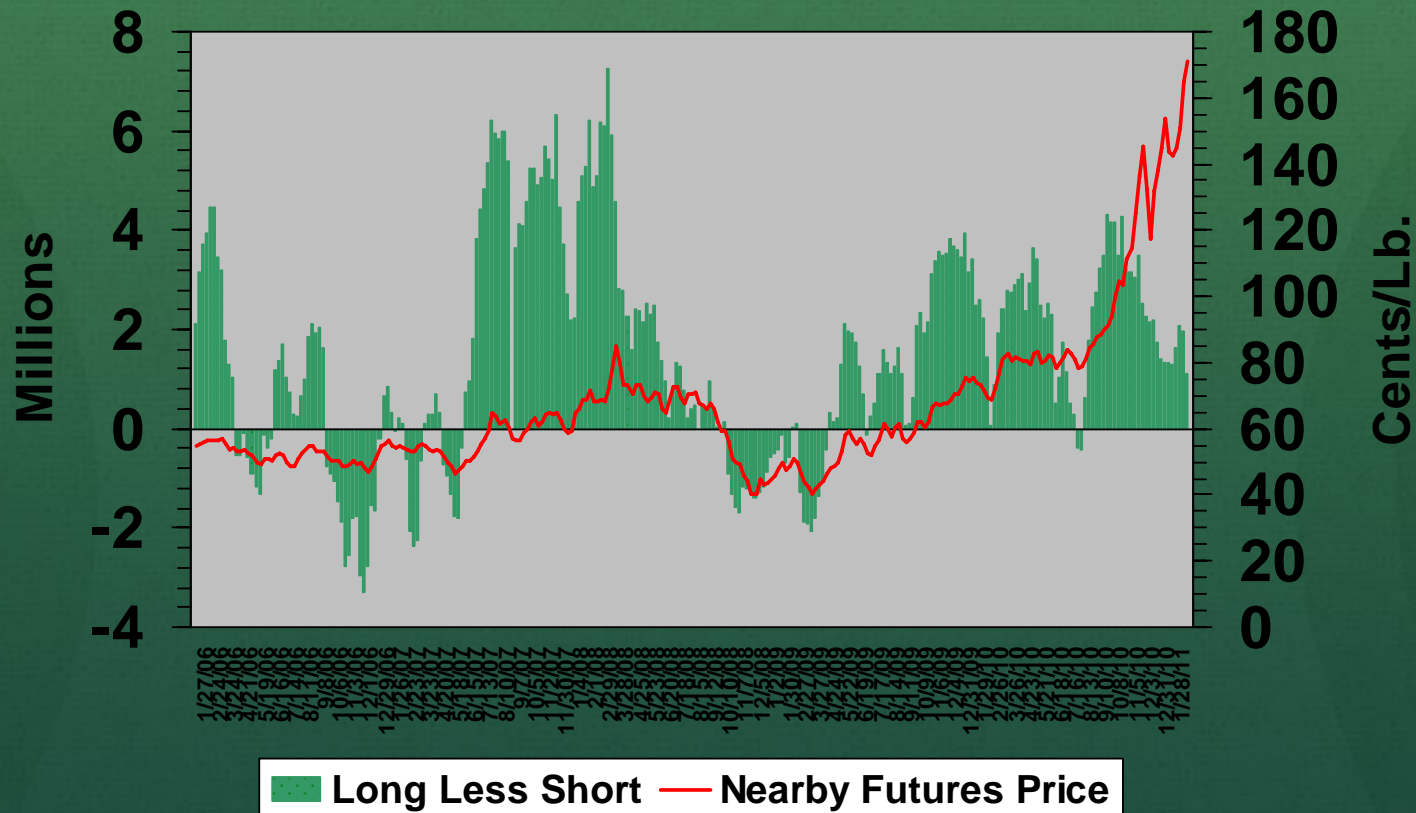
- Fundamentals
 - Very low stocks – 43% stocks-to-use last year, 25% this year – rapid increase in demand with little stocks available; Global stocks decreased by 26% last year
 - Production problems in Australia and Pakistan
 - Australia is small, but all production goes into export markets
 - Smaller Chinese crop, increased demand
 - Weaker U.S. dollar
- What about speculators?

Speculative Pressure?



Source: CFTC

Speculative Pressure?



