

Iowa State University Extension



**Dr. Robert Wisner, University Professor
& Retired Extension Economist**

Grain Outlook and Marketing Considerations
1/09/08

Corn Futures. Cts/bu.			Soybean Futures. Cts/bu.		
	11/16/07	1/08/08		11/16/07	1/08/08
<u>7-Dec</u>	380	--	<u>8-Jan</u>	1084	1257
<u>8-Mar</u>	396	479	<u>8-Mar</u>	1100	1268
<u>8-May</u>	406	490	<u>8-May</u>	1105	1286
<u>8-Jul</u>	415	500	<u>8-Jul</u>	1107	1295
<u>8-Sep</u>	419	497	<u>8-Aug</u>	1086	1273
<u>8-Dec</u>	425	496	<u>8-Sep</u>	1040	1220
<u>9-Mar</u>	430	501	<u>8-Nov</u>	1018	1181
<u>9-May</u>	433	504	<u>9-Jan</u>	1021	1178
<u>9-Jul</u>	438	508	<u>9-Mar</u>	1022	1186
<u>9-Dec</u>	425	489	<u>9-May</u>	1021	1180
<u>10-Mar</u>	428	494	<u>9-Jul</u>	1020	1190
<u>10-Jul</u>	431	500	<u>9-Nov</u>	965	1124
<u>10-Dec</u>	425	487	<u>10-Nov</u>	--	1129

Price Outlook, Grain, 1/04/08

- **Potential for irregular uptrend in corn & bean prices into mid-February**
- **Markets very volatile as South American growing season & Northern Hemisphere wheat progress**
- **Look for Corn & Bean markets to over-react on up-side with battle for 2008 crop acreage**
- **Look for stronger corn & bean basis in spring & summer**

Keys to 07-09 Grain Markets

R. Wisner, ISU Econ.

1. *Ethanol profitability*

--Infrastructure & transportation

-- Negative margins ahead -- how long & how bad?

2. Govt. biofuels mandates

3. *Strong Export sales—foreign weather?*

4. World Economy?

5. EU opening up 10% set-aside in 2008

6. *Battle for acreage: S. Am., EU, U.S. wheat, SB, Cotton, & Corn*

Cautions in 2008-09 Grain Markets, R. Wisner, ISU Econ.

1. *Fund Traders Repositioning Portfolios*
 - 1st. 10 days of January
 - More petroleum, gold, less wheat, SB?
2. *Better foreign weather for 2008?*
3. USDA U.S. Jan. 11 grain reports: prod'n, stocks, S. American crops
4. Bio-diesel economics not good & no mandate for 2008.
5. *Domestic user returns tighten with higher corn prices*

Marketing considerations: 07-09

Grain Markets, R. Wisner, ISU Econ.

1. Scale-up marketing using offer contracts (objective: profitable price)
2. *You can't go broke taking a profit*
3. Basis for both corn & beans likely to strengthen in spring and summer
4. Forward prices show some profit for summer storage
5. Expect markets to over-react on up-side, then weaken later
6. Extreme sensitivity to weather

Example Mktg. Strategies, 2008

Corn, 1/8/08, Fence:

- Forward contract: fall '08 = **\$4.66** (Dec.=\$4.96)
- Buy \$4.70 Dec. corn put, sell \$6.20 call:
 - Put cost = \$0.34/bu. Call sale = \$0.14
 - Net cost = \$0.20 + brokerage
 - Floor price @ \$0.30 harvest basis = **\$4.20**
 - Maximum local upside potential
@ \$0.30 basis = $\$6.20 - \$0.30 - \$0.20 =$ **\$5.70**

Risks: **Be sure you understand call sales**

- **Basis, out-of-money options premiums not precisely following futures market**
- ***Over-selling crop, potential margin calls***

Example Mktg. Strategies, 2008

Corn, 1/8/08, Synthetic Put:

- Forward contract: fall '08 = **\$4.66**
- \$4.66 forward contract, \$5.30 call purchase:
 - Call cost = \$0.35/bu. + brokerage
 - Floor price = **\$4.31**
 - Maximum local upside potential: **no limit**

Risks:

Basis, *Over-selling crop: Consider harvest-price revenue insurance*

Example Mktg. Strategies, 2008

Corn, 1/8/08, Put Purchase:

- Buy Dec.'08 put @ \$4.80 Strike price
Put cost = \$0.39/bu. + brokerage
 - Floor price = \$4.10
 - Maximum local upside potential: no limit
 - Floor price @ \$5.00 put = \$4.20 (\$.50 cost)
 - Floor price @ \$4.50 put = \$3.95 (\$.25 cost)
-

Risks:

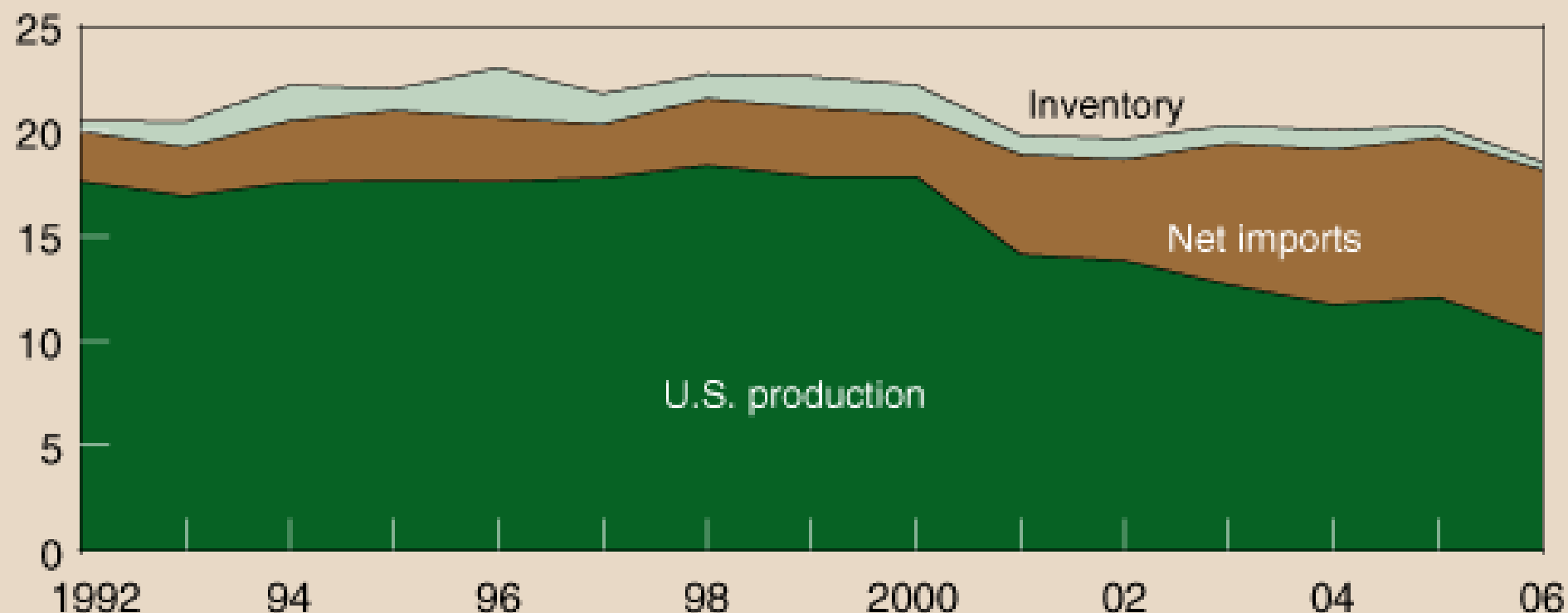
Basis, *Over-selling crop: Consider harvest-price revenue insurance*

Risks: 2009 & 2010 Crop Sales

- **Production Costs**
- **Some of new-generation contracts not tested in extreme mkt. conditions**
- **Weather (Strongly consider harvest-price revenue insurance)**

U.S. ammonia supply more dependent on imports since 2000

Million tons



Note: Fertilizer year starts from July of the preceding year to June of the year indicated in the chart.

Source: USDA, Economic Research Service, using production and inventory data from the U.S. Department of Commerce and The Fertilizer Institute, and net import data from ERS.



热烈欢迎各级领导莅临天冠检查指导工作

请来宾登
记后进厂











Market Overview

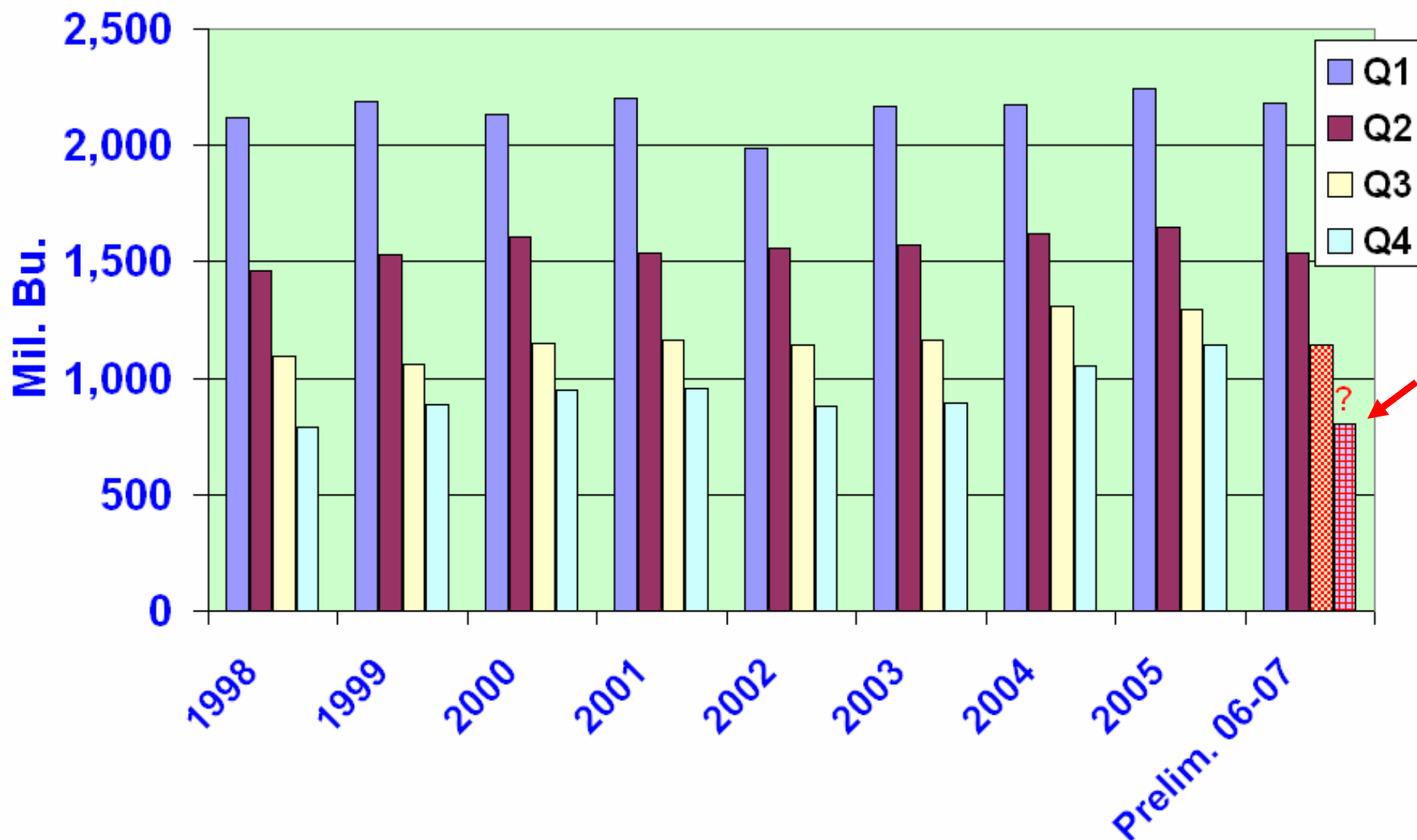
R. Wisner, ISU Econ.

- 1. *Corn Supplies fully adequate for demand***
 - Slower domestic feed demand
 - Slowing ethanol growth
 - Sizeable increase in carryover likely in 08
- 2. *SB supplies tightening***
 - How tight depends on S. America
 - More SB acres needed this spring
- 3. *Without more acres, could be very tight in 2008-09***

More corn needed in 2009

Lower 07-08 feed use may temper corn prices.

