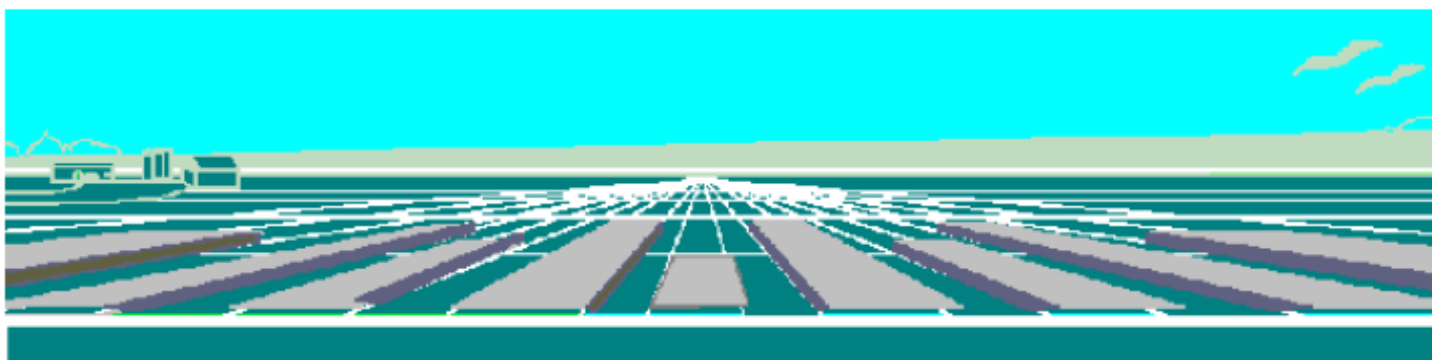


Iowa Farm Outlook



July 16, 2007

Ames, Iowa

Econ. Info. 1962

Regional Corn Basis in an Ethanol World

The ethanol sector is still expanding rapidly and corn producers are expanding acreage to meet the new demand, and it may be too early to know exactly how regional corn prices will behave. Current trends and the recent history in the ethanol driven market indicated that Iowa's corn price has not increased relative to other cattle feeding regions and in fact appears to have gotten cheaper (Figure 1). The Iowa price series is elevator bids and does not include processor bids, but it still indicates that corn prices have been increasing in the Plains states relative to Iowa for some time.