Net Bale Commitment of Speculative Traders in Nearby Futures Price

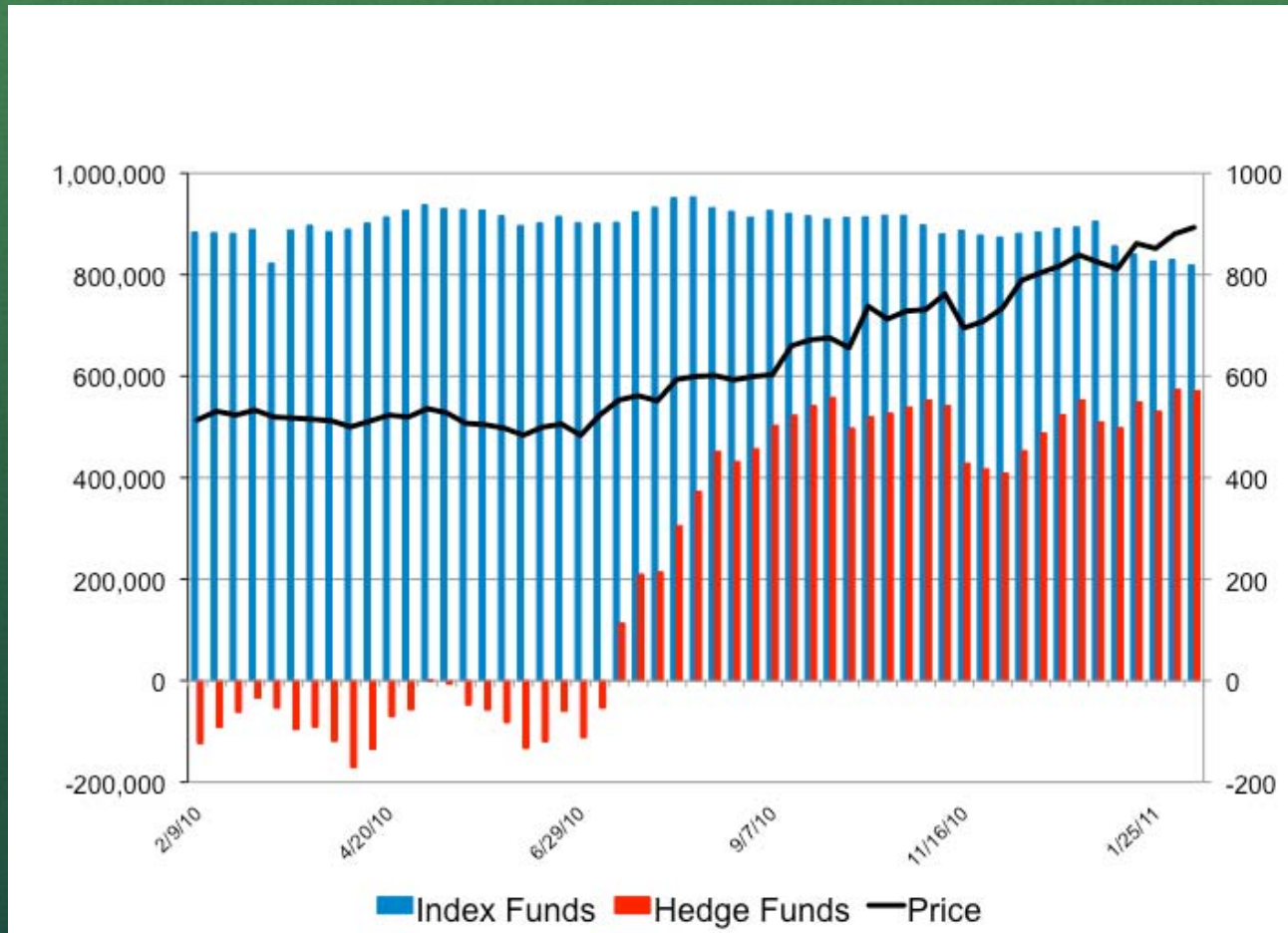
Observations

- Commodity markets extremely volatile (12+ cent move, or 9.3%, in just two days)
 - Global unrest
 - Low stocks/production uncertainty
- Volatility is killing merchants too...still some good contracting opportunities out there but beware of “counter-party risk”

Price “Forecast”