Quarterly U.S. Corn Feed & Residual Use

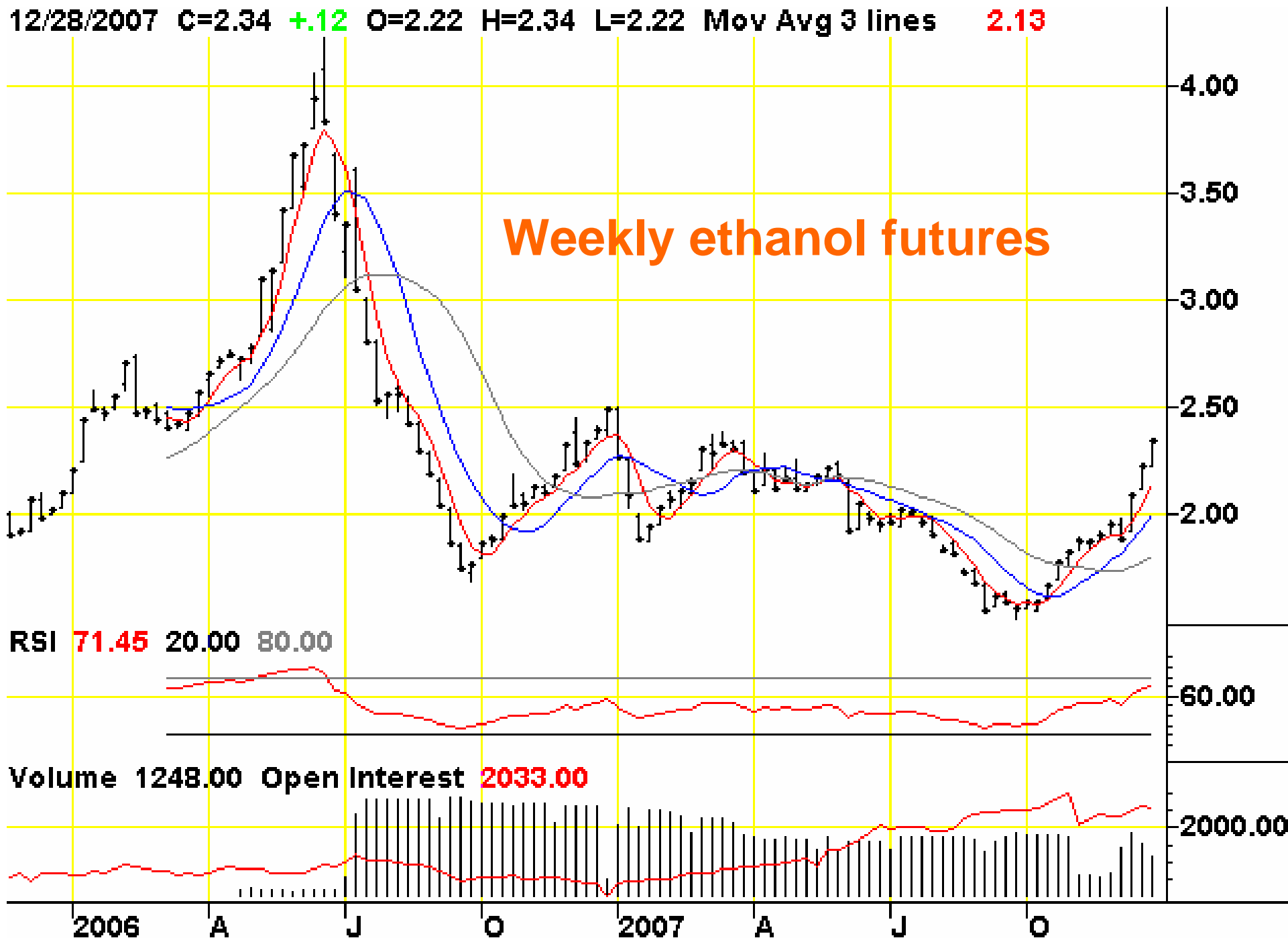


12/28/2007 C=2.34 +.12 O=2.22 H=2.34 L=2.22 Mov Avg 3 lines 2.13

Weekly ethanol futures

RSI 71.45 20.00 80.00

Volume 1248.00 Open Interest 2033.00



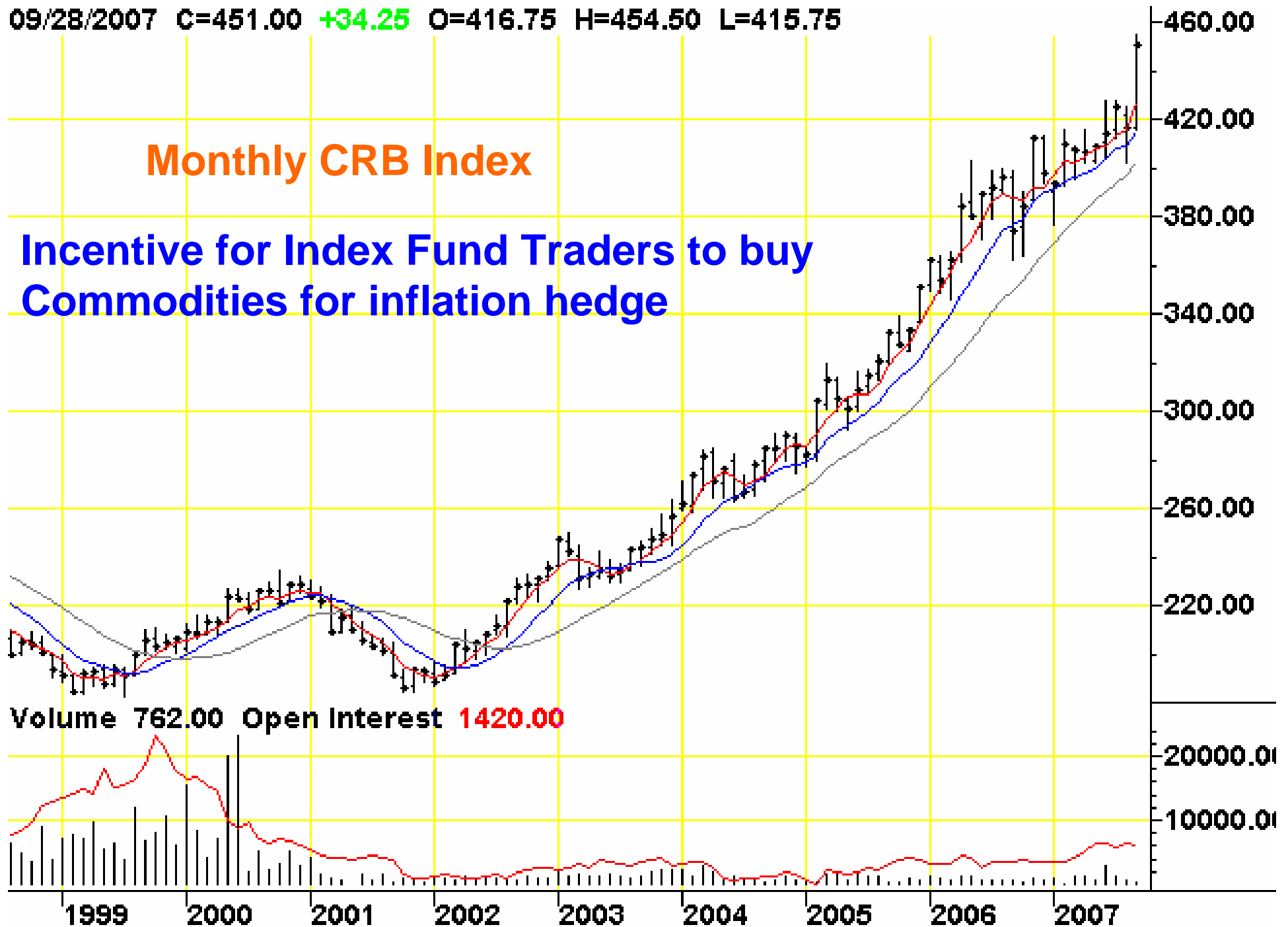
Ethanol Blending Economics- 1/08/08

		Rack Price/Gal.				
Unleaded gas		\$2.43				
Ethanol		\$2.23				
		Retail Price/Gal.			E-85	E-85
	Unleaded	E-10	E-85	11/25/07	1/08/08	
Component costs	gas			HOI	HOI	
Ethanol	0	0.22	1.90	1.90	1.90	
Unleaded Gasoline	\$2.43	2.19	0.36	0.36	0.36	
Federal Hwy. Tax	0.185	0.185	0.185	0.185	0.185	
State Hwy. Tax	0.20	0.20	0.20	0.20	0.20	
Ethanol tax credit	0	-0.05	-0.434	-0.434	-0.434	
Retail Margin	0.20	0.19	0.30	-0.21	0.09	
Retail Price @ pump	\$3.02	\$2.93	\$2.51	\$2.00	\$2.30	

09/28/2007 C=451.00 +34.25 O=416.75 H=454.50 L=415.75

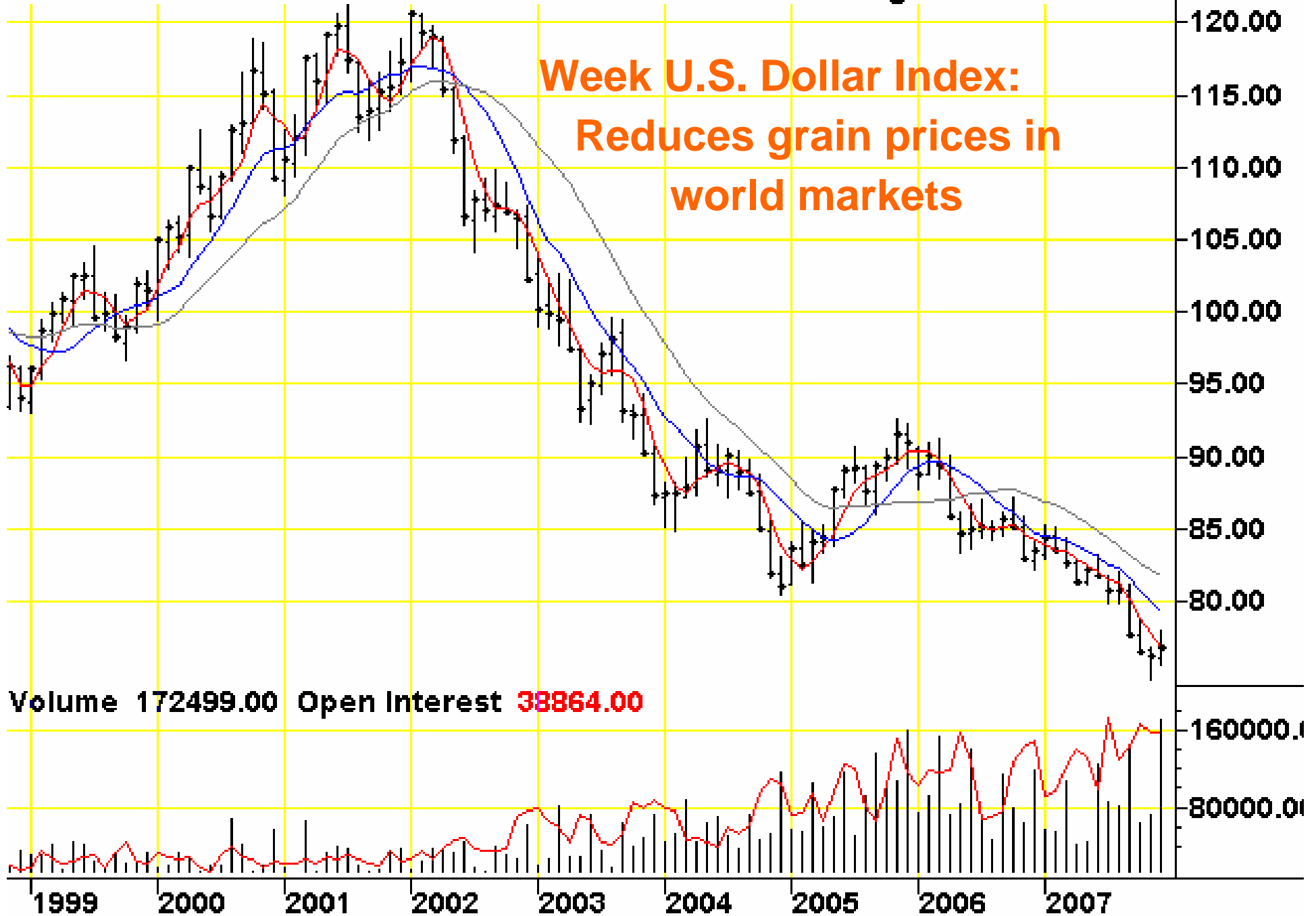
Monthly CRB Index

Incentive for Index Fund Traders to buy
Commodities for inflation hedge



12/31/2007 C=76.70 **+53** O=75.97 H=77.88 L=75.61 Mov Avg 3 lines

**Week U.S. Dollar Index:
Reduces grain prices in
world markets**



Volume 172499.00 Open Interest **38864.00**

01/08/2008 C=496^0 +10^2 O=490^0 H=499^0 L=490^0 Mov Avg 3 lines

Dec. '08 Corn Futures

1/03/08



01/08/2008 C=1181^0 +13^4 O=1181^0 H=1194^0 L=1179^0 Mov Avg 3 lines

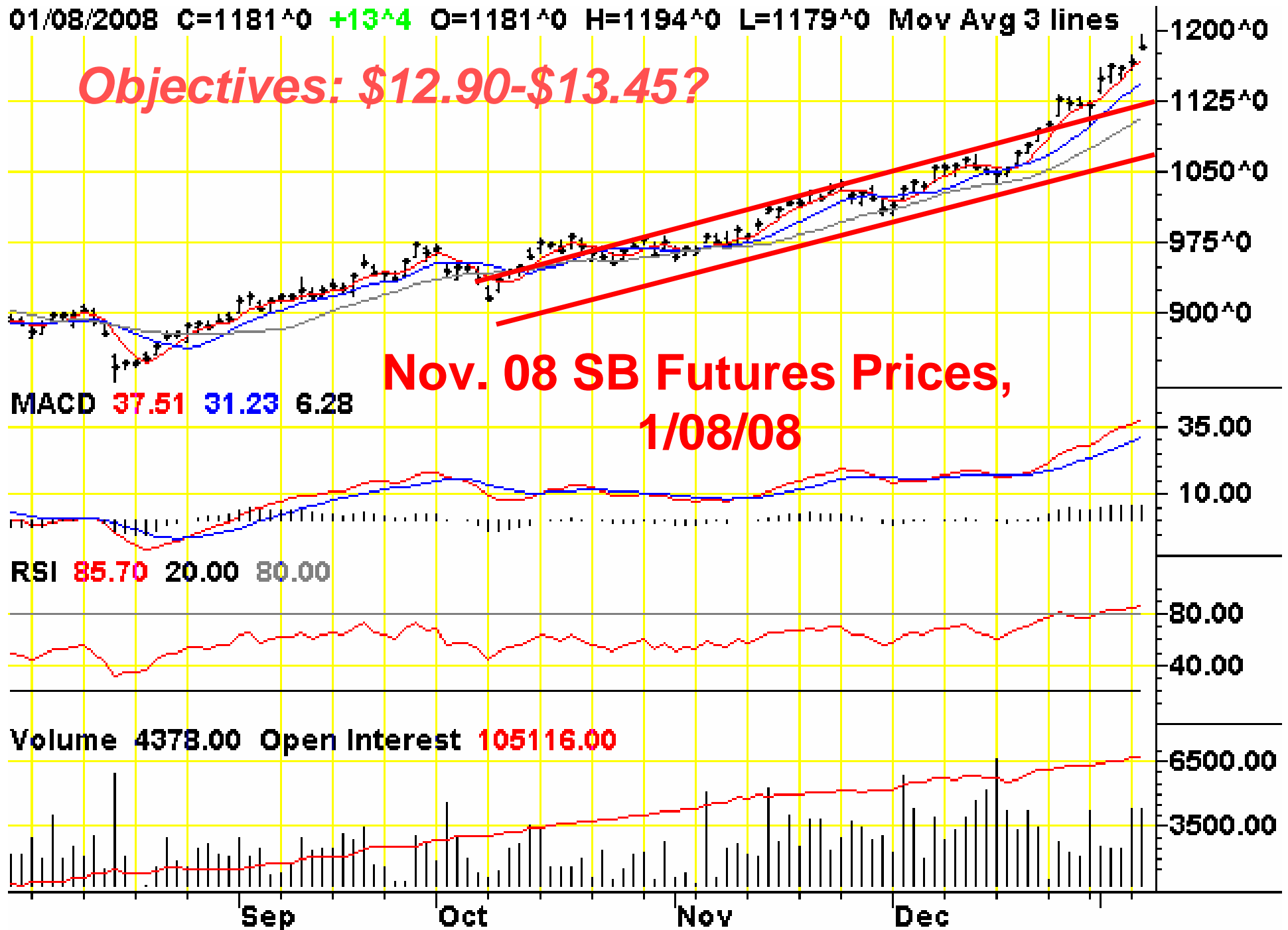
Objectives: \$12.90-\$13.45?

