



What are Today's Grain Markets Telling Us About the Future?

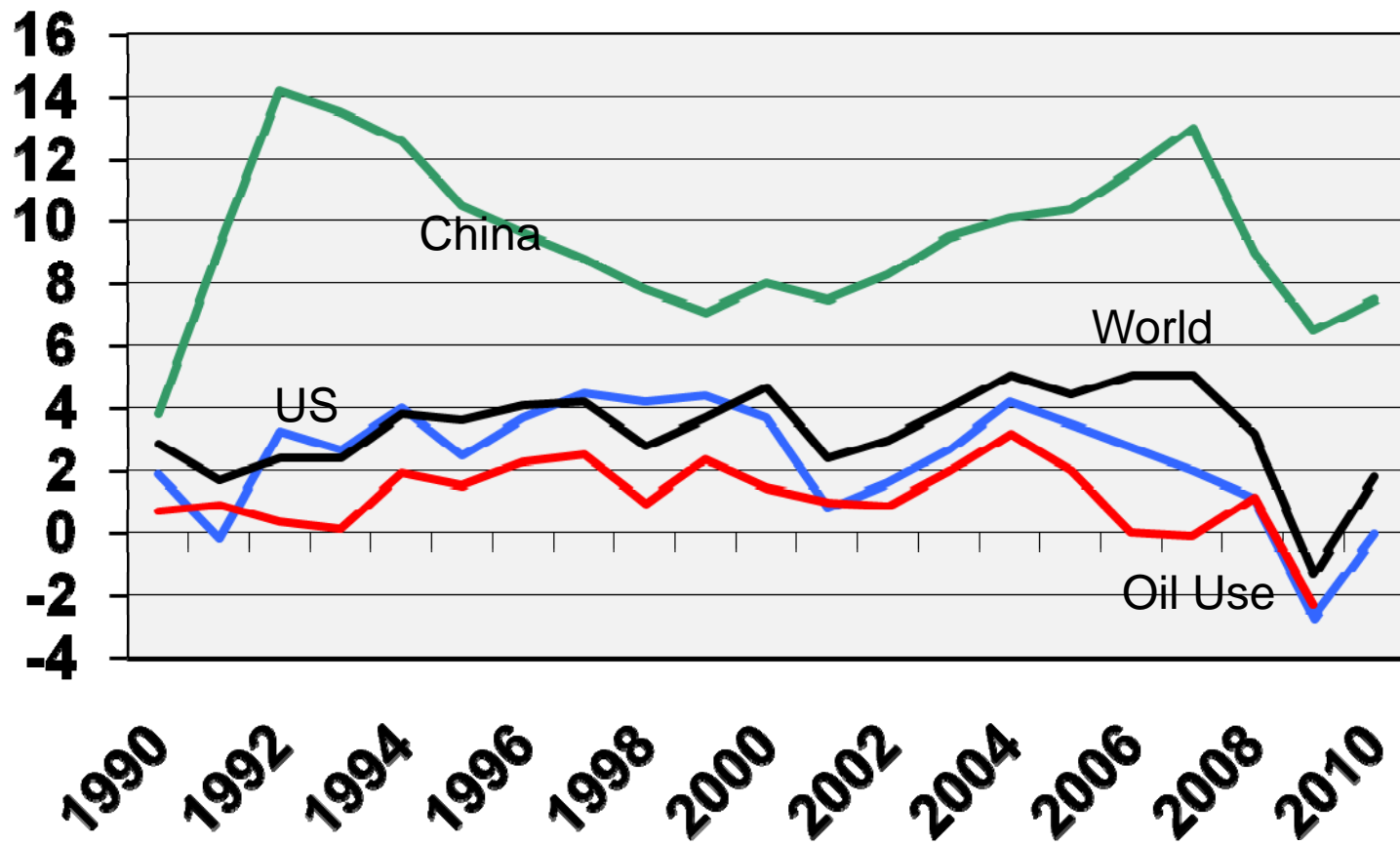
9 September 2009

Matthew C. Roberts, Ph.D.

Grain Markets

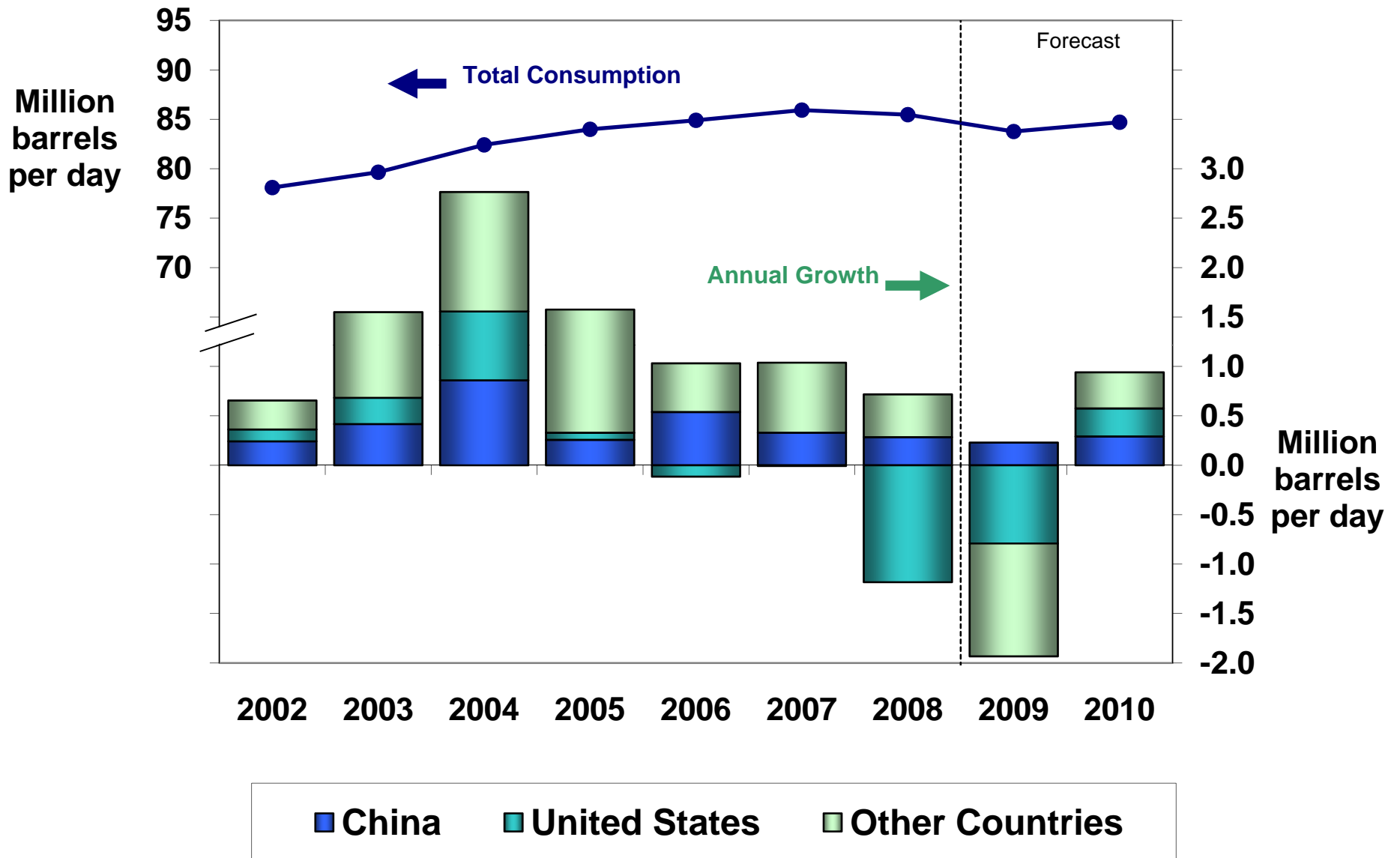
- Energy
 - Petroleum Prices
- Grains:
 - Global Supplies
 - Corn/Beans/Wheat
 - Biofuels
- Policy
 - HR2454/Waxman-Markey/ACESA

