

# Grain/Oilseed Outlook



By: Rich Feltes

MF Global IB Expo-September 27, 2008



## Bullish factors in place autumn '07 that for '08/09 are reversed or tempered

- Dollar breakout to downside
- Soaring crude/CRB market
- Strong emerging world GDP growth
- Investors willing to carry modest portfolio risk
- Strong inflow of capital to Index/trend following funds
- Shortfall in world wheat production
- Strong bi-partisan support for ethanol
- End-user interest in owning deferred corn
- Congressional indifference to spec traders

# CRB Outlook

## Positives

- Russia/Iran/Nigeria sustain geo-political uncertainty
- Global grain stocks 2<sup>nd</sup> lowest 27 yrs
- Lack of confidence in leaders of political & financial institutions
- Ongoing effort to improve PRC/India standard of living
- Lingering uncertainty over health of financial assets
- Population growth still high in developing world
- Physical buyers support hard breaks

## Negatives

- US/global economy slowing
- Consumer & Financial institutions continue to shore up balance sheets
- Congress may limit capital flow into commodities
- Corporations pushing efficiencies to contain commodity costs
- \$ trending higher thru year end
- Gold topped out for now
- Funds selling crude rallies/energy demand slowing

**Bottom line— Near term consolidation then lower into mid 2009: commodity funds managed more actively—global growth slows**

# Every Sunken Ship has a Chart

Nonetheless--can't afford to ignore reefs  
(i.e. Support/Resistance & Moving Averages)

**\$750 bil bailout package = 100 Katrinas**

Letocar  
com

# CRB Weekly

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 H= 46942  
 L= 46262  
 L= 46925^A  
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62069

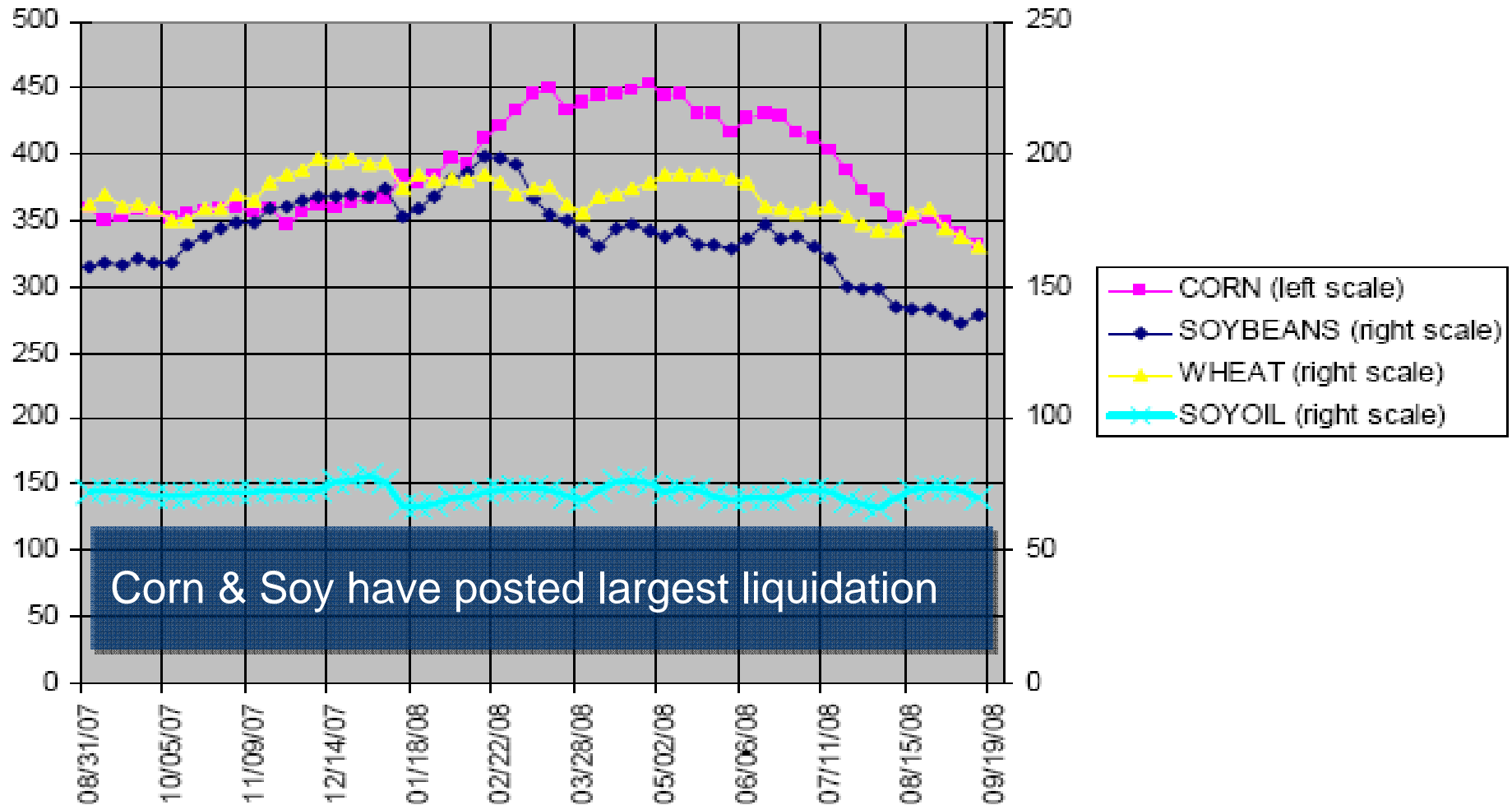
Peak driven by physical longs covering short hedges  
 Chart still positive but long term high in  
 Plunge to 38% entrancement suggests bounce  
 '09 downside objective=400  
 Need to penetrate 510 to resume uptrend