**Nov. 08 SB Futures Prices,
1/08/08**

MACD 37.51 31.23 6.28

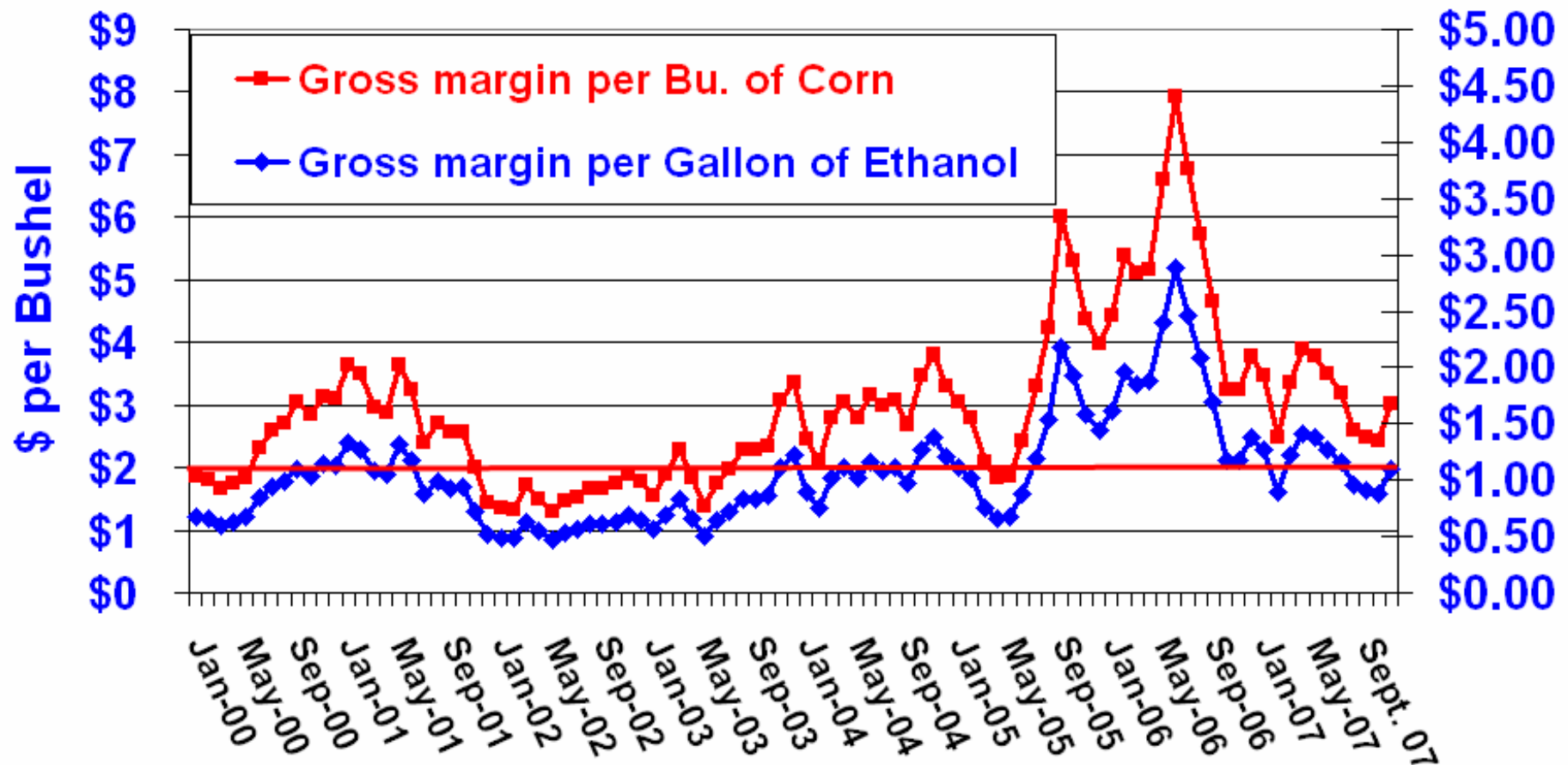
RSI 85.70 20.00 80.00

Volume 4378.00 Open Interest 105116.00



Iowa Gross Processing Margins for Ethanol, Jan. 2000-Prelim. Jan. 2008

\$ Per Gallon



41 countries encourage biofuels

Major Countries with Ethanol Fuels

- **U.S.**
- **Brazil**
- **Canada**
- **China**
- **EU-27**
- **Thailand**

Countries considering ethanol fuels

- **South Africa**
- **Ukraine**
- **Japan, others**

Major Countries with Ethanol Fuels

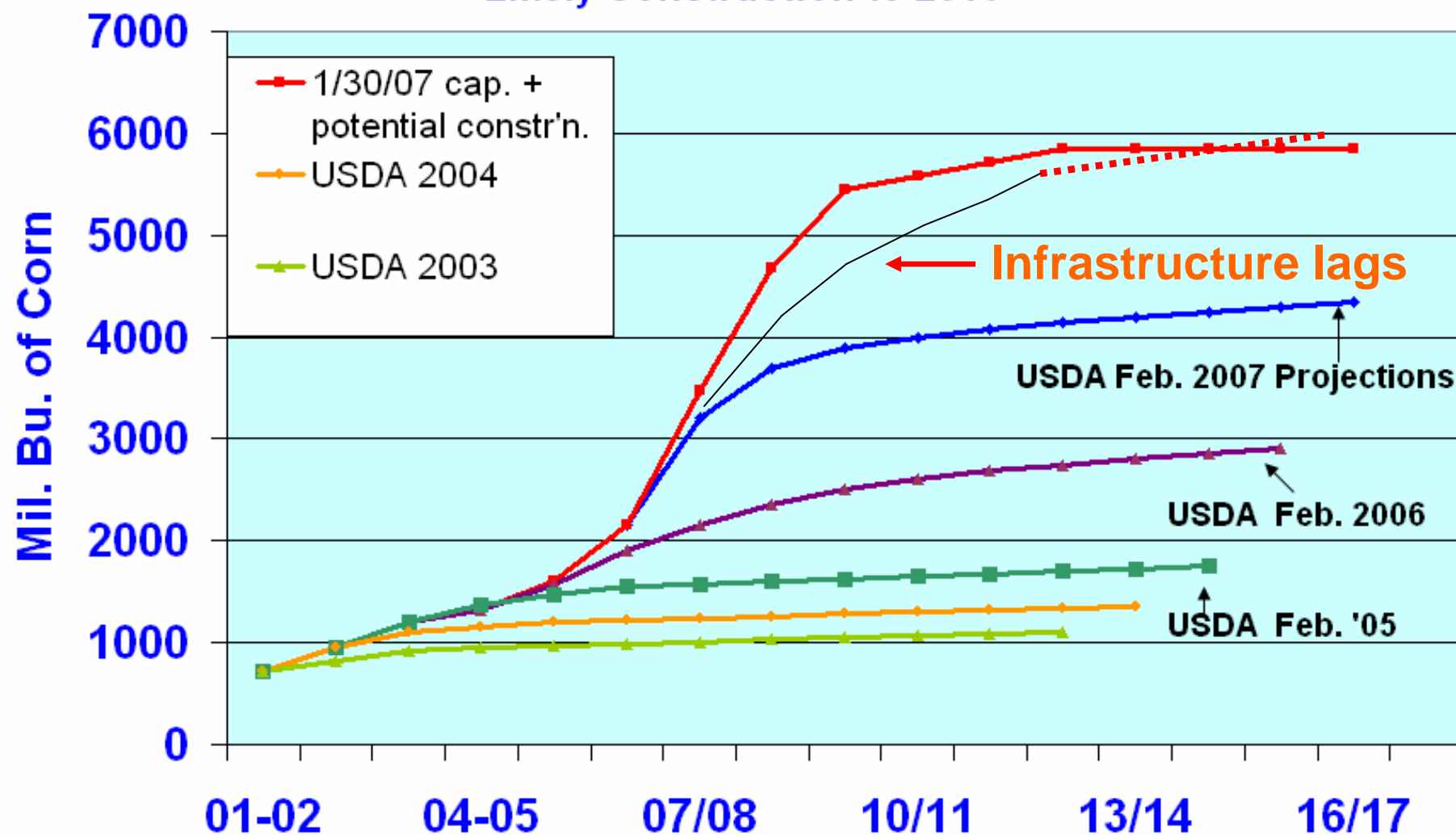
- **U.S.** – likely production of 15 bil. gal. from corn in 4.5 to 5.5 years
- **Brazil** current 5.34 bil gal. –89 new ethanol plants to be built, 2007-2011 (51 under construction)
 - 2% biodiesel mandate by 2008 & 5% by 2013
- **China** – 3 corn-based plants, emphasis shifting to other feedstocks (9 mil. T. maize for ethanol)

Major Countries with Ethanol Fuels, cont.

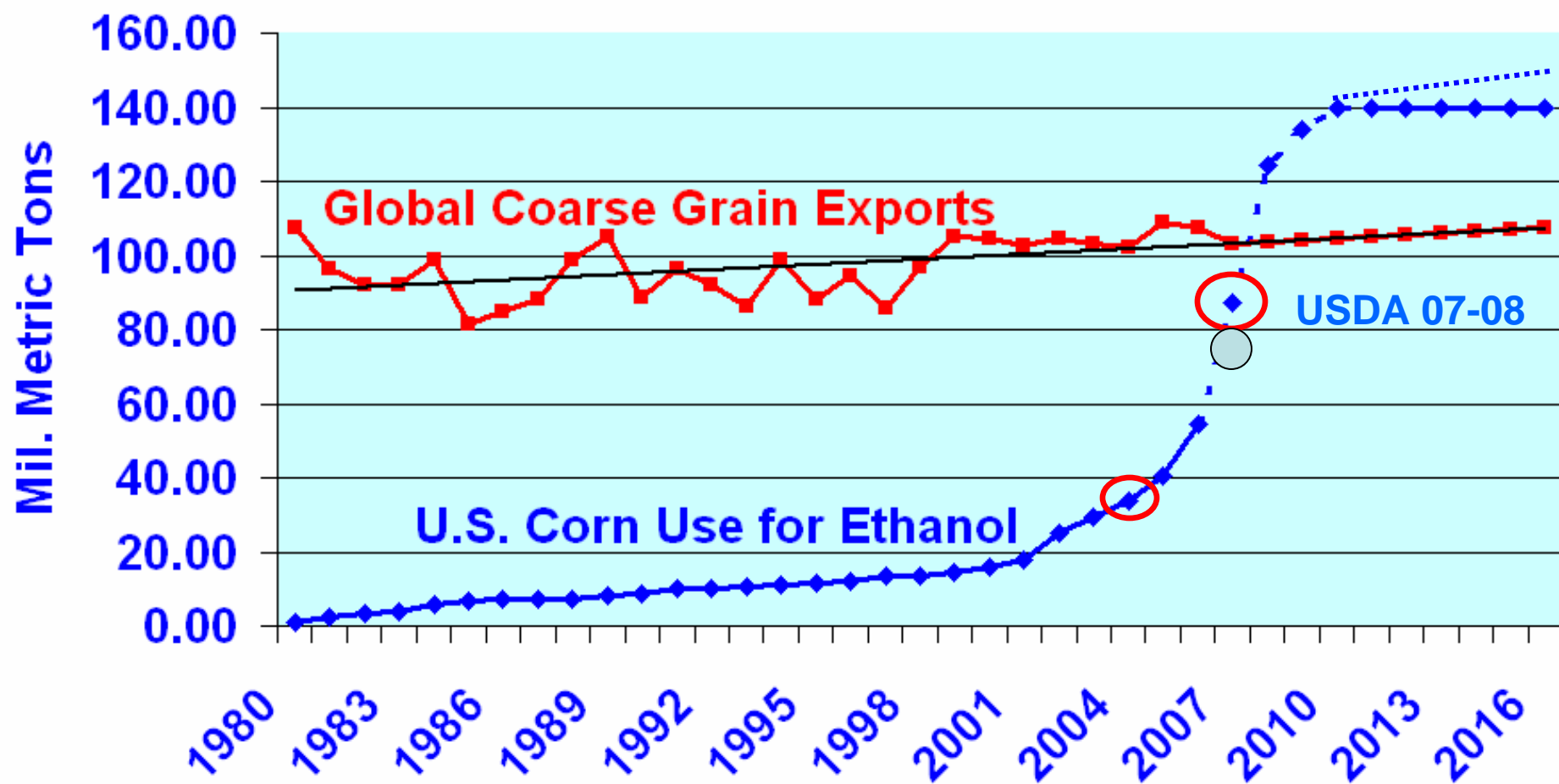
- **EU-27** – 5.75% of motor fuel to be renewable by 2010, 10% in 2020
- **Canada** – 5% ethanol mandate by 2010, 2% biodiesel by 2012
- **Thailand** – ethanol from sugar, casava

Biodiesel– Competition for crop land

Figure 1. USDA Feb. '07 & Previous 10-Yr. Projections of Corn for Ethanol, Plus Existing & Under Construction Capacity + Likely Construction to 2010



Mil. Tons U.S. Corn Use for Fuel Ethanol & Global Coarse Grain Exports

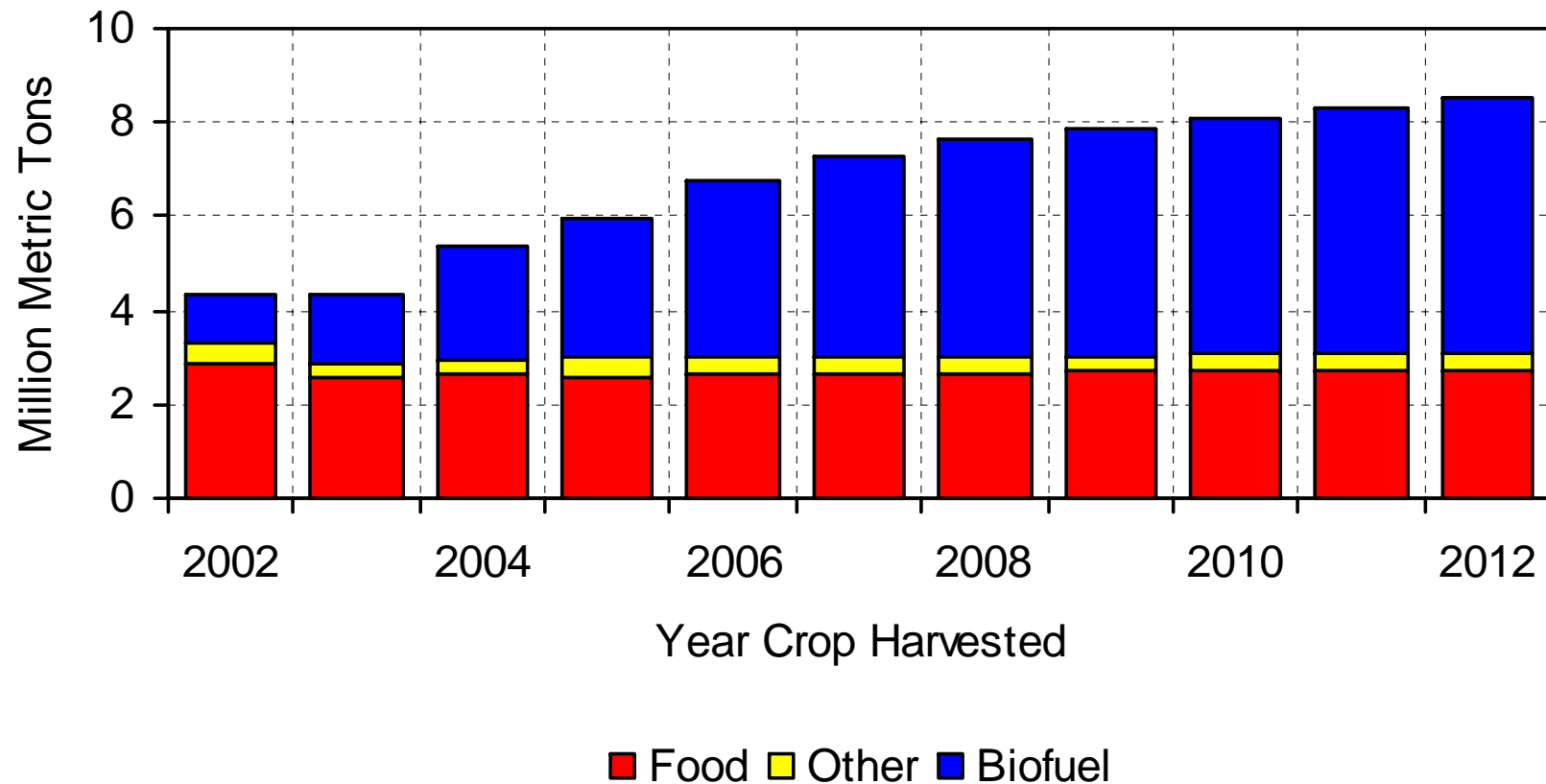


International Impacts

- U.S. ethanol plants under construction to use 55 mil. tons of corn (doubling use)
 - 3.5 times the volume of Japan imports of U.S. corn
 - 123% of 2006 EU corn crop
 - 66% of global corn exports
- Other countries are expanding ethanol & biodiesel
- Strong negative impacts on animal ag.
- Higher food costs ahead
- Major risk-management challenges in Ag. & bioenergy

**(Growth 2007-12 = 147% of U.S. soybean oil exports)
(Food demand for vegetable oil highly inelastic)**

EU Use of Rapeseed Oil



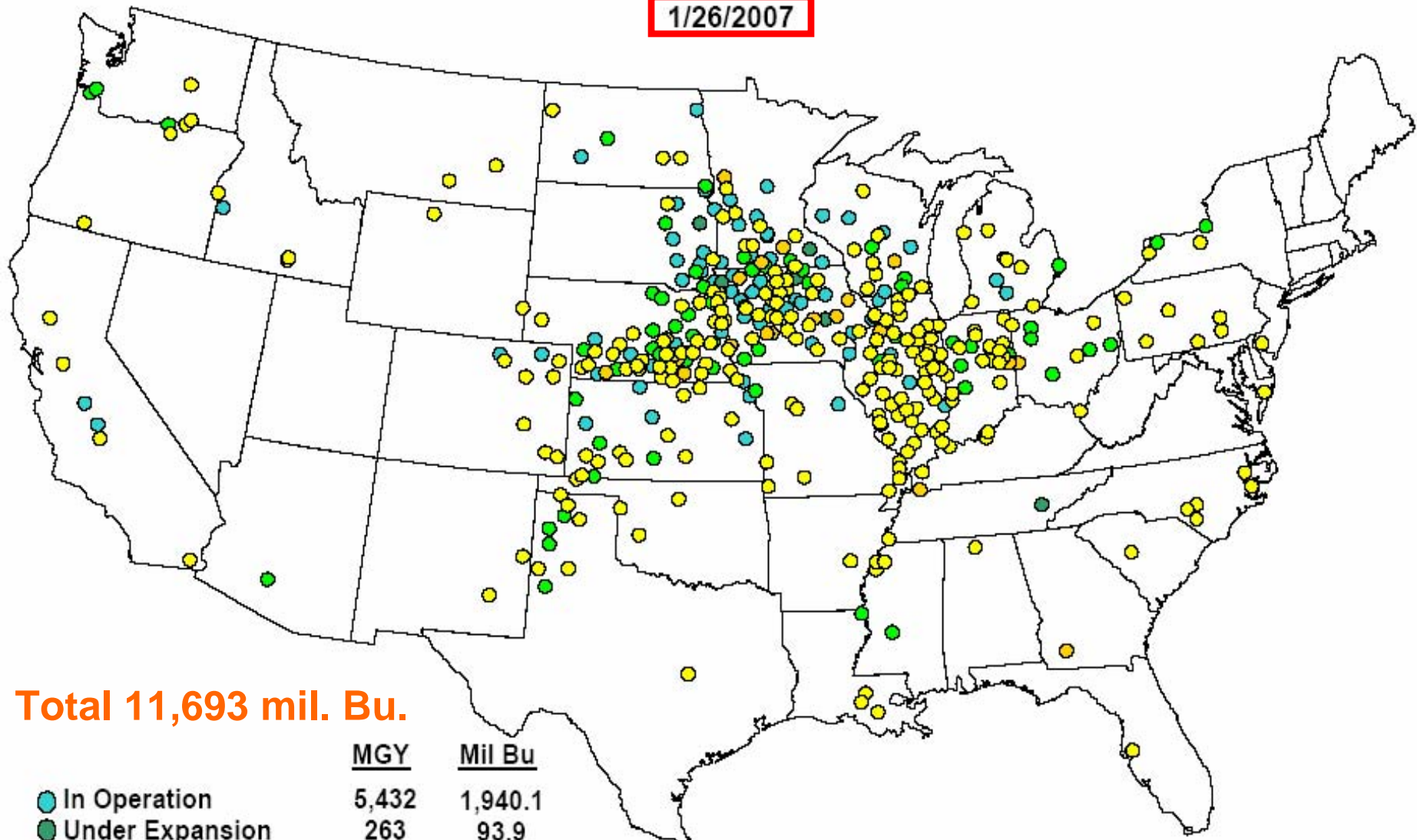
Source: FAPRI estimates

Pulls land away from food uses

Figure 3. US Ethanol Plants



1/26/2007

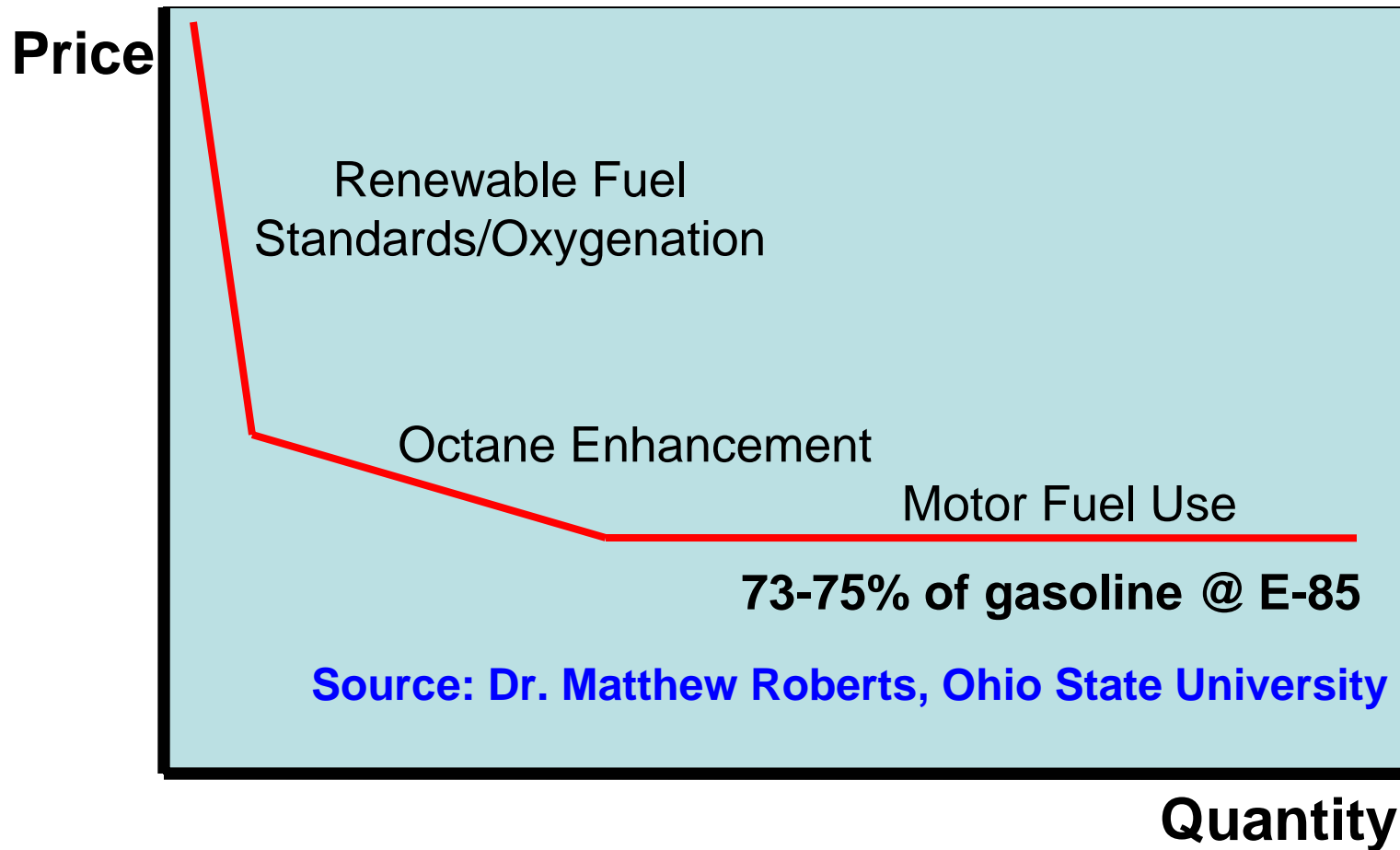


Total 11,693 mil. Bu.

