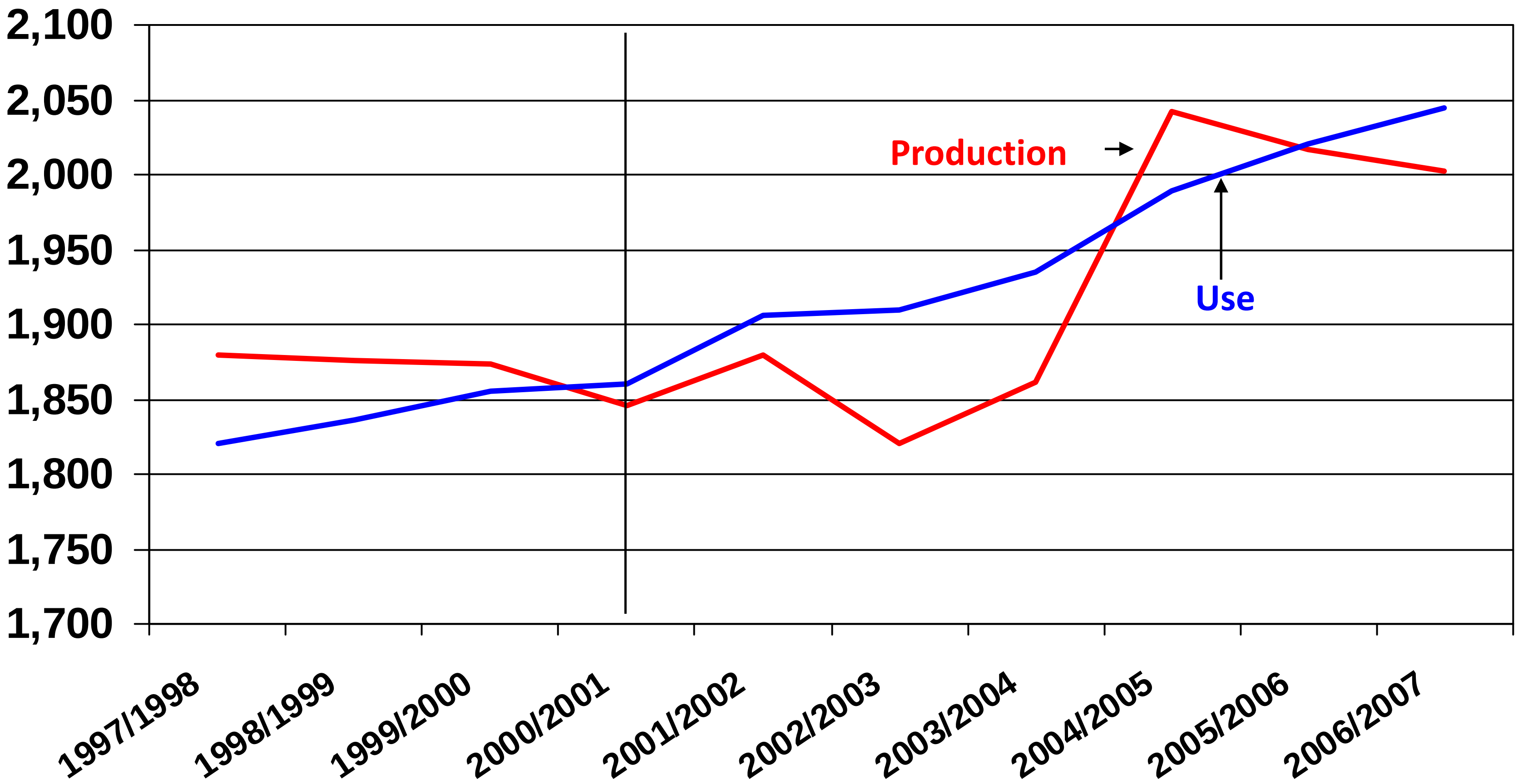
The Outlook for Agriculture

Rich Pottorff

Doane Advisory Services

World Grain Production and Use

million tonnes



For 2000 through 2006 – deficit of 191 million tonnes

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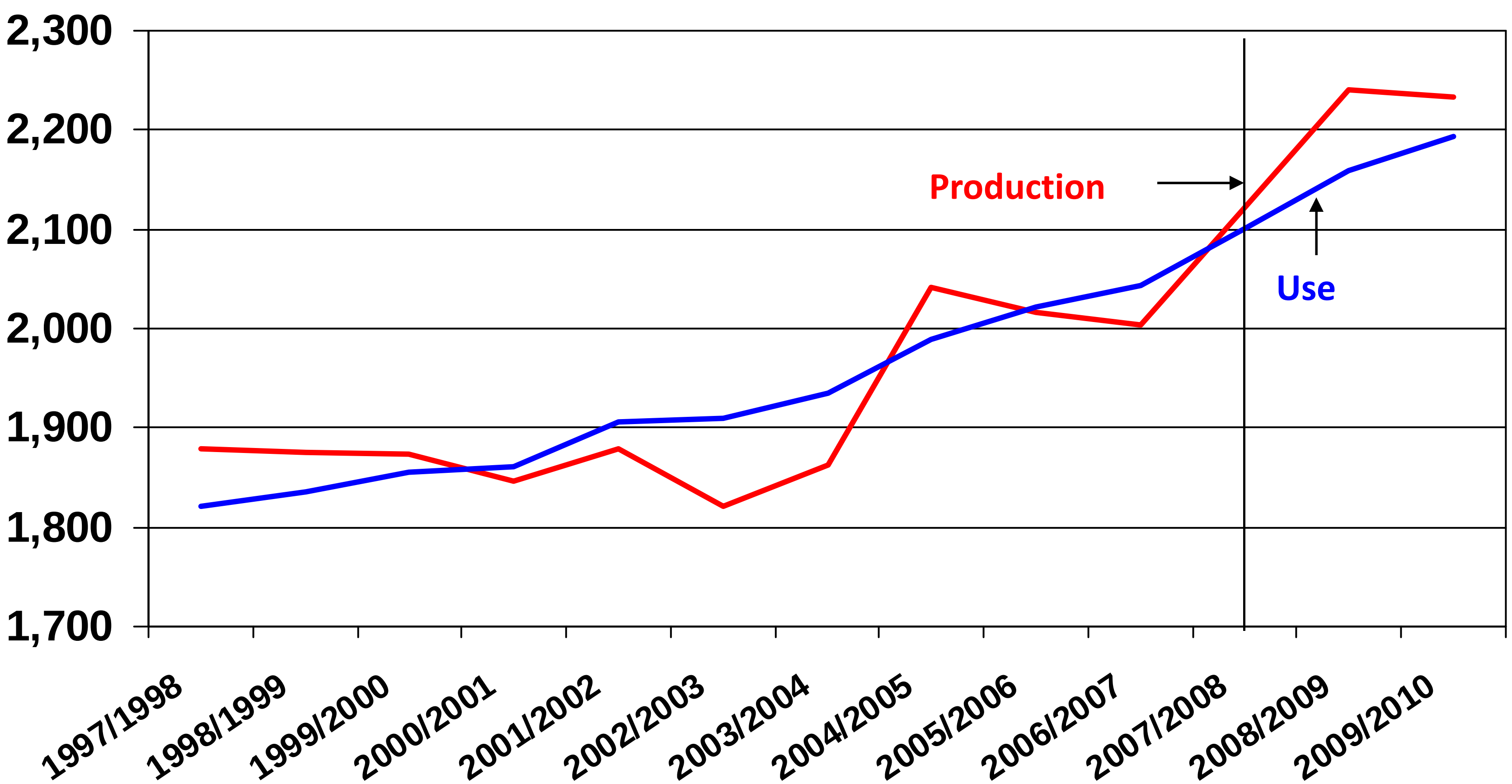
World Grain Production and Use

million tonnes



For 2000 through 2006 – deficit of 191 million tonnes
For 2007 through 2009 – surplus of 170 million tonnes

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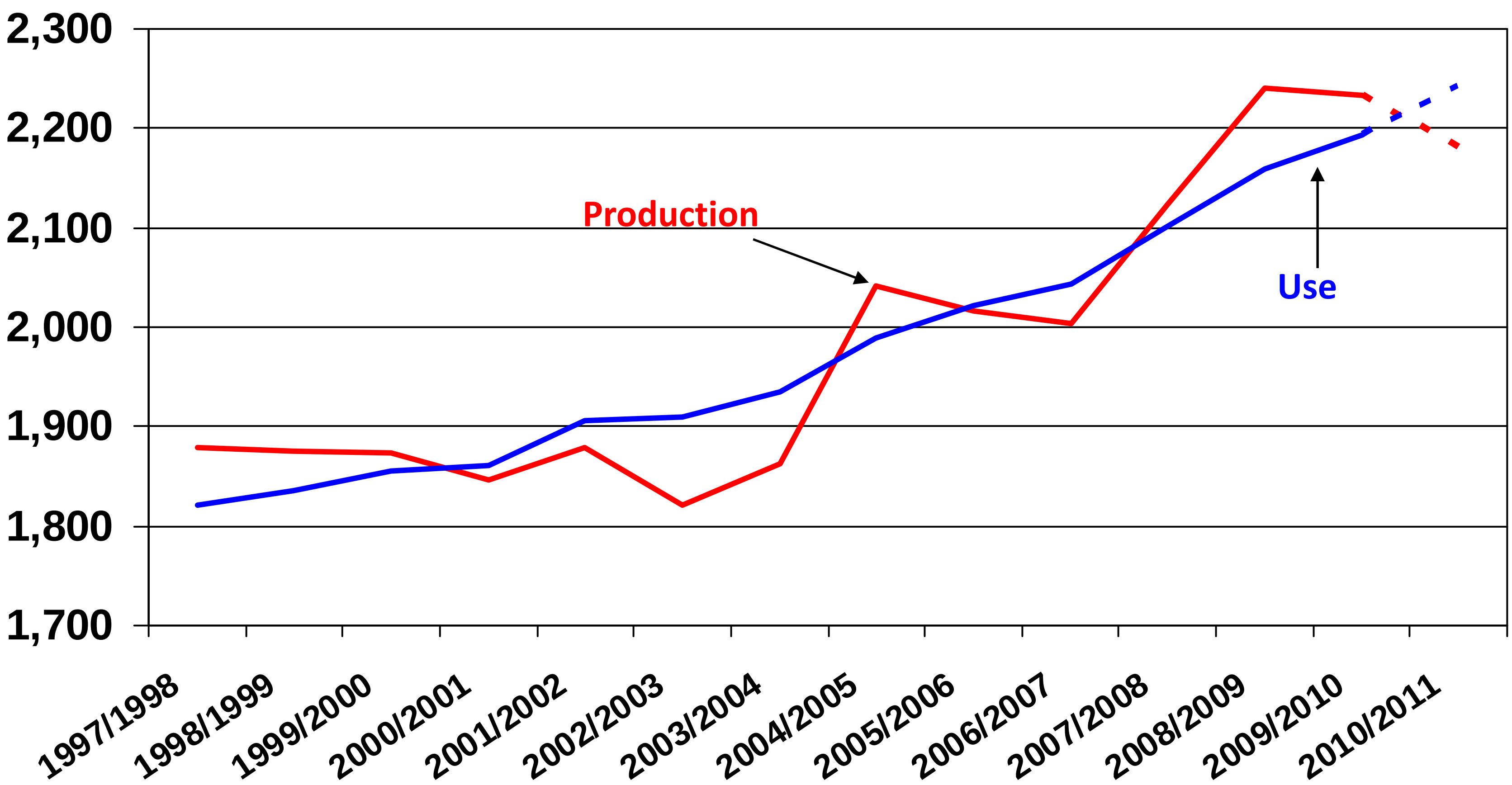
World Grain Production and Use