- O.A. Cleveland, MSU, “\$1.00-\$2.00”
 - Just kidding of course, but not an unrealistic range given this year
- Quite a range (December Contract)
 - \$0.90 – Low end; higher than average U.S. production on more acres, good weather in Australia and Pakistan, better production in China and Brazil
 - \$1.10 – Mid-high range; Average production globally, continued higher textile demand
 - \$1.30 – High end; lower production (weather events)
 - \$1.50 – Possible; severe adverse weather or rapidly increasing demand

Corn/Grains

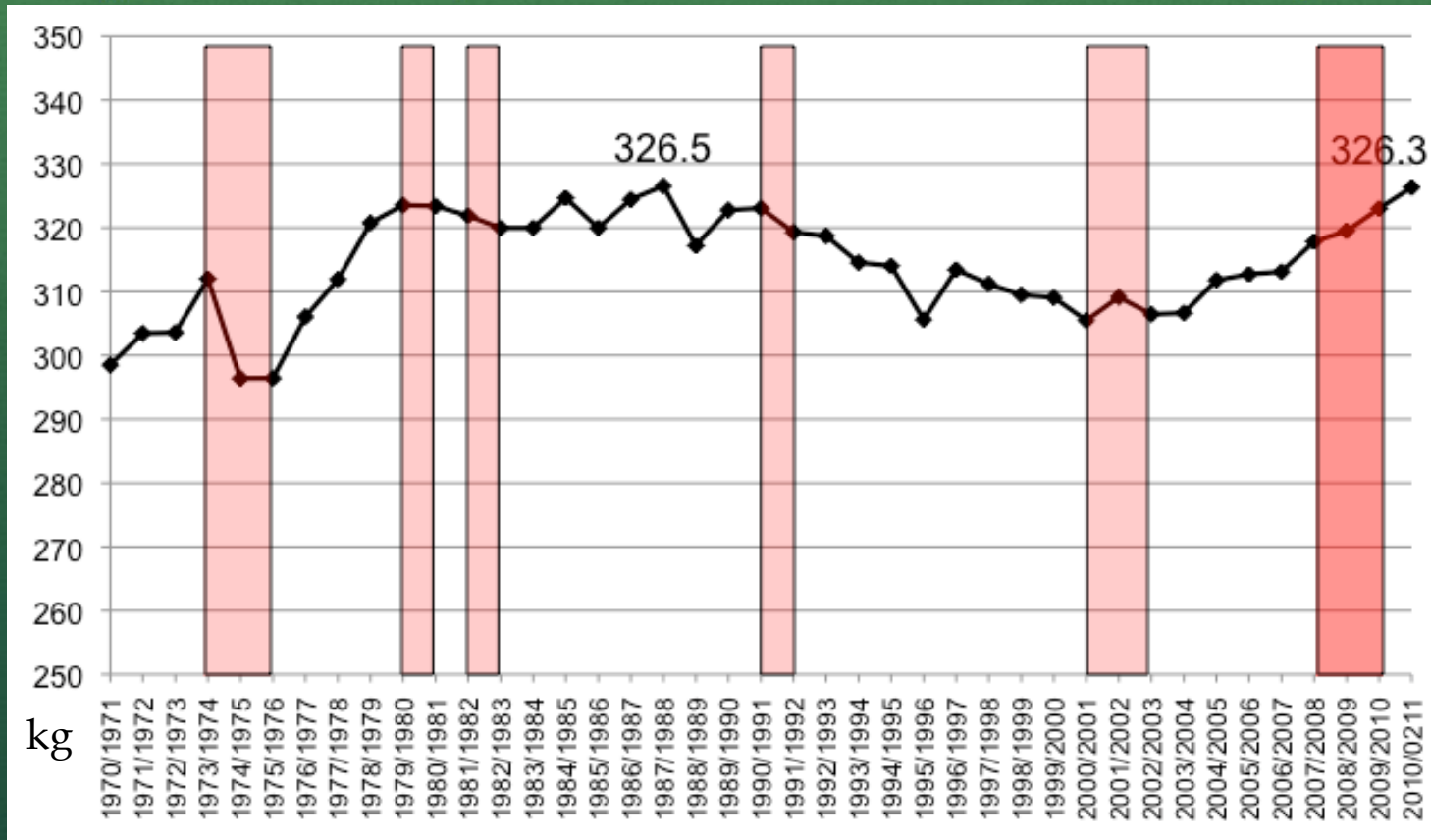


Composite Grain Index

Corn/Grains

- Obviously, speculative interest is playing a role
 - 400K net long positions was the max during the 2008 price run-up; approaching 600K now
- Energy prices driving and following grain prices
- Demand is on upward trend

