



Corn Outlook

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Energy Information Agency Roundtable**

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Today's Presentation

- I. 2007/08 Corn Update in Brief
- II. 2008 Planting Intentions and Supply Issues
- III. 2008/09 Early Outlook
- IV. Price Discussion
- V. Implications for 2009/10

2007/08 Update and Review *

- Record production (up 2.5 bil. bu) on huge area increase
- Record use, driven by sharp gains in ethanol, followed by higher feed and residual, and exports
- Compared to USDA's initial May forecast, supply was larger, mainly due to higher area, and use was larger due to higher feed and residual and exports
- Current corn for ethanol use is lower than initial forecast
- Ending stocks forecast to be lowest in 4 years at 1.283 bil. bu.
- Supply relative to use is tight, but not as tight as 2003 and 1995
- Prices (farm, cash, and futures) have hit record highs

*2007/08 crop year (Sept 1 to Aug 31), refers to crop harvested in Fall of 2007

2008/09 Prospects: Supply to Drop *

Demand Will Be Checked by Higher Prices and Tighter Supply

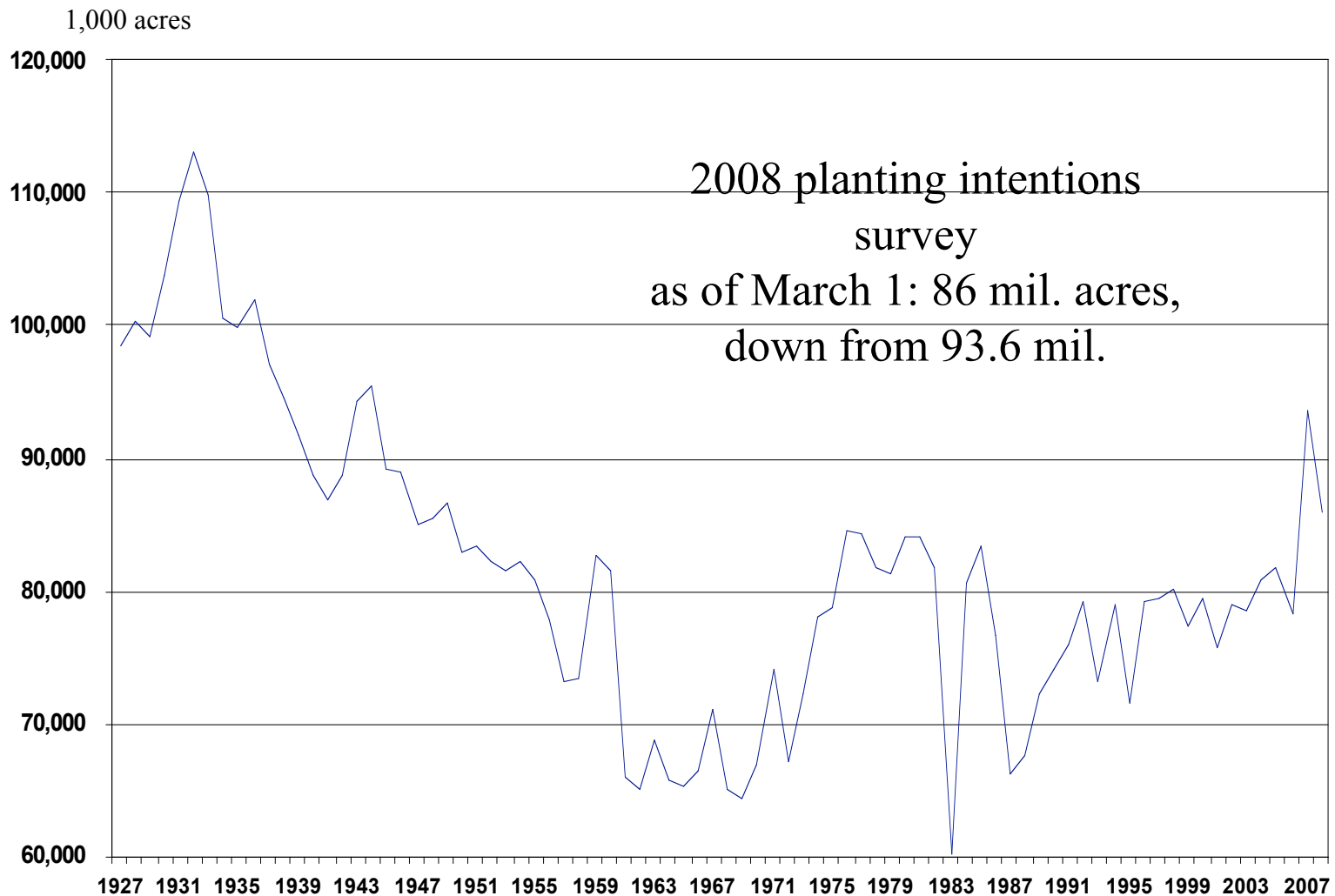
- Farmers intended to drop corn acreage sharply because of high input prices, attractive prices for the main competing crop (soybeans) and more crop rotations, and high input costs
- Market dynamics should attract more acres back to corn, but a wet spring could limit the switchback
- Assuming planting intentions and trend yields, supply will drop by 900 million bushels and prices continue to rise
- Corn use for ethanol expected to increase sharply with new plants
- Exports should decline due to global gains in feed wheat availability and normal weather in Europe
- Meat and poultry sector will be squeezed by falling or negative margins with rising feed costs

* 2008/09 crop year: Sept 1- Aug 31. Crop planted in Spring 2008 and harvested in Fall 2008