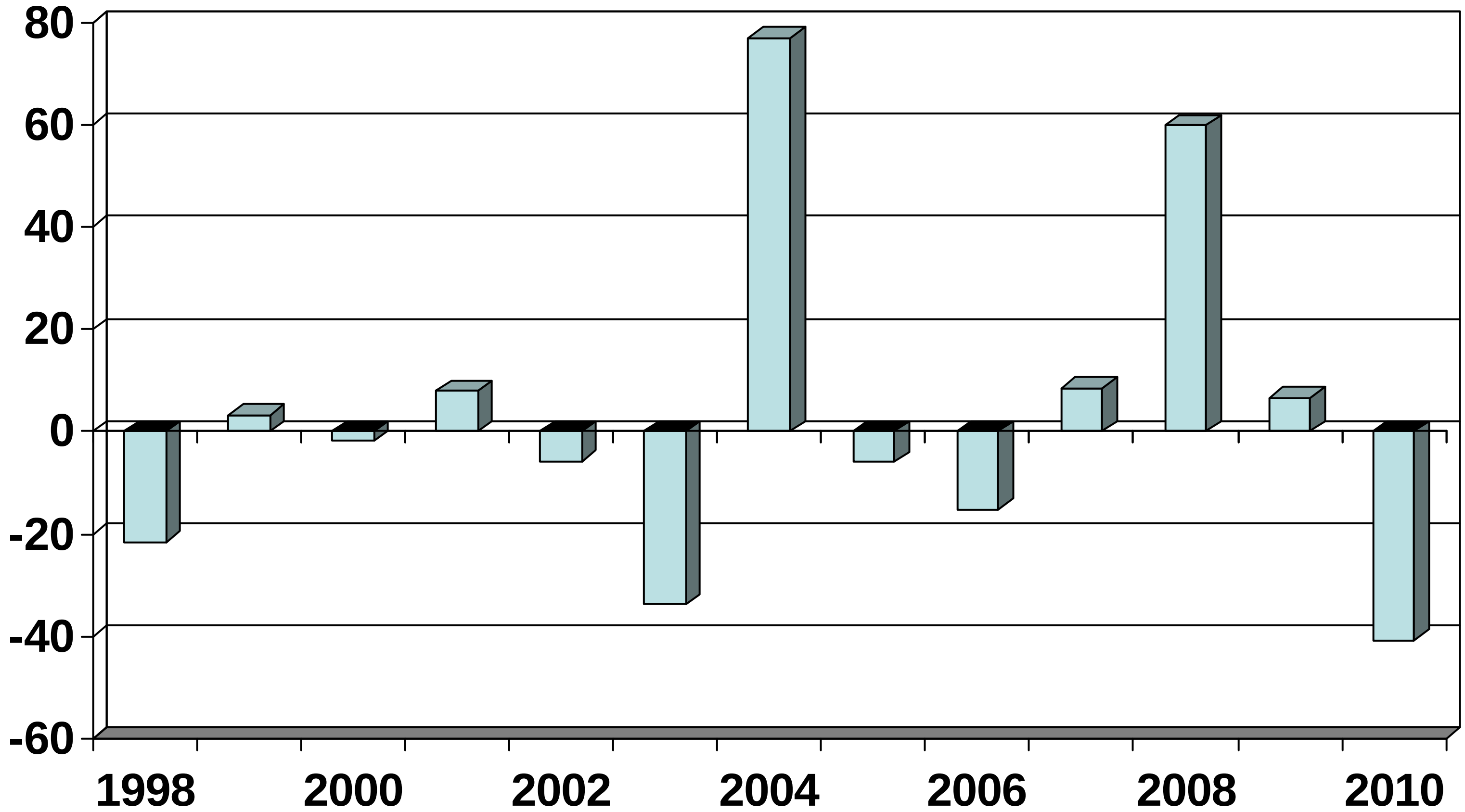
million tonnes



For 2000 through 2006 – deficit of 191 million tonnes
For 2007 through 2009 – surplus of 170 million tonnes
Deficit for 2010-11 - deficit of 63 million tonnes

Year-to-Year Change in Wheat Production

million tonnes



Almost 30 mmt in the former Soviet Union countries

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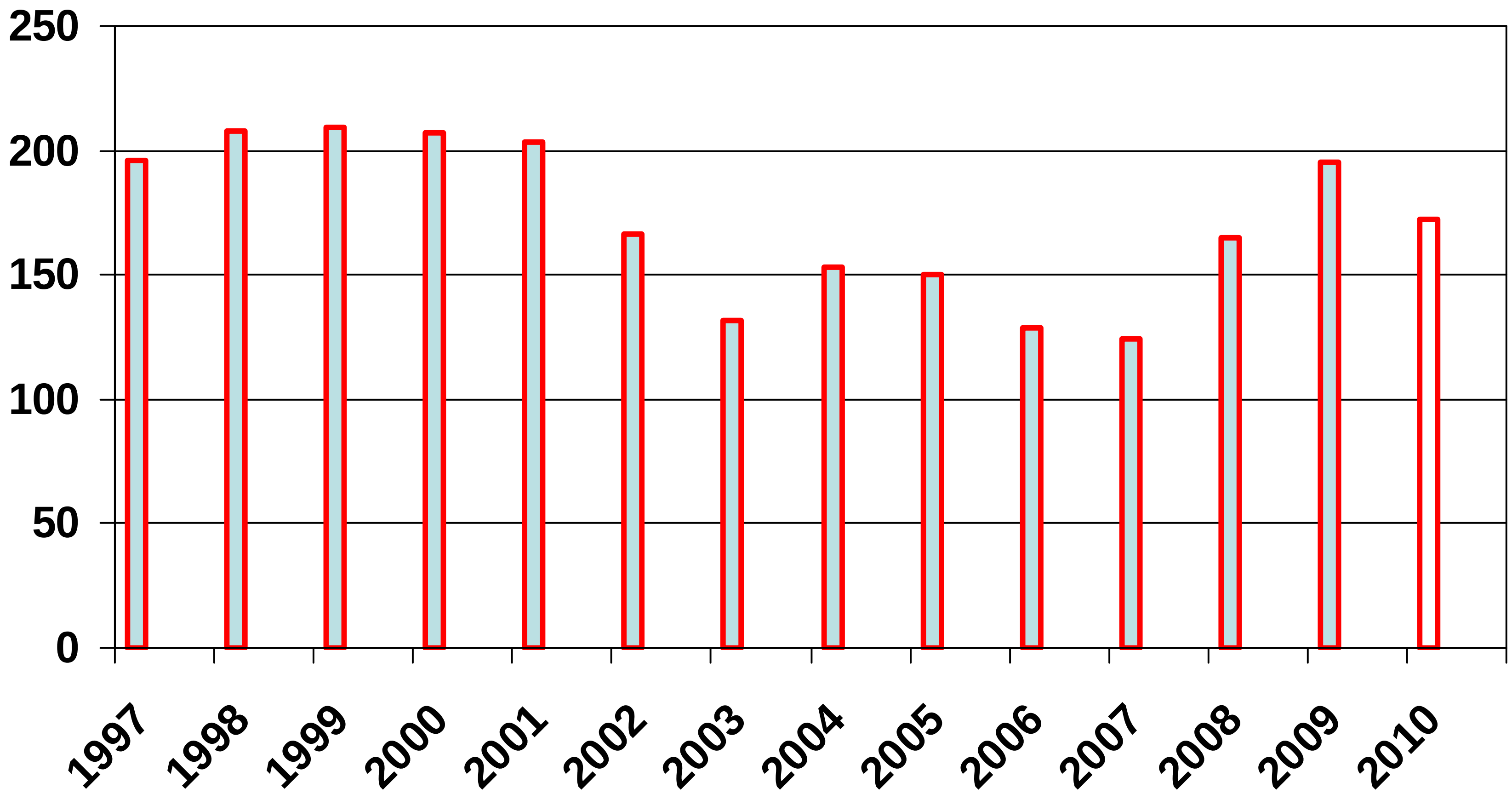
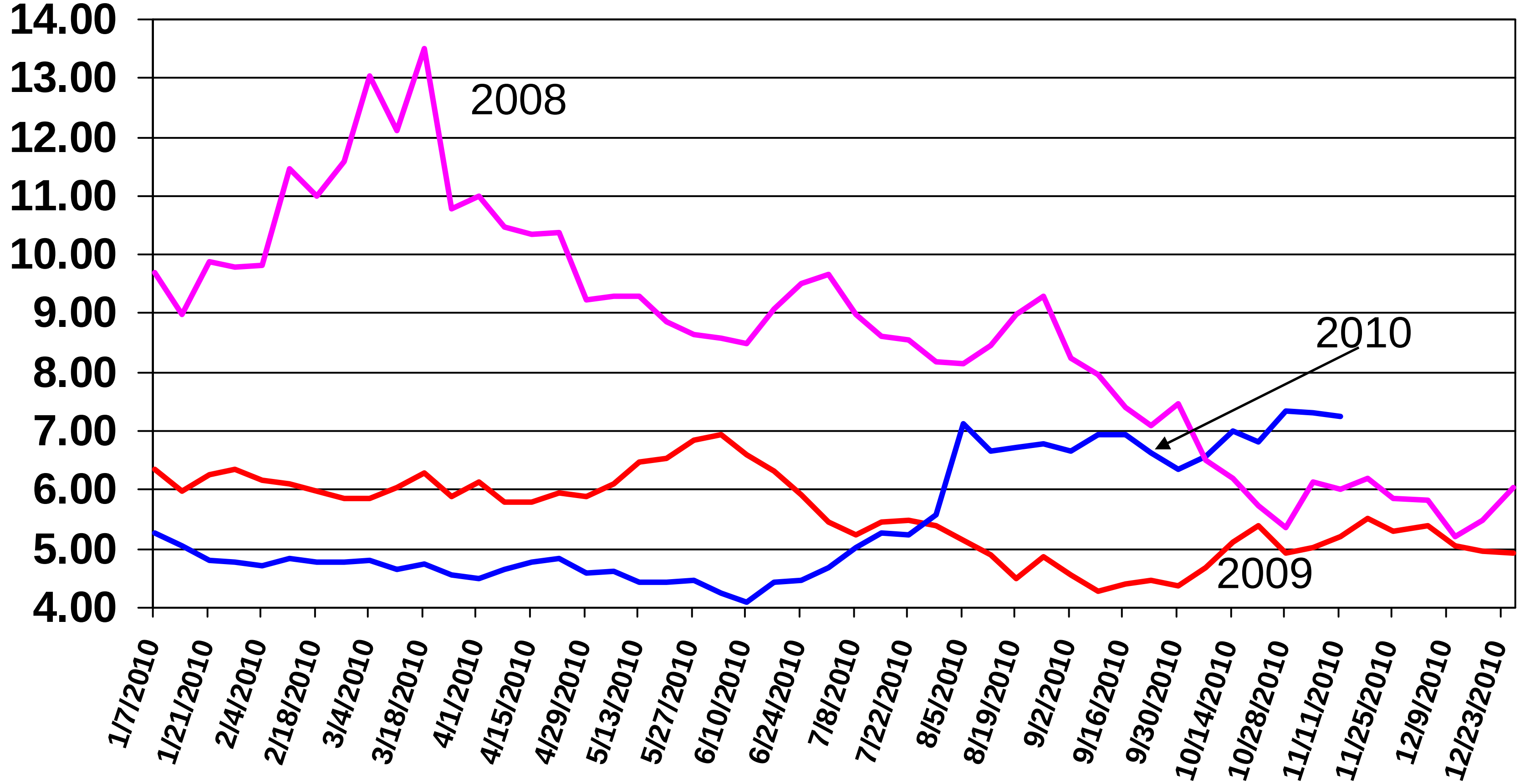
World Wheat Stocks

million tonnes



Wheat Price (Kansas City)

dollars per bushel



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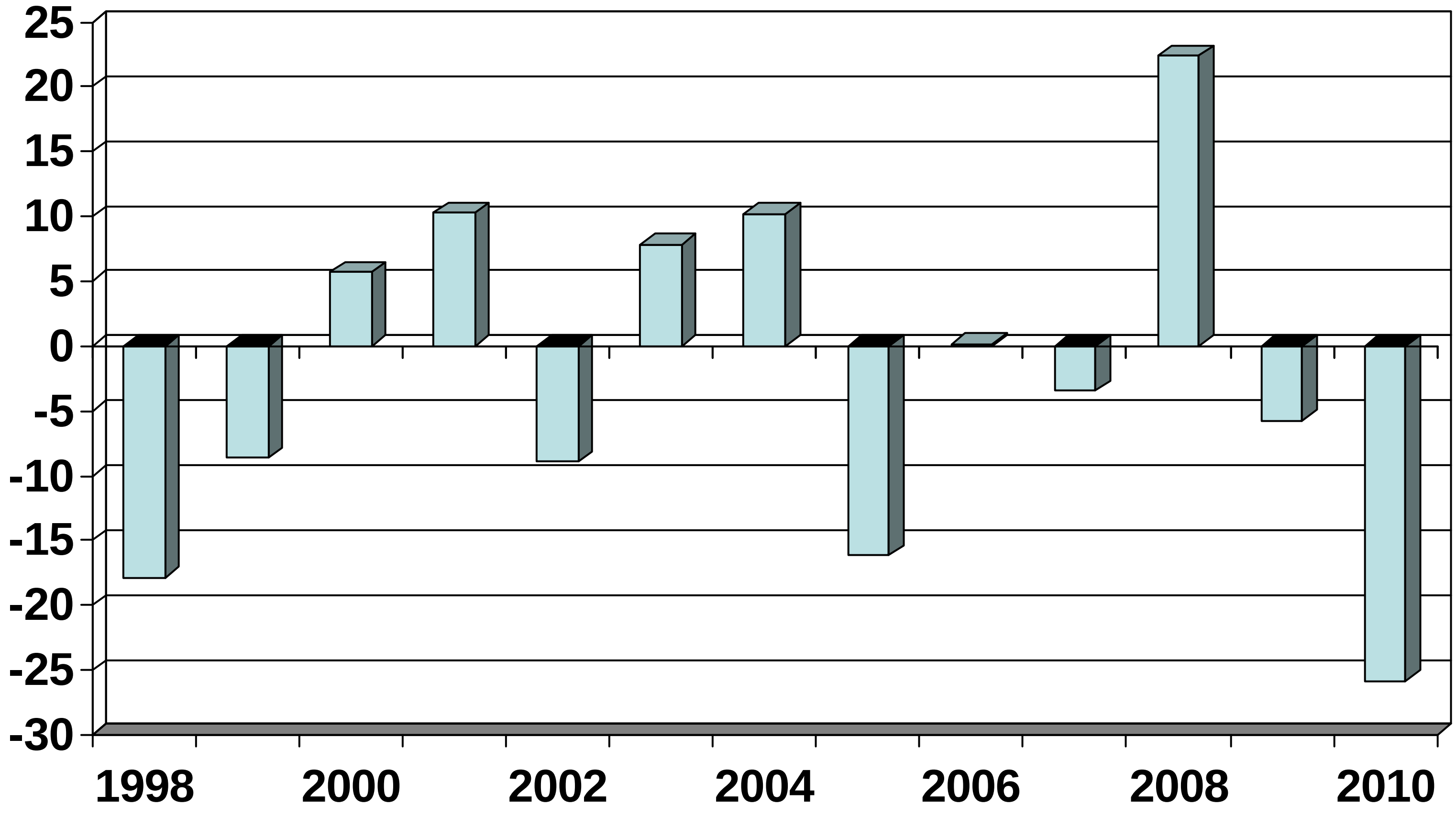
Year-to-Year Change in Barley Production

