

The Grain Supply Outlook for the Poultry Industry

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By all accounts, the 2008 corn, wheat and soya crops are well on their way to being among the largest ever in the United States. According to the USDA, Oct. 10 Crop Production Report, farmers are expected to produce the second largest corn crop ever, the largest wheat crop in 10 years and the 4th largest soybean crop on record. The USDA has estimated the 2008 corn crop at 12.2 billion bushels with an average of 154 bpa. This is a huge difference and turnaround from the July, 2008 report of 11.7 billion bushels with an average yield of 148.4 bpa.....**but wait a news breaking report.....**the USDA has taken an unprecedented action of revising the corn crop.....citing a discrepancy within the raw data reports between the Farm Service Agency (FSA) and the National Agricultural Statistics Service (NASS), thus last week they adjusted the grain balance sheet. What this means is reducing the corn acres by 1 million acres (78.177 mm acres as harvested, with Iowa losing 300,000 acres and lowered the trend line to 153.9 bpa or on a cents per bushel of \$0.05/bu.) From a pricing standpoint the Feds are calling the corn range at the farm gate of \$4.25-\$5.25/bu. This has put doubts in the minds relative to many of the accuracy of our USDA reports. It also has put the corn market into the fundamental mode and bullish toward corn, but I feel this will adjust back to the bearish side as our combines continue to move through the fields of the Midwest. The US corn pricing is still somewhat sensitive to investor (Wall Street) confidence. Who knows what will happen here. It again tells us that we have to wait until our combines are in full harvest before suggesting what the crop will be!

We saw similar action on the soya side with the Feds reducing acres by 1.105 million acres to 74.4 million acres and a total production of 2.938 from 2.983 million bushels. In the soy pit one need to watch very closely to what the Chinese crushers will do...there is a lot of buying interest towards US beans, as we see the Chinese buyers buying for government stock piles. Watch any panic responses as we see strengthening in the US dollar.

We may also see some reduction in the availability of ethanol co-products like DDG/S as we see increases in exports and with the reduction of gasoline consumption slowing the blending to gas of ethanol will be reduced.

With DDG/S in mind and feeling that export opportunities will continue we need to look at the available inventory. In the 2007/08 marketing year we saw 22.8 million tons available or about 50% than the previous year. I have heard numbers for the 2008/09, which started 10-1-08 to be up another 50% or 31.3 million metric tons. The USDA is now taking into consideration the replacement for corn grain with corn co-products, mostly distillers grains.

With the above said about fuel ethanol and the heavy demand for corn, where are we now? We have seen corn fall from \$7.65/bu., spot contract in June, 2008 to spot contracts for late

October, 2008 of \$3.85. Many analysts will admit the ethanol demand will add as much as \$1.00/bushel and yet others say it increases the price of corn by 20% or about \$0.80/bu. The USDA has earmarked 4 billion bushels of corn for ethanol or about 30% up from 23% last year (3 billion out of 13.1 billion bushel crop). Well, just like other parts of the economy, the ethanol industry has suffered from the economic crisis. As a result of this volatility several plants have interrupted production and forced to restructure their balance sheets and a few even close their doors. We have seen several file for bankruptcy. Only time will sort this out, but I think we will see some consolidation in the ethanol industry. Just a word of interest and that is that US capacity to make ethanol has by 60% or 11.2 bgpy and if in fact if we bring the new and re-built plants the capacity will be increase to 13.8 bgpy. Where will the cellulose produced ethanol go and where will the tax and import tariff's end up?

Grain operations are also facing more scrutiny from the lending community due to the credit crisis and these lenders are asking more and more specific questions about risk management before agreeing to loan any money.

A sharp drop in the futures market has freed up cash that grain elevators can use to get through the harvest season. Grain terminals and country elevators burn a lot of cash as farmers deliver crops they contracted months in advance. Also growers sell large volumes for harvest delivery which require operations of have cash ready. This could create margin call problems. With the futures prices going down, elevators are not having to contribute monies from margin calls but can keep it within their businesses. We are seeing many grain elevators becoming much more cautious in hedging strategies and forward contracting due to the exposure of margin calls.

What about the credit crisis at the farm gate? This is a very complicated situation this year as farm incomes are at all-time highs and the debt-to-assets ratio is the lowest. The issue is going to be how the farmer and the banker look at credit, whereas normally the farmer finances all his input costs and credit payments are due 60-90 days later and some cases post harvest. This type of flexibility has allowed farmers to manage sales of their old crop commodities to capture higher prices and use credit to cover early input costs. Many input companies have offered credit and farmers have used this delayed payment to hold for higher prices. We are seeing credit lock downs as credit becomes a bigger issue. It is my opinion the ability for farmers to obtain credit is going to much harder and certainly more scrutiny than in past years.

So with the above all mentioned what does farm cost look like even when sharply higher crop prices create windfall income gains. Well what the corn grower can expect this next crop year of.....greater seed costs, fertilizer costs, fuel costs, crop insurance and chemical treatment costs. I am not even considering the potential higher cost for obtaining money. Iowa State estimates the cost of corn production in 2008 was 18% greater than 2007.

What about the future of yield potential for corn? Many have said we could easily double yields of corn by 2030 by the use of plant biotechnology. It has to be remembered that biotech crops will prevent yield loss. The biotech products like Round-Up or BT do this. There is no yield gene insertion into corn as of yet. These were the first generation biotech

trait pipeline. This biotech pipeline will continue with yield potential, better nitrogen utilization, water efficiency, etc.

Okay, let us look at the 2009 corn planting crop and a total input cost of \$850.00 acre with a yield of 180 bpa or \$4.73/bushel transparent break even costs? Many growers will be watching the corn price to see what their floor price will be and try and hedge a floor price.

So how do we see the future? The key has to be to watch the financial markets. If world incomes drop, we will see less demand for exports and maybe a reduction in domestic demand. The grain markets in the US are distinctly tied to the financial markets. One problem not aligned to this is the cost of production will be greater than the marketed cost. If we see stabilization within the financial sector, my guess this will not occur. Those of you that watch corn pricing rationale need to spend time and understand grower mindset, such as when will the grower price his corn, how will they look at storage, will money be made in carrying corn(?) and the ability for the grower to capture credit.

In closing the nice thing.....*American farmers like to plant corn!*