Global Economic Growth, 1990-2008

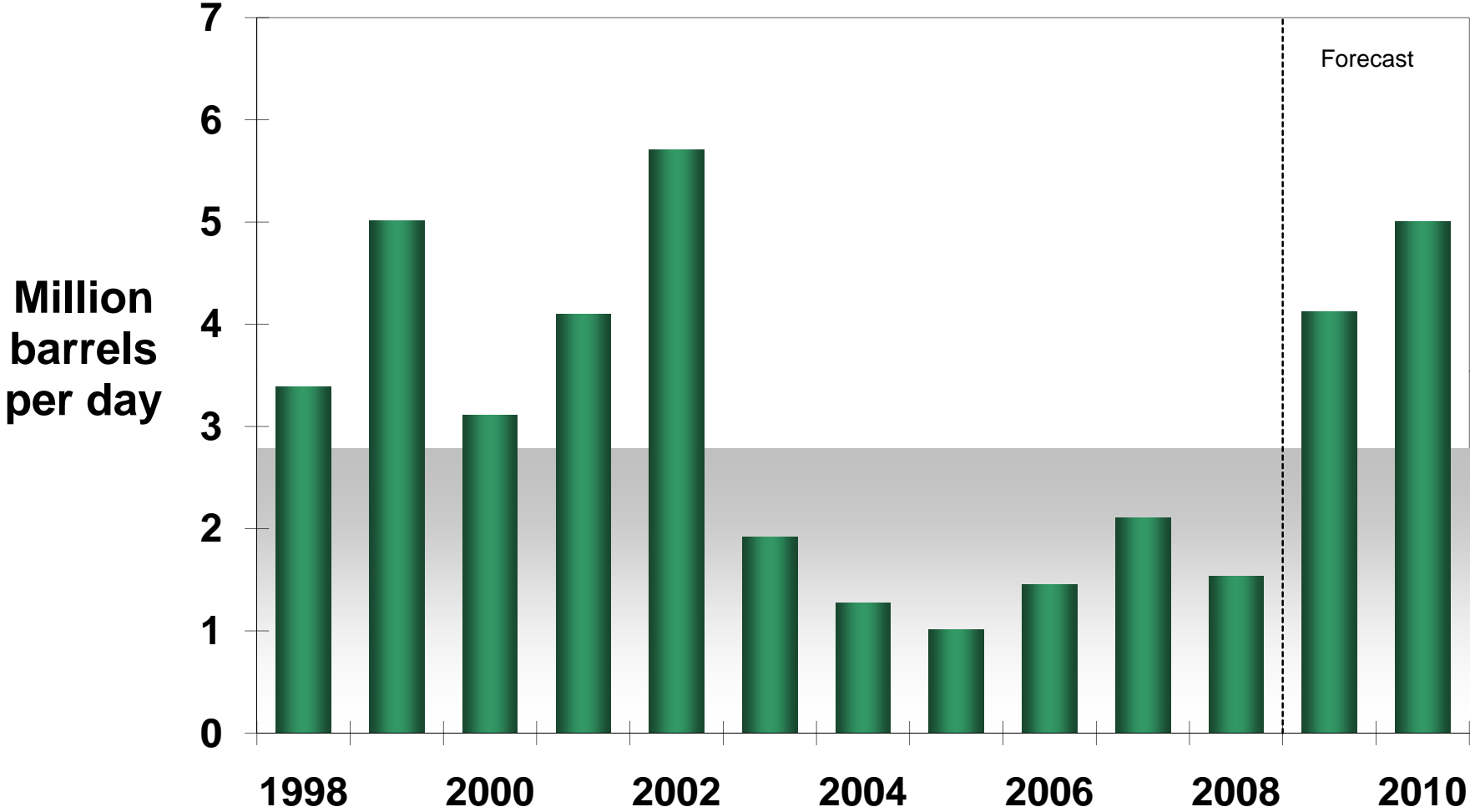


Source: IMF, EIA

World Liquid Fuels Consumption

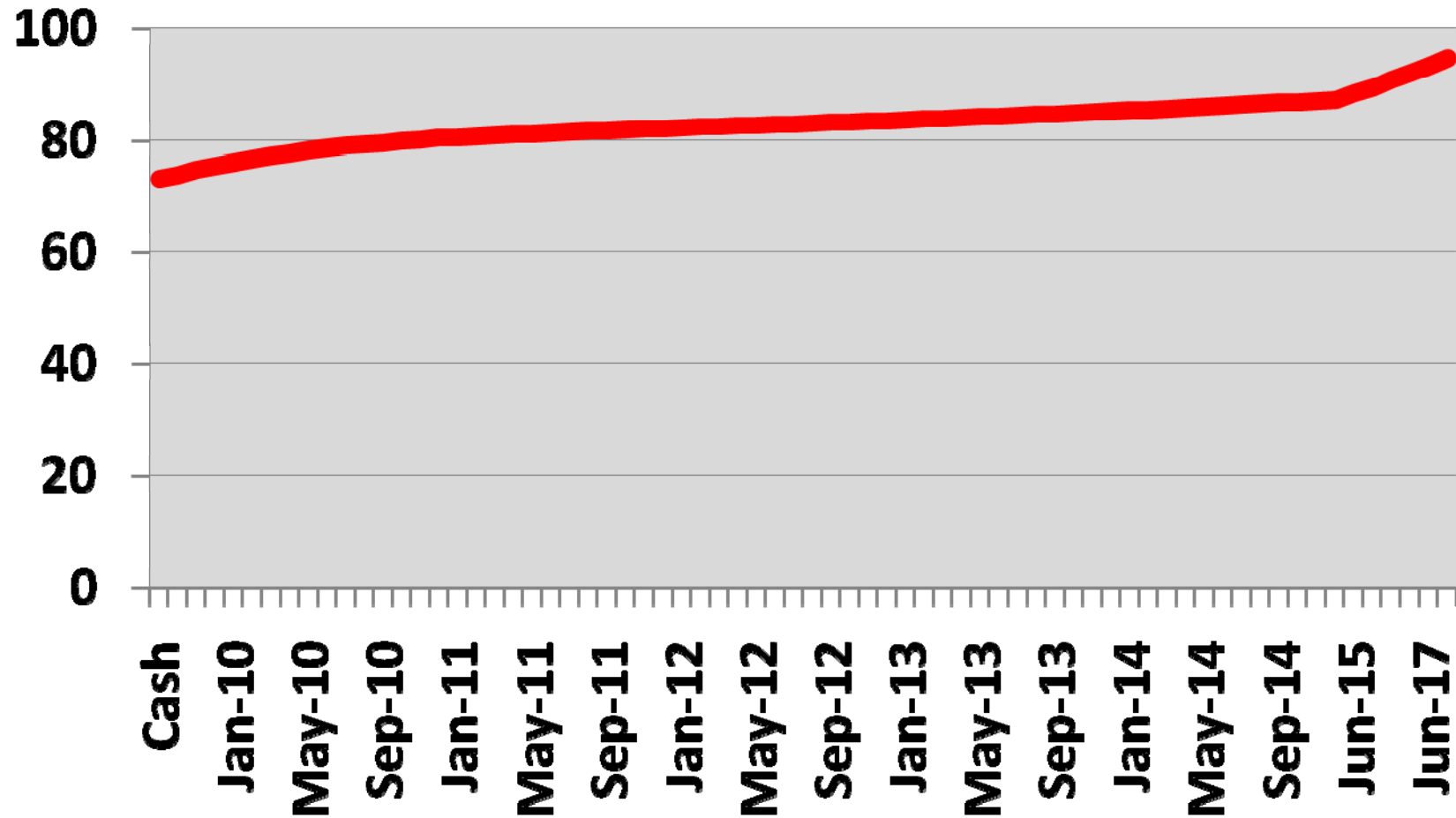


OPEC Surplus Crude Oil Production Capacity