million tonnes



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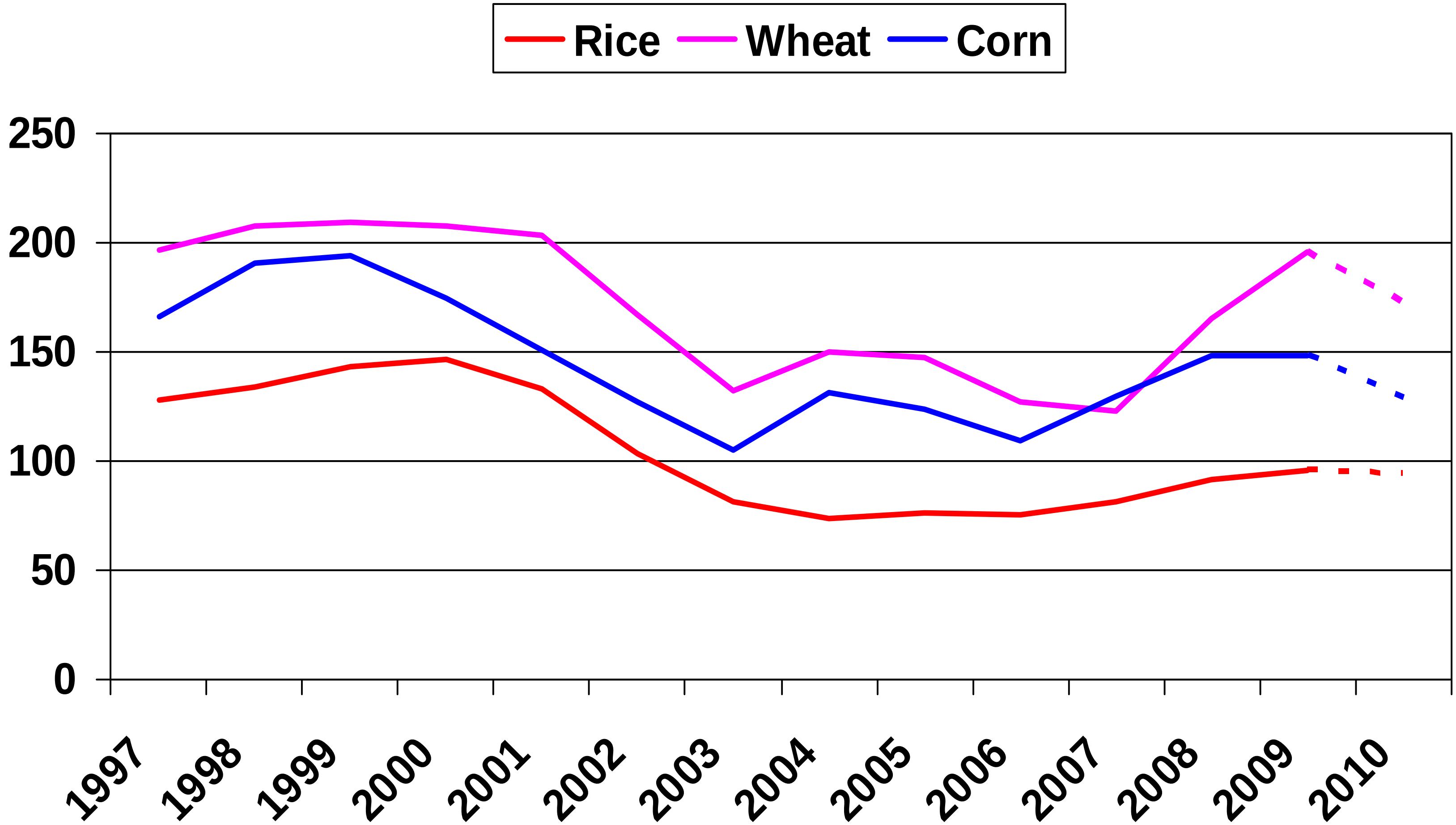
World Ending Stocks

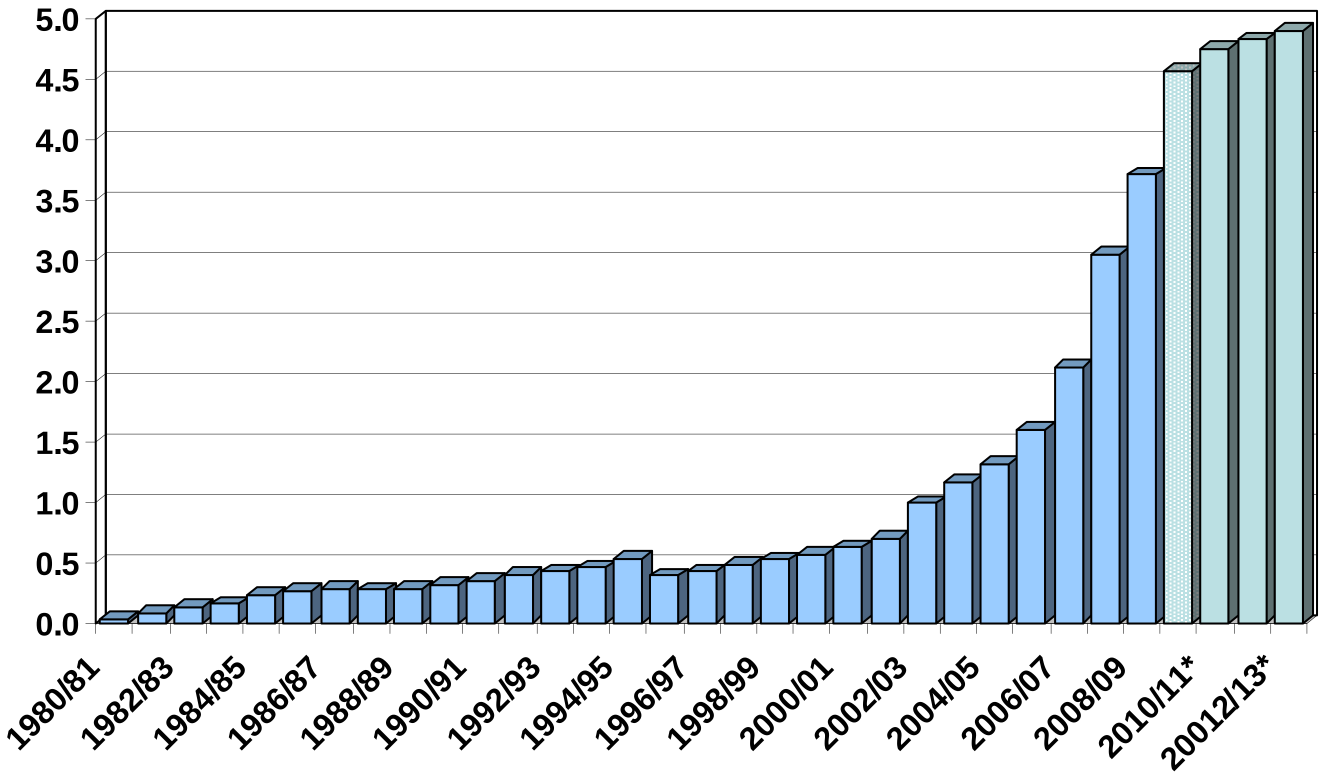
million tonnes



Let’s talk about the U.S. Ag Outlook

Corn: Used for Ethanol Production

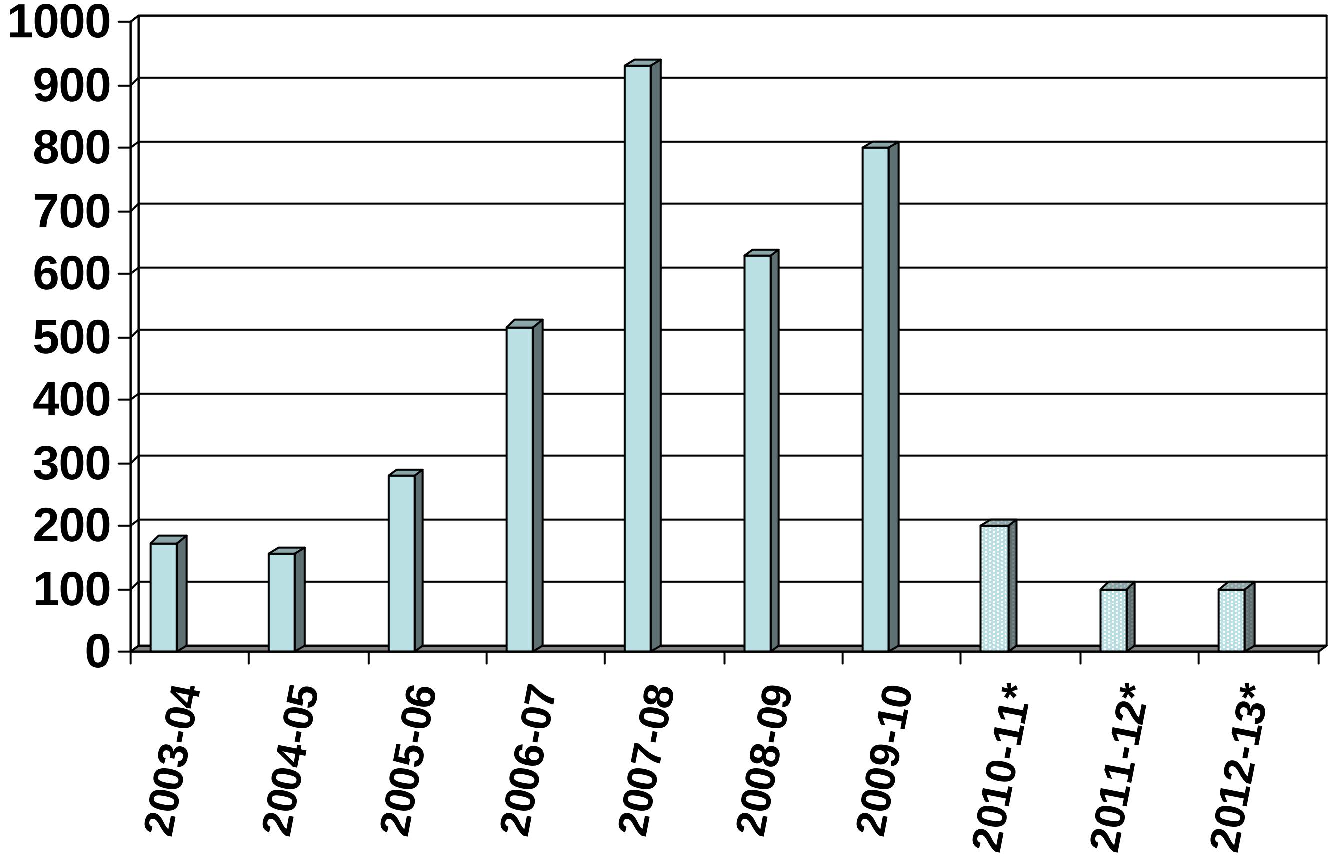
Billion Bushels



Source: USDA
*Doane Projection

Year-to-Year change in Ethanol Use

million bushels



Ethanol Issues

- Will EPA raise the blend rate?
  - Okay for cars made after 2006
  - Approval for older cars soon?
    - When will retailers get on board?
- Credit and import tariff expire at the end of 2010
  - Credit is 45 cents per gallon
  - Congress has been unable to pass tax extenders
- What happens when we get to 15 billion gallons?