	<u>MGY</u>	<u>Mil Bu</u>
● In Operation	5,432	1,940.1
● Under Expansion	263	93.9
● Under Construction	4,872	1,740.0
● Ground Broken	2,463	879.6
● Planned	19,710	7,039.3

Plants "Under Construction" have broken ground and have poured concrete. Plants that have "broken ground" have begun site work but no actual construction. Plants that are "planned" have been talked about or announced in the news.

Demand Curve for Ethanol



2007-08 U.S. corn supplies adequate to meet demand

- **Crop up 25%, 20% increase in corn acres**
- **But at expense of:**
 - *16% decline in soybean planted area*
 - *29% decline in cotton area*
 - *8% decline in non-durum spring wheat*
 - *Declines in other minor crops*
- **Soybean supplies to tighten substantially, increased plantings needed in 2008**
- **Cotton more needed in 2008**
- *More U.S. corn likely will be needed in 2009*

**Prospective Number of future Ethanol Plants,
7/25/07 (Excludes Current Plants)**

			Under Constr'n	Planned Plants	Total to build
Iowa			13	27	40
Indiana			7	30	37
Illinois			4	56	60
Kansas			6	10	16
Michigan			3	5	8
Minnesota			6	7	13
Missouri			1	9	10
Nebraska			14	36	50
Ohio			12	7	19
S. Dakota			4	4	8
Wisconsin			4	10	14
Corn Belt Total			74	201	275
Non-Corn Belt					
California			3	14	17
Colorado			1	14	15
Idaho			2	1	3
New York			3	6	9
N. Carolina			1	6	7
Penn.			1	7	8
Texas			5	11	16
Other non-Corn Belt			11	83	94
Total non-Corn Belt			27	128	155
U.S. Total			101	329	430

Plant Numbers Sources: Renewable Fuels Association

<http://www.ethanol.org/index.php?id=37&parentid=8#USEthanolFacilities> & DTN Ethanol

Web Site,

<http://www.dtnethanolcenter.com/index.cfm?show=47&mid=48>

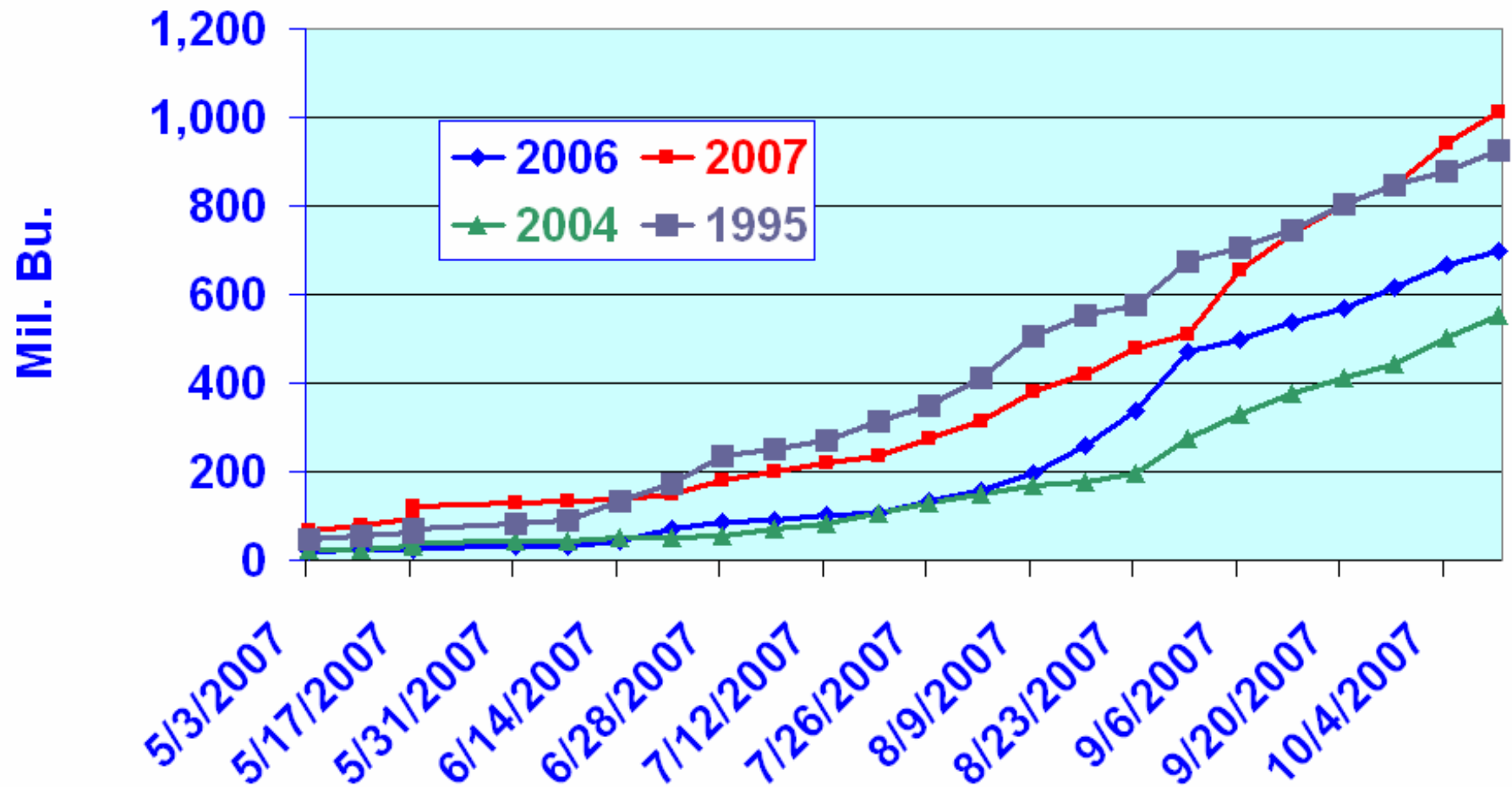
Changes in Ethanol Plants, 7/27 to 11/06/07 (From DTN)

Expansion hasn't stopped

7/27/07 11/6/07 1/8/08

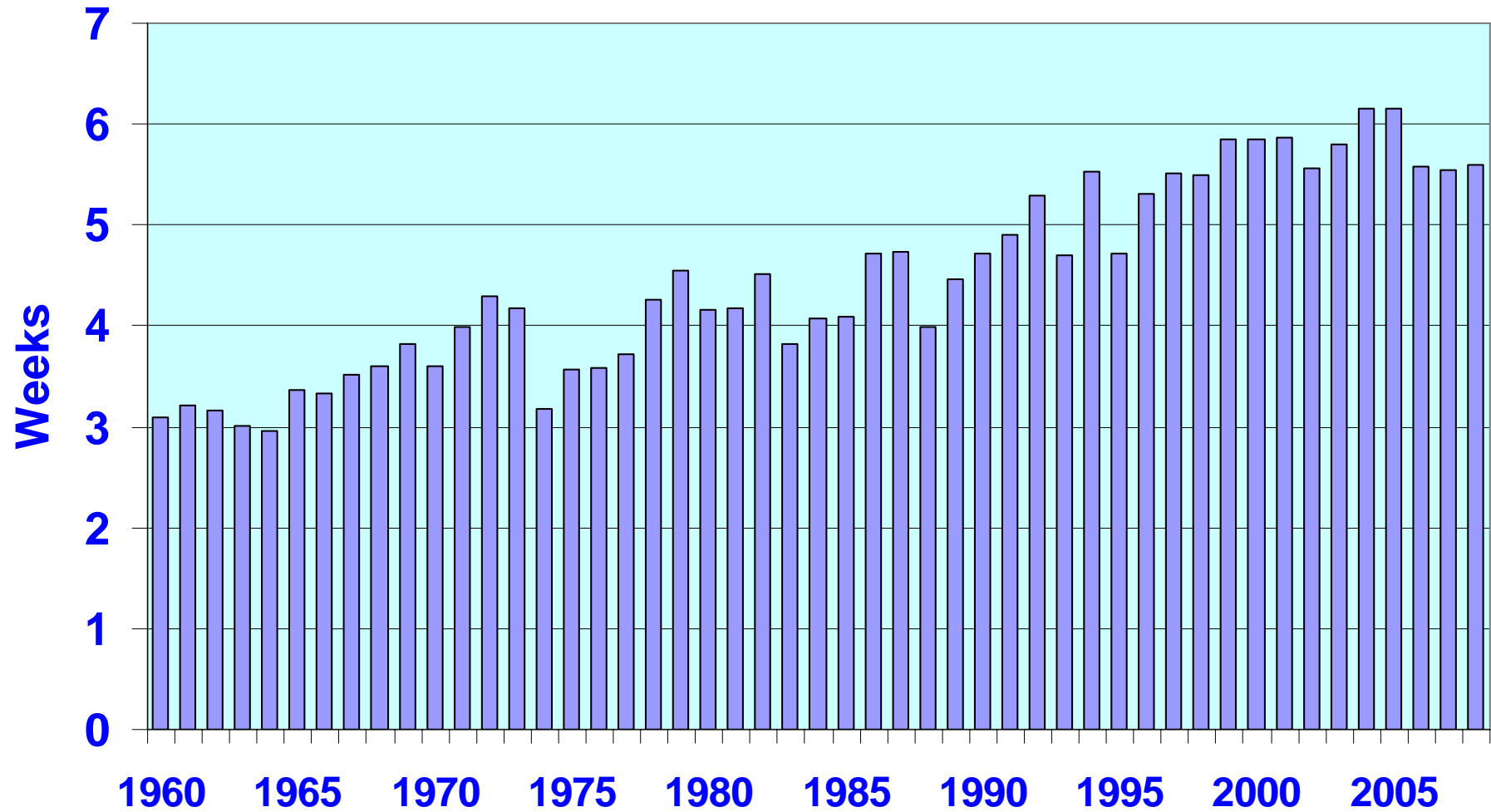
• U.S. Operating Plants	134	139	163
• U.S. Plants Under Const.	89	91	81
• Planned plants	329	343	336
• Total	552	572	580

Outstanding New-Crop U.S. Corn Export Sales + Shipments



10/02/07

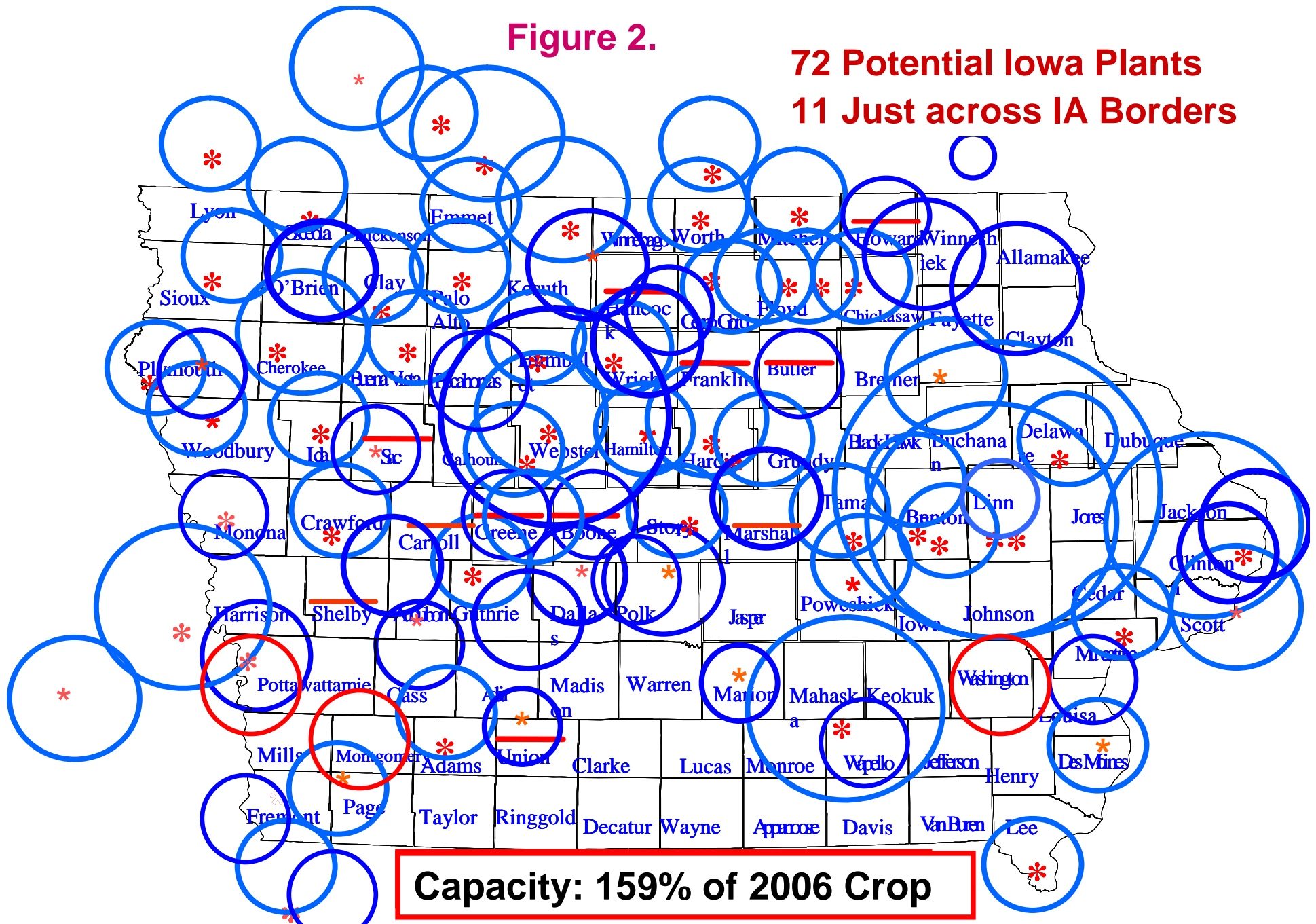
U.S. Corn Feed & Residual Use



1/2/2008	Corn Balance Sheet (Mil. Bu.)													
			2004-05	2005-06	Est.	Projected 2007-08		Projected 2008-09			Projected 2009-10			
Supplies:					2006-07	A	USDA-Crop	A	B	C	A	B	C	
Plant. A(mil.)			80.9	81.8	78.3	93.6	93.6	88.5	88.5	88.5	93.5	93.5	93.5	
Harv.A.(mil)			73.6	75.1	70.6	85.8	86.1	80.5	81.0	81.0	86.0	86.0	86.0	
Bu./A.			160.4	147.9	149.1	151.0	152.9	148.0	155.5	158	149.0	158	163	
Production			11,807	11,114	10,535	12,956	13,168	11,914	12,596	12,798	12,814	13,588	14,018	
Carryover			958	2,114	1,967	1,304	1,304	1,772	1,772	1,772	1,193	1,193	1,193	
Total Supply			12,776	13,237	12,514	14,275	14,487	13,701	14,383	14,585	14,022	14,796	15,226	
Feed & resid.			6,158	6,155	5,598	5,750	5,725	5,600	5,650	5,775	5,175	5,450	5,500	
Food, ind. & seed			2,686	2,981	3,488	4,540	4,540	5,375	5,440	5,430	6,130	6,190	6,240	
Corn for fuel ethanol*			1,323	1,603	2,117	3,150	3,150	3,985	4,050	4,040	4,740	4,800	4,850	
Exports			1,818	2,134	2,125	2,450	2,450	2,020	2,100	2,150	1,800	1,900	1,980	
Total Utilization			10,662	11,270	11,210	12,740	12,715	12,995	13,190	13,355	13,105	13,540	13,720	
Carryover			2,114	1,967	1,304	1,535	1,772	706	1,193	1,230	917	1,256	1,506	
Weeks carryover supply			10.3	9.1	5.2	6.3	7.2	2.8	4.7	4.8	3.6	4.8	5.7	
U.S. weighted Avg. FARM PRICE			\$2.06	\$2.00	\$3.03	\$4.10	3.65	\$5.10	4.10	3.95	\$5.40	4.25	4.05	
IOWA weighted Avg. PRICE, \$/Bu.			1.96	1.95	\$2.95	4.05	3.60	5.05	4.05	3.90	5.35	4.20	4.00	
Counter-Cyclical Pmt.			0.30	0.35	\$0.00	0	0	0	0	0	0	0	0	
HARV. PRICE, C.IA			1.60	1.40	\$2.80	3.30	3.30	4.70	3.70	3.55	4.85	3.85	3.65	
DEC. FUT. @ HARV.			\$1.98	\$2.00	\$3.15	\$3.80	\$3.80	\$5.15	\$4.20	\$4.10	\$5.25	\$4.35	\$4.20	
Historical Probability						18%	65%	18%	65%	17%	18%	65%	17%	
Feed use % chg. Drought years vs. current						0.4%		-2.2%			-9.6%			

Figure 2.