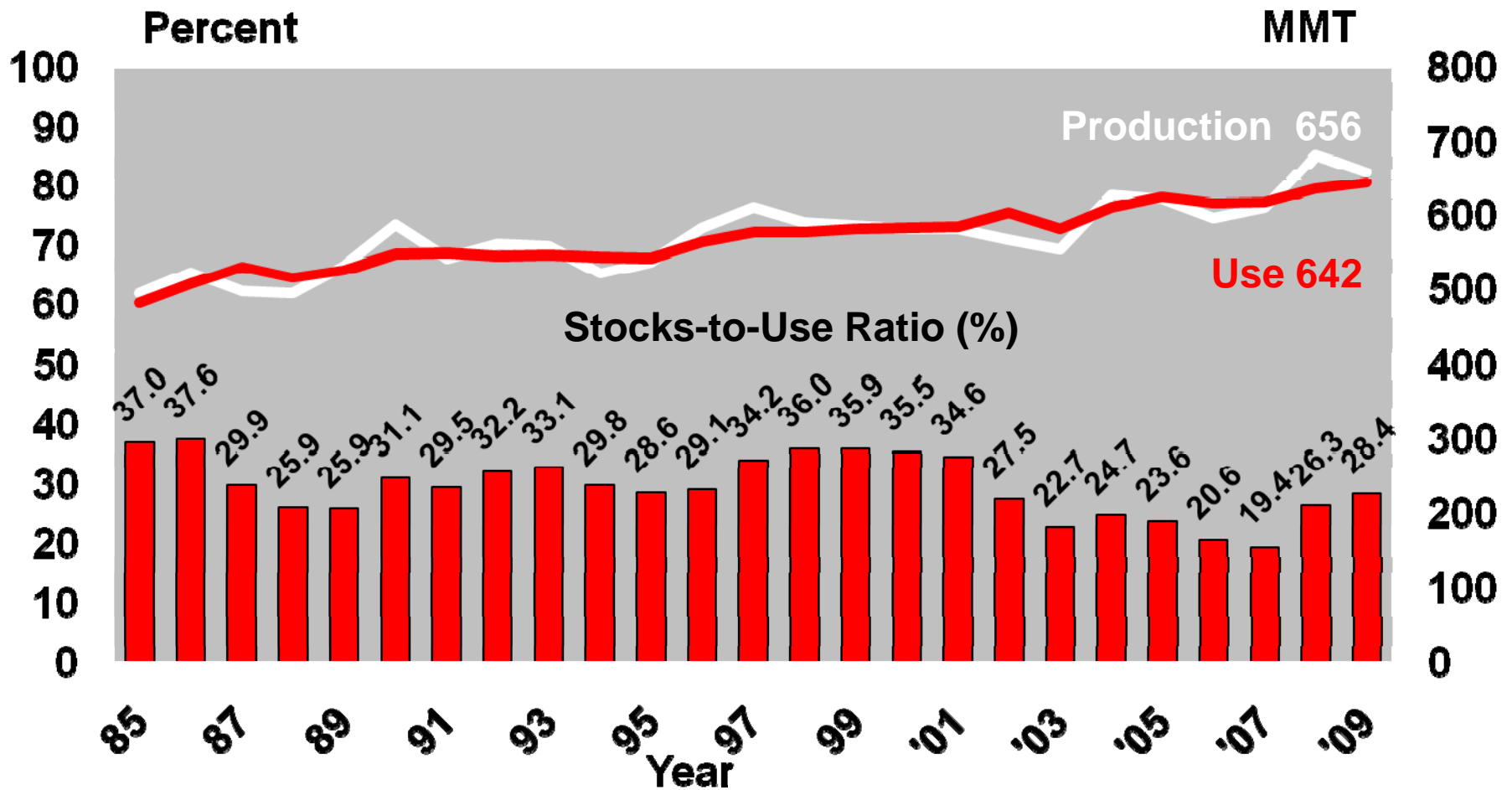


Note: Shaded area represents 1998-2008 average (2.8 million barrels per day)

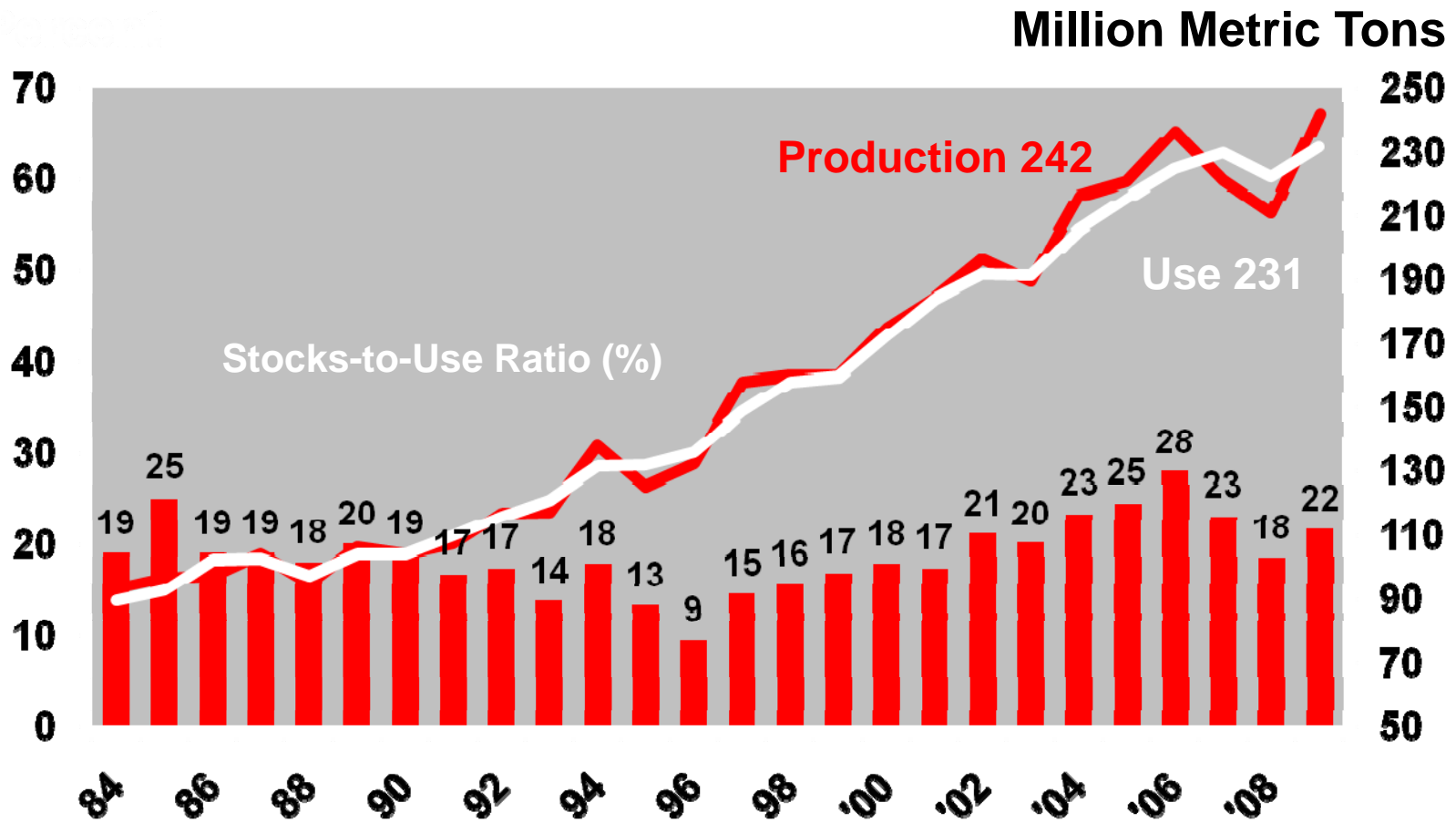
Oil Prices Comfortable at \$70-\$80



World wheat supplies are continuing to grow.