- The RFS could even be raised
  - Since cellulosic ethanol is still far off

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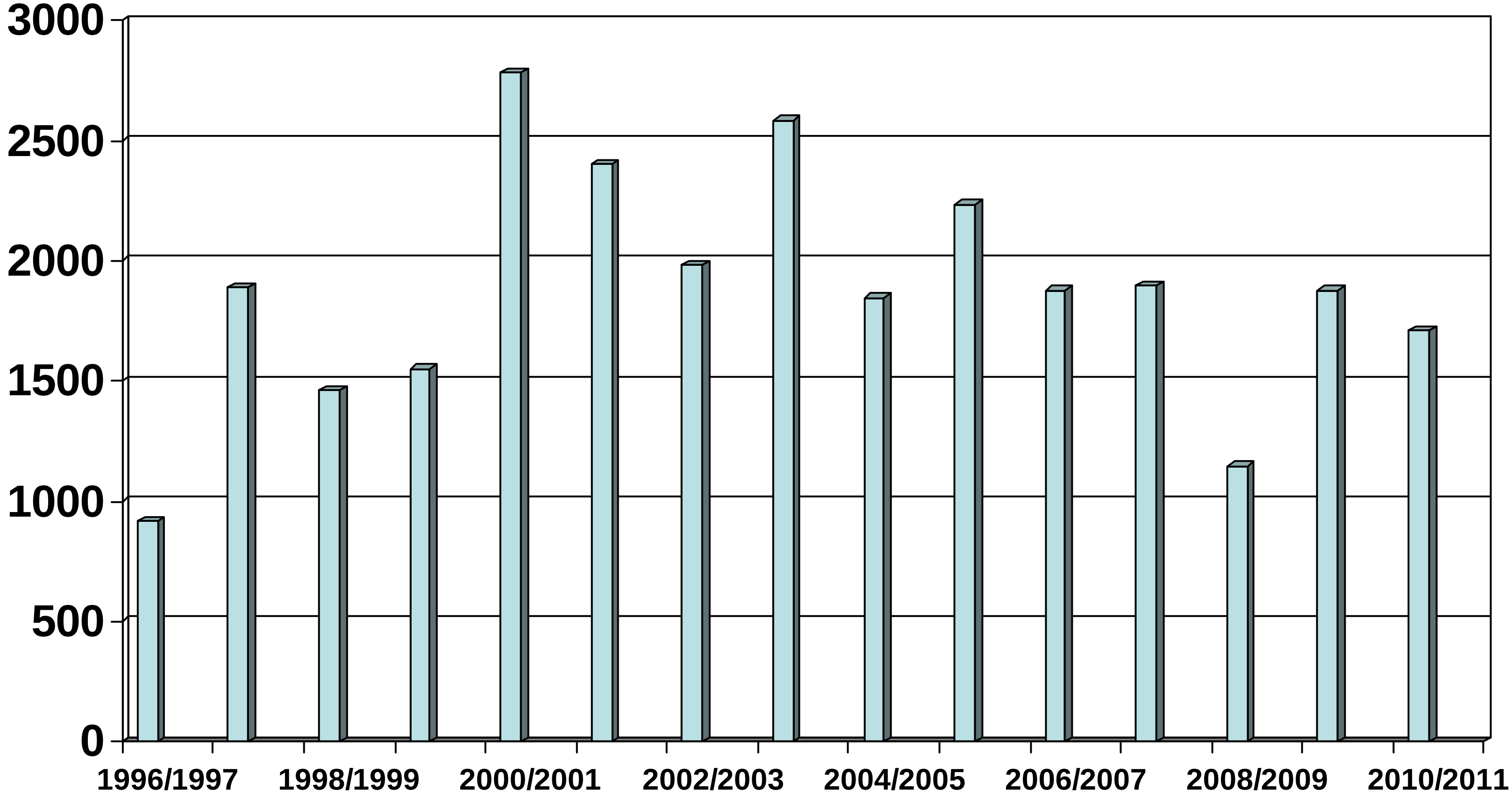
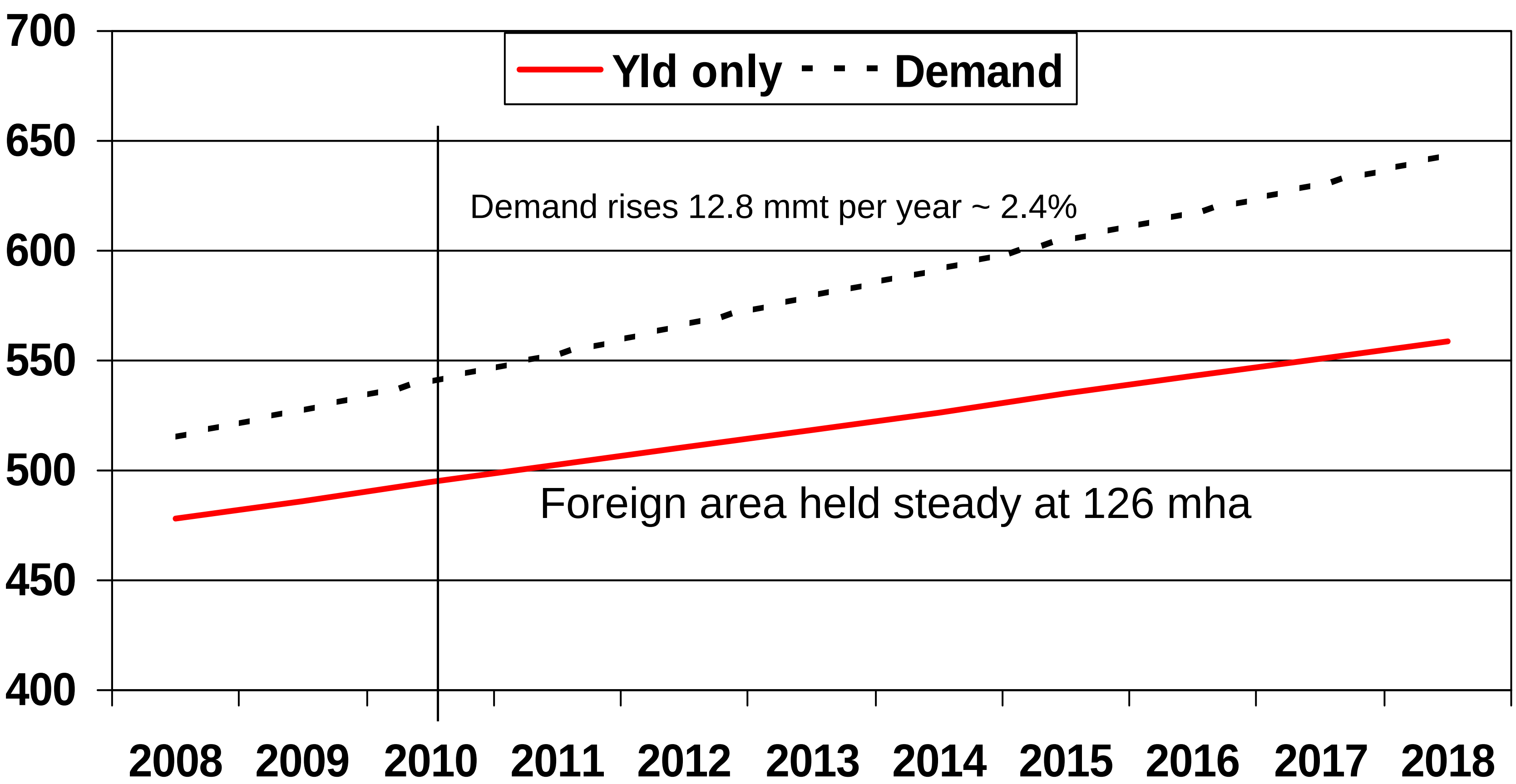
Foreign Corn Deficit

Million bushels



Foreign corn balance with stable area

million tonnes



Deficit rises to 3.3 billion bushels by 2018

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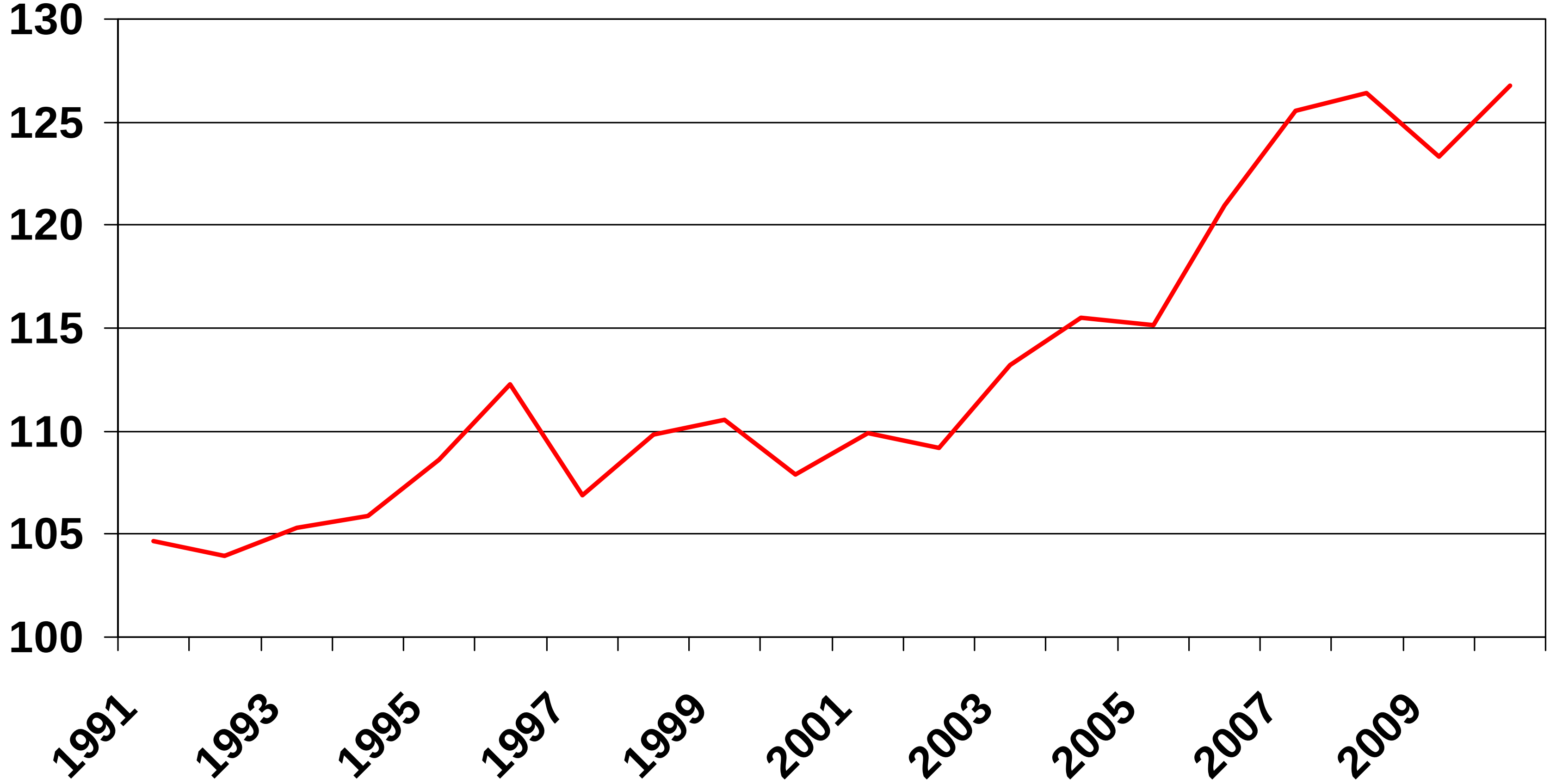
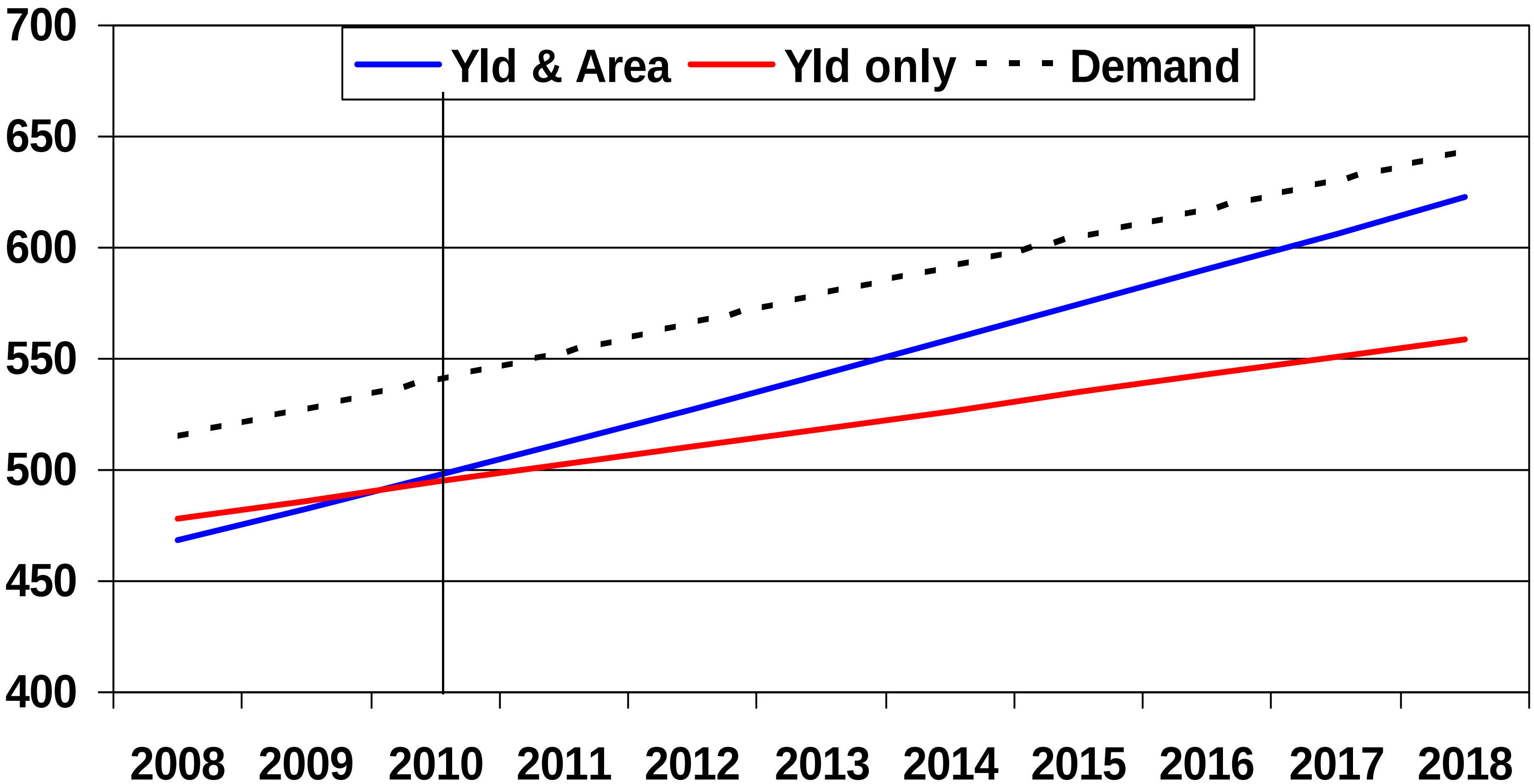
Foreign Corn Area