2007 Corn Acreage Was Highest Since 1944

2008 Intentions Report Would Be Second Highest since 1949

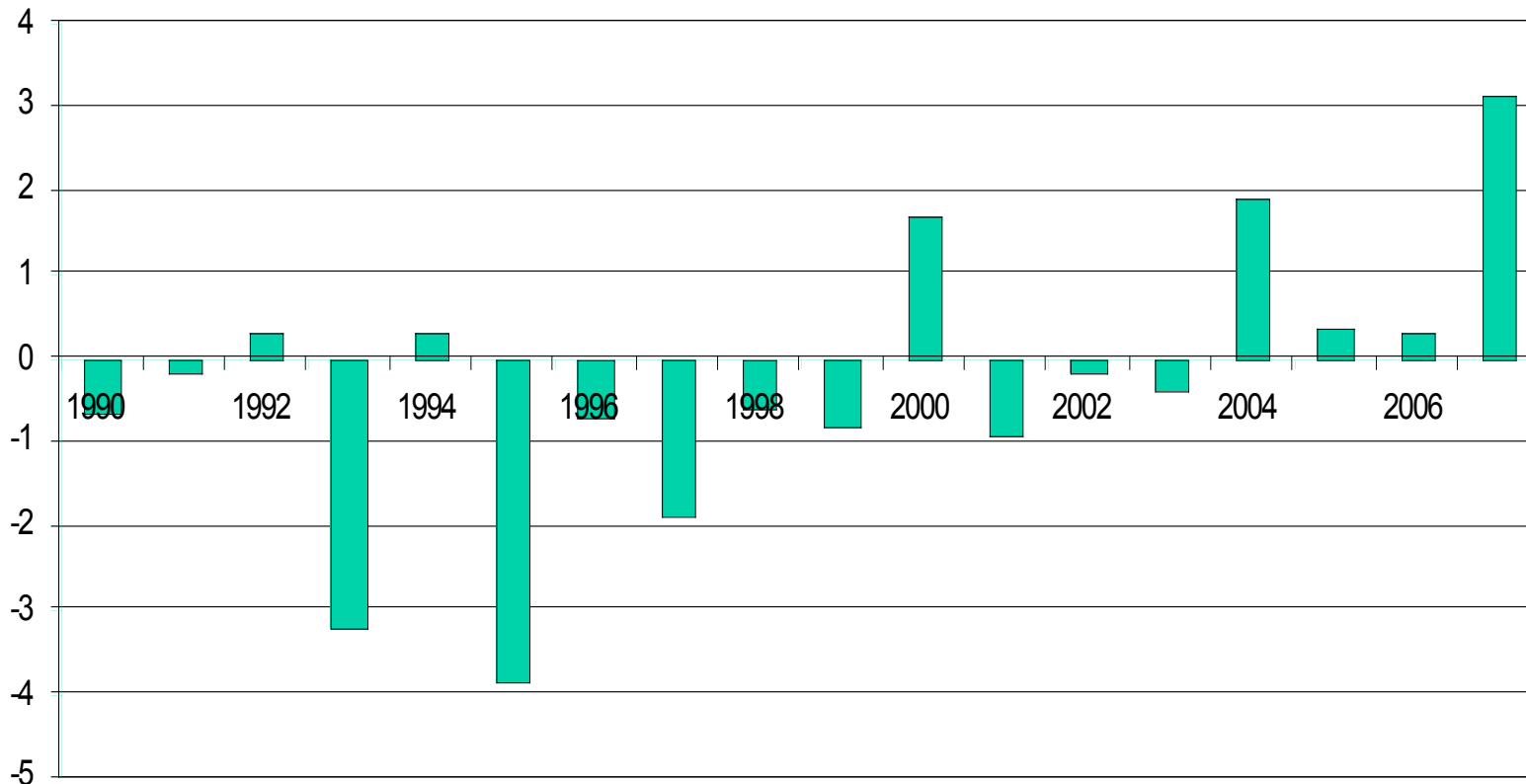




Planting Intentions Surveyed as of March 1 Will Change with Markets and Weather

**Corn: Final Planted Area Change from Planting Intentions
1990-2007**