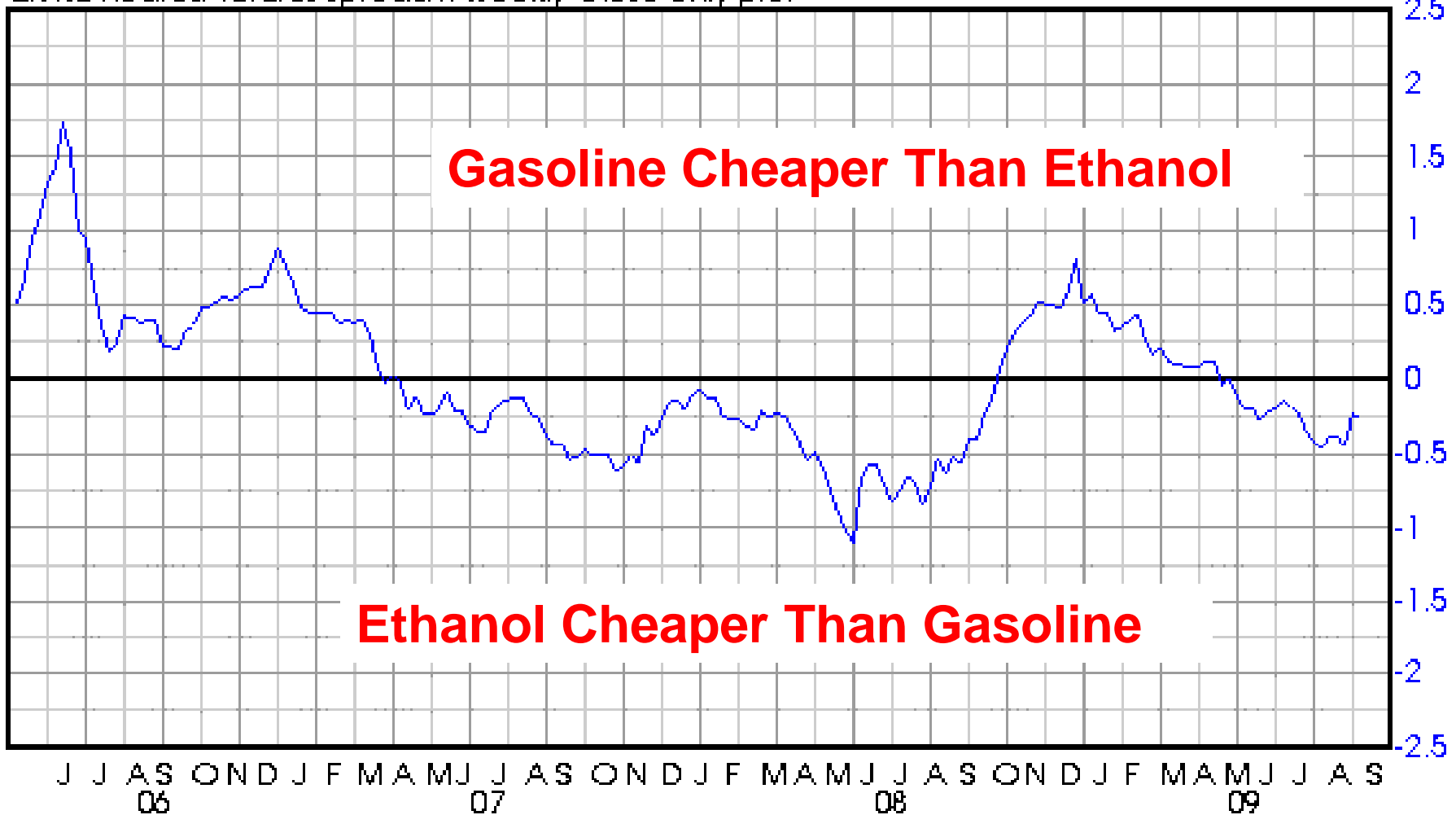


Global soybean inventories are ample.



Ethanol is Again Cheaper Than Gas.

ZK RB nearest futures spread... weekly Close only plot



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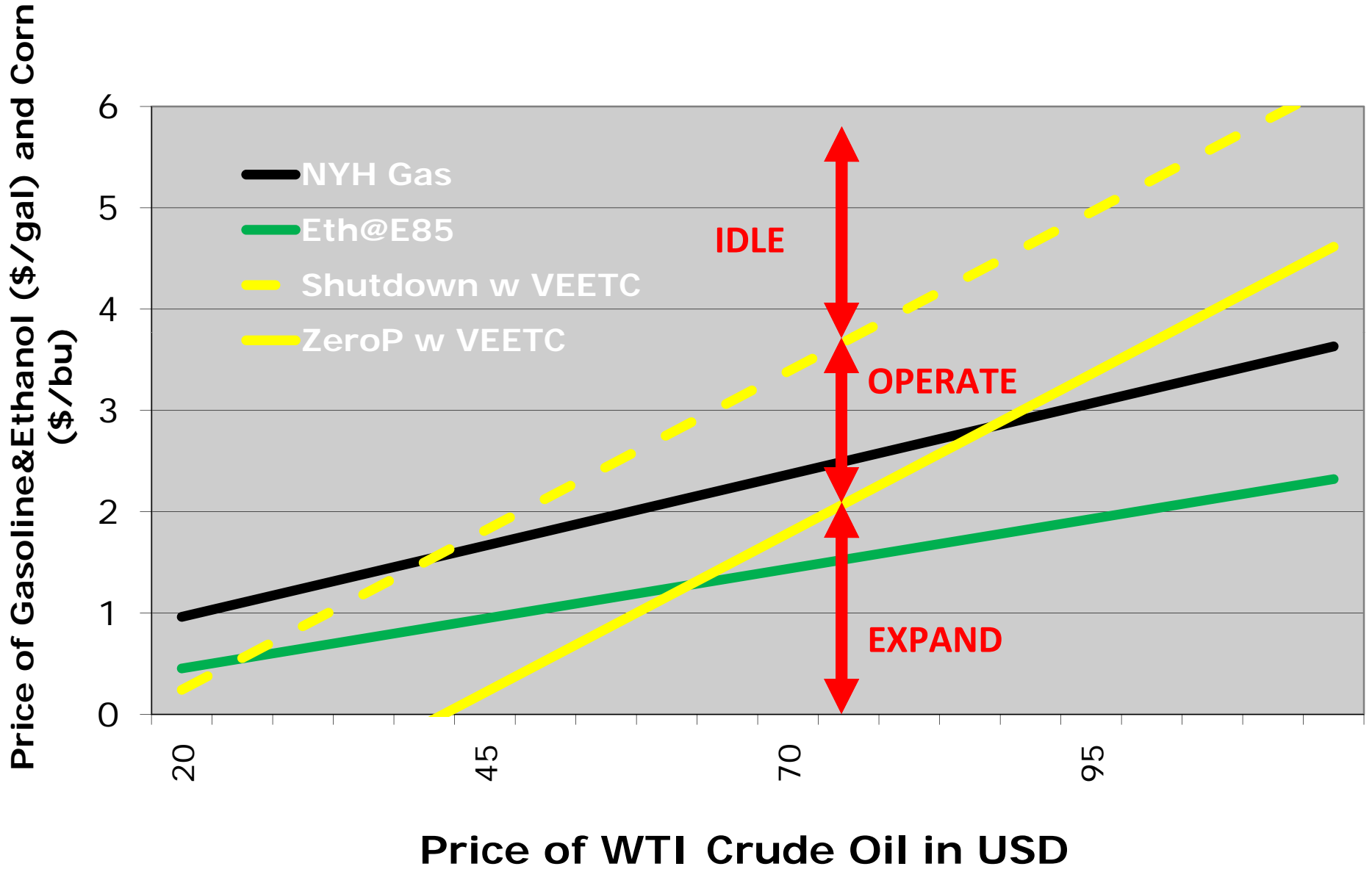
Ethanol Prices are at ~1.60.

ETHANOL FUTURES NEAREST FUTURES .. daily OHLC plot

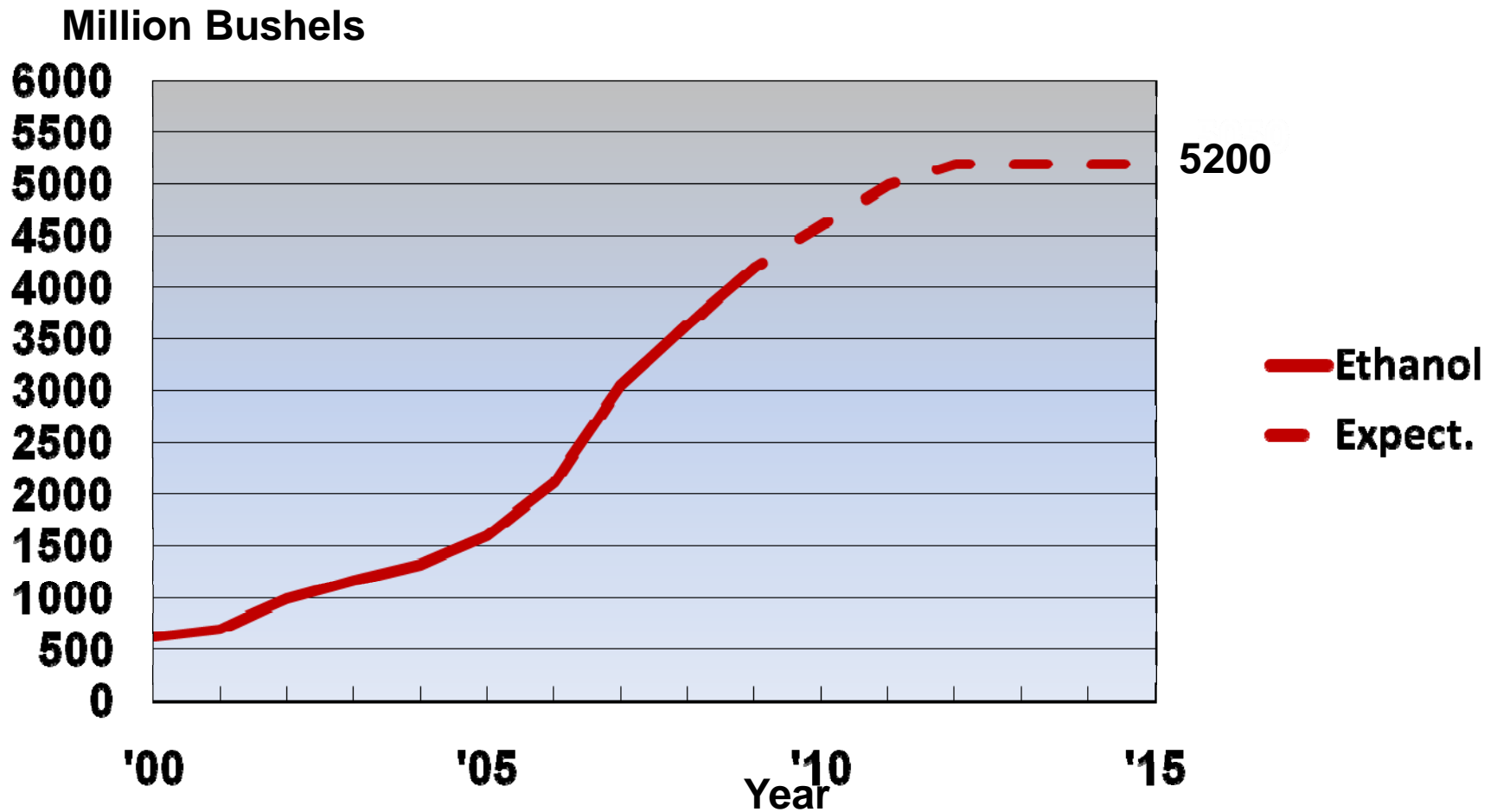


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Oil, Gas, Ethanol LR Equilibria



Ethanol Demand to Continue Increasing, But More Slowly.