million hectares



Foreign corn balance

million tonnes



Deficit of 84 mmt or 20 mmt??   800 million or 3.3 billion bushels

Area increases to 140 mha by 2018   1.7 mha per year

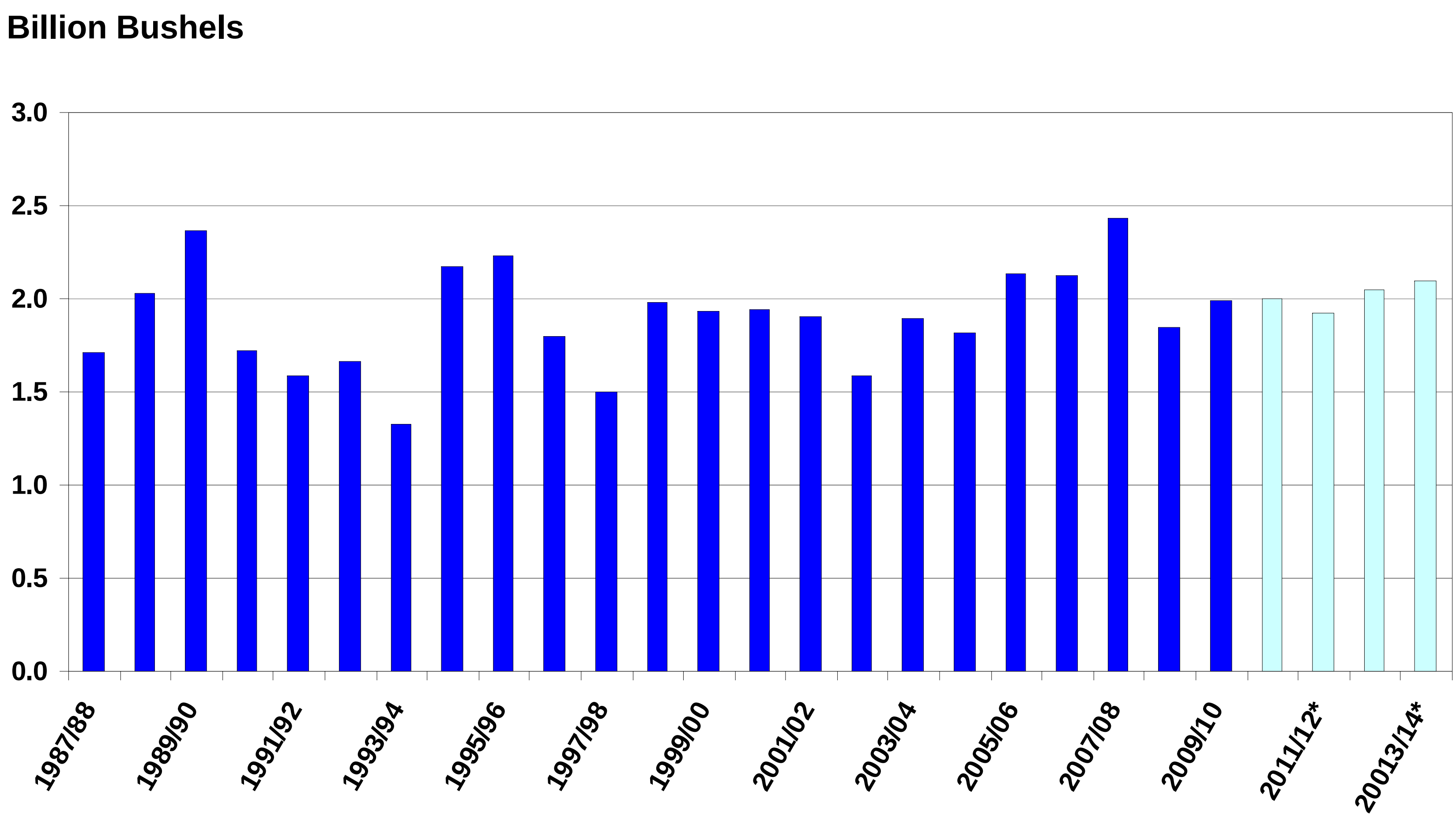
Change in Corn Area

million hectares

	2000	2010	change	acres
China	23.1	30.8	7.7	19.1
India	6.6	8.2	1.6	4.1
Nigeria	3.2	4.9	1.7	4.2
Tanzania	2.0	3.1	1.1	2.7
Ukraine	1.3	2.6	1.3	3.3
Russia	0.8	1.2	0.4	0.9
Angola	0.7	1.2	0.5	1.3
Vietnam	0.7	1.2	0.5	1.3
World total	137.2	159.7	22.4	55.4

A 8.8 million acre increase in the U.S.

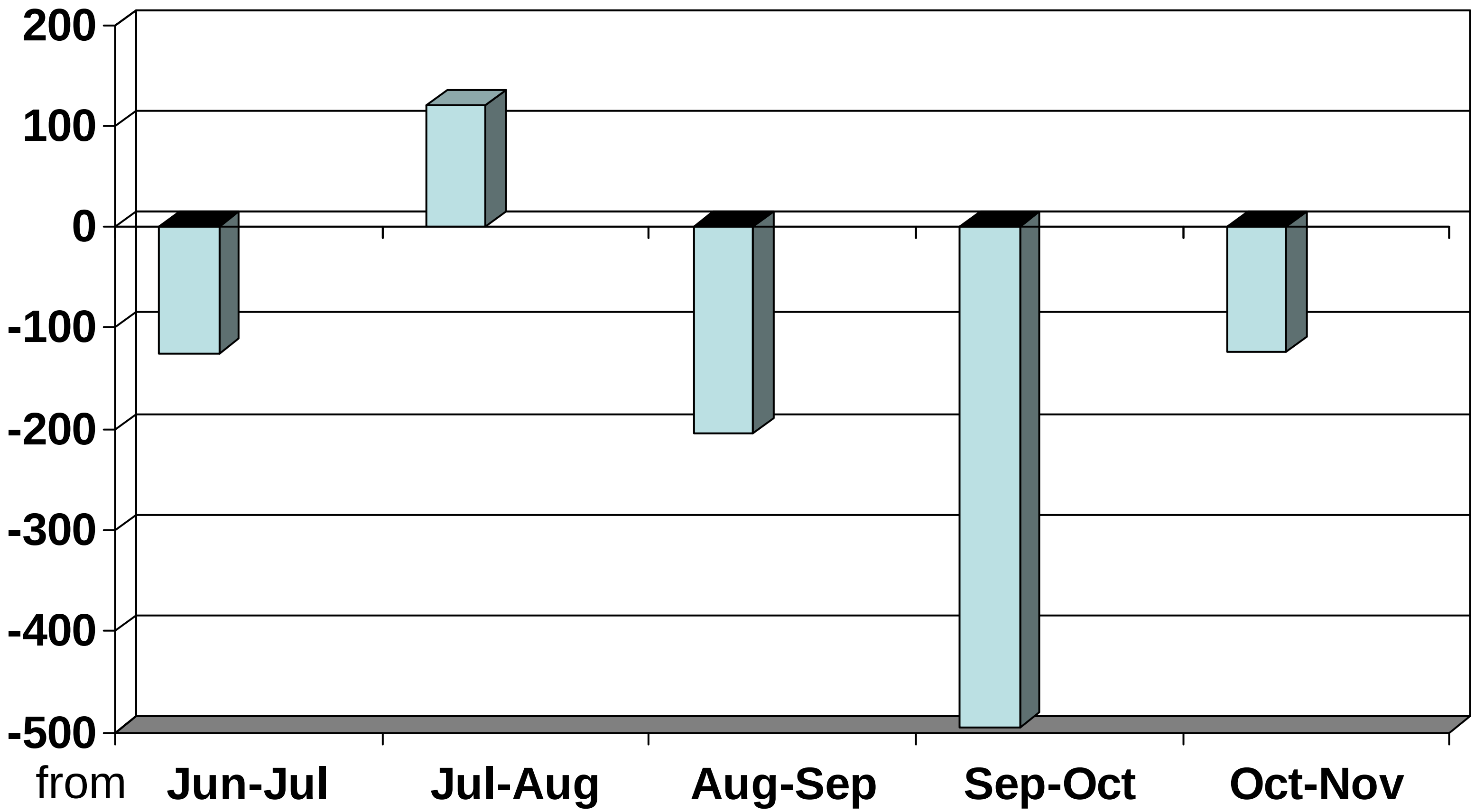
Corn: U.S. Exports



*Doane Projection

Changes to 2010 Corn Production Forecast

million bushels



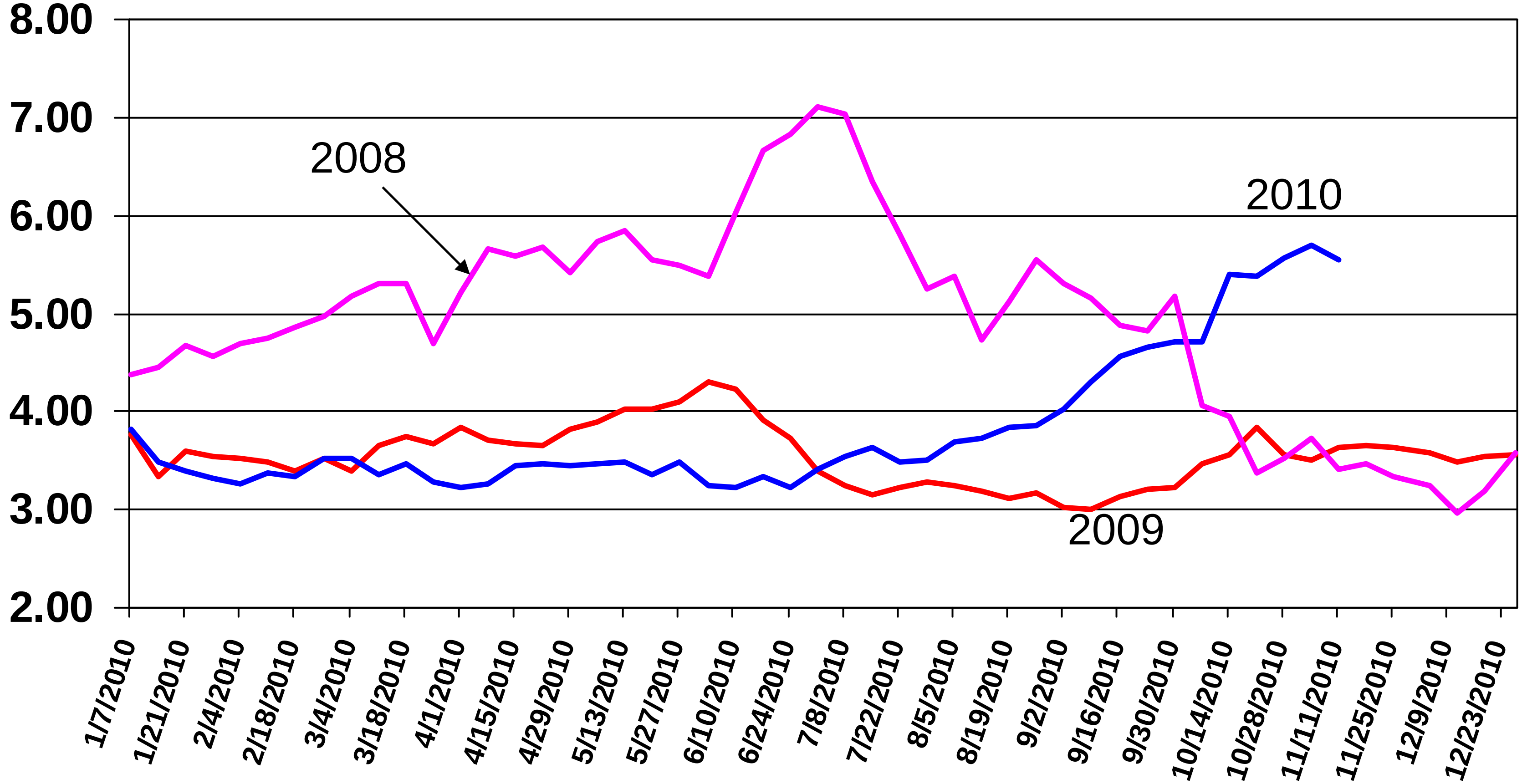
Total Decline since the beginning ***830 million bushels***