**72 Potential Iowa Plants
11 Just across IA Borders**

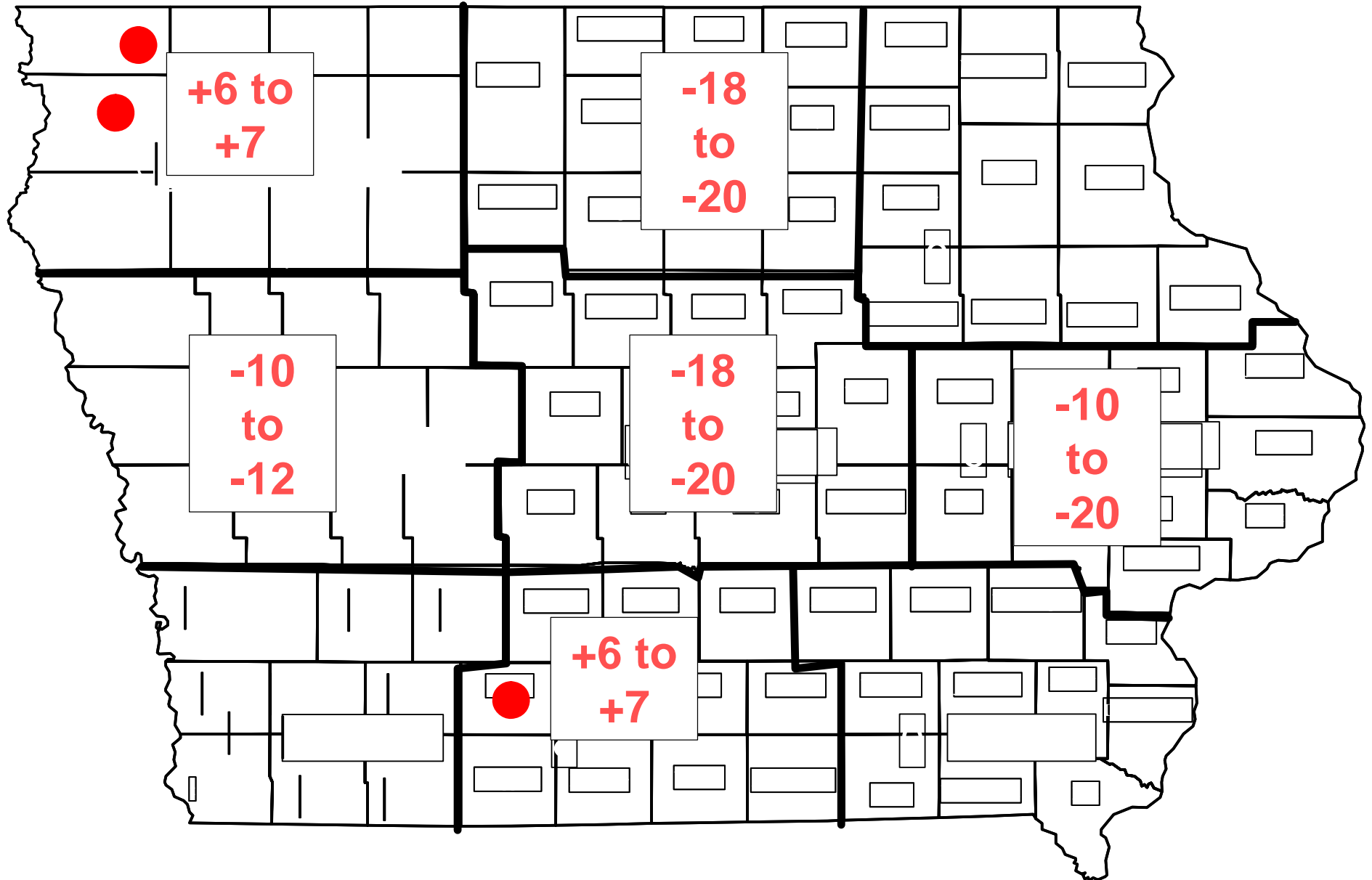


Iowa Corn Processing Plants, Current & Planned, 7/25/07

Basis Impacts from Ethanol

- Iowa regional price surface shifting
- Large local variability at point in time
- Increased variability over time
- A few key peaks in price surface, more to come
- Top bidders: processors & feed mills
- Large response to short crops
- Biofuels mandates a potential factor

August 07 High Points in Iowa Corn Basis Feed Mills & Ethanol Plants



Cent. Iowa

Basis Examples, Corn 9/28/07

	<u>Harv. Delivry</u>	<u>July Delvry</u>
West Central --Boone	<u>3.24 (-.49)</u>	<u>3.65 (-.37)</u>
New Coop, Vincent	<u>3.21 (-.52)</u>	<u>3.68 (-.40)</u>
Verisun, Ft. Dodge	<u>3.27 (-.46)</u>	<u>3.76 (-.32)</u>
Poet Ethnol, Webstr Cty.	<u>3.28 (-.45)</u>	<u>3.78 (-.30)</u>
Hawkeye, Iowa Falls	<u>3.18 (-.55)</u>	<u>3.73 (-.35)</u>
Heartland, Colo	<u>3.20 (-.53)</u>	<u>3.65 (-.43)</u>
Heart of IA, Nevada	<u>3.24 (-.50)</u>	<u>3.71 (-.37)</u>
Heartland, Madrid	<u>3.20 (-.53)</u>	<u>3.65 (-.43)</u>
Range	<u>\$.10</u>	<u>\$.13</u>

N.C. Iowa

Basis Examples, Corn 9/28/07

	<u>Harv. Delivry</u>	<u>July Delvry</u>
Garner	<u>3.18 (-.55)</u>	<u>3.66 (-.42)</u>
Kebler Milling	<u>3.41 (-.32)</u>	<u>3.86 (-.22)</u>
Hobartan	<u>3.29 (-.44)</u>	<u>3.80 (-.28)</u>
Global Lakota (ethanol)	<u>3.28 (-.45)</u>	<u>3.73 (-.35)</u>
Algona	<u>3.20 (-.53)</u>	<u>3.66 (-.42)</u>
Emmetsburg - Ethanol	<u>3.33 (-.40)</u>	<u>3.78 (-.30)</u>
Range	<u>.23</u>	<u>.20</u>

N.W. Iowa

Basis Examples, Corn 9/28/07

	<u>Harv. Delivry</u>	<u>July Delvry</u>
Rock Rapids elevator	<u>3.41 (-.32)</u>	<u>3.77 (-.31)</u>
Ashton ethanol	<u>3.40 (-.33)</u>	<u>3.80 (-.28)</u>
Siouxland Energy	<u>3.51 (-.22)</u>	<u>3.84 (-.24)</u>
Albert City	<u>3.30 (-.43)</u>	<u>3.78 (-.28)</u>
Alton Terminal	<u>3.44 (-.29)</u>	<u>3.81 (-.27)</u>
Orange City elevator	<u>3.44 (-.29)</u>	<u>3.81 (-.27)</u>
Sheldon	<u>3.44 (-.29)</u>	<u>3.81 (-.27)</u>
Visser Elevtr Sioux Cntr.	<u>3.48 (-.30)</u>	<u>N.A.</u>
Egg Center, Sioux Cntr.	<u>3.51 (-.27)</u>	<u>N.A.</u>
Farmers Coop. Sanborn	<u>3.48 (-.30)</u>	<u>3.80 (-.28)</u>
Range	<u>.21</u>	<u>.07</u>

Implications for farm storage
economics?

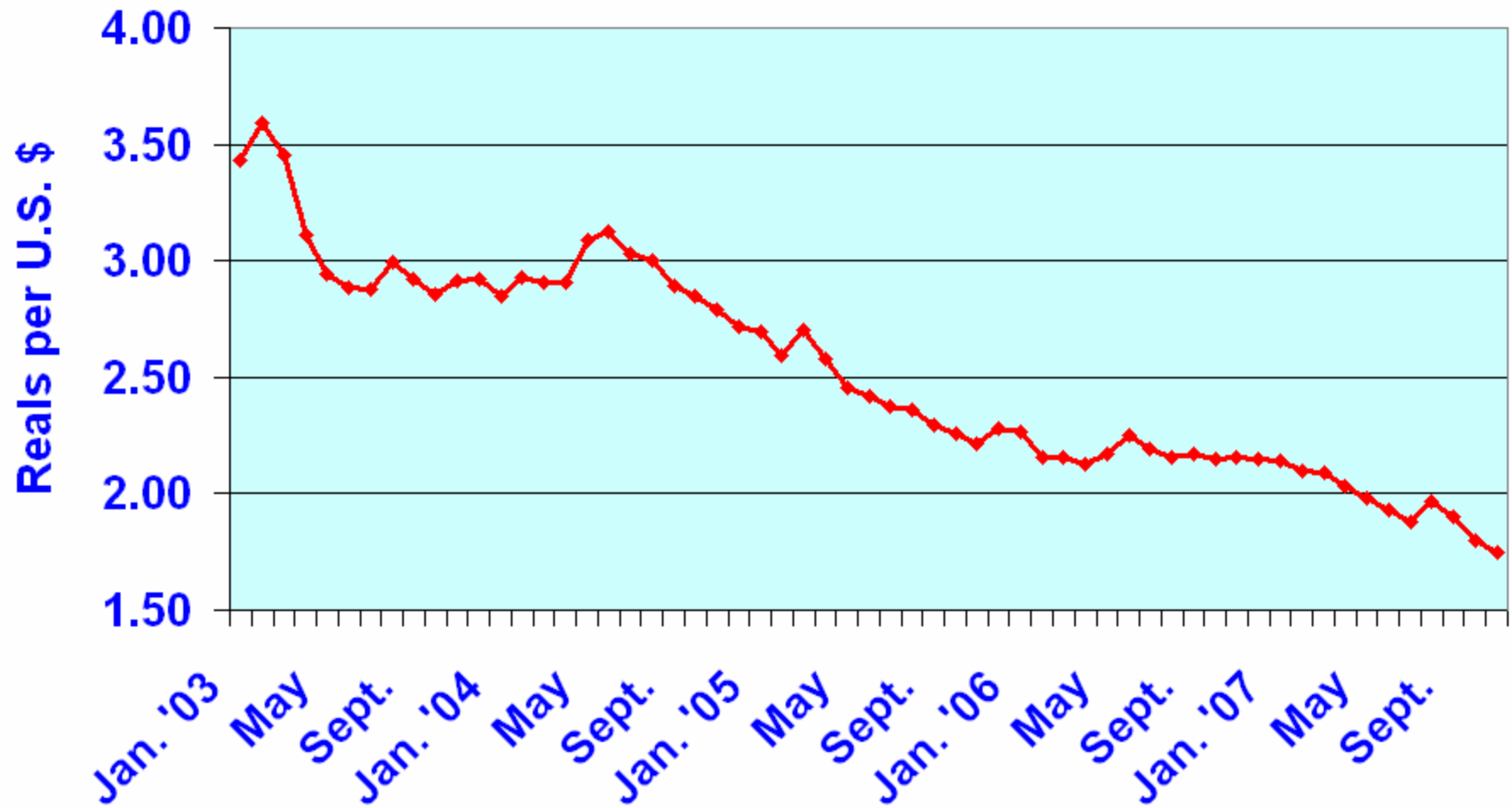
W.C. & Sw. Iowa

Basis Examples, Corn 9/28/07

	<u>Harv. Delivry</u>	<u>July Delvry</u>
Coon Rapids ethanol	<u>3.27 (-.46)</u>	<u>3.74 (-.34)</u>
Denison ethanol	<u>3.51 (-.22)</u>	<u>3.84 (-.24)</u>
Creston Elevator	<u>3.30 (-.41)</u>	<u>3.78 (-.28)</u>
Corning ethanol plant	<u>3.32 (-.41)</u>	<u>3.85 (-.23)</u>
Bunge, Council Bluffs	<u>3.29 (-.44) est.</u>	<u>3.75 (-.33)</u>
Onawa	<u>3.43 (-.35)</u>	<u>N.A.</u>
Lamoni	<u>3.18 (-.53)</u>	<u>N.A.</u>
Shenandoah eth. plant	<u>3.49 (-.24)</u>	<u>3.95 (-.13)</u>
Range	<u>.33</u>	<u>.21</u>

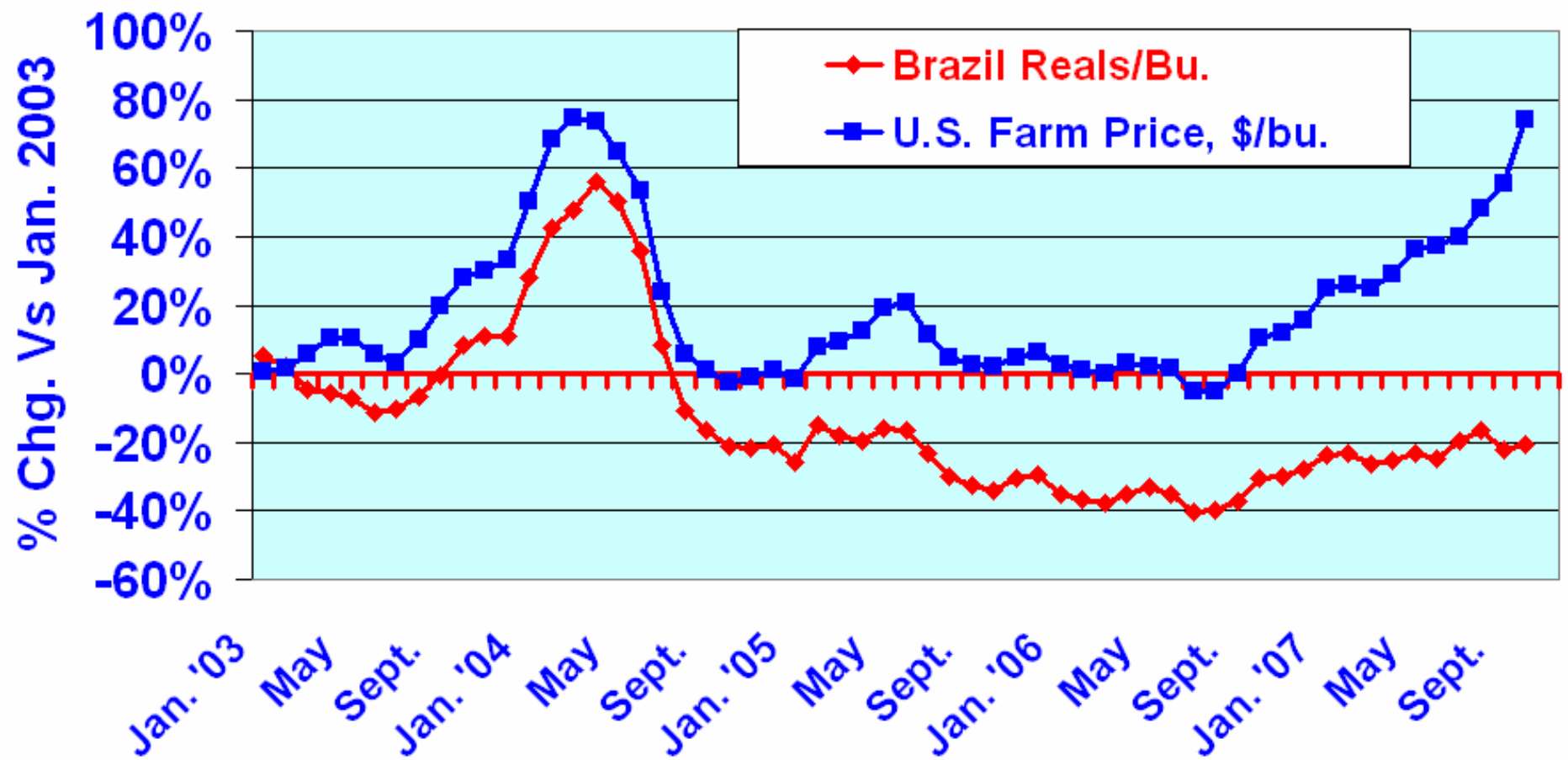
Aug. Corn Price				
	2007	2006	Chg.	% Chg.
IL	3.16	2.15	1.01	47.0%
IN	3.27	2.08	1.19	57.2%
IA	3.26	2.04	1.22	59.8%
KS	3.26	2.23	1.03	46.2%
KY	3.35	2.37	0.98	41.4%
MI	3.30	2.05	1.25	61.0%
MN	3.09	1.93	1.16	60.1%
MO	3.29	2.21	1.08	48.9%
NE	3.26	2.08	1.18	56.7%
NC	3.58	2.52	1.06	42.1%
ND	3.16	1.89	1.27	67.2%
OH	3.33	2.12	1.21	57.1%
SD	3.23	2.00	1.23	61.5%
Tenn	3.27	2.42	0.85	35.1%