Energy Independence and Security Act of 2007

Renewable Fuels Standards

Calendar Year	Total	Convent'l Biofuel (min 20% GHG reduc after 2010)	Advanced Biofuel (min 50% GHG reduction)	Cellulosic Biofuel (min 60% GHG reduction)	Advanced Non-Cellulosic Biofuel	Biobased Diesel	Advanced non-Cellulosic non-Biodiesel Biofuel
2008	9.00	9.00	-	-	-	-	-
2009	11.10	10.50	0.60	-	-	0.50	-
2010	12.95	12.00	0.95	0.10	0.85	0.65	0.20
2011	13.95	12.60	1.35	0.25	1.10	0.80	0.30
2012	15.20	13.20	2.00	0.50	1.50	1.00	0.50
2017	24.00	15.00	9.00	5.50	3.50	1.00	2.50
2022	36.00	15.00	21.00	16.00	5.00	1.00	4.00

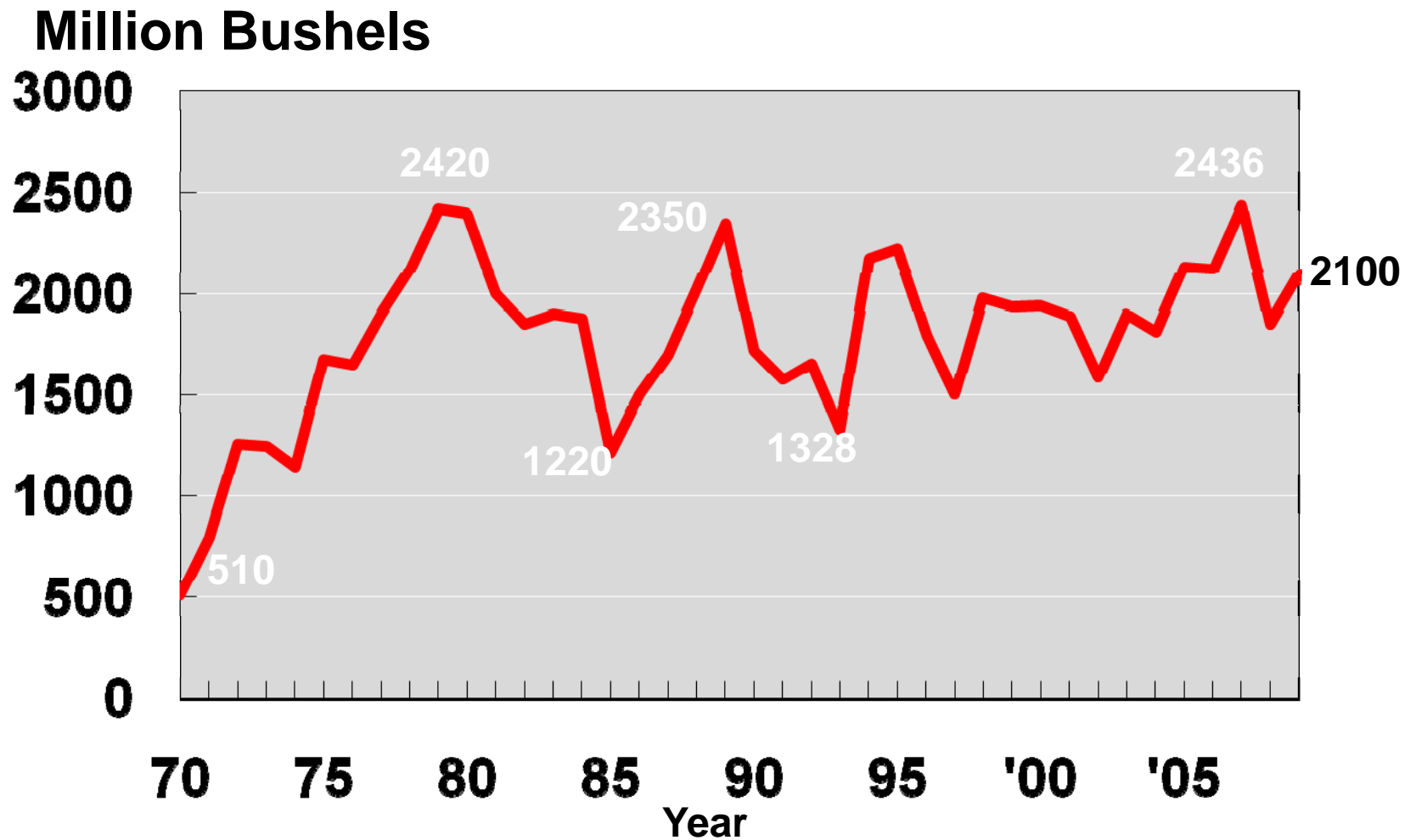
Gasoline is now cheap, and the 10% blend wall is now binding.

- Before each year, the EPA estimates the total number of gallons of gasoline that will be used,
- Then, using the RFS mandate, calculates the %age that must be ethanol.
- For 2009, it is 10.21%
- Therefore, unless the E10 cap is relaxed, for the first time, the US Government will (effectively) be mandating E85 usage
 - But what discount will be large enough?

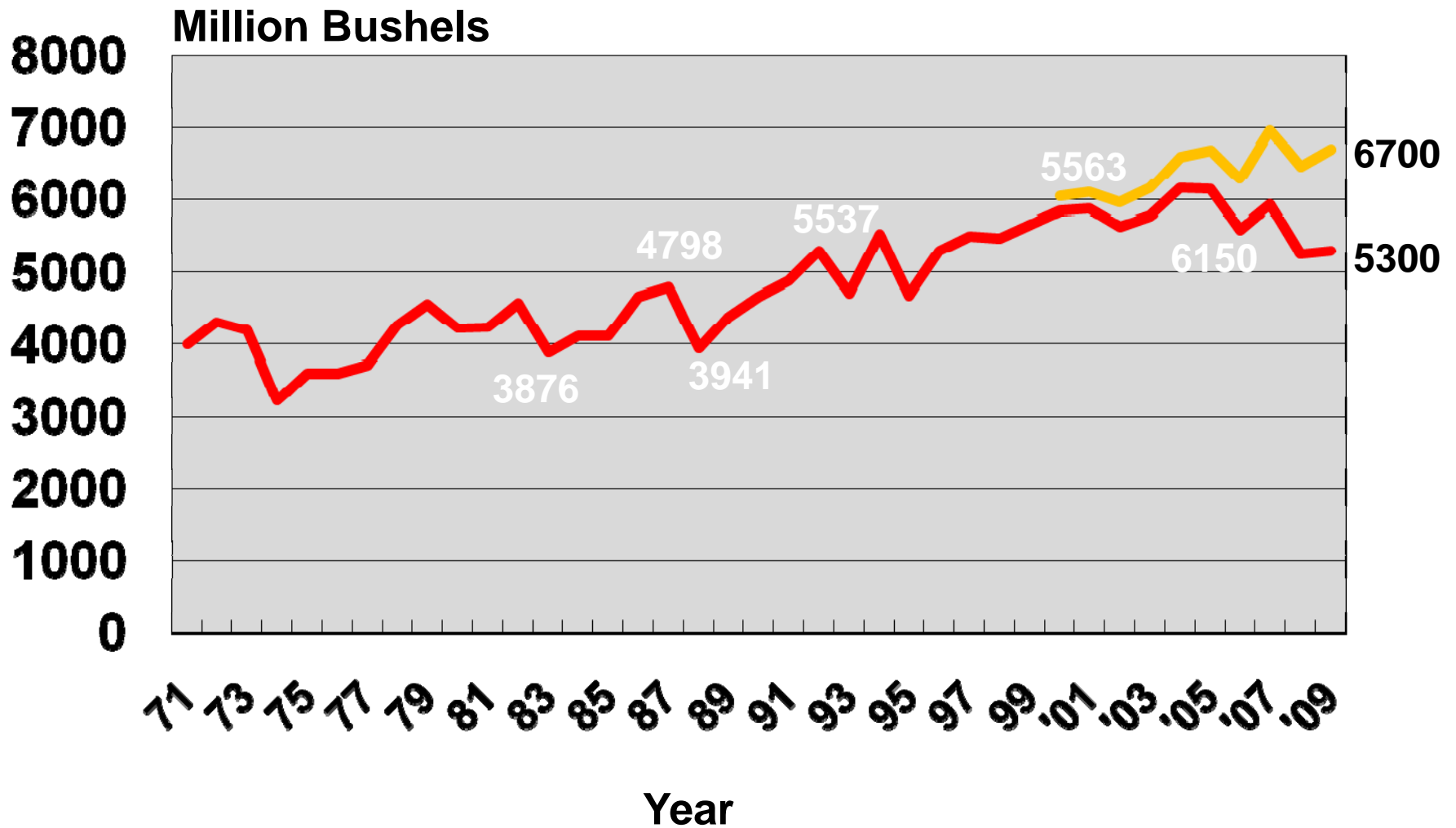
The US Ethanol industry is caught between two rocks and a hard place!