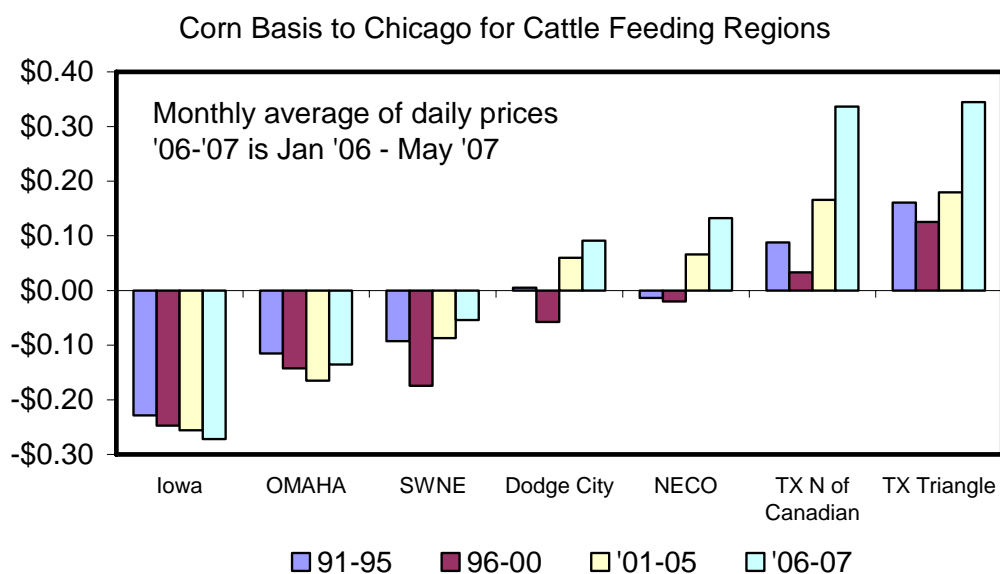


Figure 1

There are two observations from the corn basis (regional price – Chicago cash price) information in Figure 1. First, Iowa has cheaper corn than the other regions considered. For the 2001-2005 five year period, Iowa corn was \$.09 to \$.44 per bushel less than other regions. Second, Iowa's price continues to decline relative to Chicago while other regions, with the exception of Omaha, have increased in the last ten years. While the latest time period covers only 17 months, Iowa's price has declined in 2006 and 2007 while the other regions increased, and some significantly.

Within Iowa, corn basis has also shifted (Figure 2). Northwest (NW) Iowa was typically the lowest priced corn in the state, but in recent years North Central (NC) and Southwest (SW) have a wider basis. Southeast (SE), has remained the narrowest basis, but it has widened since 2000. Ethanol plants in Iowa may change these basis patterns as more plants increase the demand locally and bid corn away from the river.

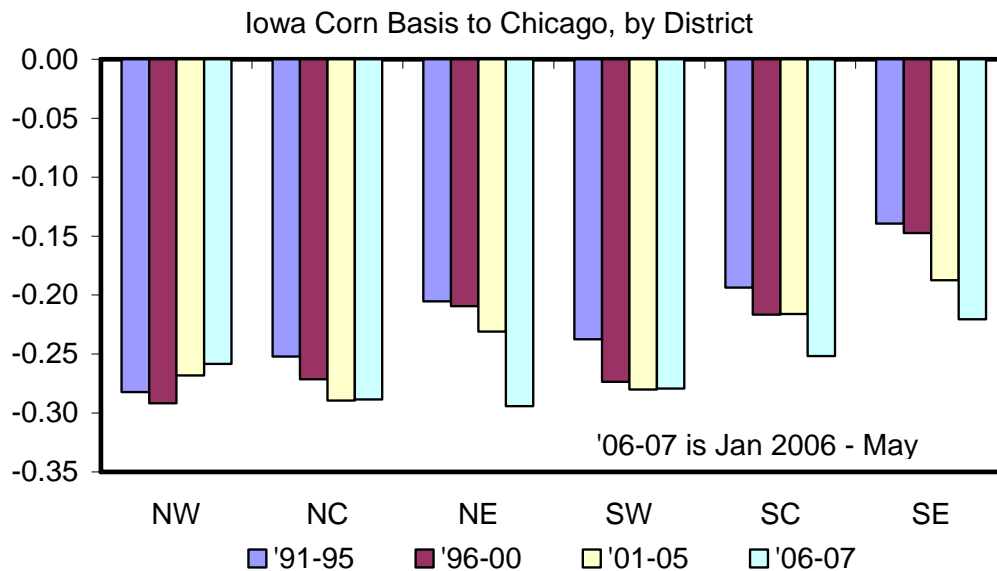


Figure 2

Which Corn Price???

The new demand for corn from ethanol is changing the corn marketing dynamics. The Iowa Department of Agricultural and Land Stewardship (IDALS) has collected grain prices paid by elevators across the state for many years and has an excellent database (<http://www.agriculture.state.ia.us/grainpri.html>). More recently, USDA has collected data from ethanol plants on the prices they pay for corn and they receive for ethanol and co-products (http://www.ams.usda.gov/mnreports/nw_gr111.txt). The USDA reported price range and the elevator average prices for the past nine months are summarized in Table 1. The prices in the table are the average daily high and low prices, the simple average of the high and low reported by USDA and the average of daily elevator prices reported by IDALS.