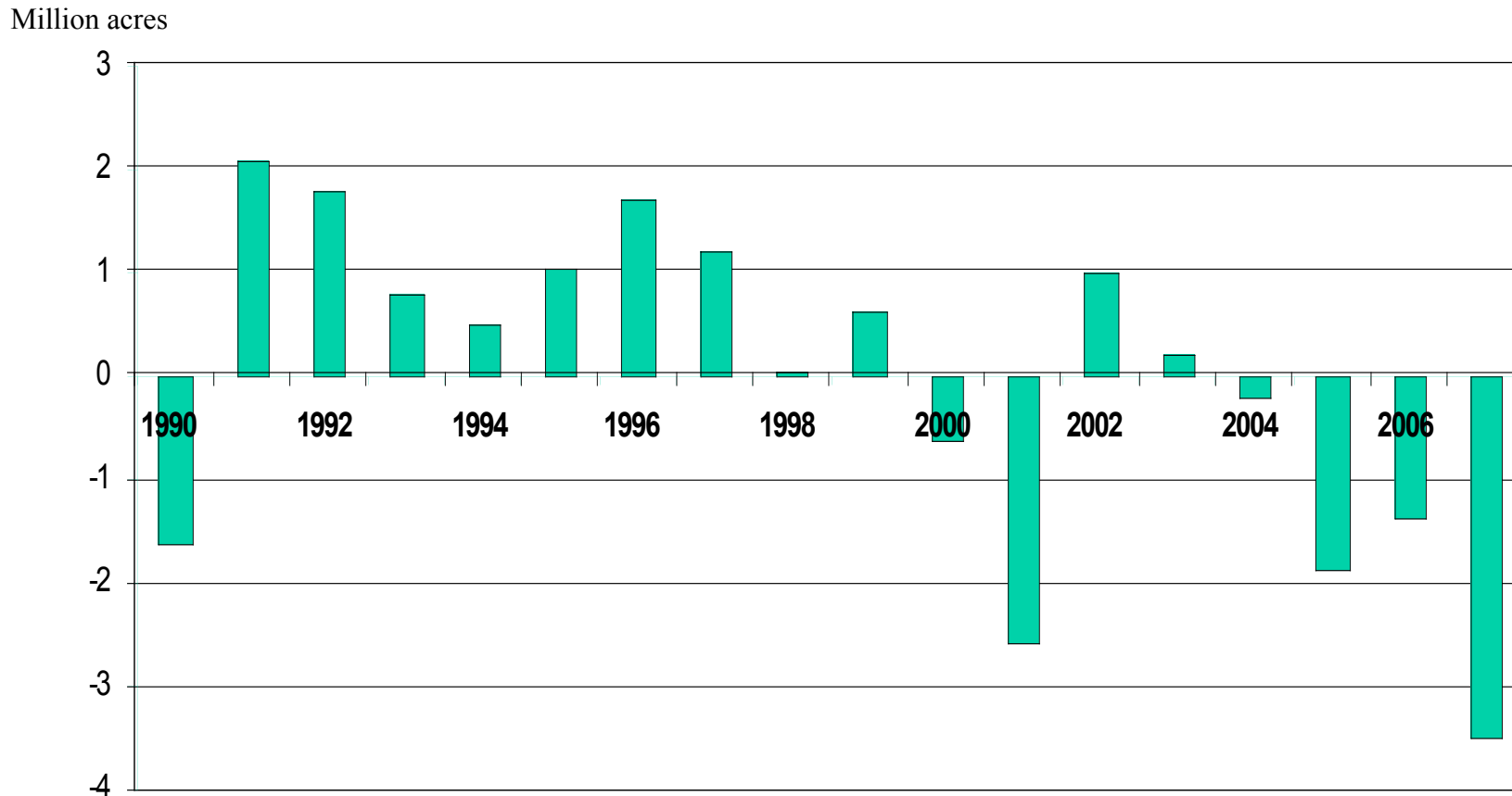
Million acres





Planting Intentions Surveyed as of March 1 Will Change with Markets and Weather

Soybeans: Final Planted Area Change from Planting Intentions
1990-2007

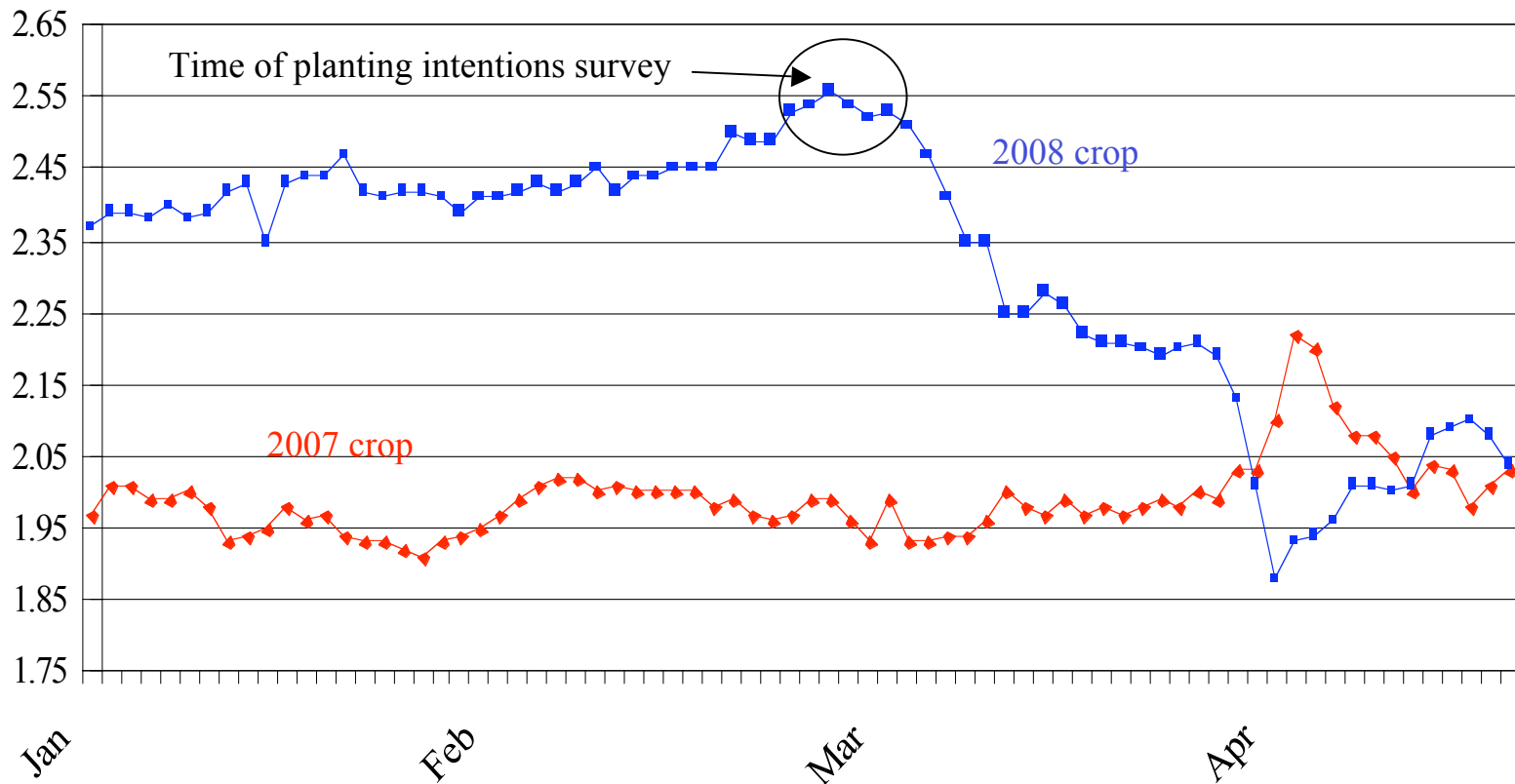