- Strong correlation between oil and corn prices means that higher oil prices don't guarantee stronger margins!
- Increasing amount of ethanol must be sold as E85, leading to tighter margins, eliminating incentive to build more plants.
- Increasing federal mandates mean that soon more ethanol must be consumed than can be produced.

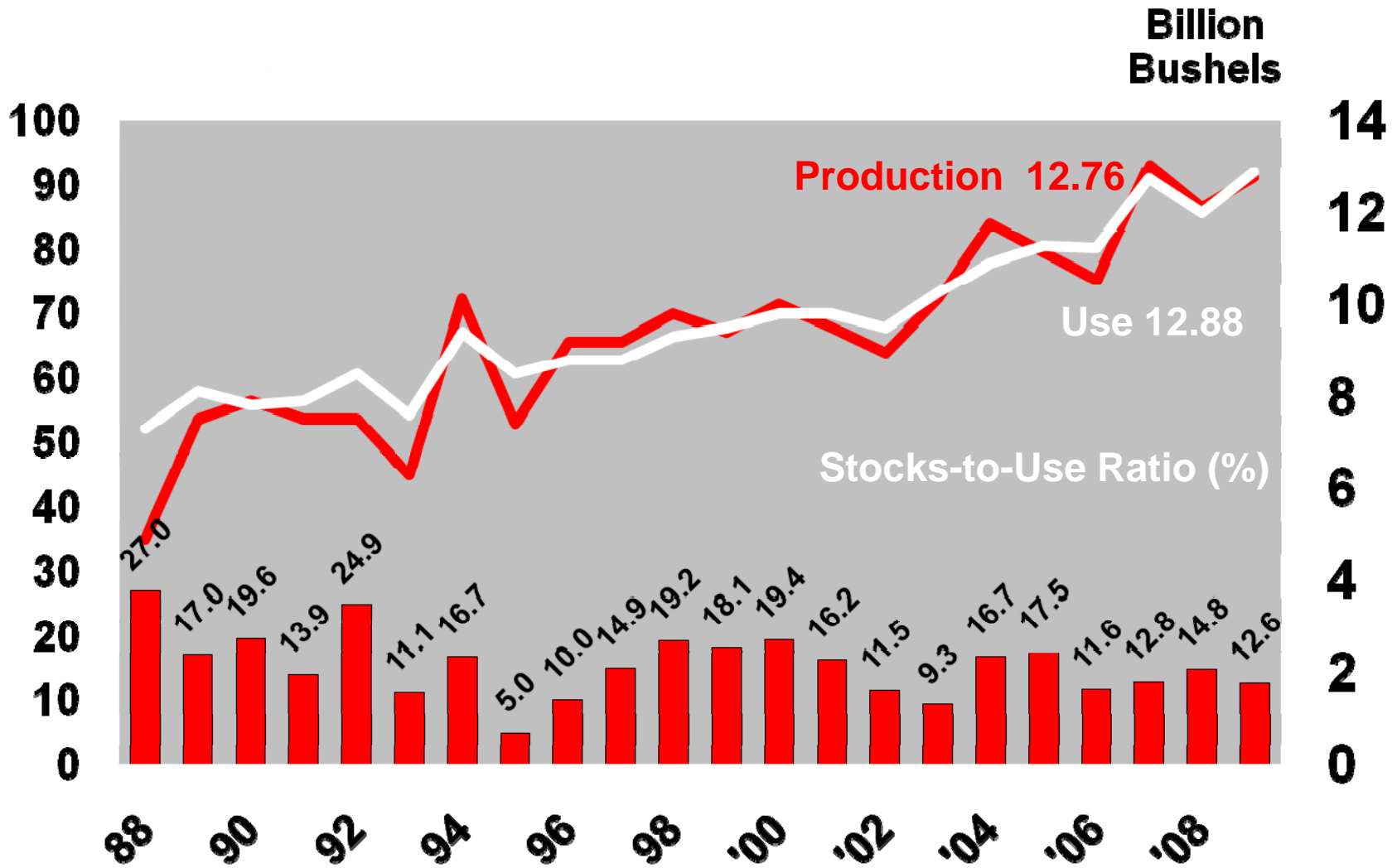
Corn Exports rebounding in 09/10.



Feed & residual use is less alarming when DGS are included.