	Northeast				Northwest			
	Ethanol Plants			Elevators	Ethanol Plants			Elevators
	low	high	average		low	high	average	
Oct 06	2.53	2.75	2.64	2.55	2.59	2.76	2.67	2.64
Nov 06	3.21	3.35	3.28	3.18	3.19	3.36	3.28	3.22
Dec 06	3.39	3.52	3.45	3.31	3.34	3.46	3.40	3.34
Jan 07	3.46	3.61	3.54	3.44	3.49	3.60	3.55	3.53
Feb 07	3.76	3.93	3.85	3.76	3.75	3.90	3.82	3.78
Mar 07	3.80	3.84	3.82	3.62	3.66	3.83	3.75	3.68
Apr 07	3.23	3.45	3.34	3.24	3.20	3.44	3.32	3.33
May 07	3.35	3.59	3.47	3.40	3.27	3.55	3.41	3.47
Jun 07	3.53	3.73	3.63	3.47	3.59	3.84	3.71	3.66

In general, ethanol plants are paying higher prices than elevators, but the difference varies by region and from day to day and month to month. In northeast Iowa, the low at ethanol plants was higher than elevators in five months. In northwest Iowa, elevators paid at least the same as the low of ethanol plants and in two months the elevator price was higher than the average ethanol price.

Distillers Grain and Solubles Prices...

As corn prices have increased, livestock feeders have used more DGS in their rations. However, the supply of dry DGS appears to be growing faster than demand, as its price has decreased relative to corn since

2001 (Figure 3). It shows that the price of a ton of DDGS has declined from about 50 times the price of corn to around 30 times the price of corn, basis Chicago. Figure 4 shows this relationship for Iowa for dry, modified and wet DGS. It appears that the market for these products is still maturing and prices will vary as more plants add to the supply or changes in processing cause the relative feed value and/or inclusion rates to influence demand for these co-products.