Corn: U.S. Balance Sheet – Sep/Aug Crop Year (million bushels)

	2009/10	2010/11	2011/12	2012/13
Supply				
Planted Acres	85.6	88.2	91.0	91.5
Production	13,110	12,540	13,588	13,664
Exports	1,987	2,000	1,950	2,000
Total Disappearance	13,084	13,430	13,450	13,770
Ending Stocks	1,708	828	976	1,075
On-Farm Corn Price ($/bu)	$3.55	$5.25	$5.00	$4.90

Corn Price

dollars per bushel



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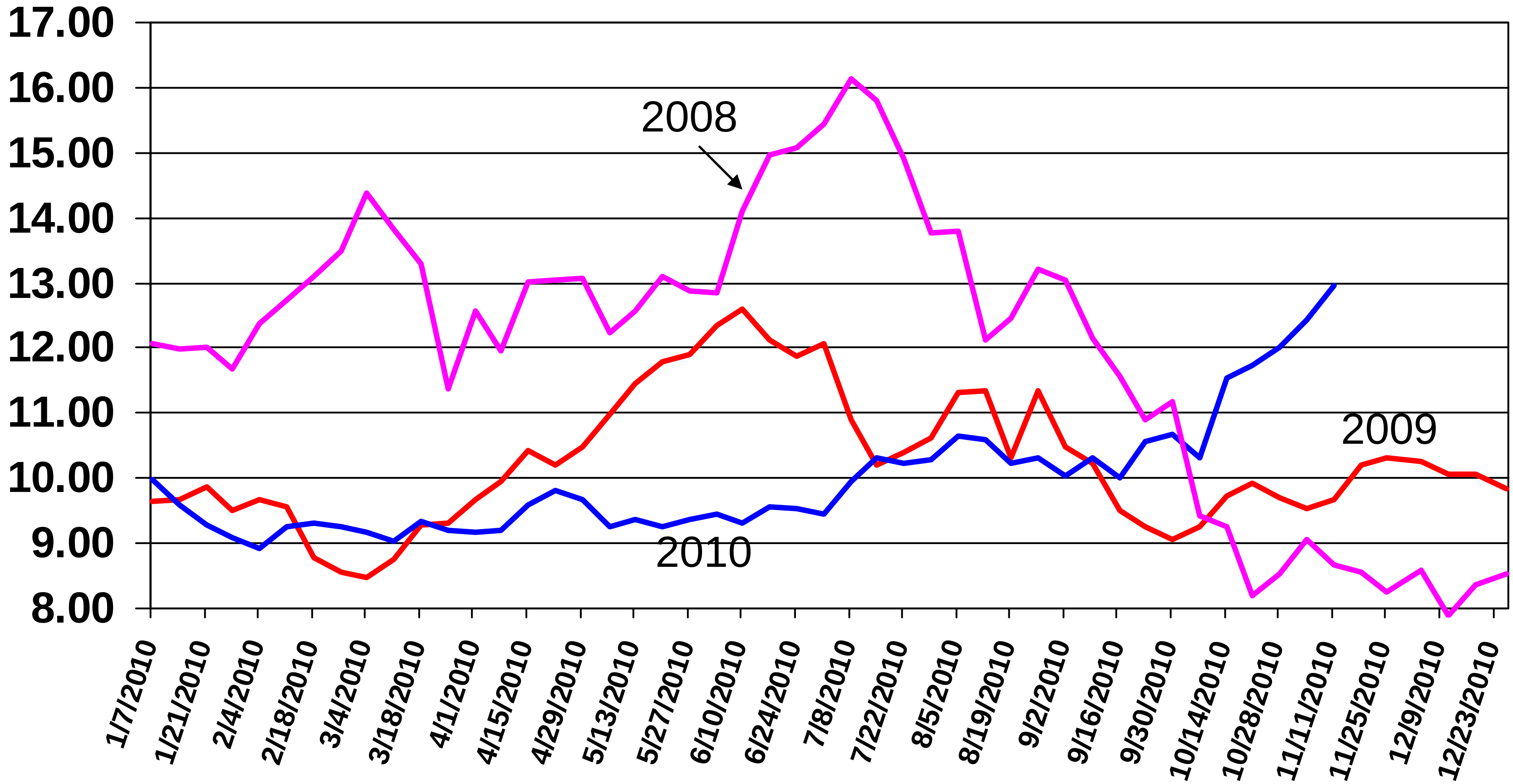
Corn Sector Outlook

- Demand in 2009-10 was disappointing
  - Did USDA overestimate ending stocks?
- Yields were lower than expected this year
  - About 4% below trend
- Will China be a big importer?
  - Not if USDA's numbers are right
    - They produce a surplus of about 6 mmt in 2010-11
  - What will happen to China's corn area?
- We will need more acreage to keep pace with demand
  - Even if demand doesn't increase from 2010-11 levels
  - Acreage over 90 million by 2011?

- Prices will have to stay high

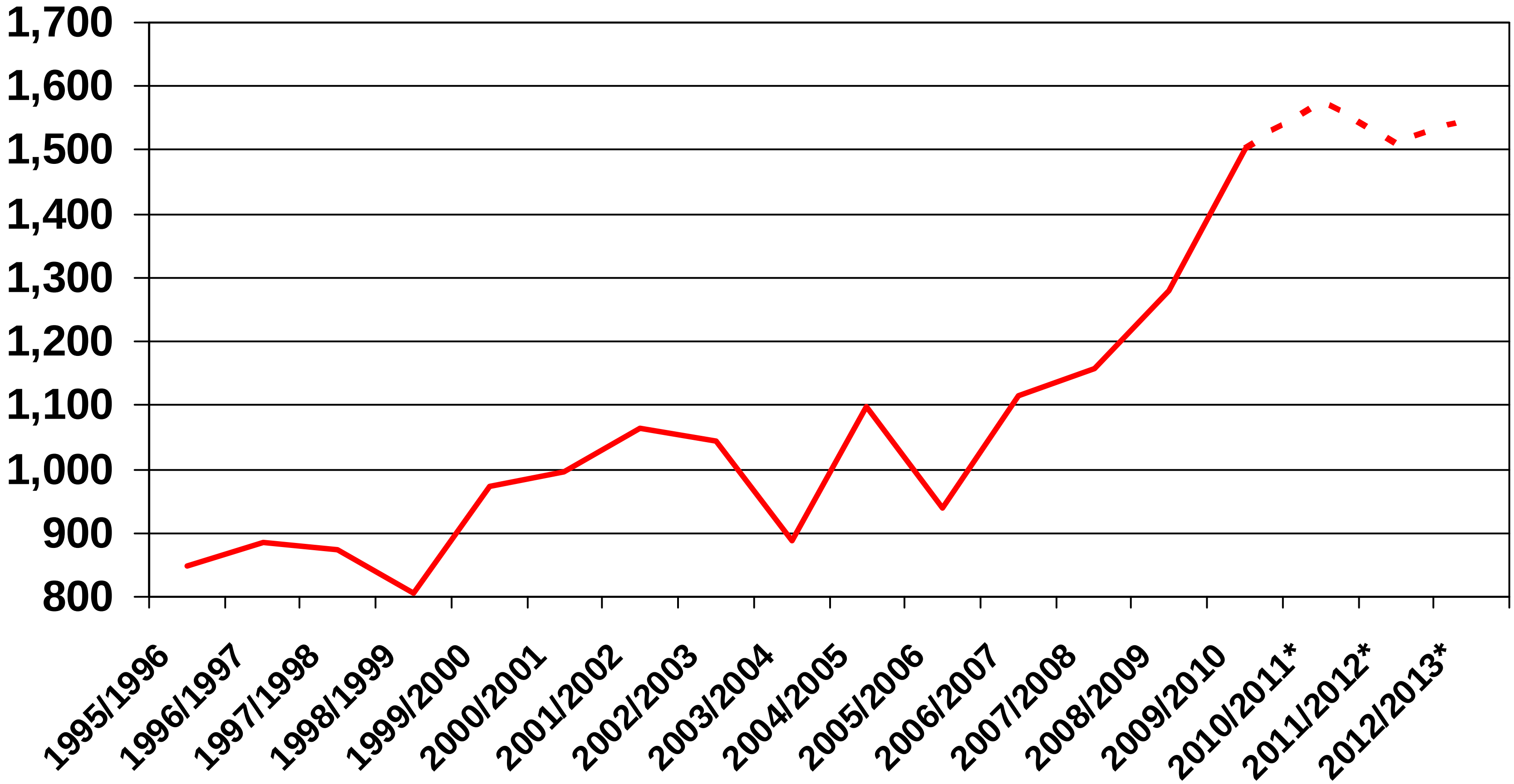
Soybean Price

dollars per bushel



U.S. Soybean Exports

million bushels



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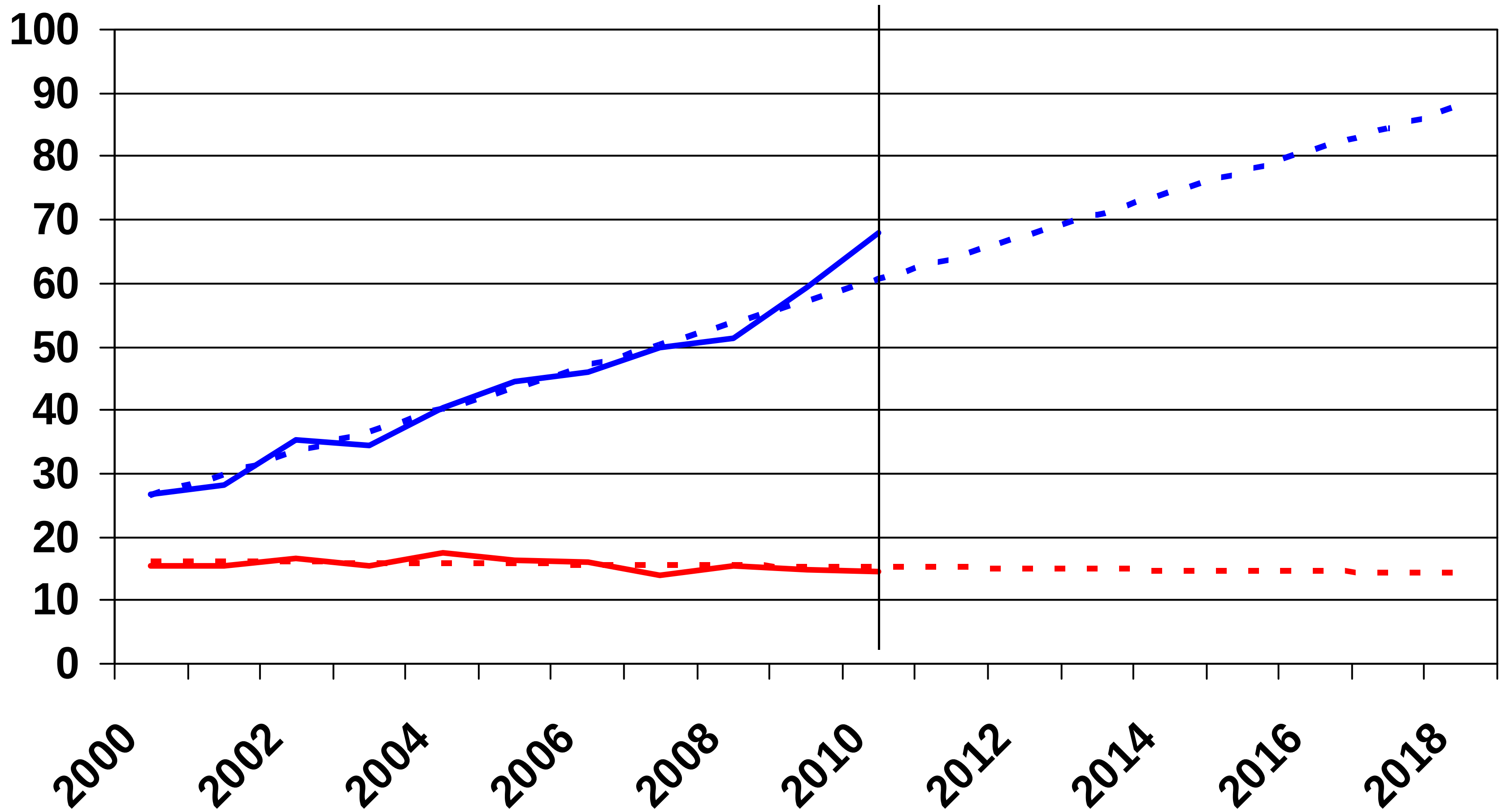
China's Soybean Production & Use

million tonnes



Demand is rising at about 3.5 mmt per year and has more than doubled since 2000

Deficit goes from 45 mmt to 73 mmt by 2018

Soybeans: U.S. Balance Sheet – Sep/Aug Crop Year (million bushels)