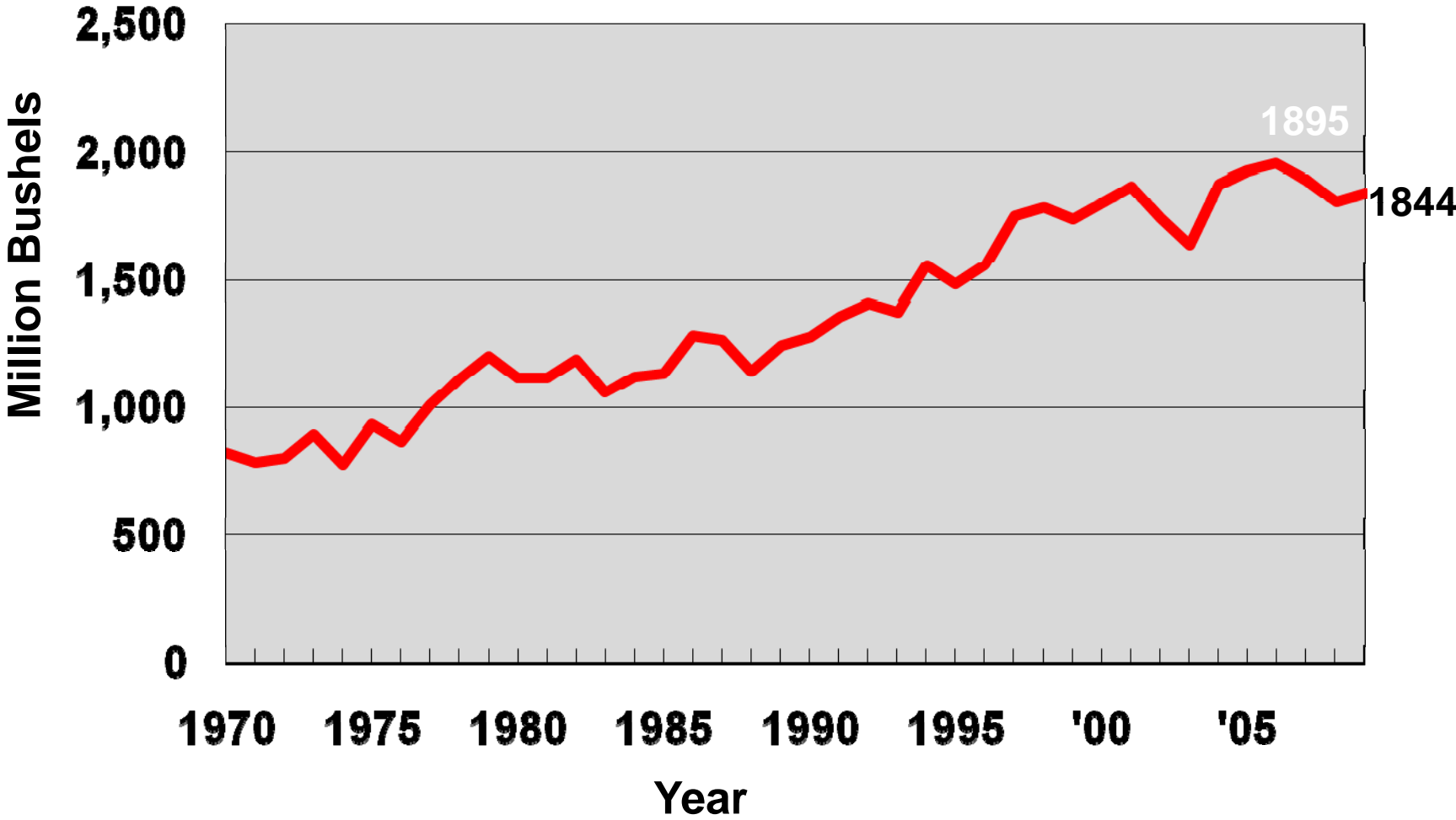
US Corn Situation



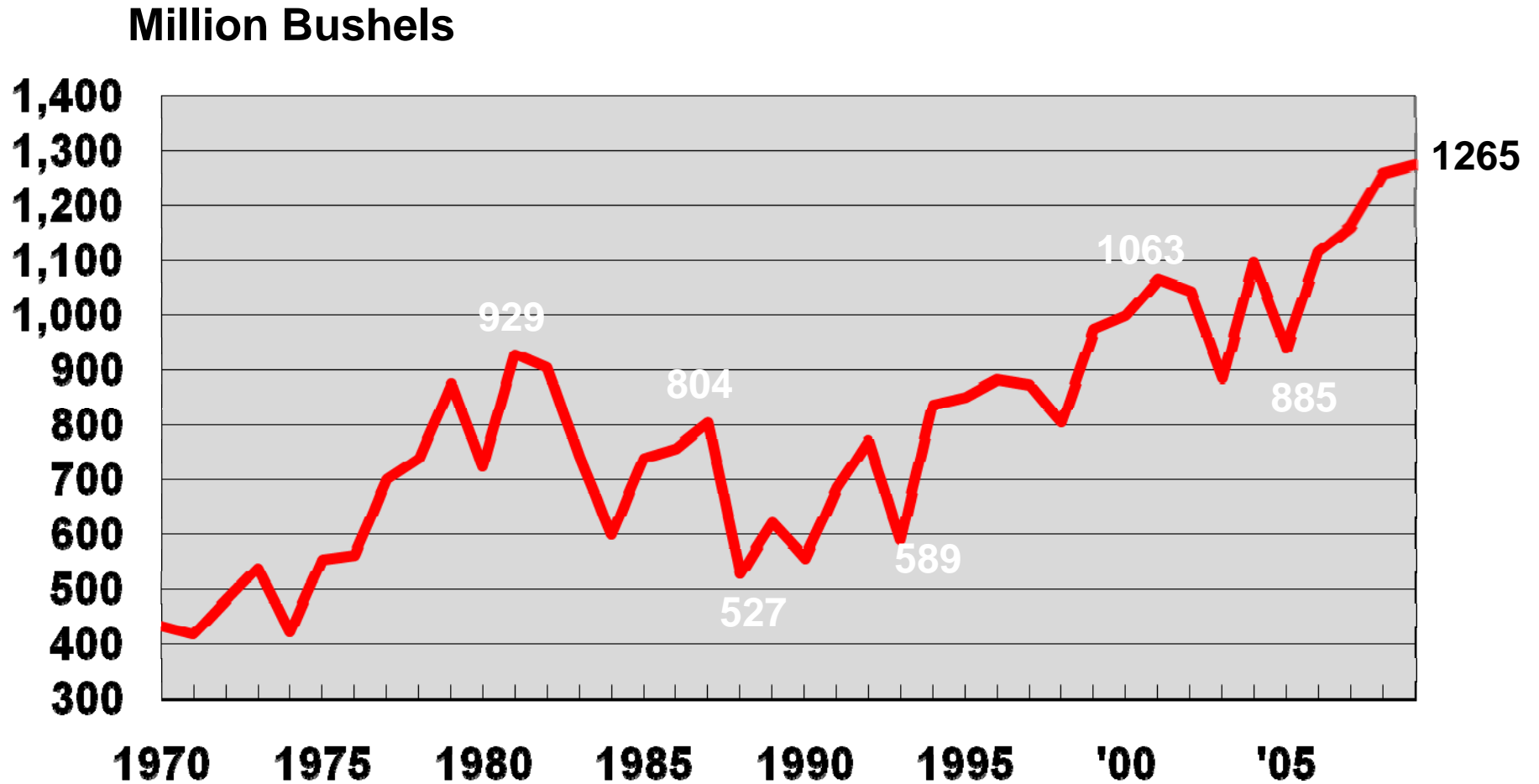
Could it get any worse for corn prices?

- Nothing is going right for corn prices:
 - Higher Acreage
 - Ample supplies
 - Weak Exports
 - Very cool summer & high yields
- Weak oil prices
- Ethanol uncertainty