# Fund Managers: Changing Landscape

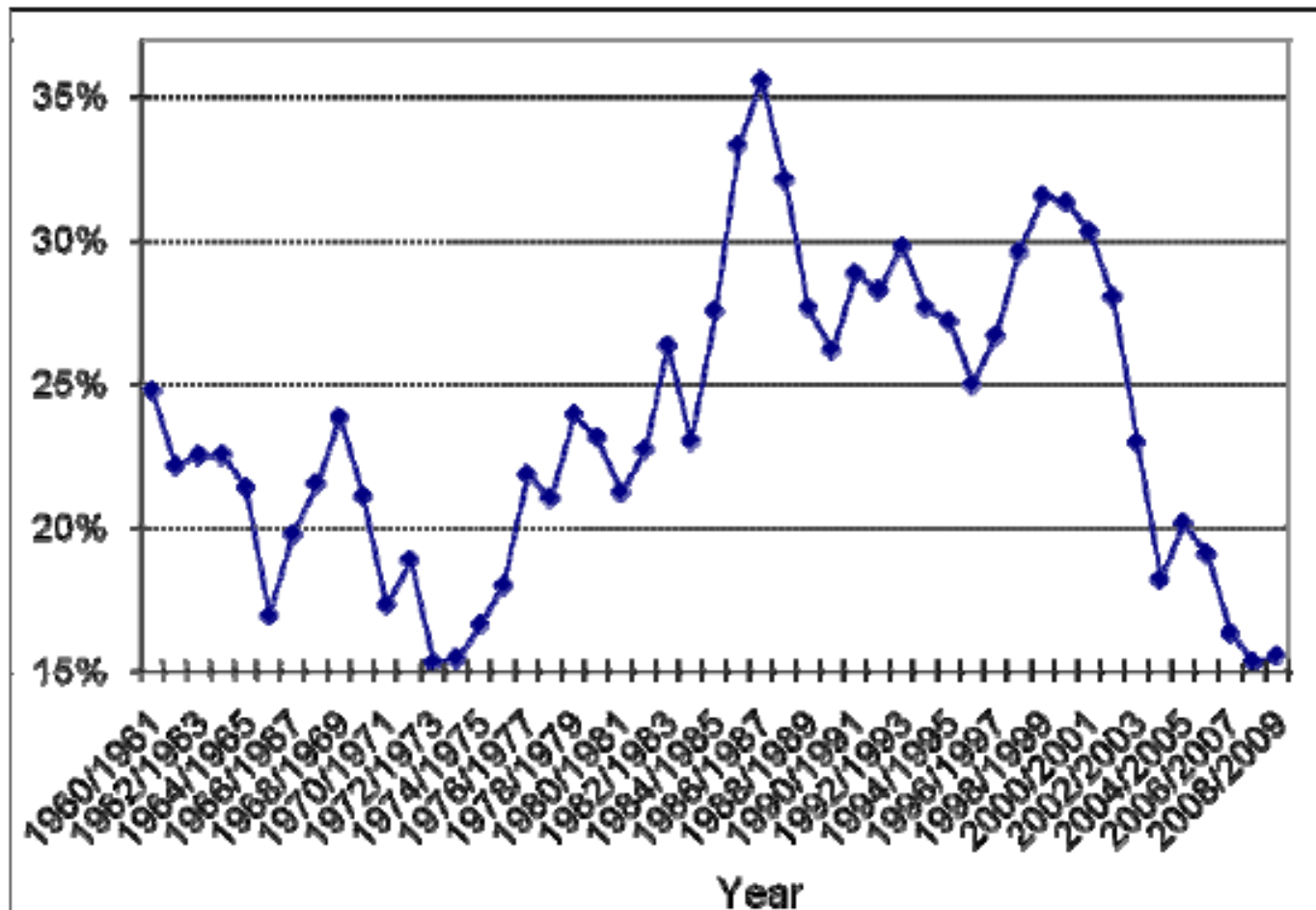
- Will public/private pension funds tolerate losses in commodity portfolio in aftermath of 9/08 panic?
- Russian aggression cast cloud over E & W Europe
- CME wheat changes increase costs for passive longs
- World grain stocks tight but trending higher
- Soybean demand growth tied to global growth which is slowing
- **Take Home—Grain component of CRB more 2 sided**