Brazil Exchange Rate, Reals per U.S. Dollar

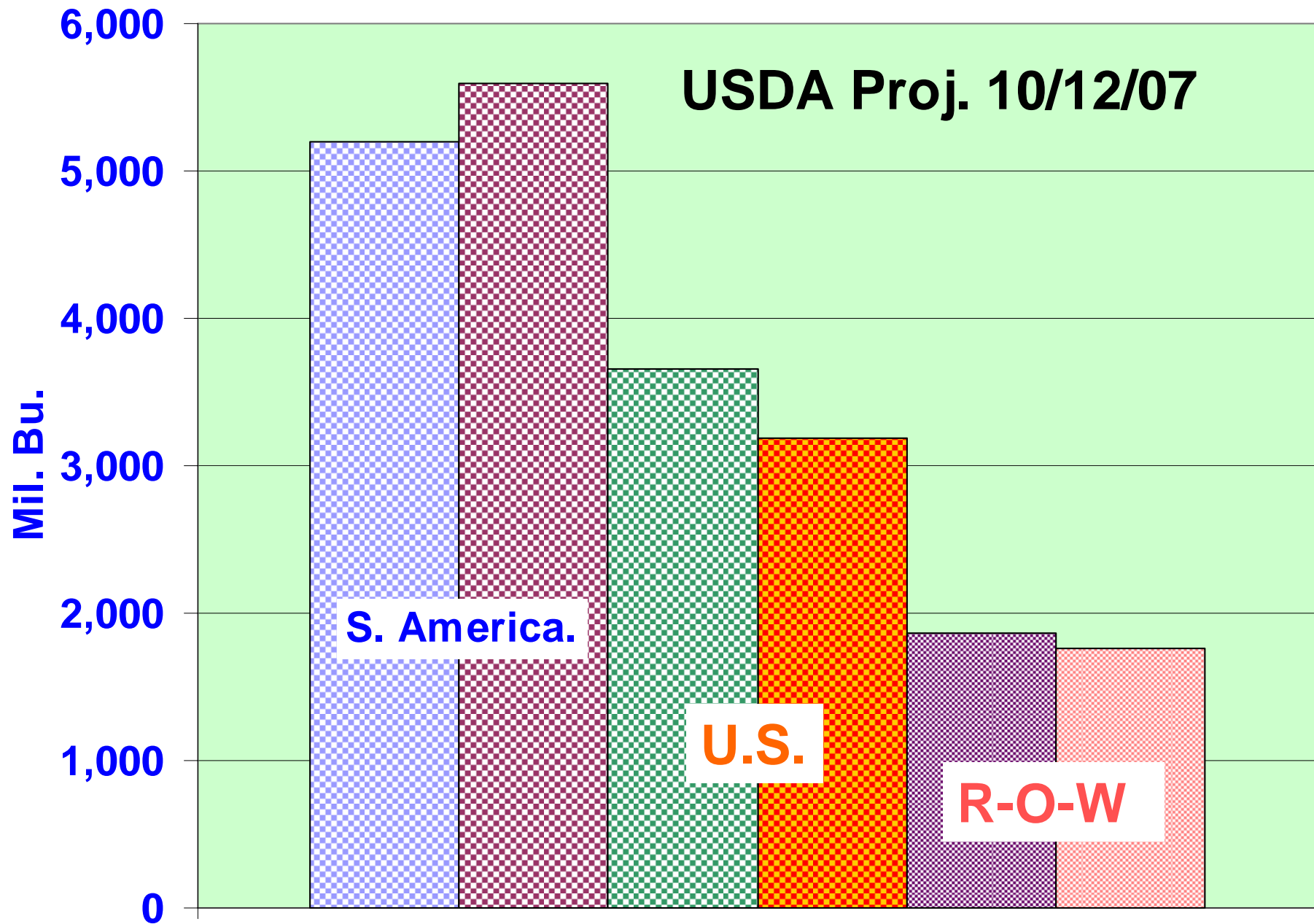


Soybean Prices in Brazilian Reals & U.S. Dollars, Percent Change vs. January 2003

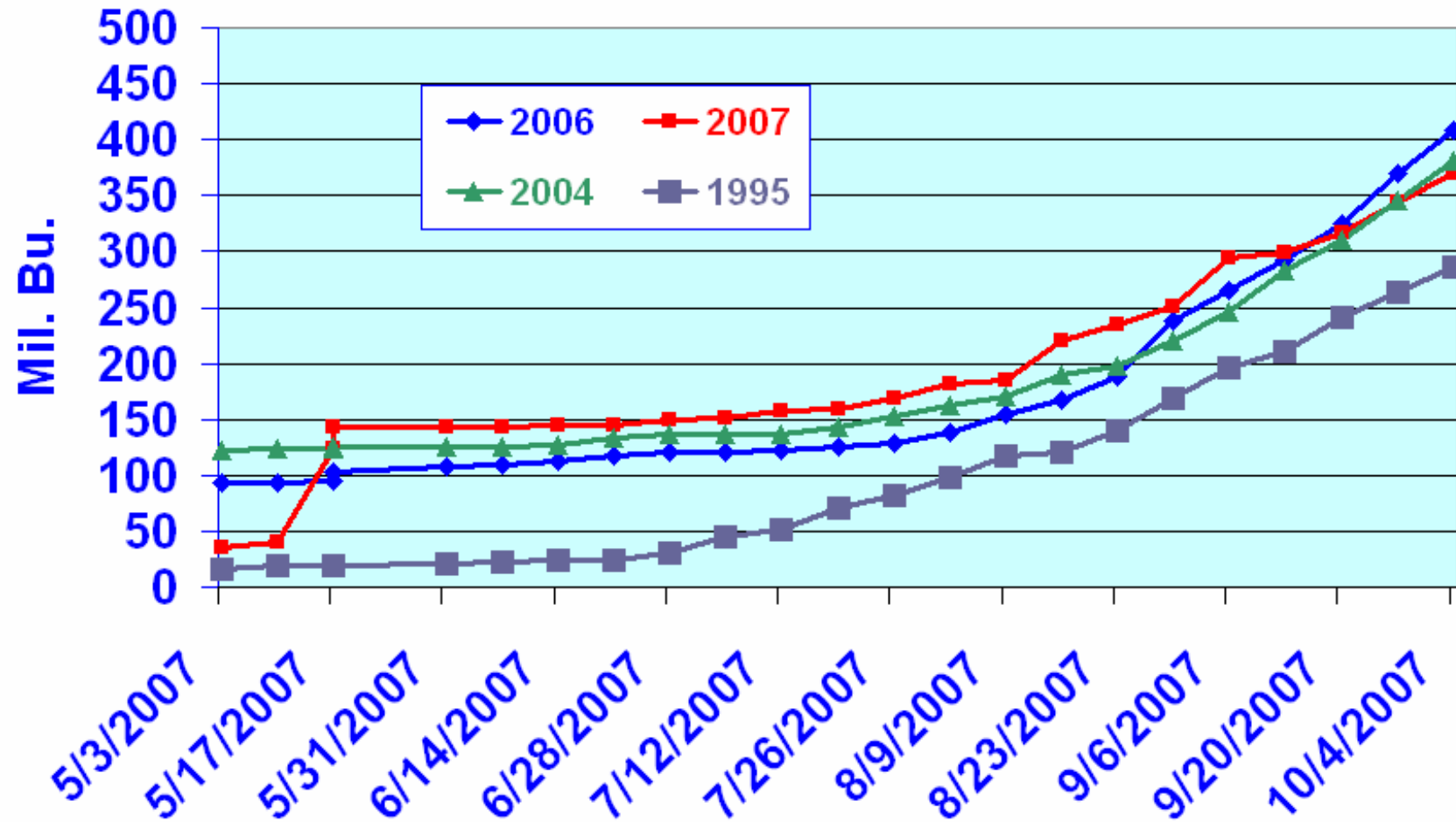
Through Mid-Nov. 07



S. America, U.S. & Rest of World Soybean Supplies

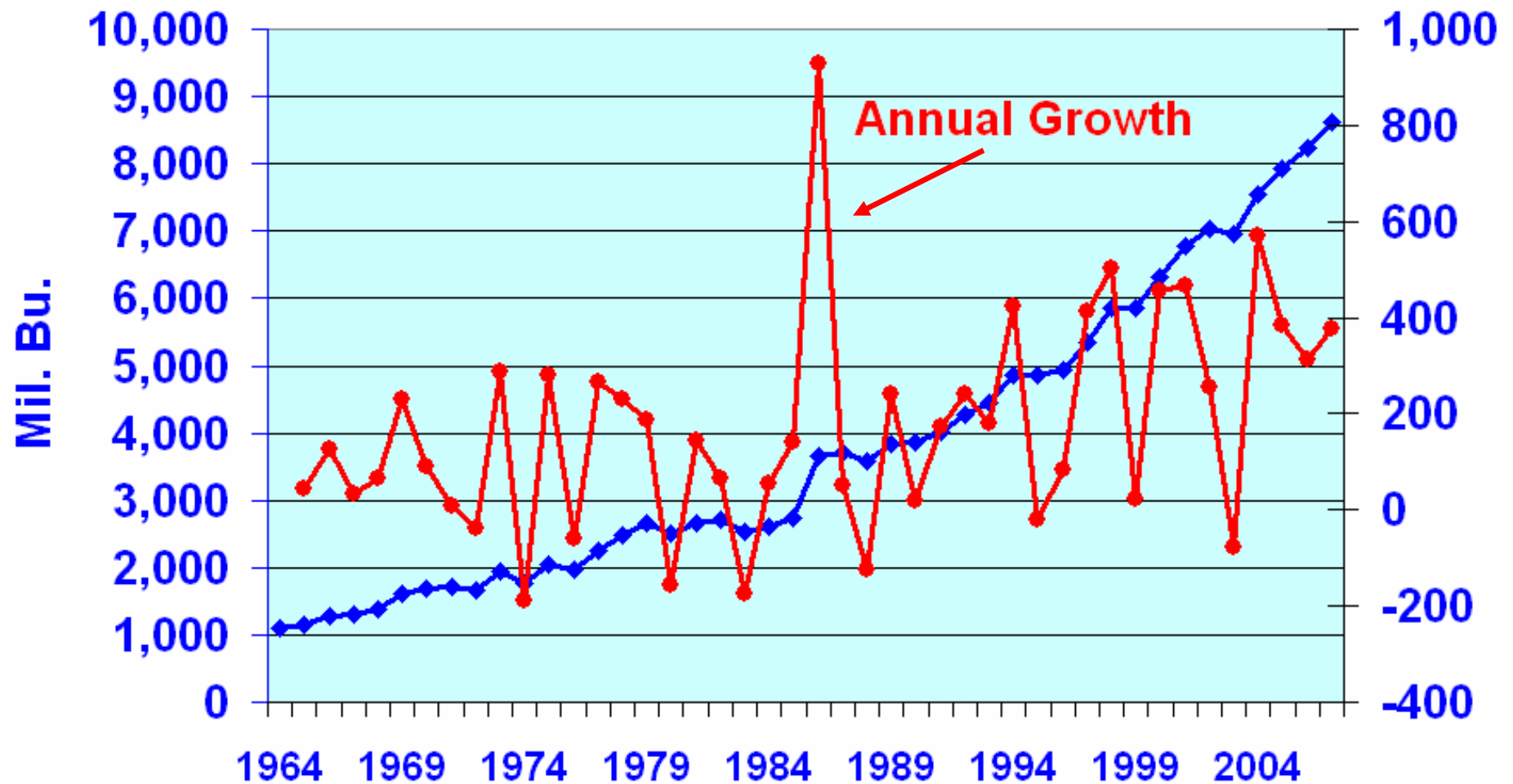


Outstanding New-Crop U.S. Soybean Export Sales



World Soybean Utilization

Mil. Bu. Annual Growth



1/2/08	Soybean Balance Sheet, Mil. Bu. R. Wisner, ISU Econ.												
			2004-05	2005-06	2006-07	Projected 2007-08		Projected 2008-09			Projected 2009-10		
Supplies:						A	USDA-Crop	A	B	C	A	B	C
Plant. A(mil.)			75.2	72.0	75.5	63.7	63.7	69.5	69.5	69.5	64.5	64.5	64.5
Harv.A.(mil)			74.0	71.3	74.6	62.7	62.7	68.2	68.6	68.8	63.2	63.6	63.8
Bu./A.			42.2	43.0	42.7	41.0	41.4	39.0	42.5	43.5	39.0	43.2	44
Production			3,124	3,063	3,188	2,571	2,594	2,659	2,914	2,992	2,466	2,749	2,808
Carryover			112	256.0	449	573	573	186	186	186	165	165	165
Total Supply			3,242	3,322	3,646	3,157	3,174	2,849	3,105	3,182	2,636	2,919	2,978
Crush			1,696	1,739	1805	1,835	1,830	1,750	1,830	1,820	1,670	1,790	1,800
Seed & Residual			192	188	153	175	163	180	175	175	185	180	180
Exports			1,097	947	1115	990	995	760	935	975	650	800	825
Total Utilization			2,986	2,873	3,073	3,000	2,988	2,690	2,940	2,970	2,505	2,770	2,805
Carryover			256	449	573	157	186	159	165	212	131	149	173
Weeks carryover supply			4.5	8.1	9.7	2.7	3.2	3.1	2.9	3.7	2.7	2.8	3.2
U.S. FARM PRICE			\$5.74	\$5.66	\$6.40	\$10.80	9.75	\$12.85	10.75	10.25	\$14.90	11.90	11.15
IOWA AVE. PRICE, \$/Bu.			5.64	5.60	6.35	10.75	9.70	12.80	10.70	10.20	14.85	11.85	11.10
Counter-Cyclical Pmt.			0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
HARV. PRICE, C.IA			4.70	5.15	\$5.45	8.45	8.45	11.40	10.30	9.75	12.50	11.00	10.40
NOV. FUT. @ HARV.			\$5.15	\$5.70	\$6.05	\$9.45	\$9.45	\$11.85	\$10.90	\$10.45	\$12.95	\$11.55	\$10.95
Historical Probability								18%	65%	17%	18%	65%	17%
MEAL DECATUR, \$/T 48%			\$184	\$175	205	\$340	\$323	\$404	\$332	\$300	\$476	\$359	\$325
SOY OIL, DECATUR, cts./Lb.			23.0	23.8	31.0	42.0	36.5	48.5	42.0	41.0	52.0	47.0	44.0
Soybean/Corn Price ratio			2.79	2.83	2.11	2.63	2.67	2.52	2.62	2.59	2.76	2.80	2.75