	2009/10	2010/11	2011/12	2012/13
Supply				
Planted Acres	77.5	77.7	77.5	77.5
Production	3,359	3,375	3,339	3,374
Total Disappearance	3,361	3,361	3,297	3,367
Ending Stocks	151	175	225	240
On-Farm Soybean Price ($/bu)	$9.97	$11.75	$11.00	$10.75

Soybean Sector Outlook

- Exports are very strong - even with record S.A. crops
- China is the key to the world soybean markets
  - Demand is up 33% in just the last 2 years
- U.S. acreage for 2010 was record high & yields were near the record
  - But stocks are not going to increase much
- Soybean acreage needs to stay high in 2011
- Prices will have to stay high to keep acreage from falling

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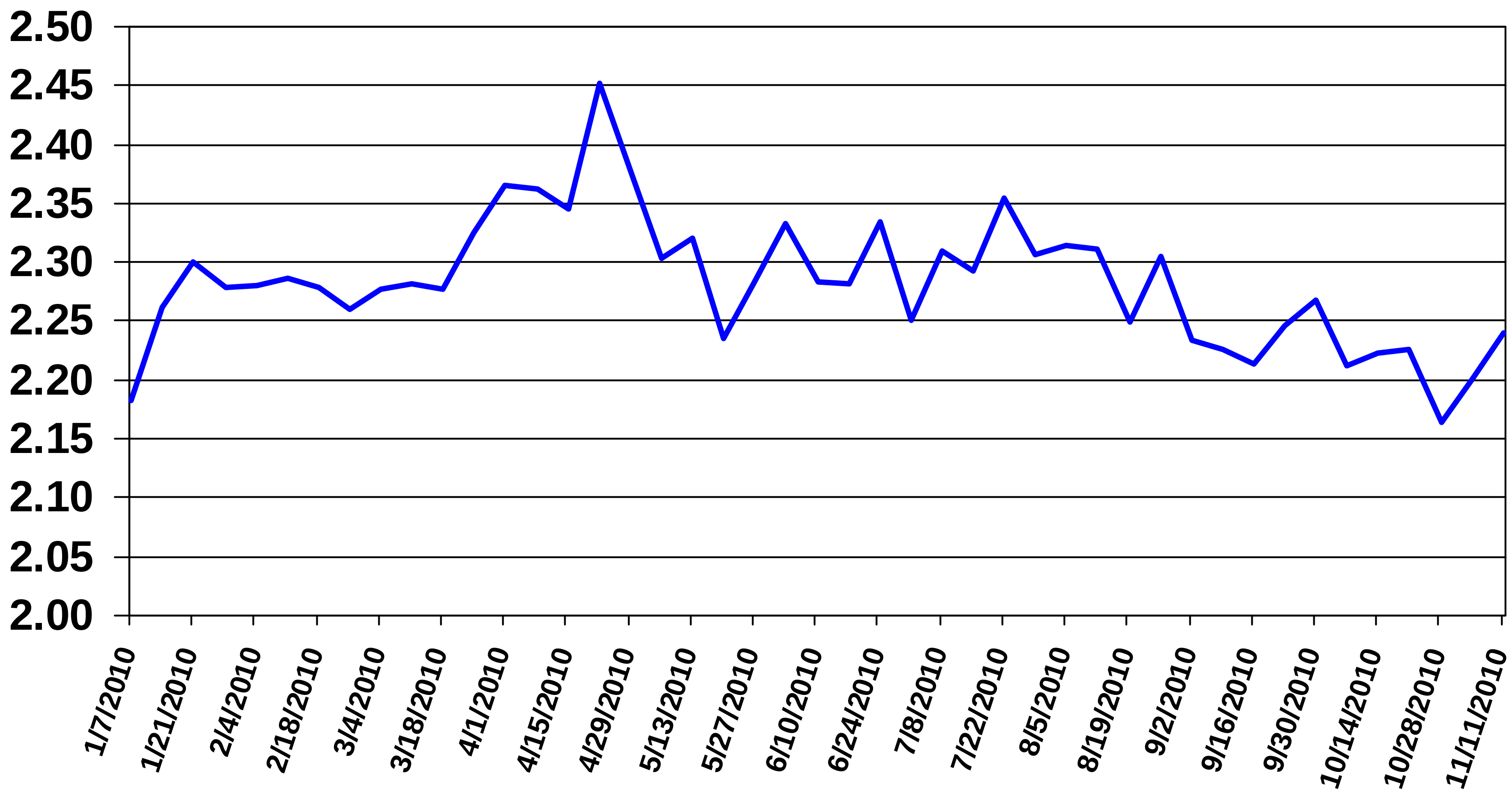
New Crop Soybean-to-Corn Price Ratio



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Input Prices

October 2010 versus Oct 2009

- Fuels - +15%
- Fertilizer - +5.6%
  - Retail Survey shows prices up a lot more
  - Urea up 22%, DAP up 77%, Potash down 14%
- Seeds - - 6.5%
  - But up 40% from 2007 levels
- Chemicals - -2.7%
- Rent - +7.3%

- All Inputs - +4.5%

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Budget Comparisons

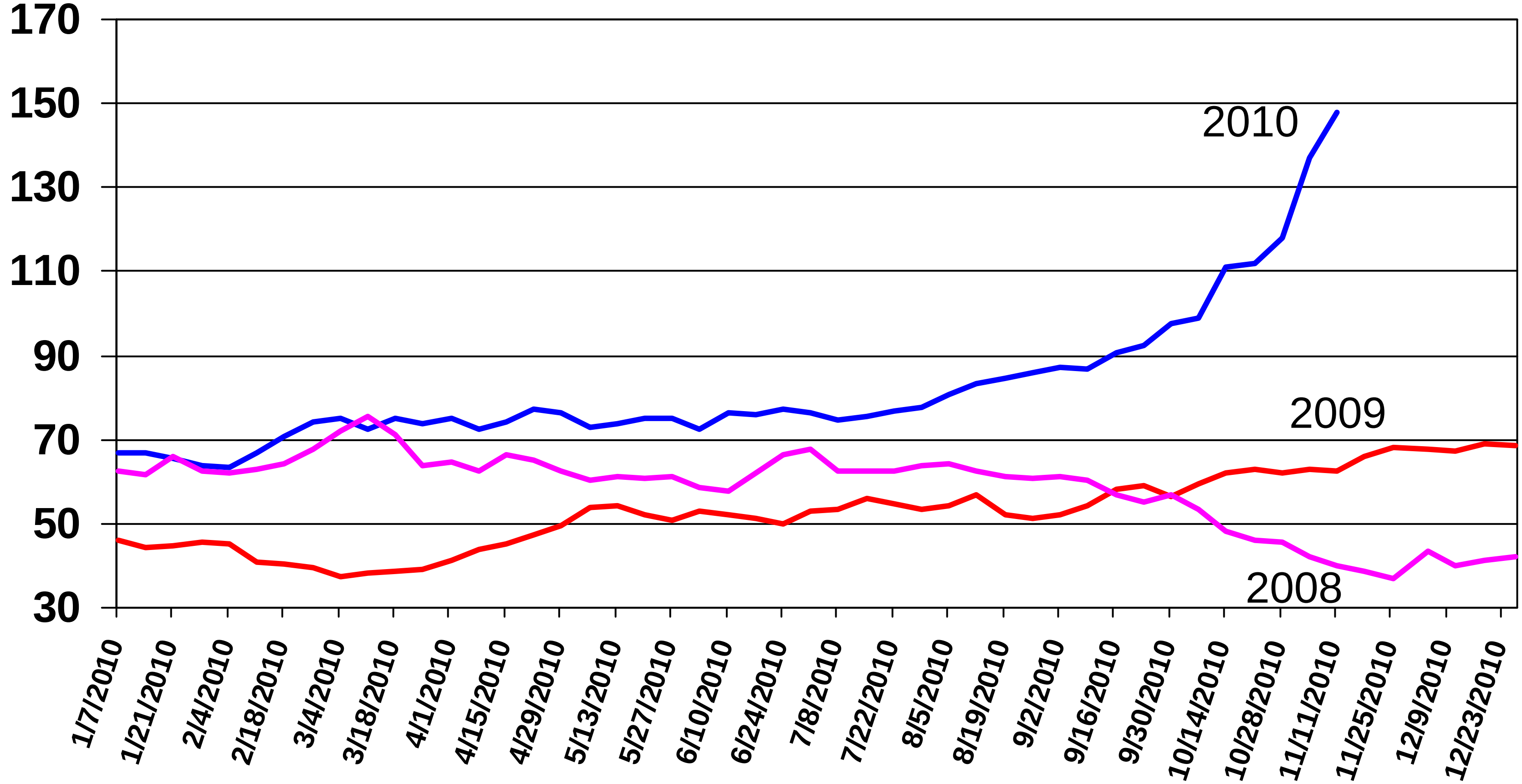
dollars per acre

Corn	U.S.	Heartland	N. Plains	Pra. Gtwy
Revenue	822	891	728	807
Operating Costs	345	336	282	364
Net	*476*	*555*	*446*	*444*
Soybeans				
Revenue	538	608	414	532
Operating Costs	148	136	128	158
Net	*390*	*472*	*285*	*374*

Based on new crop futures - $5.26 for corn $12.22 for soybeans

Cotton Price

cents per pound



Cotton Supply-Demand Balance
(Million Bales)

	2010-11	2011-12	2012-13
Acreage	11.0	12.0	12.0
Production	18.4	20.1	20.4
Dom. Use	3.5	3.5	3.5
Exports	15.8	16.0	16.0
Total Use	19.2	19.5	19.5
Stocks	2.2	2.9	3.8
Price (cents)	85	90	75

Cotton Sector Outlook

- Cotton prices have soared to record highs
  - Tight U.S. and world stocks
  - Recovering demand
  - Export restrictions in India
- Acreage should rise in 2011 due to high prices
- Foreign cotton acreage will also increase
- U.S. stocks begin to recover – but acreage stays high in 2012

Budget Comparisons

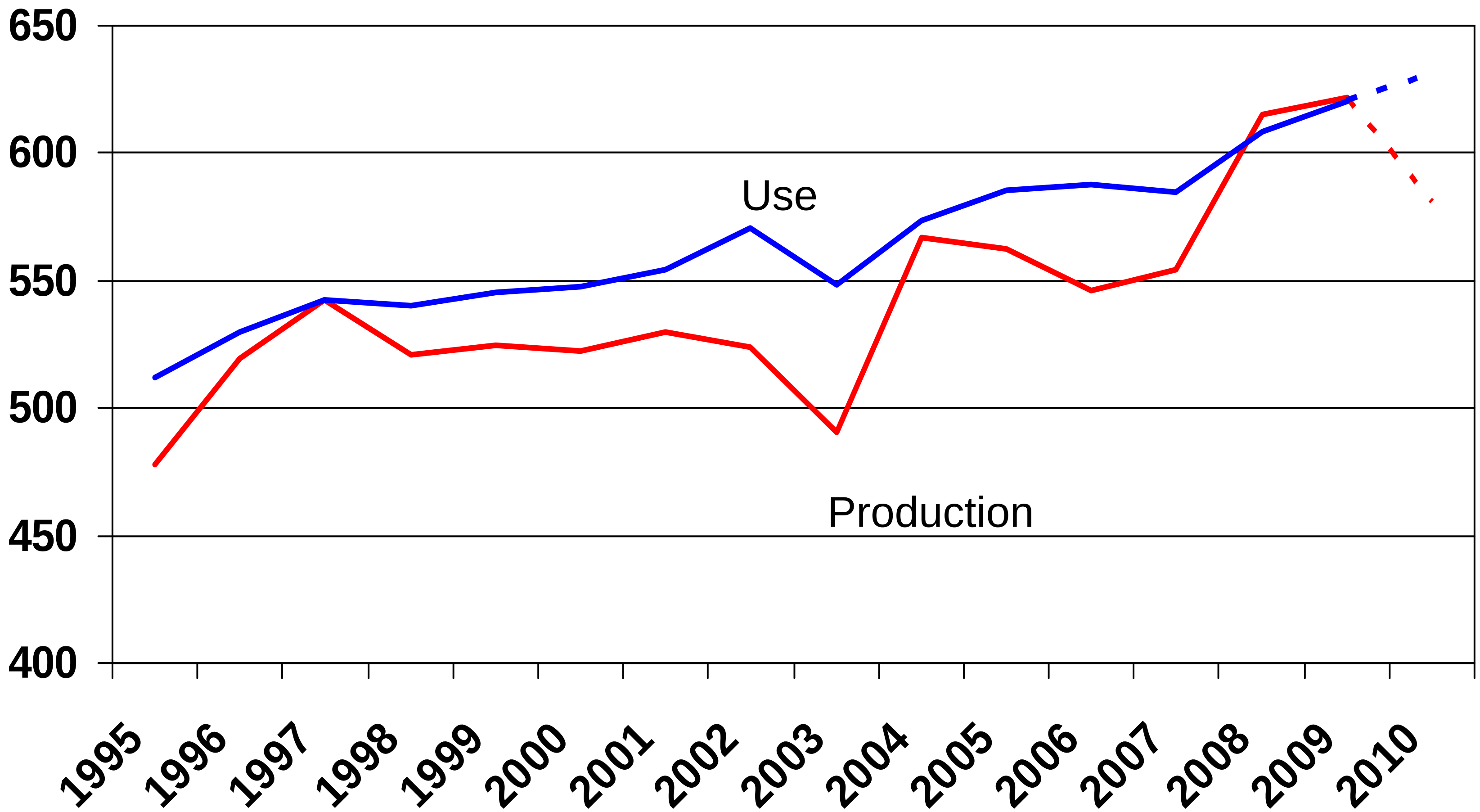
dollars per acre

Soybeans	Southeast	Delta
Revenue	315	323
Operating Costs	158	165
Net	*156*	*158*
Cotton		
Revenue	903	978
Operating Costs	542	605
Net	*361*	*372*