# Index Fund Long Positions (000 contracts)

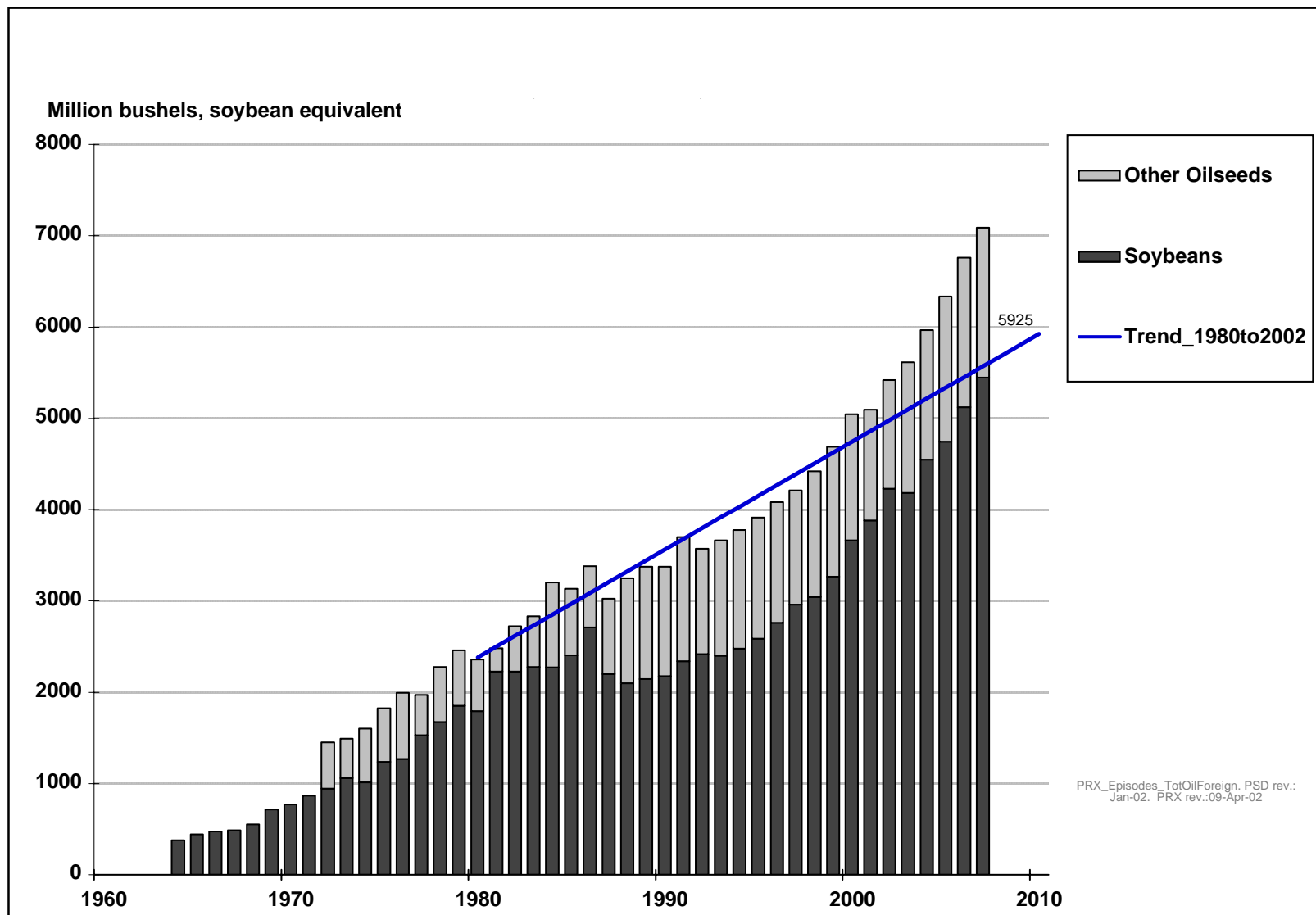


Corn & Soy have posted largest liquidation

## Stocks-to-Use Ratio for Total Grains in the World (1960-2009)



# World Total Oilseed & Oilseed Meal Exports By Oilseed Type, 1960-2008, with Trend



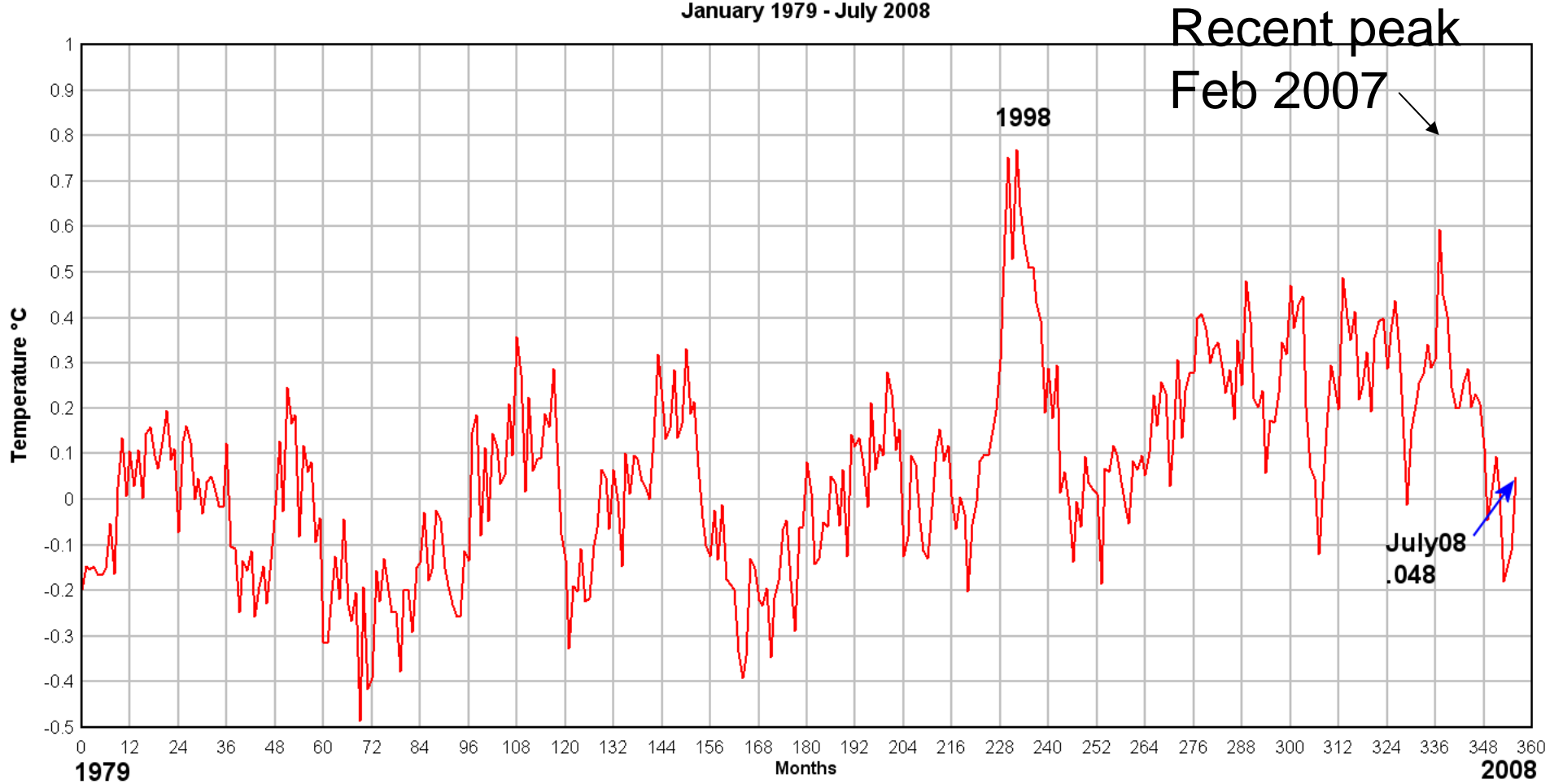


# 08/09 Western Hemisphere Weather Outlook

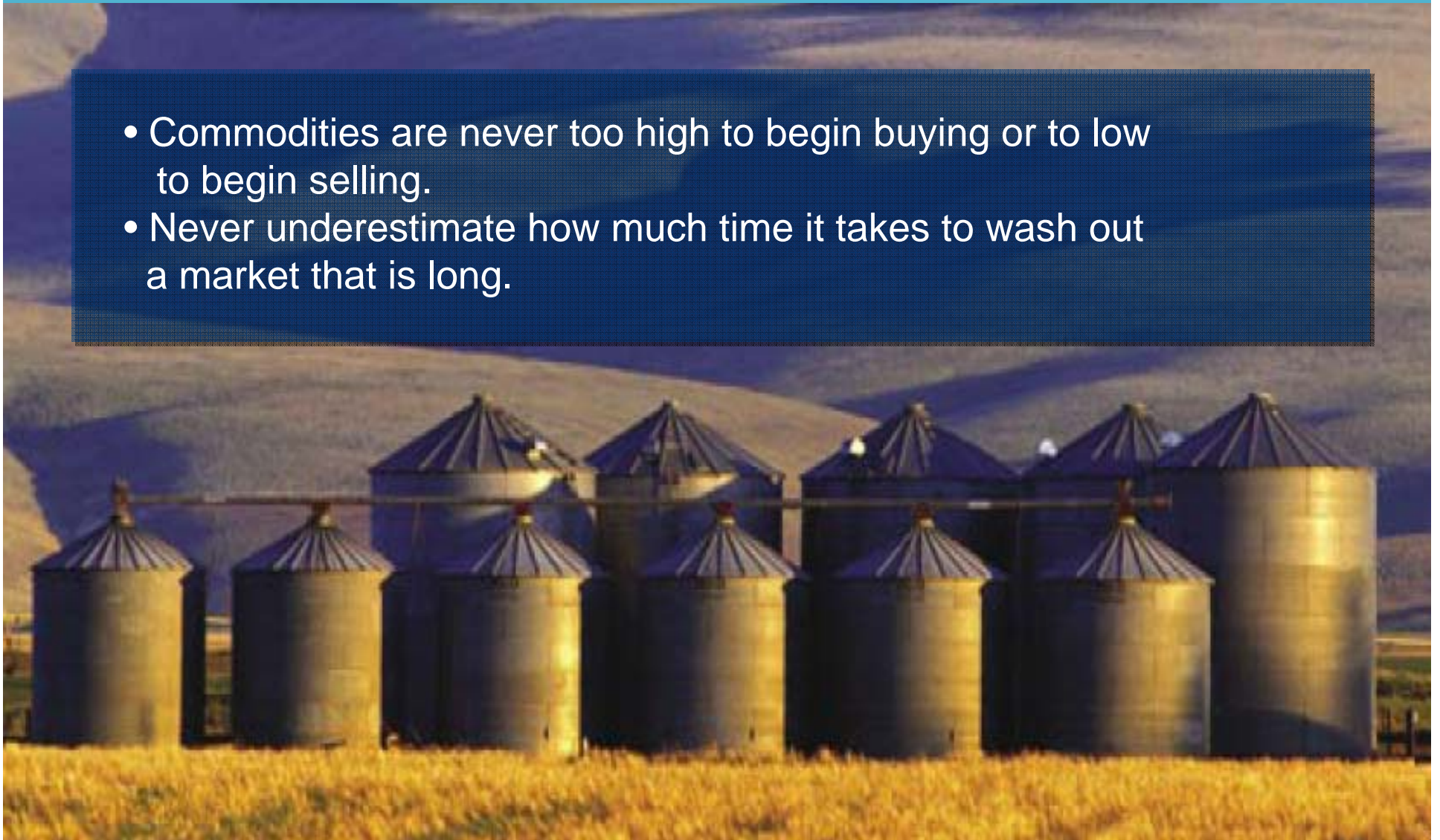
- Eastern plains/ Midwest subsoil moisture reserves above average
- Neutral ENSO
  - Expected to continue through winter
  - Below normal US precip through year end
  - Low confidence on US winter temps but slight bias to above normal
  - Argentina stays dry through mid Nov
  - Brazil rainy season starts on time except for moderate delay in north
- Strong Pacific Decadal Oscillation: warm US temps Oct/Nov
- NWS US harvest Outlook: above normal temps/normal precip
- The longer sun spot minima persists-the more likely earth maxima temps will decline

# UAH Monthly Means of Lower Troposphere LT5.2

Global Temperature Anomaly  
January 1979 - July 2008



- Commodities are never too high to begin buying or too low to begin selling.
- Never underestimate how much time it takes to wash out a market that is long.