Soybean/Corn Price Ratio Has Moved Sharply in Favor of Corn Since March 1

Ratio of Harvest Time Futures for Soybeans vs. Corn, Jan 1 -Apr 15

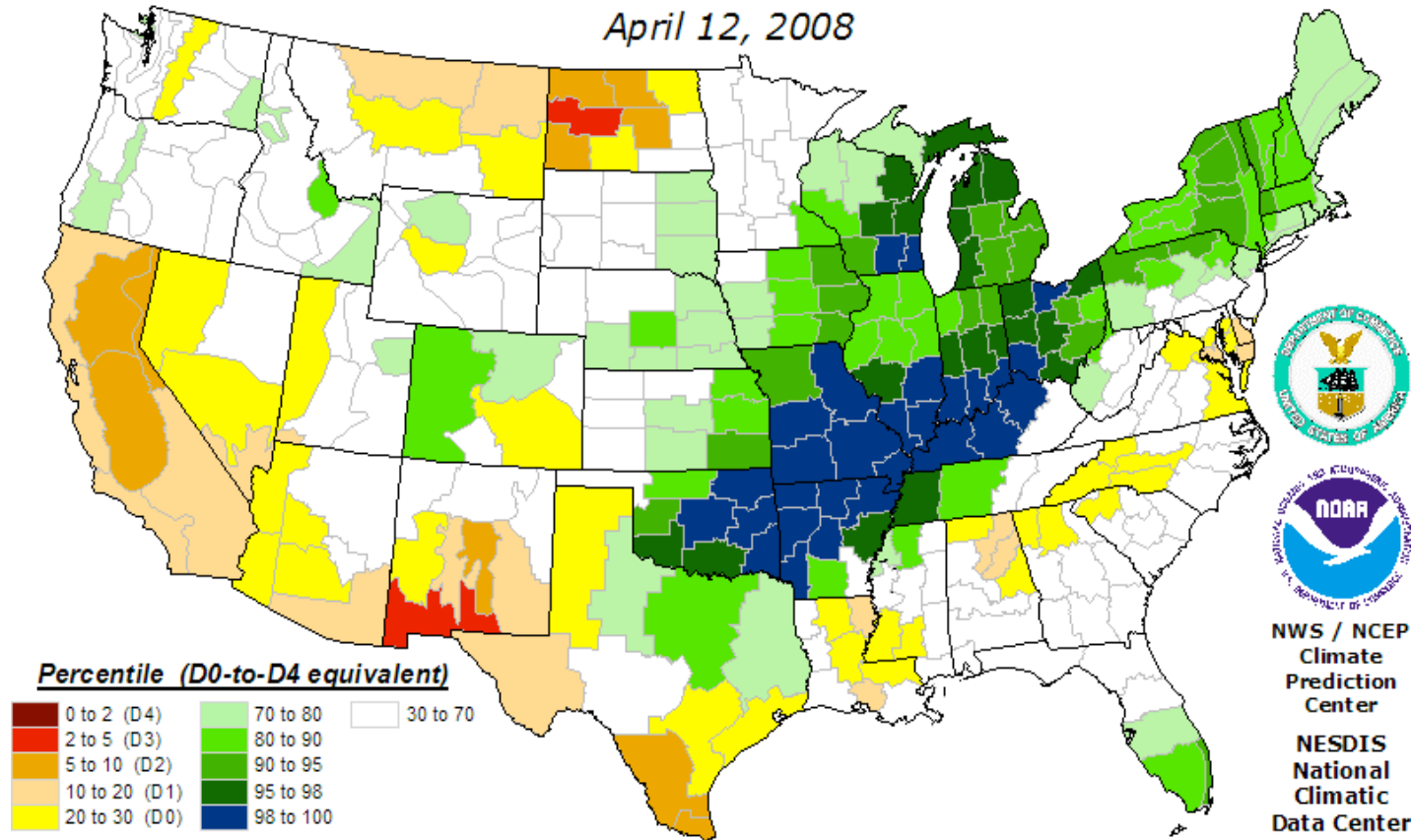
Lower ratio favors corn



Wet Conditions in Southern and Eastern Corn Belt Could Delay or Prevent Plantings

