Crop Market “Outlook”

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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

Wow, what a ride!
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

- Long Less Short
- 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
• 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 2\textsuperscript{nd} 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

The graph illustrates the price outlook for corn over the years from 1996/97 to 2011. The categories include Feed and Residual, Ethanol, Exports, Food Seed and Other Industrial. The graph shows a significant increase in the price of Ethanol and Exports, with a steady increase in Feed and Residual, and a fluctuating trend for Food Seed and Other Industrial.
# Price Outlook--Corn

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

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
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”