# '09/10 Grain Markets--A look ahead

## Positives

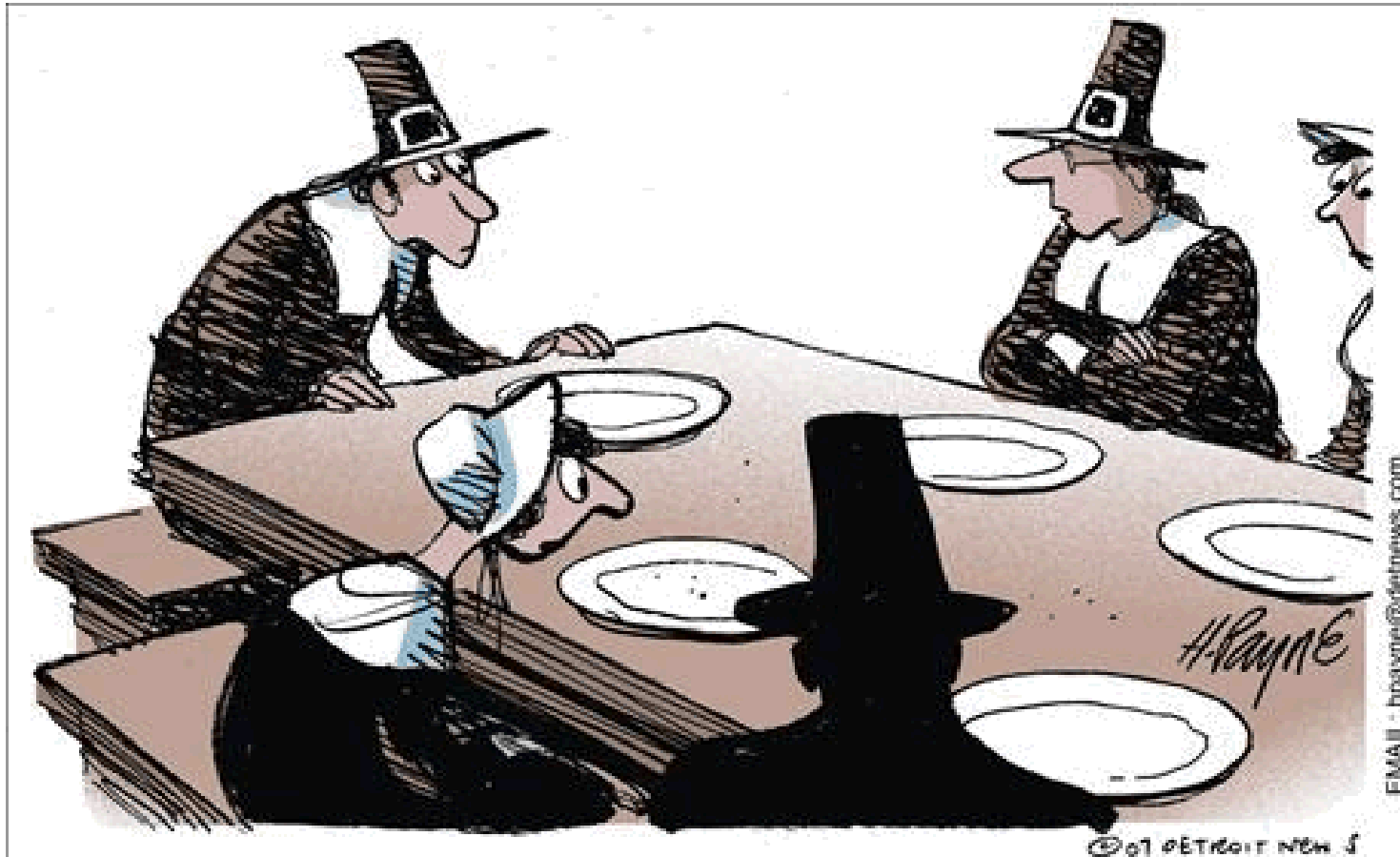
- Structural shift higher in corn forces beans and wheat to follow
- '09 acreage battle looming if '08 row crop yields below expectations
- US/global corn stocks shrinking
- Correction from July highs will reignite feed demand growth
- Low PRC grain reserves
- 1 of every 3 corn ears for ethanol
- Brazil '09 soy acreage gains muted
- End users prone to extend coverage on sharp breaks

## Negatives

- CRB rolling over after 7 year up
- Funds liquidating commodity longs
- 65 mmt gain in 08/09 world wheat production
- Dollar strength dampens interest in commodity longs
- Bio-fuel backlash & low margins slow investment
- Democratic Hill & White House exert more control over specs
- DOHA dead thus thwarting trade reform and income growth
- Large '08 PRC crops