Objective *Short-Term* Drought Indicator Blend Percentiles

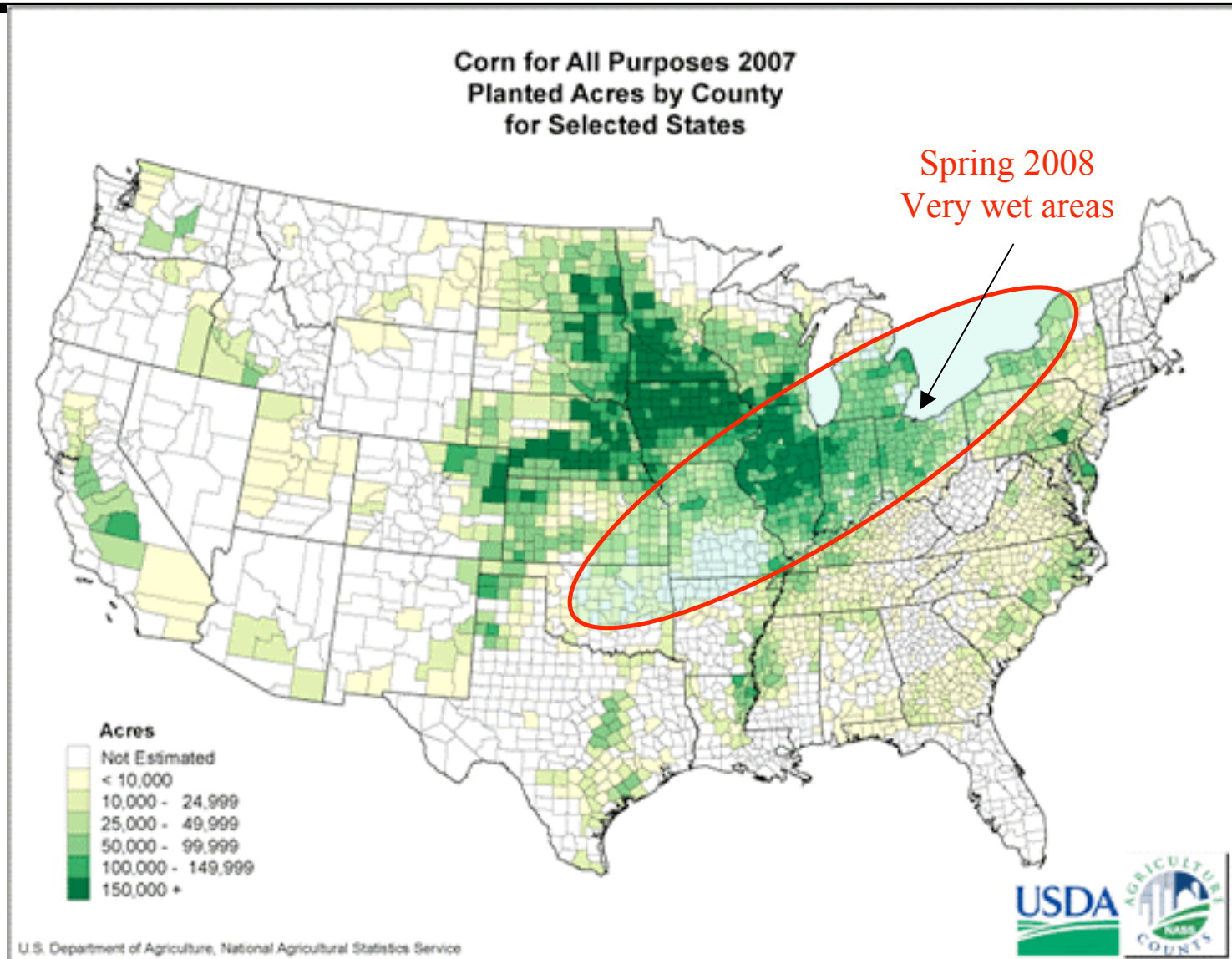
April 12, 2008



This map approximates impacts that respond to precipitation over several days to a few months, such as agriculture, topsoil moisture, unregulated streamflows, and most aspects of wildfire danger. The relationship between indicators and impacts can vary significantly with location and season. Do not interpret this map too literally.

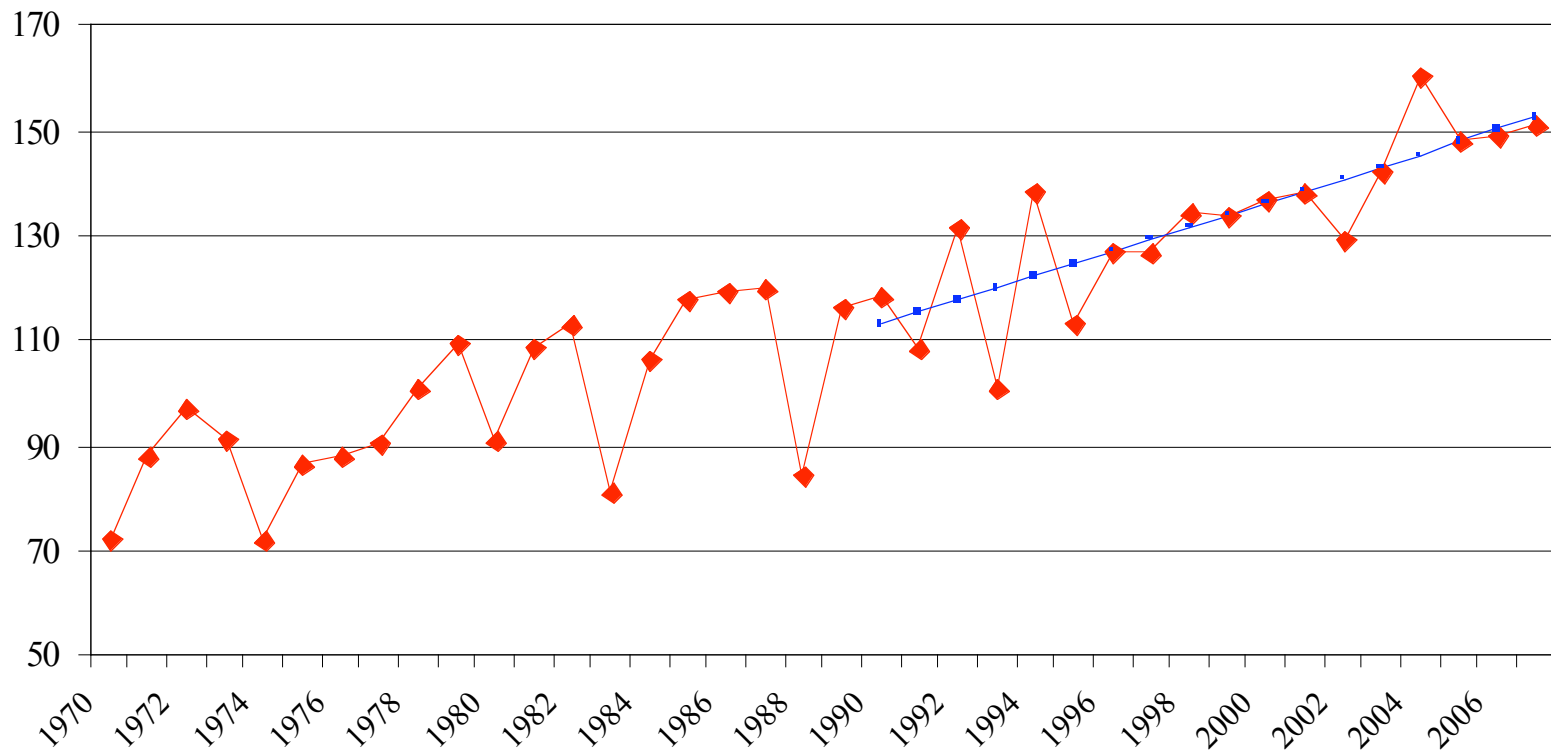
This map is based on preliminary climate division data. Local conditions and/or final data may differ. See the detailed product suite description for more details.