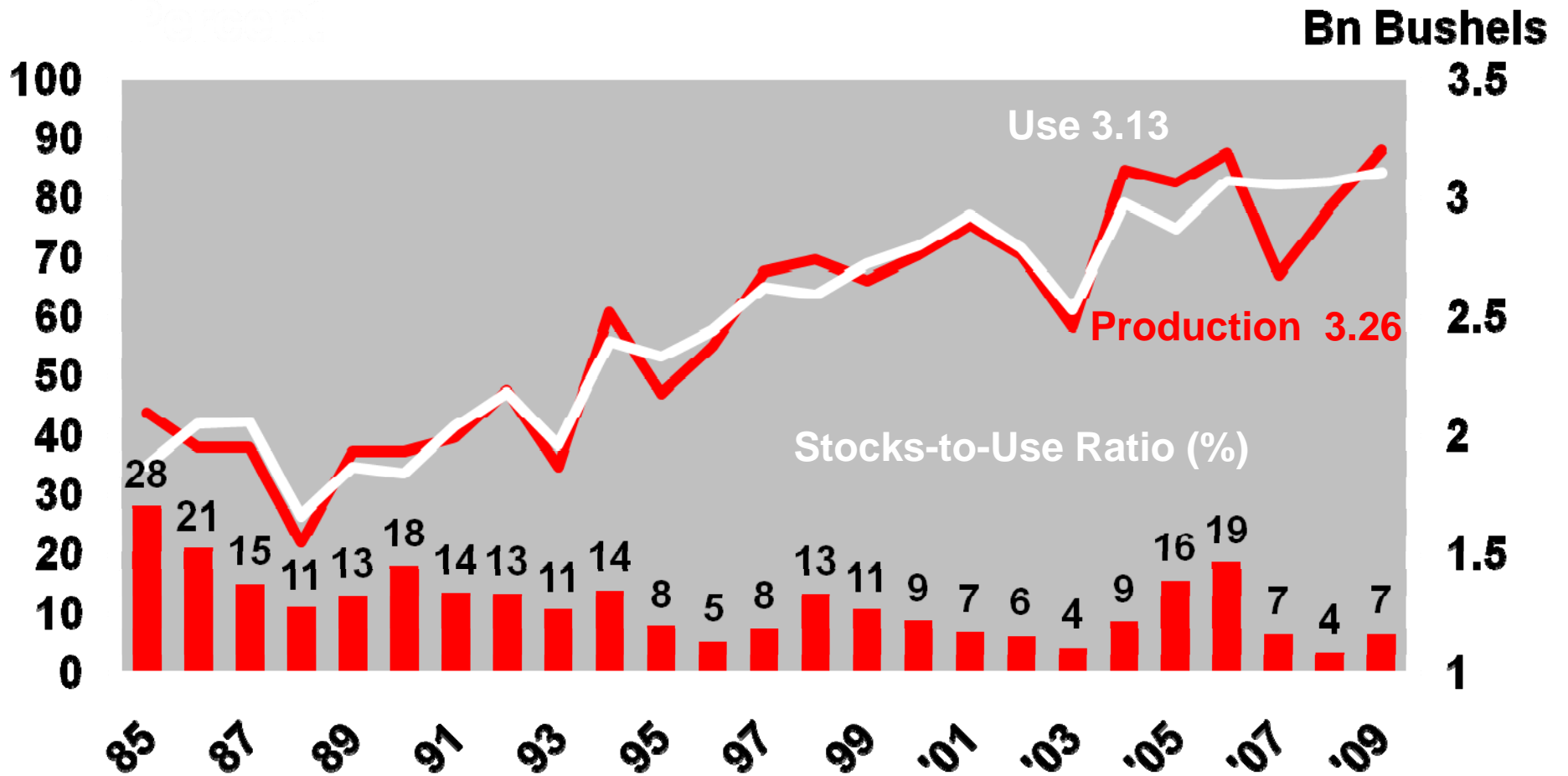
US Soybean Demand is Steady



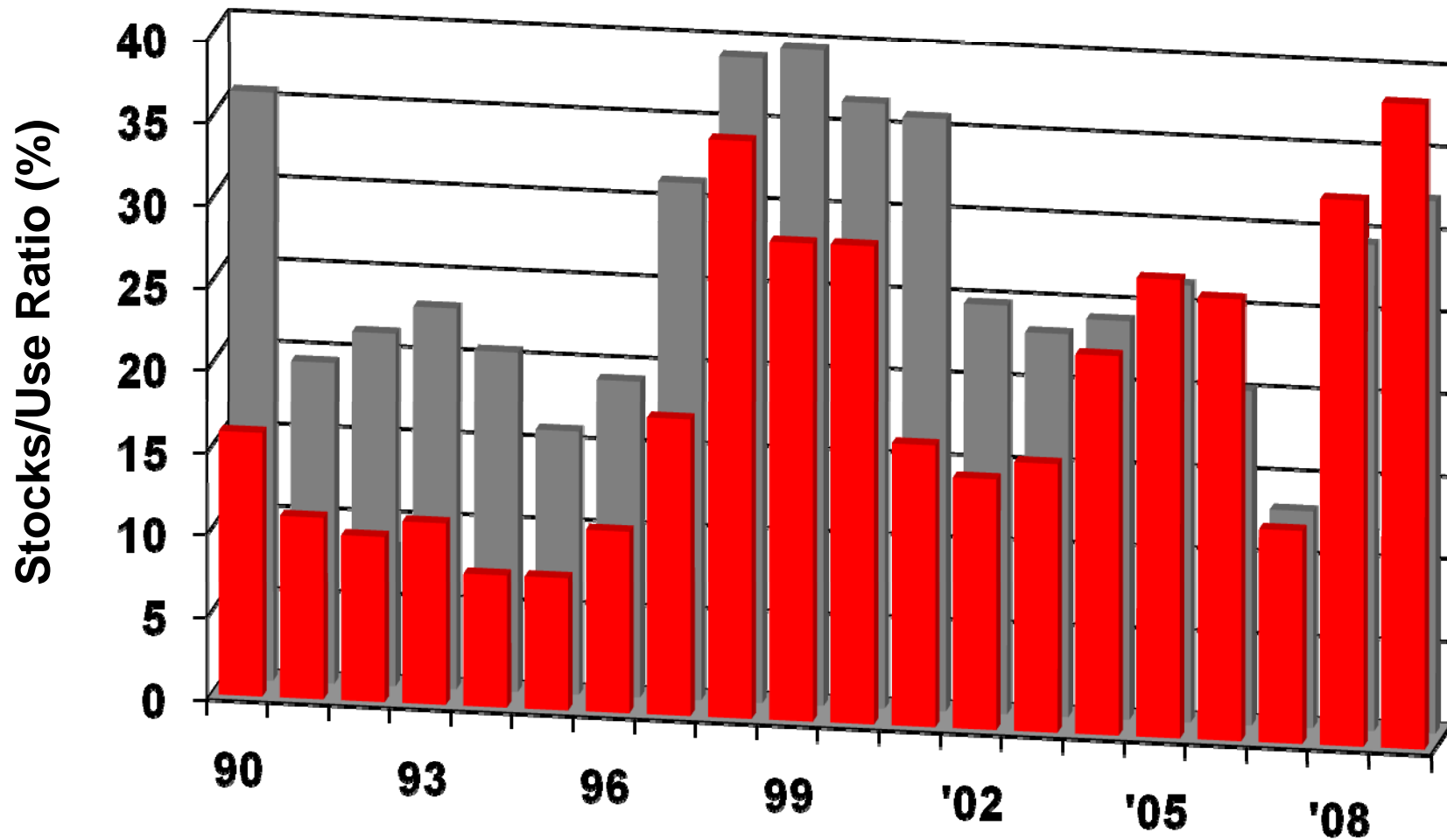
Soybean exports remain a bright spot.



US soybean inventories are moderately tight.



All Wheat Inventories are rising.



Waxman-Markey & Agriculture

- Under the Clean Air Act, the EPA now has the authority and the mandate to either regulate GHG emissions or justify not doing so.
- Waxman-Markey is an attempt to have these regulations made by legislators instead of regulators.
- The Ag portion was very rushed—there was nothing regarding Ag in the committee bill.

What are the direct cost effects of carbon pricing legislation?

- Fuel
- Fertilizer(?)
- Energy Use
- These are likely to be relatively small (5-15%).
- While the effects will be larger after 2025, they will still almost certainly be much lower than the rise in energy costs because of market forces.

Where do the offsets come from in Agriculture?

- No/Reduced Tillage
- Biodigestion
- Cover crops
- Overall, these will cover the increased direct costs, through at least 2025, when fertilizer allowances expire.

What will the net effect be on Agriculture?

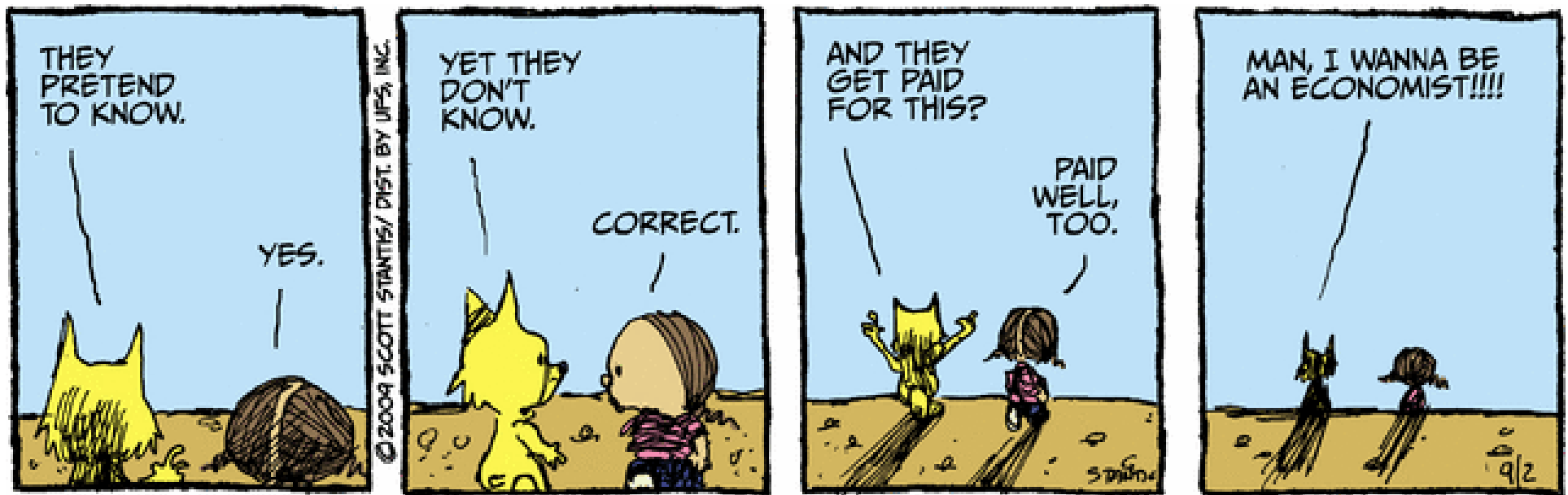
- On balance it will be positive--it must be to attract Midwestern votes.
- CAFOs have the most to gain through anaerobic digestion.
- For most crops, offsets should cover increased input costs.
 - Some exceptions: Cotton, rice.

Dispatches from the Dismal Science

- A (well-designed) Cap-and-Trade and a carbon tax are nearly identical to an economist.
- Prices of carbon consumption must rise in order to incentivize reduced consumption.
- In general, handing out carbon allowances (to generators, for example) will ***not*** prevent price increases to consumers.

The Devil is in the Details:

- Additionality
- Continuous No-Till cost of adoption
- Enforcement
- Are CAFOs certain that they are agriculture?
- Who owns the carbon credits, farmers or landowners?
- Program complexity? Look at ACRE signup.



If you would like a copy of this presentation, please email me, citing the date and location of the presentation.

Matt Roberts

(614) 688-8686

roberts.628@osu.edu

<http://aede.osu.edu/people/roberts.628>