World Per Capita Grain Consumption

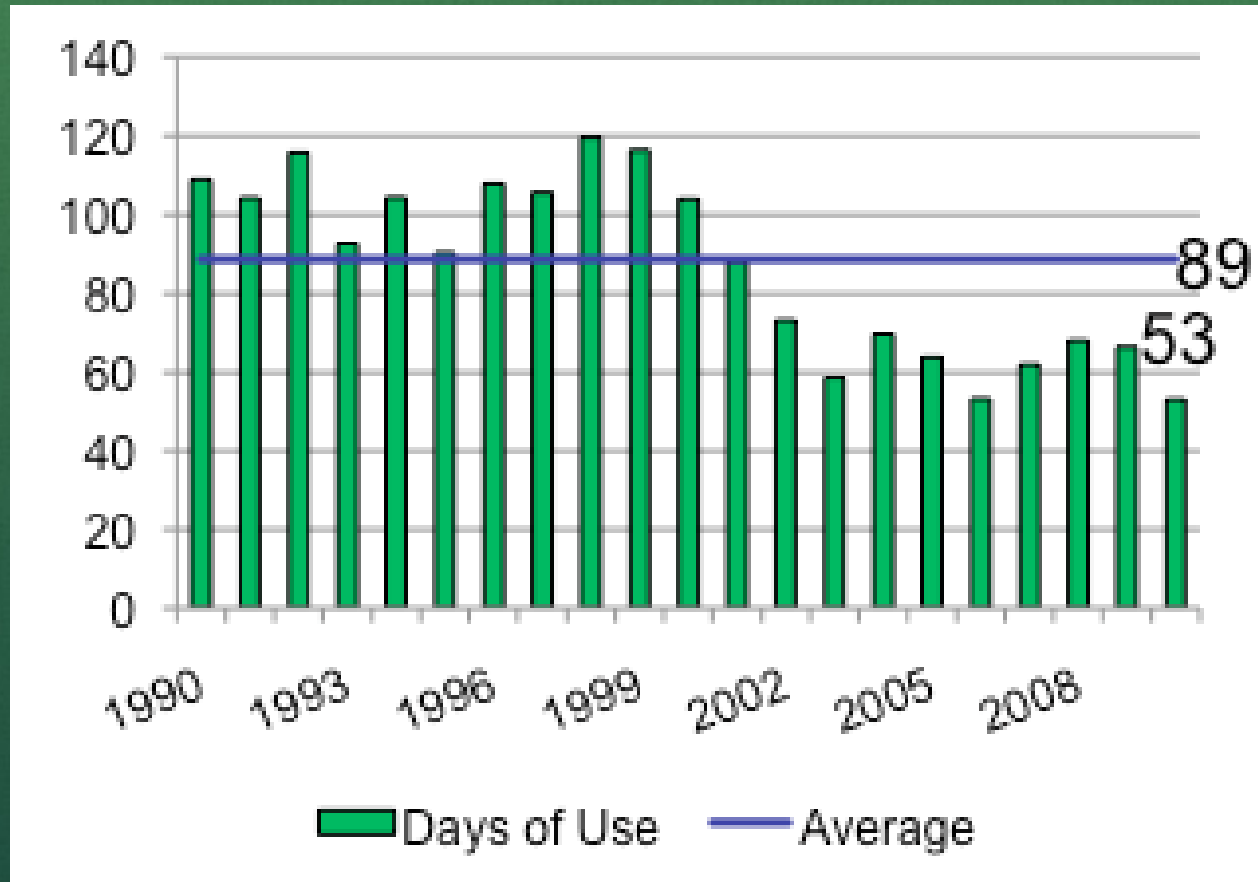


barley, corn, millet, mixed grains, oats, rice , rye, sorghum, wheat

Grains

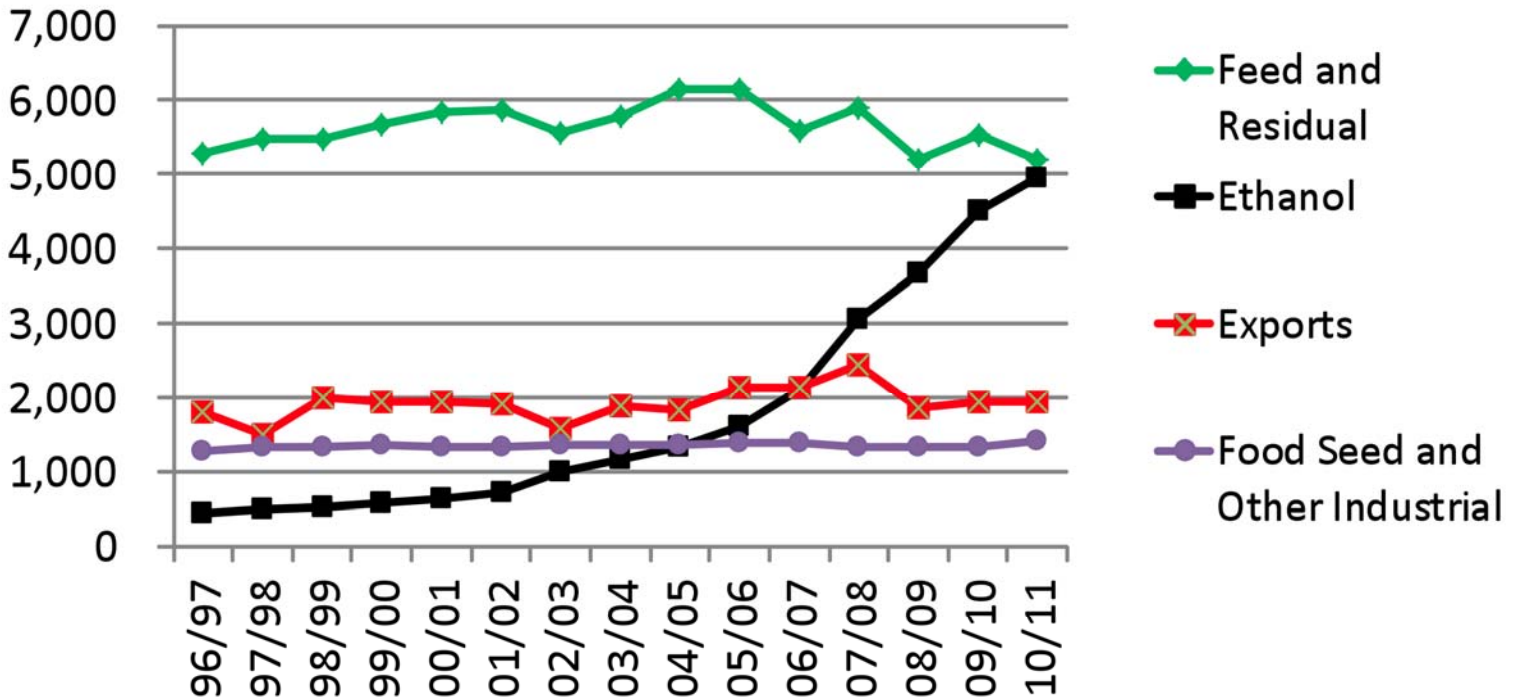
- Different elements driving different products
 - Corn – Renewable Fuel Standard
 - Sorghum – RFS 2nd Generation Potential/Lost Trade
 - Wheat – Weather events
- While occurring roughly at the same time, must be careful not to over-ascribe same causation

Price Outlook--Corn



World Days of Use on Hand

Price Outlook--Corn



Price Outlook--Corn

	09/10	10/11e	11/12p
Planted Acreage (Mil. Acs.)	86.5	88.2	91.5
Harvested Acreage (Mil. Acs.)	79.6	81.4	84.2
Yield (Bushels)	164.7	152.8	160.0
Supply	- - - Million Bushels - - -		
Beginning Stocks	1,673	1,708	675
Production	13,110	12,447	13,468
Imports	8	20	10
Total Supply	14,791	14,175	14,153
Disappearance			
Feed and Residual	5,167	5,200	5,100
Food, Seed & Industrial	5,930	6,350	6,280
Exports	1,987	1,950	2,000
Total Use	13,040	13,500	13,380
Ending Stocks	1,708	675	773
Carryover/Use (%)	13.1	5.0	5.8
Average Farm Price (\$/Bu.)	3.55	5.40e	5.28
Closing Price, Dec Futures	3.92	5.75	5.47