Excessive Moisture to Date Viewed in Context of Where the Corn is Grown



Corn Yields: Early Planting Generally Provides a Boost, Delays Tend to Weaken Yields

2008 yield projected at 154.9, up 3.8 bu. from 2007,
based on 1990-2007 trend



The Tightest Corn Balance Sheet in Recent History Was in 1995. What Happened?

A supply shock in the face of strong demand forced user adjustments:

- Production dropped 26 percent (2,650 mil. bu.)
- Feed and residual declined 14 percent (760 mil. bu.)
- Ethanol use declined 26 percent (137 mil. bu.); some plants sold corn rather than produce ethanol
- Exports *increased* 2 percent (50 mil. bu.) and were the highest in 6 years, largely driven by Asian demand, including China's short-lived corn imports
- Stocks fell to a very low 426 mil. bu., the stocks-to-use ratio to 5 percent
- Corn prices soared to record highs

Price Analysis and Forecasting

A New Ball Game

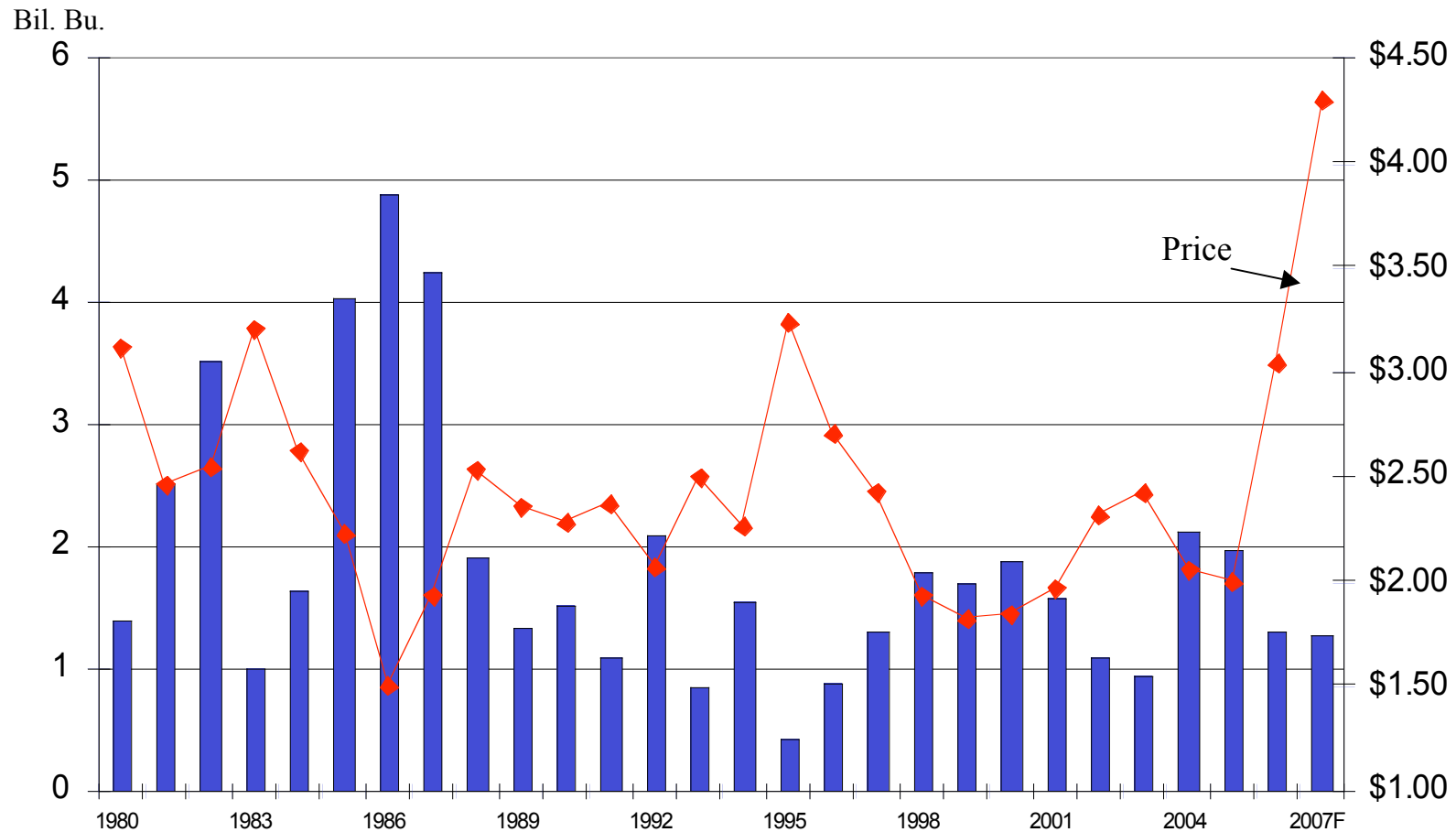
- Sea change in corn and other ag markets from energy impact and speculative/investor inflows
- Record corn prices despite dramatic gain in acres in 2007 and record crop production
- Volatility up sharply
- The corn market will keep a large risk premium until at least July, the most critical month for the crop
- Poor weather, or even the forecast of poor weather, could lead to dramatic price spikes
- Recent experience in spring wheat futures instructive: MGE * daily limit rose from \$0.30 per bushel to \$1.35 as the price skyrocketed to over \$20 a bushel from a normal average close to \$4
- Change in value of dollar and bursting of oil bubble could take corn down