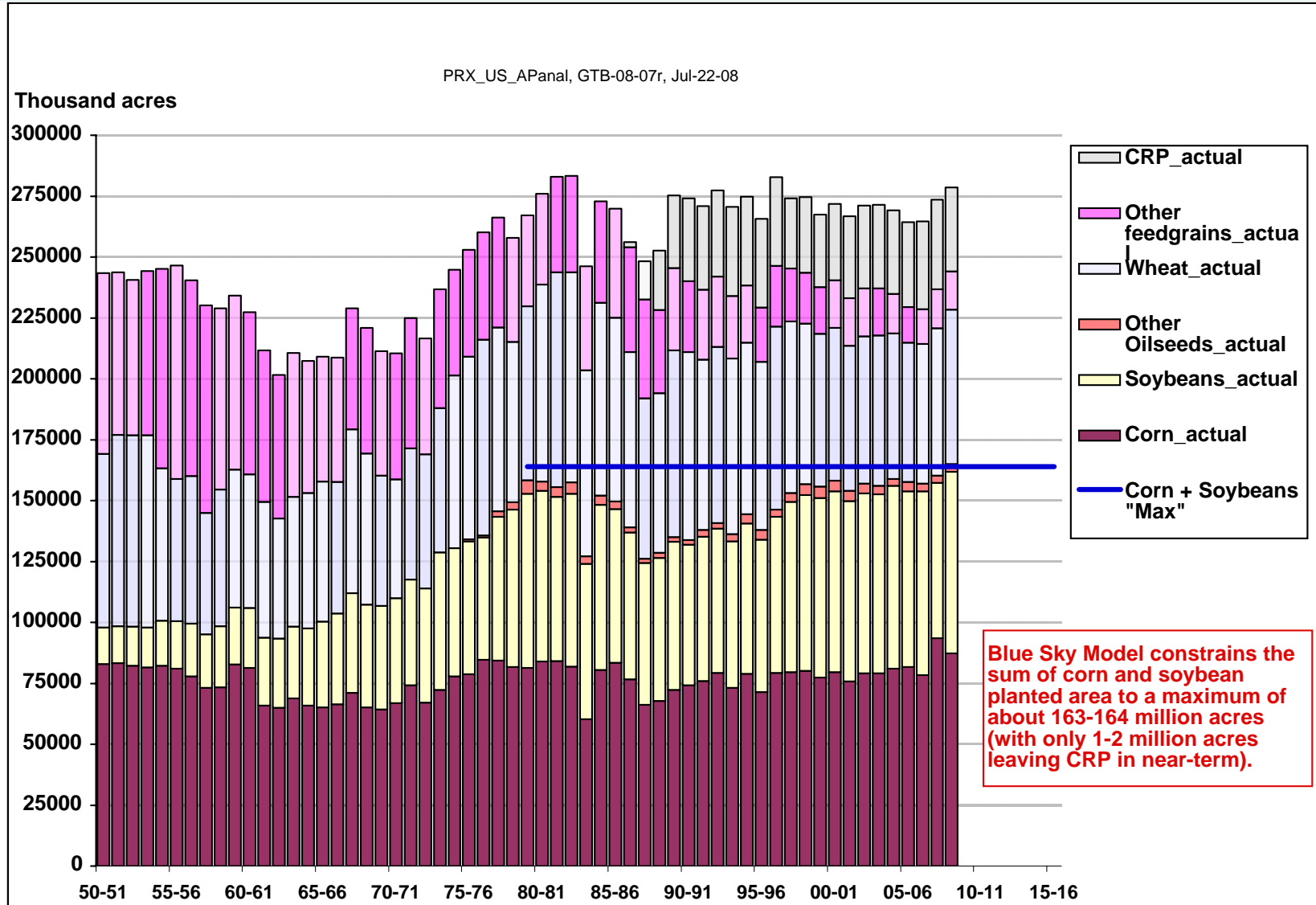
**Bottom line: Burden of proof on shoulder of bulls until next supply scare**

# US Mandates Higher Ethanol Use Next 7yrs



*"We've gathered to give thanks for our bountiful harvest.  
But it seems all our corn crop went to ethanol production."*