Based on new crop futures   89 cents for cotton $12.22 for soybeans

Foreign Wheat Production & Use

million hectares



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Wheat Supply-Demand Balance

(Million Bushels)

	2010-11	2011-12	2012-13
Acreage	53.6	57.3	54.3
Production	2,208	2,193	2,093
Dom. Use	1,196	1,214	1,238
Exports	1,250	1,050	925
Total Use	2,446	2,264	2,163
Stocks	848	877	910
Price ($/bu)	$5.52	$5.45	$5.00

Wheat Sector Outlook

- Prices are high due to foreign production shortfall
  - U.S. exports expected to rise by 40%
- Acreage should increase for 2011
  - Due to high prices and better fall planting weather
  - Crops in the U.S. and FSU are off to poor starts
- Longer term U.S. wheat acreage will trend down

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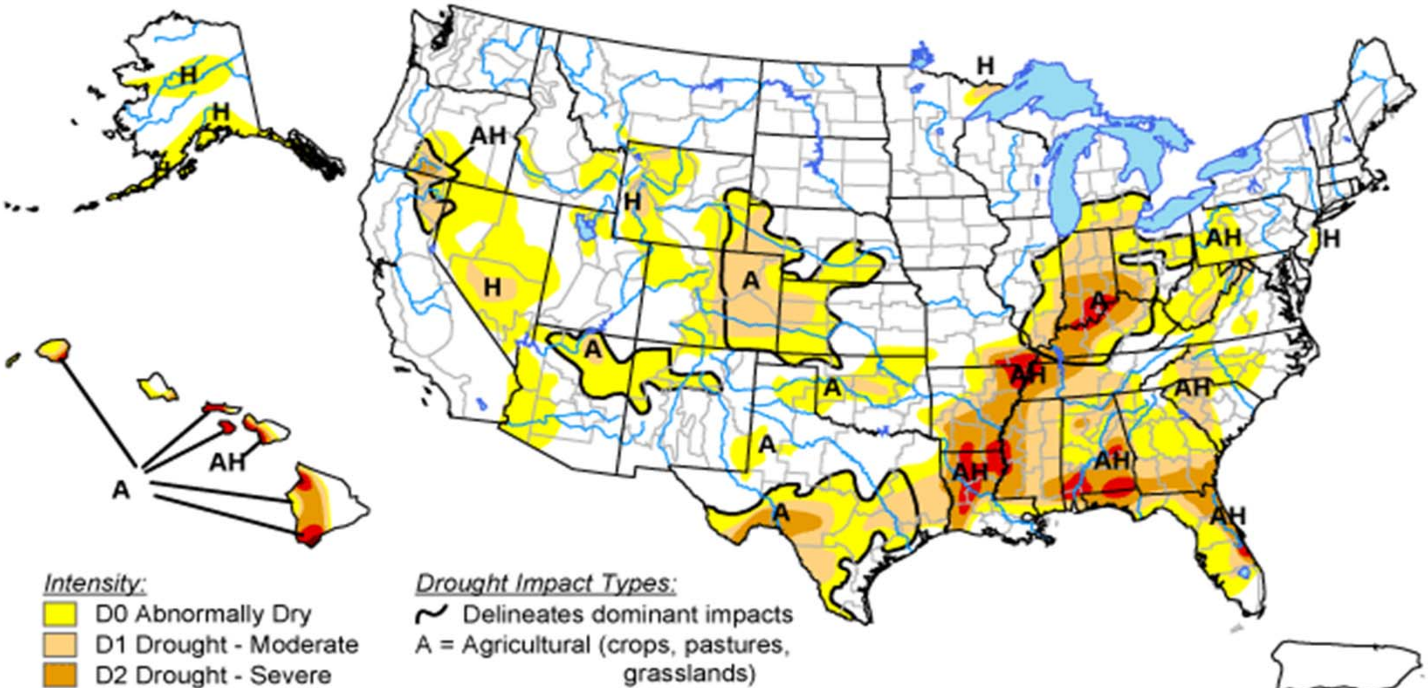
U.S. Drought Monitor

November 9, 2010
Valid 8 a.m. EST



Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- ~ Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

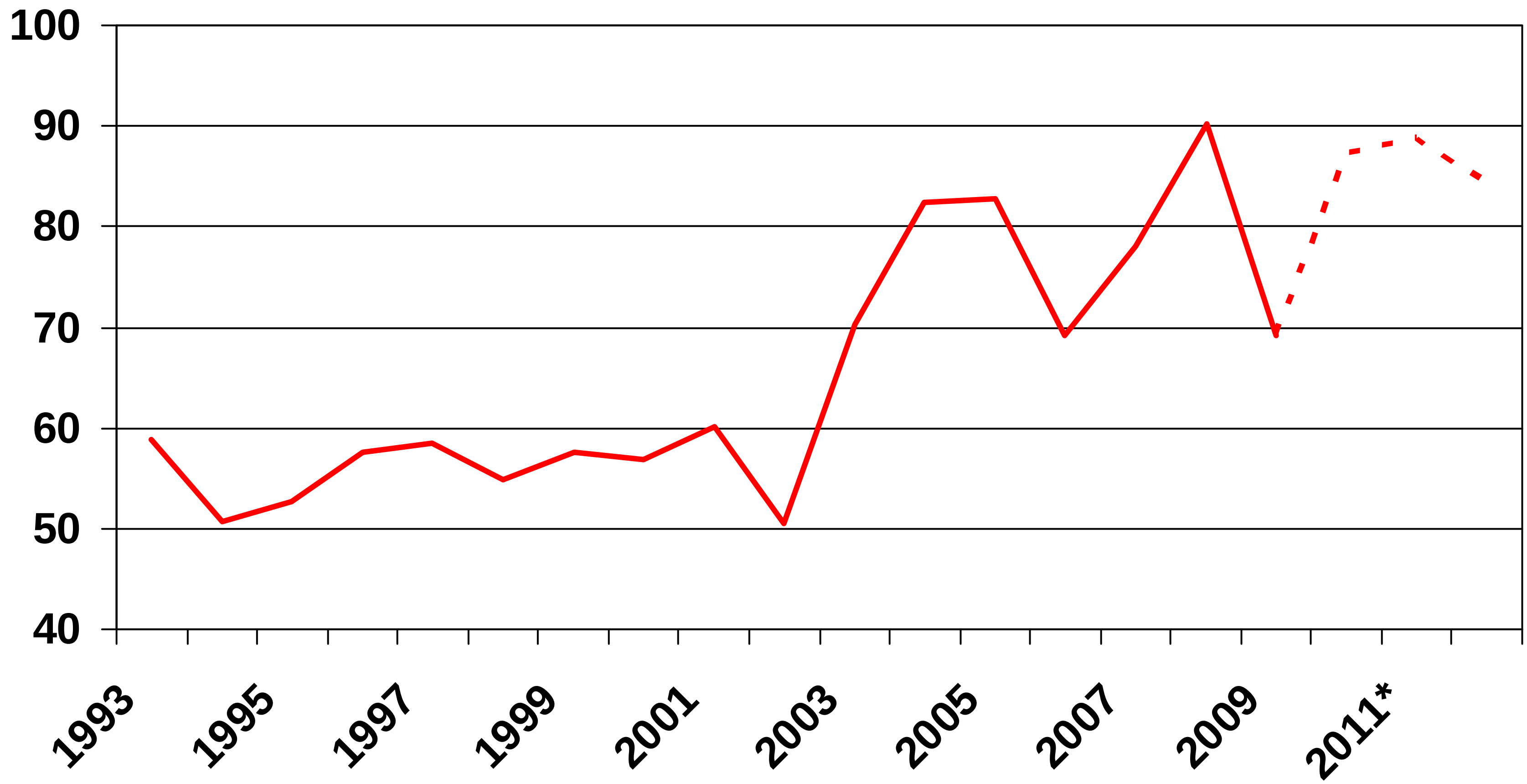
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

Released Thursday, November 11, 2010
Author: Mark Svoboda, National Drought Mitigation Center

Net Cash Farm Income Should Rebound

billion dollars



High Crop Prices are Boosting Income and Cash Flow

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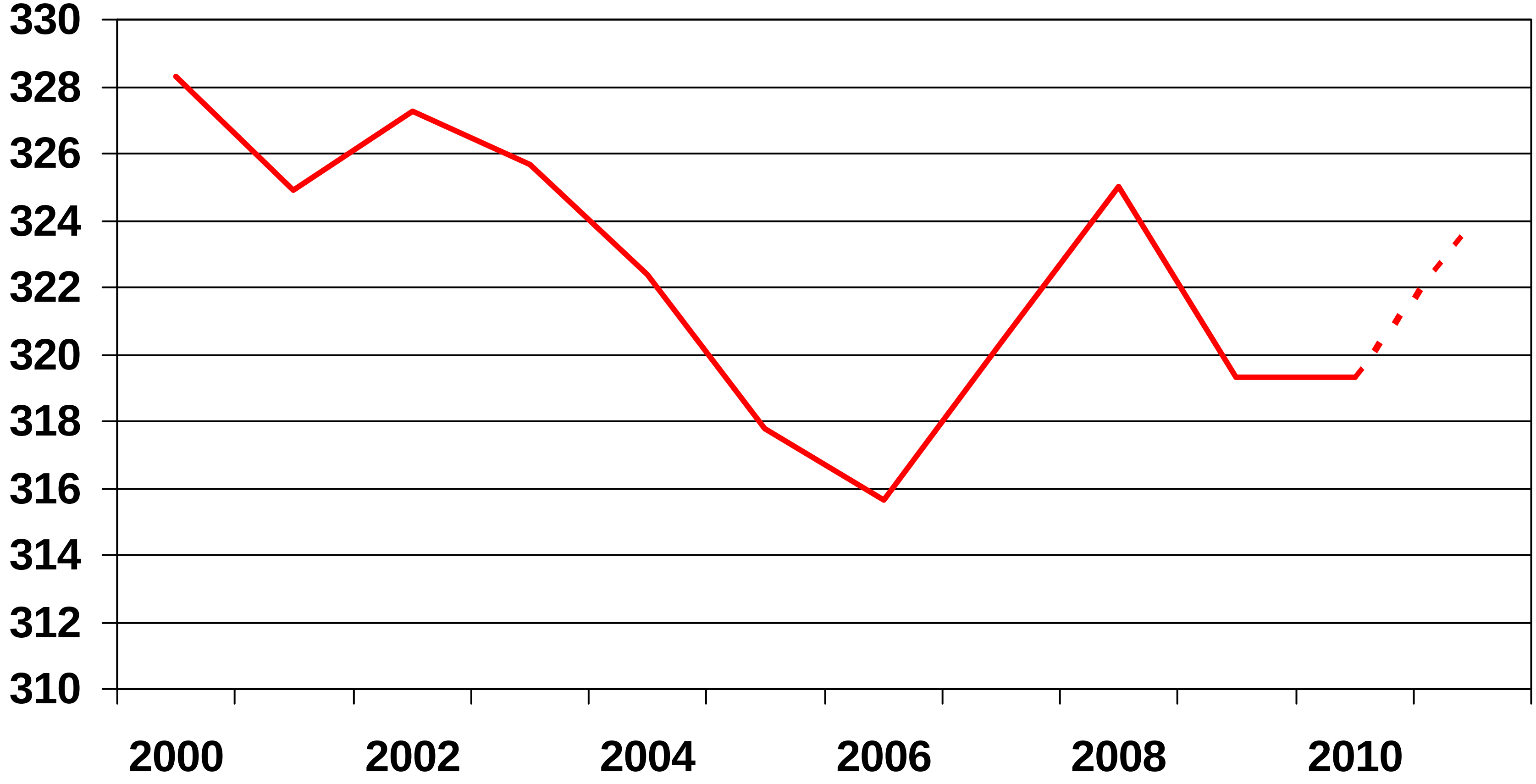
Crop Acreage for 2011

- Winter wheat acreage will probably rebound
- We will need more corn acreage
- Soybean acres can't decline much
- We need more cotton acreage

- CRP Held about steady at 31.2 million acres

Principal Crop Acreage

million acres



Can we find all those acres??

Conclusions

- Prices for all crops are up and profits look good
- There will be a battle for acreage for 2011
- Exports are strong for most crops
  - Poor crops elsewhere
  - Export restrictions
  - Rising demand, especially for soybeans
  - The weak dollar
- High prices will boost farm income for both 2010 and 2011

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Questions??