*Minneapolis Grain Exchange



Recent Price Spike Is Out of Line With Historical Pattern, Given Stocks and Use Relative to Stocks

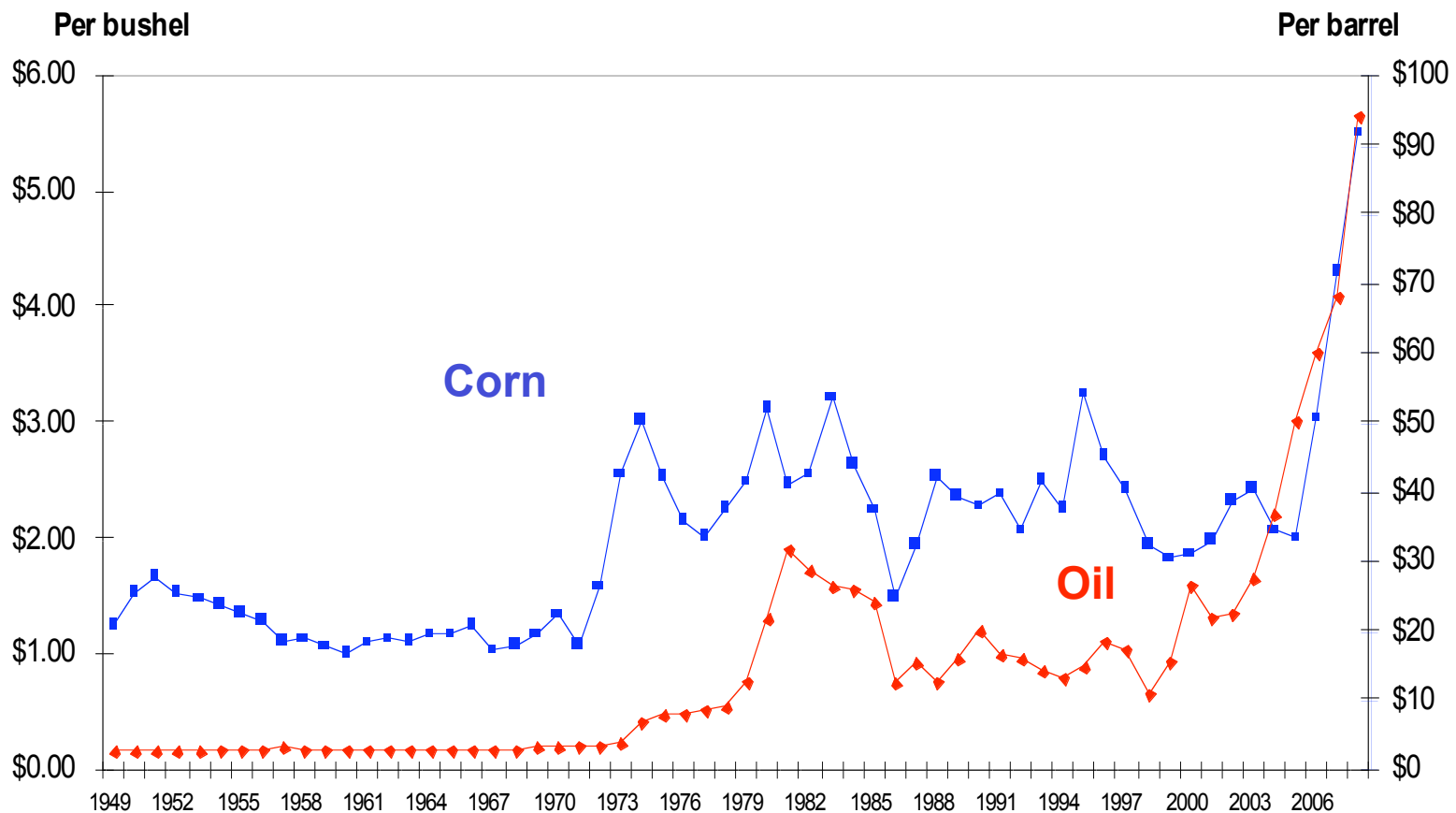
Corn Ending Stocks and Farm Price, 1980-2007F