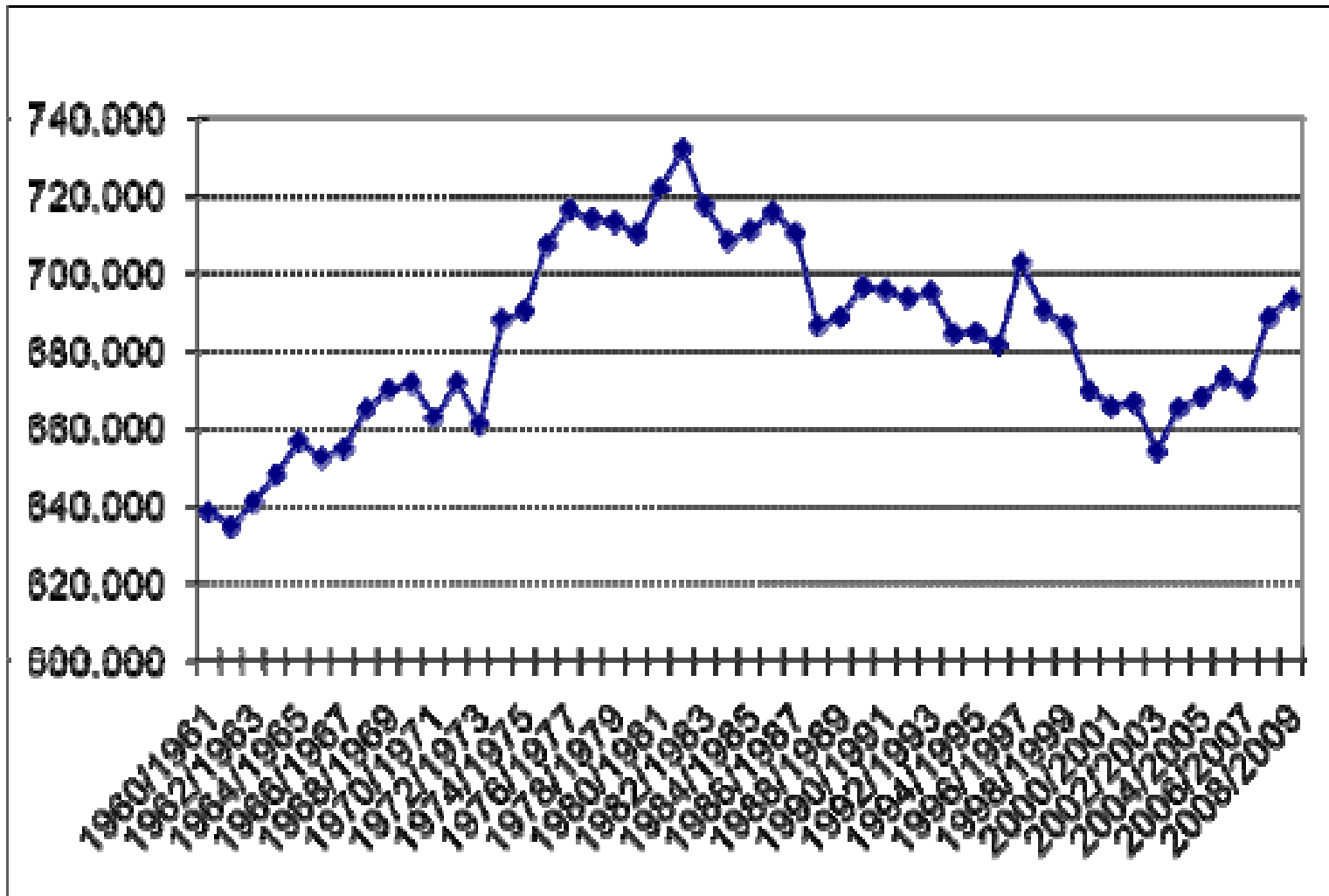
# US Major Crops Planted Area



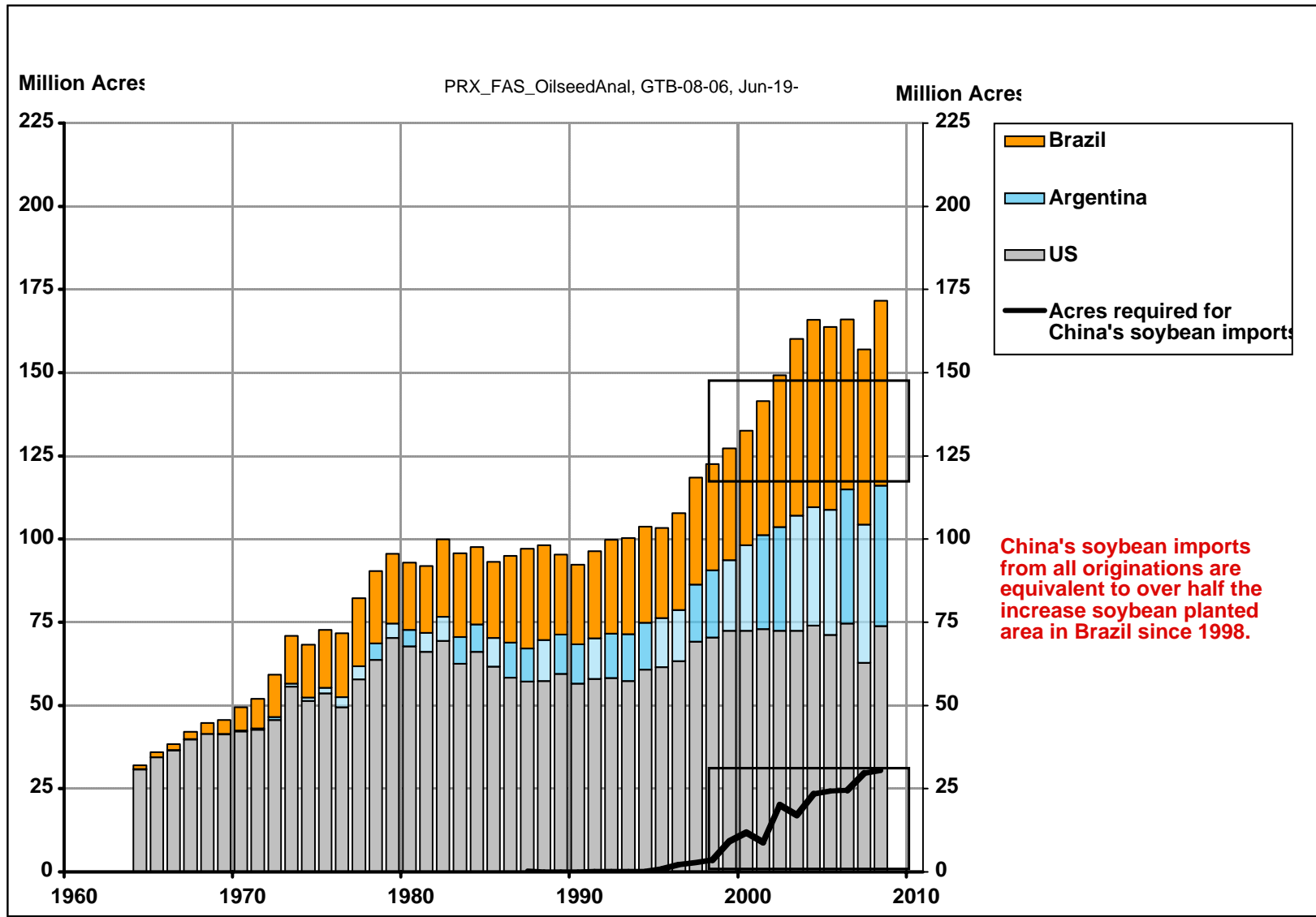
# Thoughts on '09 Acreage: US & Globally