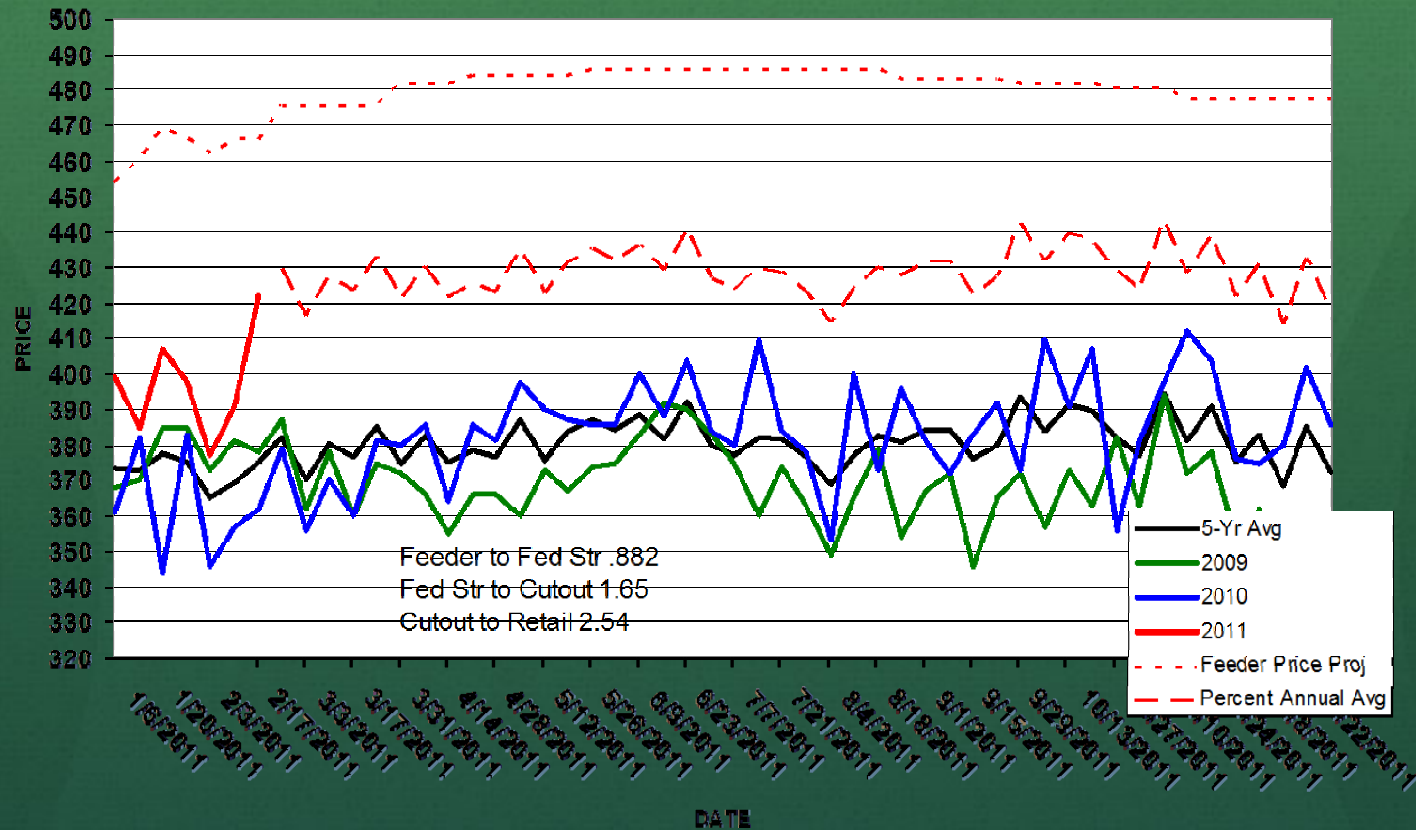
Source: USDA/Mark Welch

Price Outlook--Corn

- \$5-\$6 average price possible
- La Niña?? – Persistent effect tends to make Western Corn Belt drier in the spring

Trouble Ahead?

Retail Beef



Conclusions

- Price volatility will continue to be very high
 - Low stocks reduces market “buffer” to supply shocks
 - If weather patterns are closer to “normal” could see some stock rebuilding this year...slightly lower prices
 - Social unrest in Middle East is a wild card – increases uncertainty and price volatility
- Be wary of counter-party risk in contracts...do not pass on good pricing opportunities...“all you eggs in one basket”