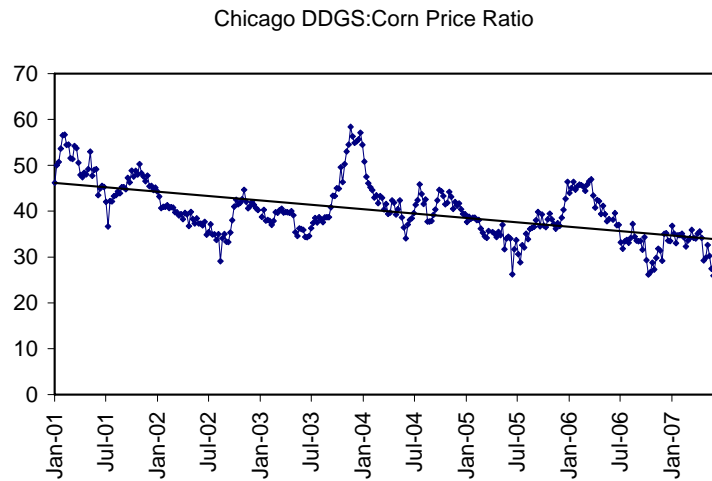


Figure 3

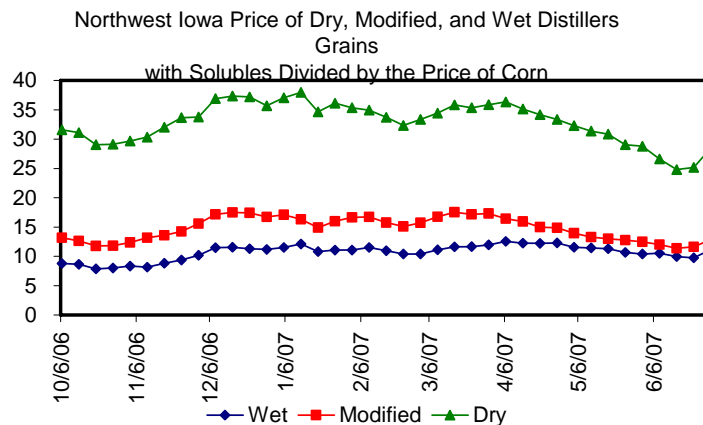


Figure 4

There is also a regional price difference for co-products. In particular, the wet and modified products that are more costly to ship are influenced by local supply and demand and the cost of drying and transportation. Table 2 is a snapshot of four USDA reported markets for January-June 2007. Wet DGS prices in Nebraska are 20% higher than Iowa, and Illinois wet DGS is 10% cheaper than Iowa, likely reflecting local supply and demand for wet co-products. However, dry DGS is higher priced in Illinois and not quoted in Nebraska. Dry DGS can be shipped great distances and prices are influenced by distance to the end user and freight rates, potentially increasing local DGS prices relative to Iowa even further.

	Iowa - NE	Iowa - NW	Illinois	Nebraska
WDGS (30-35% dm)	40.23	40.23	36.88	50.95
MDGS (45-50% dm)	51.55	53.64		
DDGS (90% dm)	114.62	117.61	120.77	

Weather Forecasts Trigger Large Grain Price Volatility

In the last month, December 2007 corn futures prices have traded in a \$0.95 range in response to weather concerns and the USDA Planted Acreage report showing more corn acreage planted this year than expected. In the last two weeks, the same contract has traded in a \$0.37 range, in response to dry-weather concerns in western Iowa, South Dakota, and large parts of Minnesota, Indiana, Ohio, and Michigan. On July 16, 2006 and 2007 corn futures contracts were down the 20-cent limit and soybean futures out to September were down the 50-cent limit. The main catalyst for the sharp break in prices was that at the end of the weekend, some private weather forecasts showed substantially better opportunities for widespread Corn Belt rain than forecasts released on July 13 going into the weekend. November '07 beans have down-side risk to a gap at \$8.46/bu.

U.S. Corn Balance Sheets

As we indicated in the last issue of Iowa Farm Outlook, USDA Acreage and Stocks reports released on June 29 (and more recently its U.S. and World Supply-Demand report released July 12) indicate that corn supplies should be fully adequate for the year ahead with favorable weather and near-normal yields this year. We also indicated that picture shows substantial down-side risk (to the low \$3 area) in December 2007 corn futures prices – if weather in the Midwest is normal for the rest of the summer. The three reports together show the potential for larger August 31, 2007 U.S. corn carryover stocks than previously expected and a moderate increase in stocks by August 31, 2008 – to 1.5 billion bushels (See Figure 1 below). ***USDA projections are based on a U.S. average corn yield of 150.3 bushels per acre, but a number of trade analysts are now using yield projections in the 153 to 157 bushel per acre range. That would push potential 8/31/08 U.S. carryover stocks up to the 1.75 to 2.1 billion bushel range.*** Because of this year's huge corn acreage, small changes in the U.S. average corn yield this year will have more impact on supplies and prices than in the past. For the next few weeks, the corn market will be very sensitive to six-to-ten-day weather forecasts, actual rainfall, and weekly crop condition reports. ***With normal yields, as Figure 1 indicates, the continuing rapid growth in corn processing for ethanol would be expected to tighten corn carryover stocks in the 2008-09 marketing year – unless corn acreage can be increased again in 2008.*** This year's extreme increase in corn acreage came from a very sharp decrease in soybean and cotton acreage, and also at the expense of a sharp drop in other spring wheat acreage in the Dakotas. Early indications are that the soybean, cotton and possibly other markets will become more competitive for acreage in 2008, thus making it very difficult for corn to attract another large increase in acreage next year.

USDA's latest corn, soybean, and wheat balance sheets are available in the right-hand column of our web site <http://www.econ.iastate.edu/faculty/wisner/>. Our 2007-08 and 2008-09 balance sheet projections are available just above the link to the USDA balance sheets. ***USDA lowered their estimated corn feed and residual use for 2006-07 by 100 million bushels from last month, and their '06-'07 export projection by 50 million bushels.*** The lower feed and residual use was due to less than anticipated feed and residual use indicated by the June 1 grain stocks estimate. Reduced exports reflect lower corn export shipments in the last several weeks than a year earlier.