MINIMUM SOYOIL PRICE FOR BIODIESEL BREAK EVEN at GIVEN WORLD CRUDE OIL PRICE

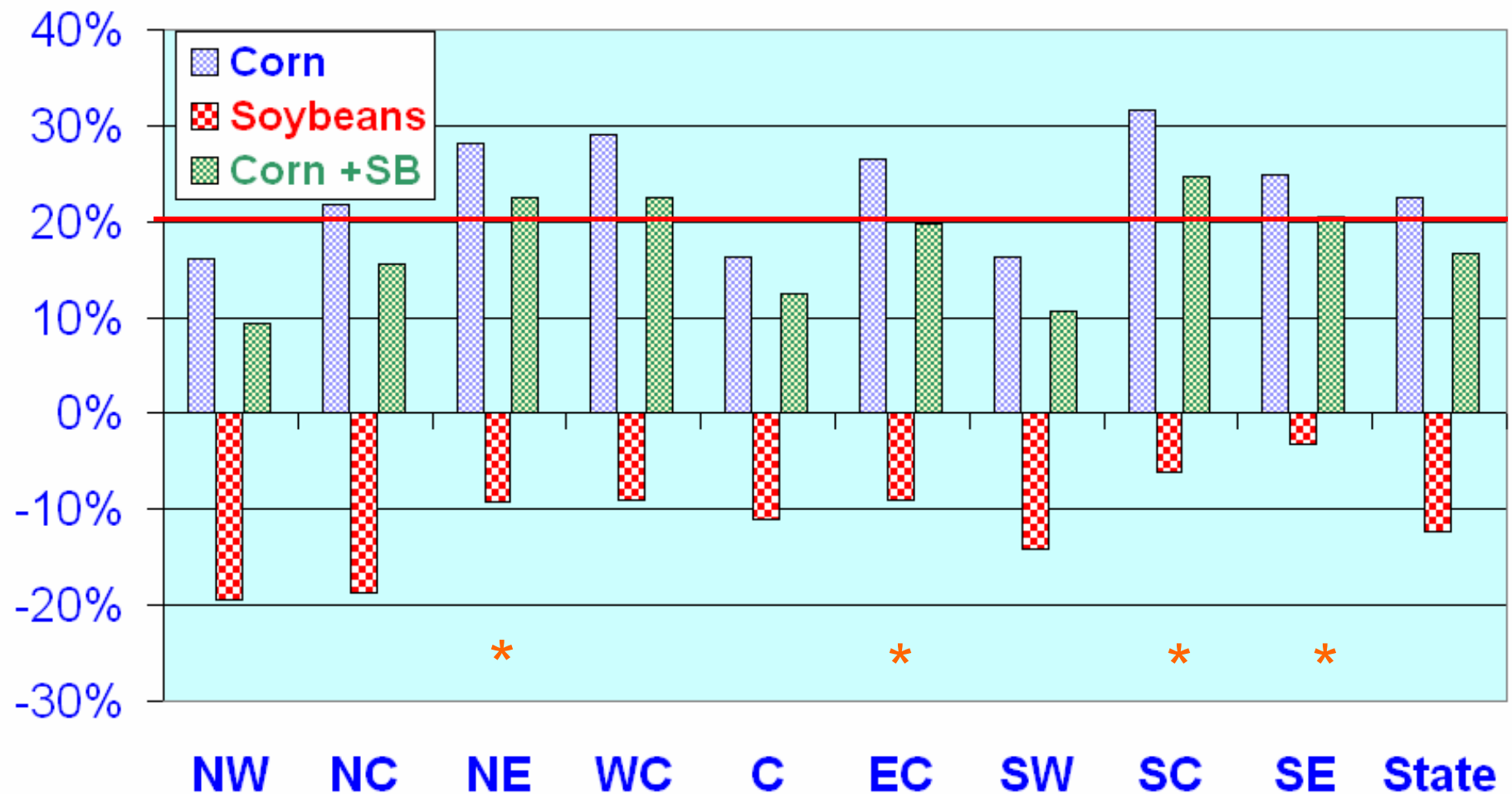
PRX_C_US_BA, GTB-06-03, Mar-14-06

		Crude Oil Price, \$/bbl								
		\$30.00	\$35.00	\$40.00	\$45.00	\$50.00	\$55.00	\$60.00	\$65.00	\$70.00
Add biodiesel		Profitability of Biodiesel at given crude oil and soyoil prices, %\$/lb								
Soybean	\$0.19	(\$0.10)	\$0.02	\$0.14	\$0.25	\$0.37	\$0.49	\$0.61	\$0.73	\$0.85
Oil Price	\$0.20	(\$0.18)	(\$0.06)	\$0.06	\$0.18	\$0.30	\$0.42	\$0.54	\$0.66	\$0.78
\$/lb	\$0.21	(\$0.25)	(\$0.13)	(\$0.01)	\$0.11	\$0.23	\$0.35	\$0.47	\$0.58	\$0.70
	\$0.22	(\$0.32)	(\$0.20)	(\$0.08)	\$0.04	\$0.15	\$0.27	\$0.39	\$0.51	\$0.63
	\$0.23	(\$0.39)	(\$0.28)	(\$0.16)	(\$0.04)	\$0.08	\$0.20	\$0.32	\$0.44	\$0.56
	\$0.24	(\$0.47)	(\$0.35)	(\$0.23)	(\$0.11)	\$0.01	\$0.13	\$0.25	\$0.37	\$0.48
	\$0.25	(\$0.54)	(\$0.42)	(\$0.30)	(\$0.18)	(\$0.06)	\$0.05	\$0.17	\$0.29	\$0.41
	\$0.26	(\$0.61)	(\$0.49)	(\$0.38)	(\$0.26)	(\$0.14)	(\$0.02)	\$0.10	\$0.22	\$0.34
	\$0.27	(\$0.69)	(\$0.57)	(\$0.45)	(\$0.33)	(\$0.21)	(\$0.09)	\$0.03	\$0.15	\$0.27
	\$0.28	(\$0.76)	(\$0.64)	(\$0.52)	(\$0.40)	(\$0.28)	(\$0.16)	(\$0.05)	\$0.07	\$0.19
	\$0.29	(\$0.83)	(\$0.71)	(\$0.59)	(\$0.48)	(\$0.36)	(\$0.24)	(\$0.12)	\$0.00	\$0.12
	\$0.30	(\$0.91)	(\$0.79)	(\$0.67)	(\$0.55)	(\$0.43)	(\$0.31)	(\$0.19)	(\$0.07)	\$0.05
	\$0.31	(\$0.98)	(\$0.86)	(\$0.74)	(\$0.62)	(\$0.50)	(\$0.38)	(\$0.26)	(\$0.15)	(\$0.03)

For Blue Sky Scenario, PRX adopts a crude oil price of \$50/bbl and thus a minimum 24 cent/lb soyoil price, to evaluate impact of subsidized biodiesel market.



Percent Change in Iowa Grain Production by Crop Reporting District, 2007 vs. 2006, 9/12/07 Forecast



Iowa 2007 September Forecasts of Corn & Soybeans by District, Mil. Bu. Production Chgs. Vs. '06

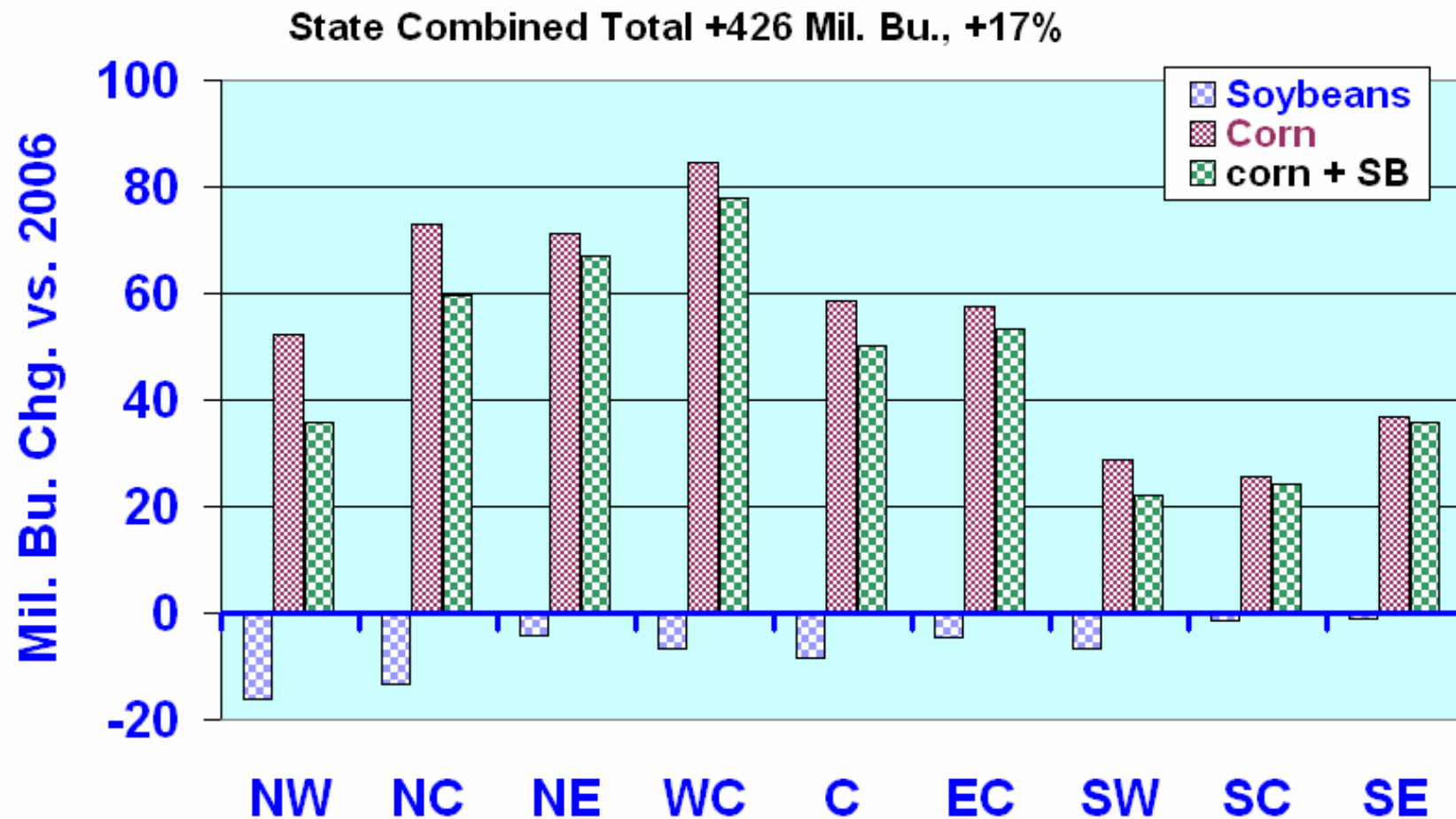
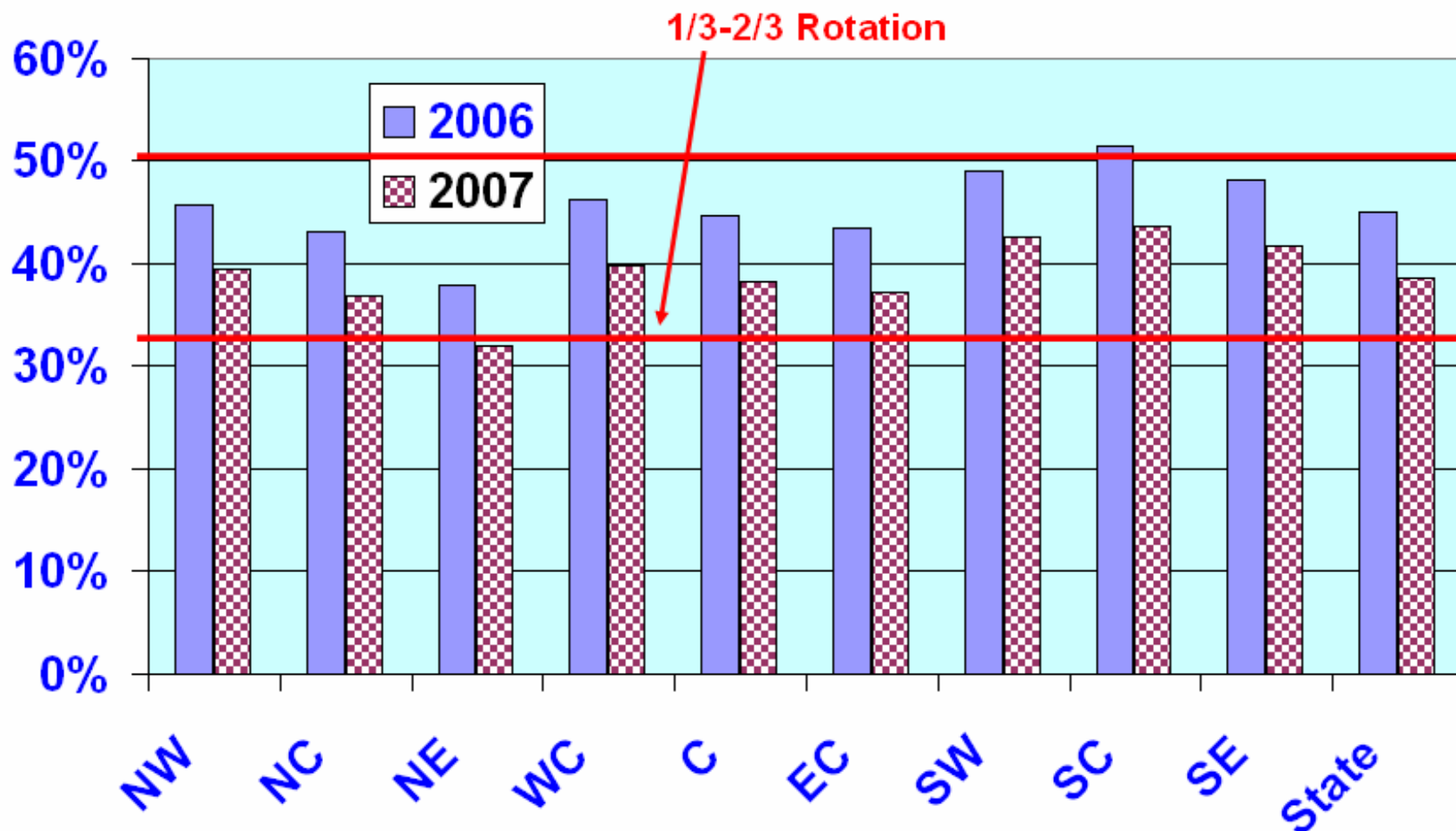


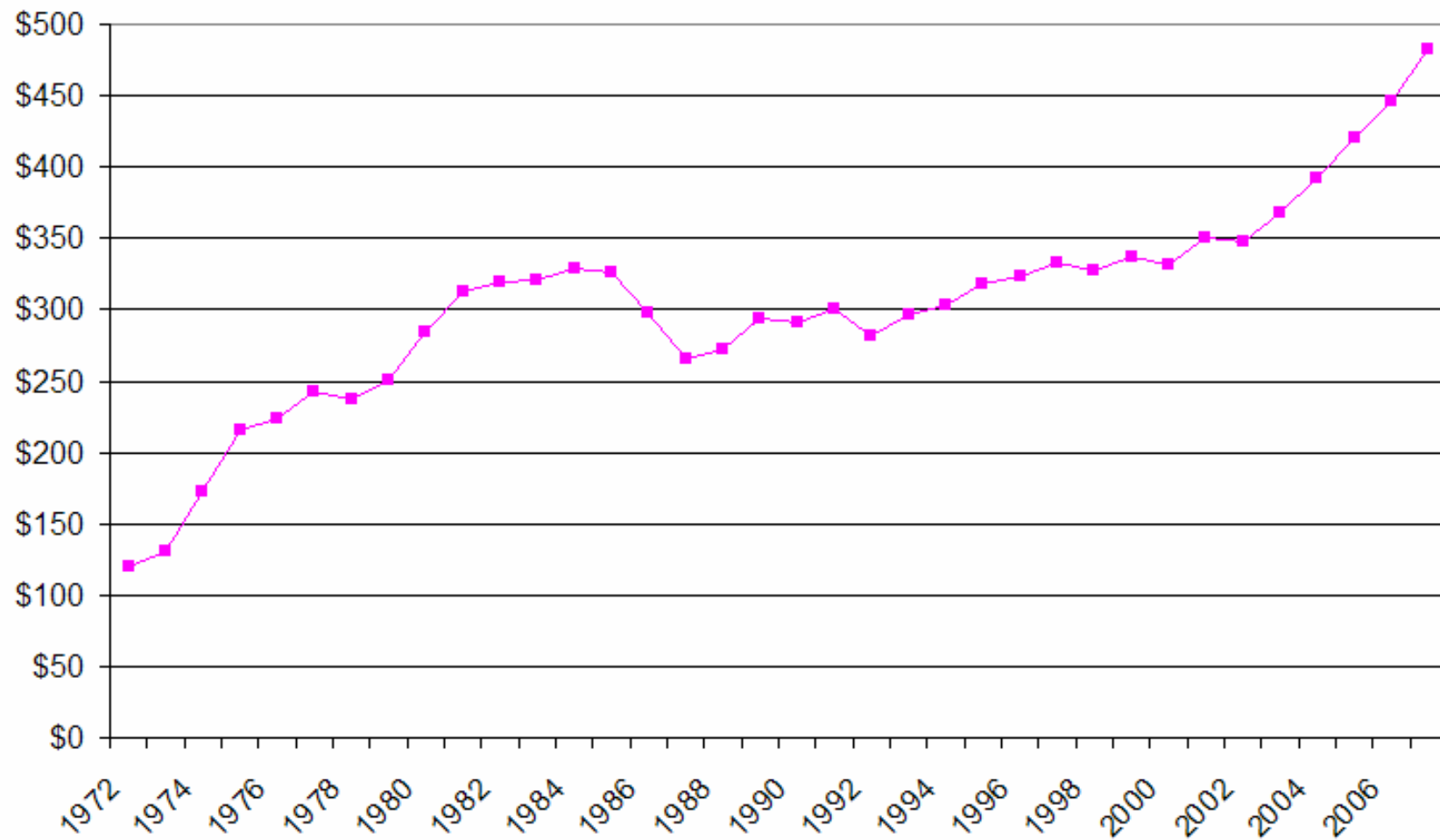
Figure 3. Iowa Soybean Acres as a % of Row-Crop Acres harvested for Grain, 2006 & 2007



Soybean Basis – Lost Cause?

