The Agriculture Outlook

Presented at

The Fertilizer Institute’s

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Annapolis, Maryland
October 27, 2004
Agenda

- World Agriculture
- U.S. Agriculture
- Risks & Issues
- Q & A
World Agriculture
2004 Crop Production Looks Good Ending Stocks to Rise

World Coarse Grain Situation

World Wheat Situation

World Oilseeds Situation

World Cotton Situation

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October 2004
Slide in Stock Levels Ends
Global Decline In Stocks in China
Slide in Stock Levels Ends
Stocks to Use Ratios Loosen Globally But Not in All Regions
Downward Pressure on Prices in 2004/05

- Wheat, U.S. Gulf (L)
- Corn, U.S. Gulf (L)
- Soybeans, U.S. Gulf (L)
- Cotton (CIF, Northern Europe (R))
U.S. Agriculture
U.S. Farm Policy Situation

- 2004 is a Presidential election year – do not expect any significant changes to farm policy.

- No imminent policy change due to the ruling of the WTO against the U.S. cotton supports. The U.S. will likely appeal, if the decision. No policy change due to the WTO negotiating framework either.

- Recent announcements indicate beef exports to Japan may resume soon. Beef must come from animals less than 21 months.

- Government will continue to open markets for U.S. beef and poultry in response to BSE discovery in December and Avian Flu. Limited beef imports allowed from Canada – Still no live cattle imports. Live cattle trade with Canada likely first half 2005. There is a risk however. If Japan open’s market to U.S. beef and not for Canadian beef – would prevent live cattle trade from resuming.

- Market prices strong - government payments to U.S. producers decline in 2004 to $10 billion.

- U.S. continues to pursue bi-lateral trade agreements with countries.
U.S. Livestock Prices

- Choice Steers, 1000-1100 lbs. (L)
- Iowa/S. Minn, Live Hogs (L)
- Feeder Steers, 600-700 lbs (L)
- Milk (R)
Livestock Sector

- High domestic consumption of meat and other proteins - could be a long-term shift in demand/preferences, but there is a risk that: a) people could tire of high-protein diets, or b) health issues could arise from these diets.

- Milk supply/demand is still tight, but prices have receded from highs. Producers have been able to respond to higher prices more quickly, although a big herd expansion is probably not feasible in the short run.

- BSE issues – mea exports and live animal imports – exports to Japan to start soon

- Countervailing duties on hogs coming in from Canada

- Hog prices are still being buoyed by strong demand, both domestic and export. Pork is gaining some export business in areas that are not importing beef. Lower U.S. hog numbers are being offset by increased hog imports from Canada.
October WASDE

- Record Corn Crop: 11.6 bil. Bu., 158.4 bu yield, +
- Record Soybean Crop: 3.1 bil. Bu., 42 bu. yield
- Record Cotton : 21.5 mil. Bales, 782 lbs. yield
- Wheat Crop: 2.2 bil. Bu., 42.1 bu. yield
2004/05 Corn

- Weaker dollar helping exports – BUT ACROSS THE BOARD – EXPORT VOLUMES POSE THE GREATEST RISK
- Corn:
  - Beginning stocks down – total supply up 12%
  - Domestic use up 6% - growth in ethanol and feed use
  - Exports up 9% fueled by growth in global use
  - Ending inventories build (+70%) – S/U ratio rises to 15.5%
  - Season average price drops 20%, loan rate level
Corn – 2004/05 Use 10.9 bil. bu.

Corn Demand and Ending Inventories

Million Bushels


Inventory

Domestic Use

Exports

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2004/05 Soybeans

• Supply/Use
  • Weaker dollar helping exports – BUT ACROSS THE BOARD – EXPORT VOLUMES POSE THE GREATEST RISK
  • Soybeans:
    – Beginning stocks down – total supply rise 22%
    – Crush up 8% - strong oil demand
    – Exports up 16% - larger U.S. crop and continued strong demand by China
    – Ending inventories more than triple (+261%) – S/U ratio rises to 14%
    – Season average price drops dramatically (-30%), loan rate level
Soybeans – 2004/05 Use 2.8 bil. bu.
2004/05 Wheat

- Supply/Use

- Wheat:
  - Beginning stocks up– total supply down 5%
  - Domestic use up marginally
  - Exports off 16% as improved production globally (EU, Russia Ukraine, India) adversely impact U.S. trade
  - Ending inventories rise 4% – S/U ratio flat at 23%
  - Season average price weakens 7%
Wheat – 2004/05 Use 2.2 bil. bu.

Wheat Demand and Ending Inventories

Million Bushels

- Inventory
- Domestic Use
- Exports


Values: 0, 500, 1,000, 1,500
2004/05 Cotton

- Cotton:
  - Beginning stocks down – total supply up 6%
  - Mill use off 6% - shift to export of raw material
  - Exports off 11% - slowing in world
  - Ending inventories rise (+90%) – S/U ratio up to 36%
  - Season average price drops to below loan rate (-30%)
Cotton – 2004/05 Use 18.4 mil. bales

Cotton Demand and Ending Inventories

Inventory
Domestic Use
Exports

October 2004
2005 Acreage

- Corn Demand 10.8 – 11.0 bil bu, trend yield 142.2, stock draw down, implies 80 – 81 mil. acres planted

- Soybean Demand 2.9 – 3.0 bil. bu., trend yield 40.5, no stock draw down, implies 73.5 to 74.3 mil. Acres

- Wheat Demand 2.2 – 2.3 bil. bu., trend yield about 42.2, no stock draw down, implies about 60 – 61 mil. Acres

- Cotton Demand about 18 mil. bales, trend yield 684 lbs., implies 13 -13.5 mil. acres
U.S. Crop Prices Trend Down

Acreage Planted of Principal Crops

- Corn
- Wheat
- Soybeans
- Cotton
- 20 Principal Crops
U.S. Crop Prices Trend Down

[Graph showing trends in crop prices for corn, soybeans, wheat, and cotton from 1990 to 2005. The graph includes a line chart and a bar chart, with data points for each year.]
U.S. 2004 Farm Income - $63 billion!

[Graph showing farm income from 1991 to 2006]
Importance of U.S. Government Direct Payments
Percent of Realized Net Farm Income

Direct payments remain an important source of farm income

- The bar chart shows the percent of realized net farm income from direct payments for each year from 1985 to 2006.
- The data indicates that direct payments have fluctuated significantly over the years, with some years seeing a substantial increase in their contribution to farm income.
Key Global Issues and Risks

- Brazil
- High oil prices
- The Dollar?
- China
- Interest Rates
Q & A