Updated Soybean Balance Sheets

In contrast to corn, the USDA increased its projected domestic soybean crushings and exports each by 10 million bushels, and reduced its seed and residual use by 10 million bushels. The net impact was a 10 million bushel reduction in the projected 8/31/07 U.S. soybean carryover stocks. That leaves projected stocks at 600 million bushels for the end of next month – an ample 8.1 weeks supply. ***However, potential production for the 2007-08 marketing year was reduced by 120 million bushels because of the lower planted acreage shown in the June 29 acreage report. Even with a 60 million bushel decline in 2007-08 U.S. soybean exports, the projected U.S. August 31, 2008 soybean carryover stocks drop by 59% or 355 million bushels from this year.*** Indicated '07-'08 exports are down 6.4% or 70 million bushels from last year. The projections show carryover stocks at an adequate 4.3 weeks supply, but with very little reserve supply in case of 2008 weather problems. ***USDA's projections are based on a conservative U.S. average soybean yield of 41.5 bushels per acre. U.S.***

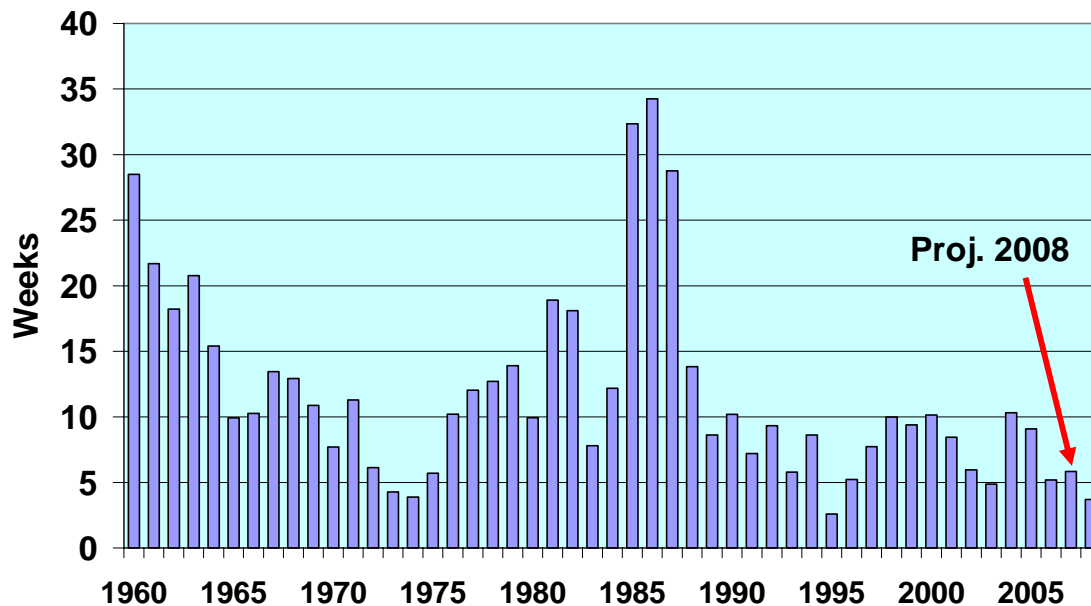
yields in the past three years were 42.7, 43, and 42.2 bushels per acre. Our soybean projections for 2007-08 and 2008-09 are shown on our web site in the “Balance sheets with ethanol expansion” link noted above.

The Global Picture: Will Prices Bring More Corn & Beans in South America?

The soybean market in the last few weeks has focused on the potential for dramatically tightening bean supplies in '08-'09 unless soybeans are able to attract more acreage next season in the U.S. or South America.