- Iowa basis -\$1.00 to -\$1.25 vs. near-by futures this summer
- *CBOT says speculative trading has overwhelmed the delivery mechanism*
- Delivery area: Illinois River to St. Louis (actually larger than corn)
- Mechanism: shipping certificates
- Expect basis to be substantially stronger in spring, summer, 2008 – but no guarantees
- *SB geographic basis likely to follow corn*

Estimated Total Costs of Producing Corn in Iowa



Estimated Cost of Producing Corn in Iowa per Bushel

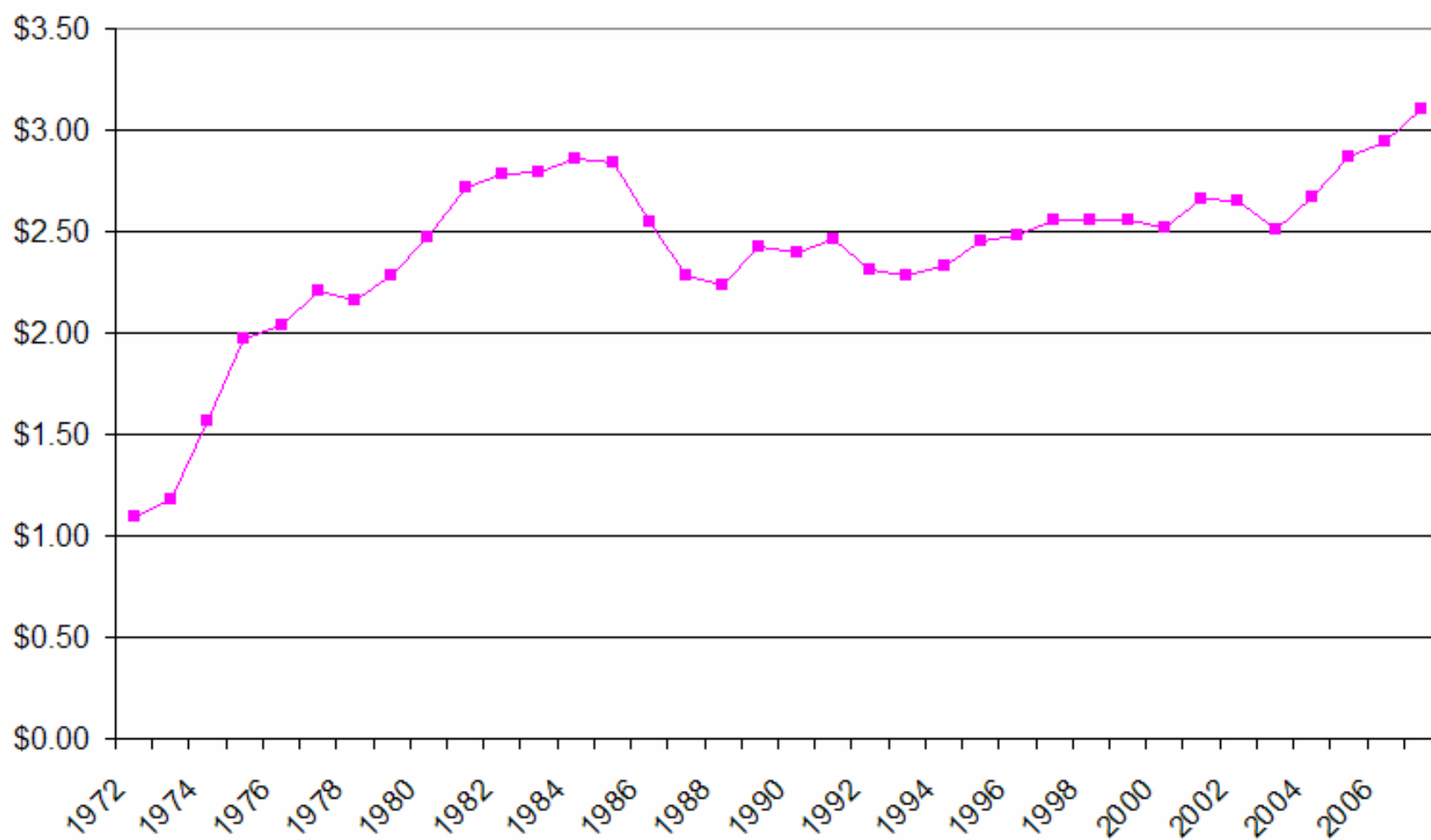
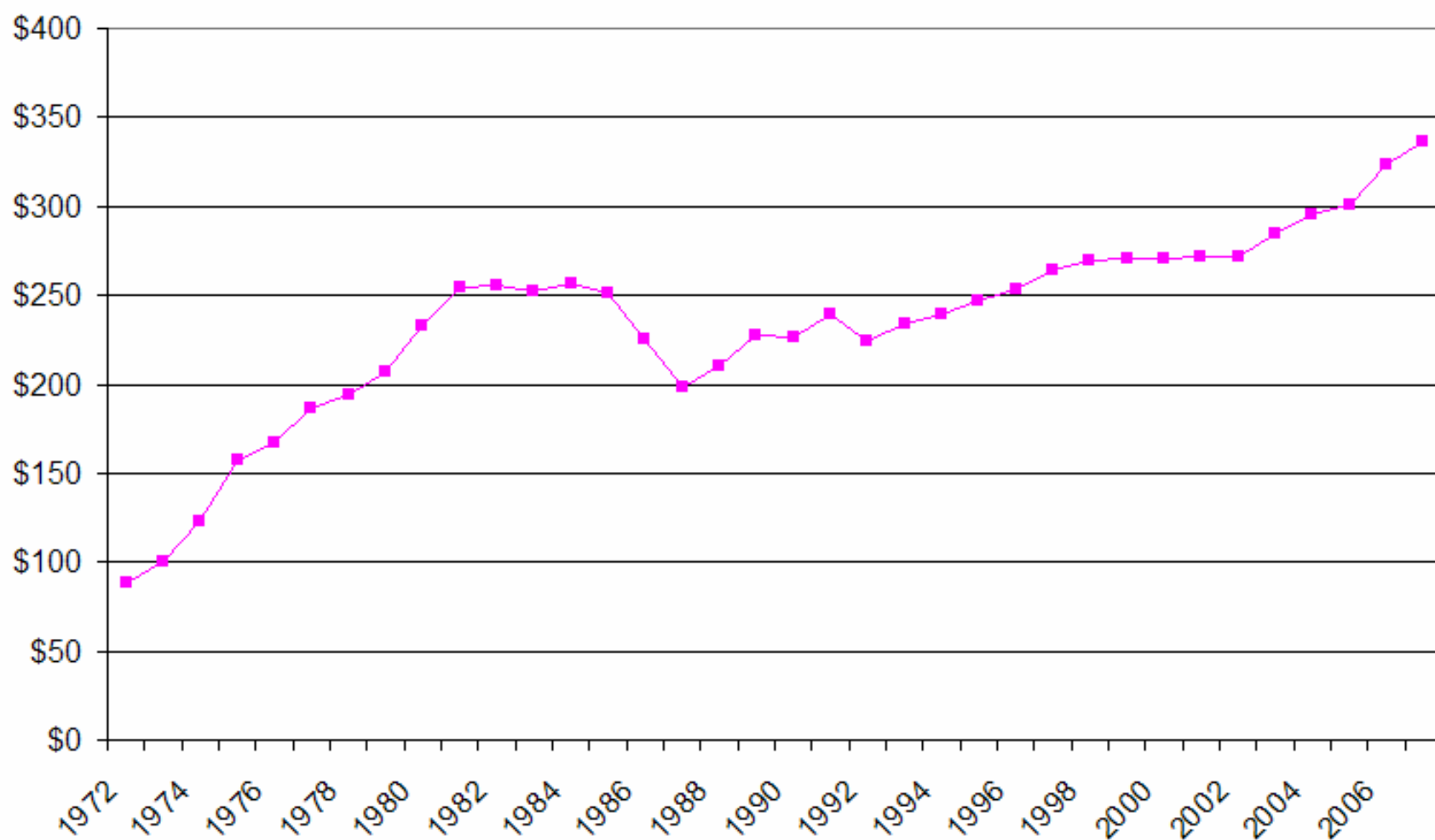
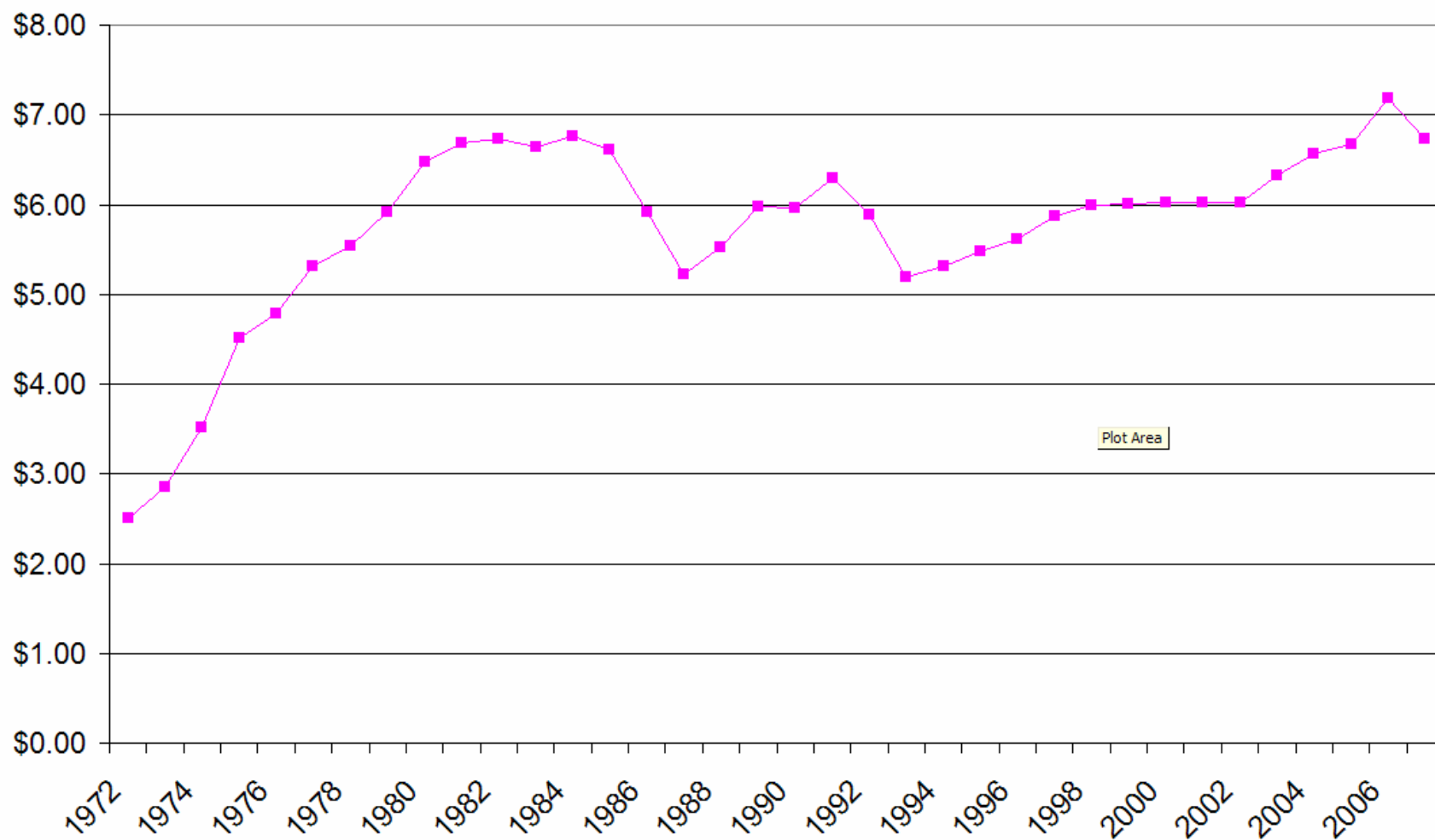


Chart Area

Estimated Total Cost of Producing Soybeans in Iowa

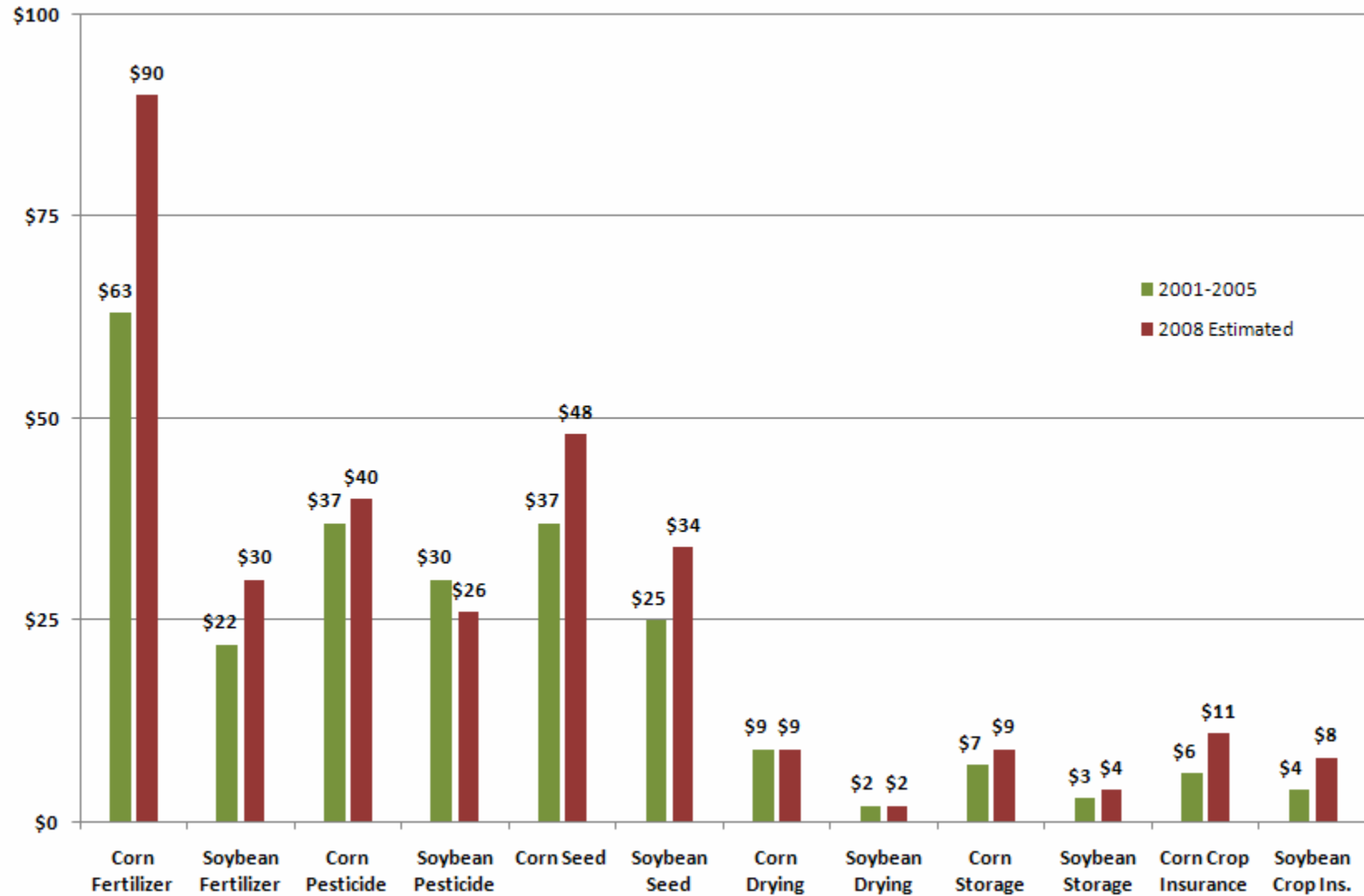


Estimated Cost of Producing Soybeans in Iowa per Bushel



Direct Cost of Crop Production (\$/A)

Historical vs. 2008 Estimate



Source: U of IL Extension Economics, July 2007.

The Margins

	CORN			SOYBEANS	
	2007 \$3.10bu	2008* \$3.35/bu		2007 \$6.40/bu	2008* \$8.60/bu
Yield bu/a	180	180		55	55
Income	\$558.00	\$603.00		\$352.00	\$473.00
Variable Cost	204.97	249.13		113.00	132.54
Fixed Cost	48.20	55.94		21.73	22.63
Labor	28.60	28.60		26.95	26.95
Land	180.00	225.00		180.00	225.00
Total Cost	461.77	558.67		341.68	407.12
Margin/acre	\$96.23	\$44.33		\$10.32	\$65.88
Margin/Bu.	\$0.53	\$0.25		\$0.19	\$1.20

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Pricing alternatives fall 2007

- ***Large storage returns signaled – for corn***
- Weak ethanol margins & sharp drop in summer feed use = upside caution @ recent corn futures prices
- Partially offsetting: extreme wheat tightness (short-term), strong export sales, govt. boost in biofuels mandates?
- Weak U.S. dollar
- Strong Brazilian Real
- **You can't go broke taking a profit**

Take-Home Points: Corn & SB

- Concern about tight 08-09 corn supply
 - Slowing feed use
 - weakening ethanol profits
 - Yield changes: Jan. crop estimates?
- Watch export sales: repeat of '95-96?
- *More soybeans, wheat (cotton?) likely to reduce corn acres in 2008*
- Acreage battle likely to intensify in 2009 & 2010
- Higher govt. biofuels mandate key to ethanol infrastructure capacity

Take-Home Points: Corn & SB II

- Forward contracts & HTAs offer well above-normal profit potential
- Corn & SB basis likely stronger in spring.
Strongest basis: @ ethanol plants, feed mills
- Options look expensive, may be better alternative in spring
- *Be prepared for bean market to bring sharp increase in 2008 acres, downward trend in bean prices in fall of '08*
- Corn prices, late summer '08 to depend on improvements in ethanol infrastructure, Govt. biofuels mandate, weather & blending credit

Thanks

[**http://www.econ.iastate.edu/faculty/wisner/**](http://www.econ.iastate.edu/faculty/wisner/)

...and justice for all

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