Agricultural and Energy Prices Had Virtually No Relationship in Post-WWII Era Until Recently

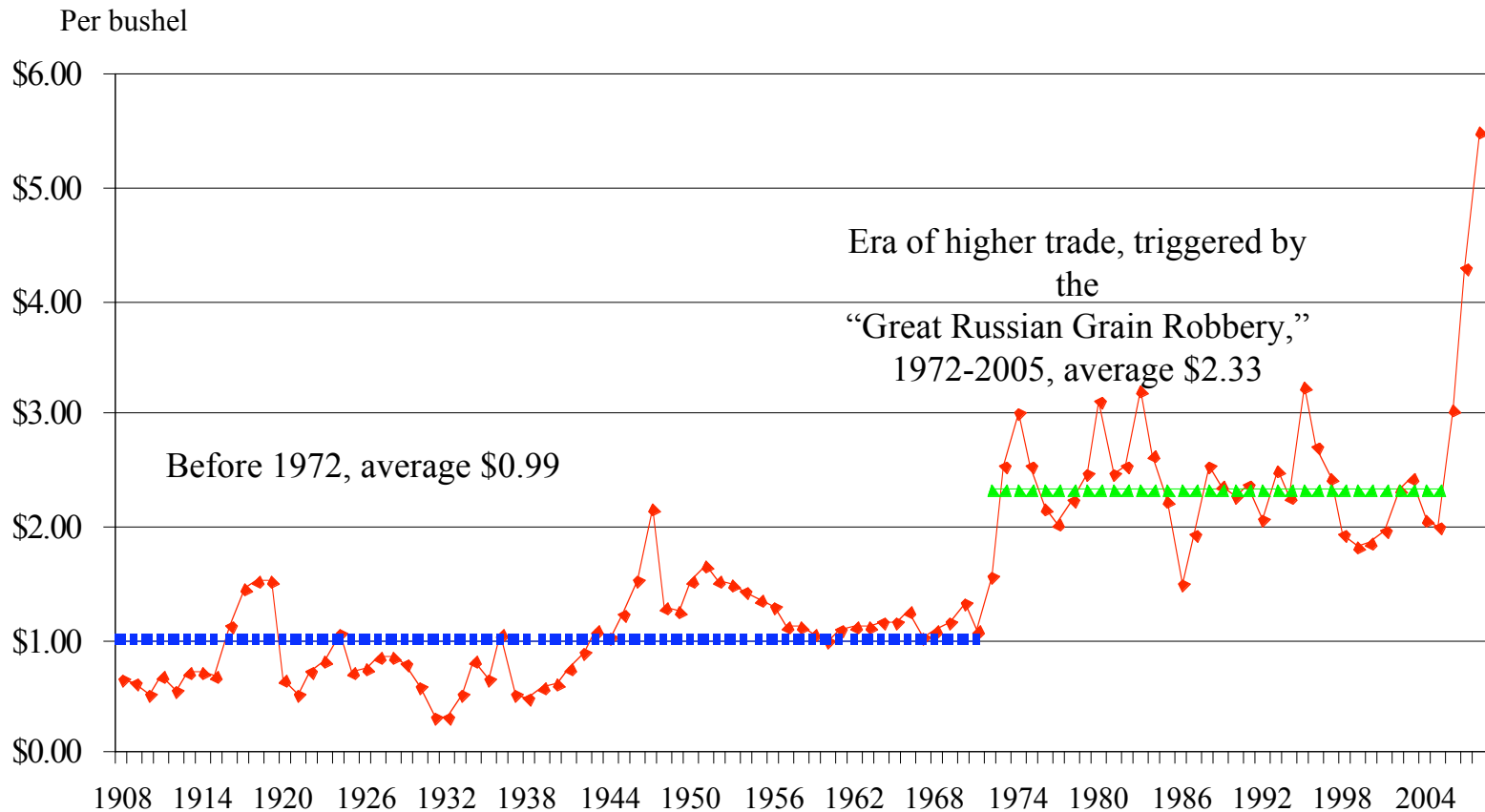
Crude Oil Price vs. Corn Price, 1949-2008F



*2008 corn price is not an official USDA forecast

Another New Plateau for Corn Prices?

Corn Farm Prices, 1908-2008 F



2008 is not an official USDA forecast

2009/10 Corn: An Early Look *

- Very low carryin stocks will mean a large rebound in acres will be needed
- Think 92 or 93 million acres again to meet increasing demand for ethanol, even with other uses largely flat
- Very high prices will be needed to attract the acres, given rising production costs
- Expect Brazil and South America to provide more of the soybeans
- Policy questions: What to assume on ethanol imports? Will the RFS be met if grain prices continue to soar?

* Note: 2009 projections in the current USDA baseline are out of date since they were made prior to Dec. 2007 Energy Bill

Significant Upcoming USDA Reports

- May 9
 - World Agricultural Supply and Demand Estimates, includes USDA's first official 2008/09 balance sheet forecasts *
- June 30
 - Acreage report: estimated plantings as of June 1
 - Grain Stocks: stocks as of June 1, indicates disappearance for the March-May quarter and supply available for the summer quarter
- August 12
 - Crop Production, shows first survey-based crop forecast for corn
 - Subsequent monthly reports include new crop forecasts through November; final estimates released in January.

*WASDE reports released monthly, with updated forecasts

<http://www.usda.gov/oce/commodity/wasde/index.htm>