7/17/07

Figure 1. U.S. Corn Carryover Stocks in Weeks Supply

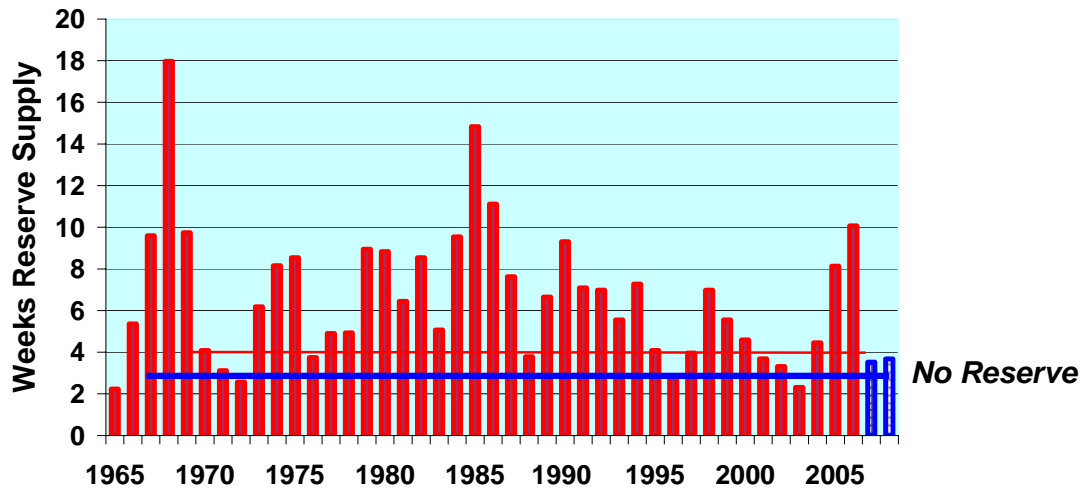


The initial focus has been on attracting more bean acres to be planted in South America this fall. *USDA's July 12 USDA World Supply-Demand report implies that as mid-July approached, 2008 futures were not yet high enough to generate a large increase in Brazilian and Argentine plantings this fall.*

USDA economists project Brazil's bean crop next spring to increase only 2.0 million tons or 3.4% percent from this year's February-April harvest. The Argentine soybean crop is projected to decline by 0.2 million tons or 0.4% from this year, as Argentine farmers respond to historically high corn prices. Acreage for harvest next spring in the two countries is projected to be up 3.4% and 5.7% respectively from a year earlier. *At the world level, fall 2008 soybean carryover stocks are projected to decline from an expected 12.6 weeks this year to 9.7 weeks next year. One should keep in mind that three-fourths of these stocks are projected to be in Brazil and Argentina, and that they are a combination of September 1 stocks in the U.S. and October 1 in Brazil and Argentina. Most of the South American stocks will have been used by the time the spring 2008 U.S. planting season begins.* In 2003-04, when the U.S. average farm-level soybean price was \$7.34 per bushel, the world stocks were an estimated 9.2 weeks supply. Tightening stocks that year were caused by a drop in the U.S. yield to 33.9 bushels per acre because of aphids and drought. U.S. bean supplies were expected to rebound sharply the next year because of higher yields. In contrast, in the year ahead, U.S. soybean supplies are expected to rebound sharply *only if soybeans can attract a substantial acreage away from corn. Price relationships with other crops will determine whether that happens.*

For corn, USDA projects the spring 2008 crop will be up 6.7% or about 60 million bushels from spring 2007 in Argentina but unchanged in Brazil. Both countries had very good corn yields this past spring, but odds of similar yields in 2008 are believed to be rather low. Argentina's corn acreage is projected to be up 14.3%, along with a 2.2% increase in Brazil.

Figure 2. U.S. Soybeans, Weeks Reserve Supply Beyond Pipeline Stocks



Robert Wisner