- Total US CN/BN area up 3.5-4.5 mil acres each of last 2 yrs
- 4 mil acres of CRP mature autumn '09, '10, '11 (1.1 mil on 9/30/08)
- Variable cost of '09 production-(central IL)
  - Corn up \$181 to \$569/acre \$3.25 @ 175 BPA
  - Beans up \$85 to \$324/acre \$6.75 @ 48 BPA
  - SRW up \$96 to \$245/acre \$3.77 @ 65 BPA
- '09 crop returns favor corn over beans
- '09 SRW crop insur price @ \$8.58/bu heats up '09 acreage battle
- Global crop area up 56 mil since 05/06: CN+30, Oilseeds+18, WHT+13, Rice+6—(Cotton -8)
- Brazil has 137 mil acres of underdeveloped land suitable for ag
- FSU's 86.5 mil acres of prior cultivated land represents 100 mmt grain
- **9/08 MFGR 2009 US acreage forecast—CN+4, BN -1, WHT -3**

# Total Global Grain Harvested Area (HA)

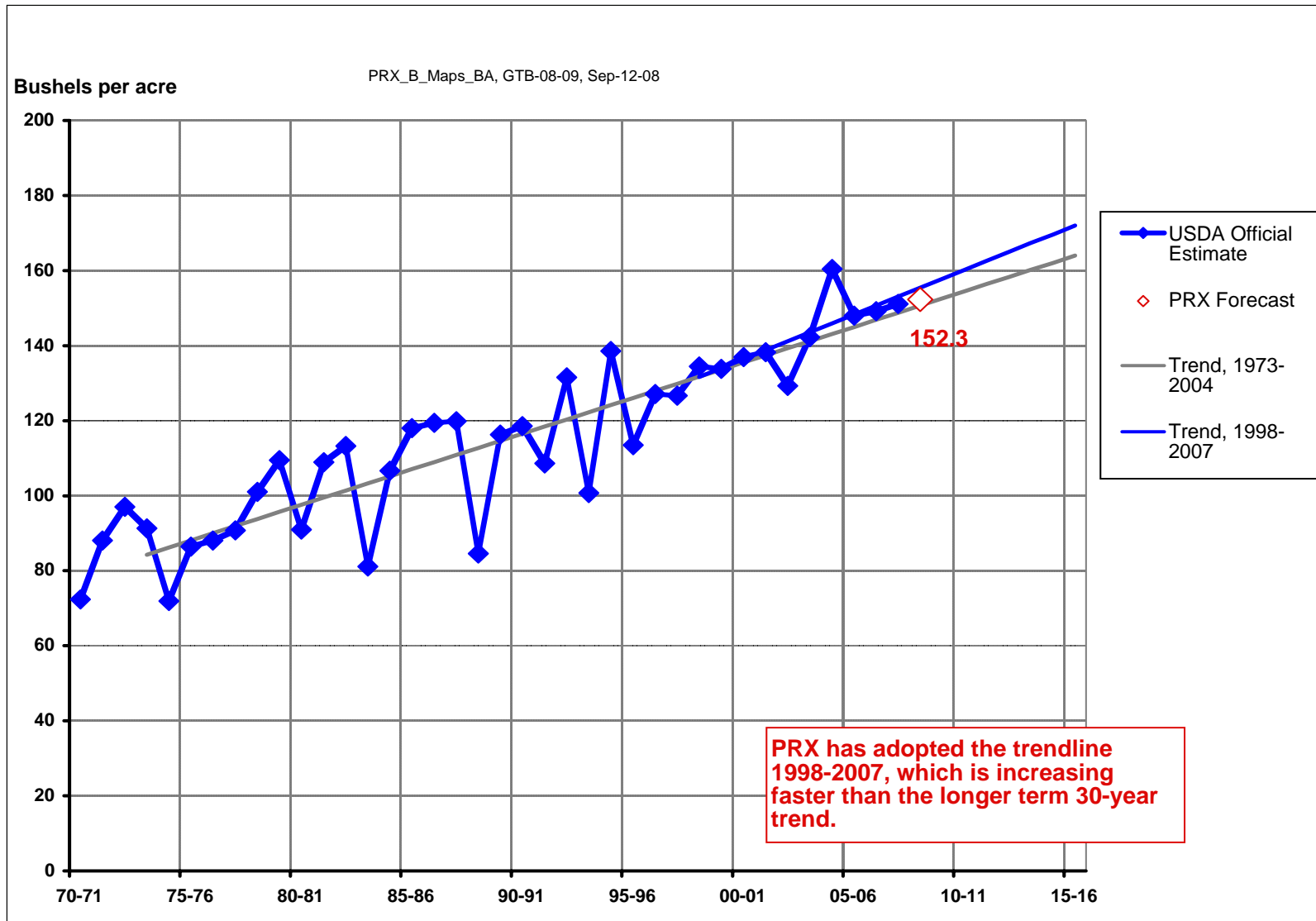


# Soybean Planted Area in the America's



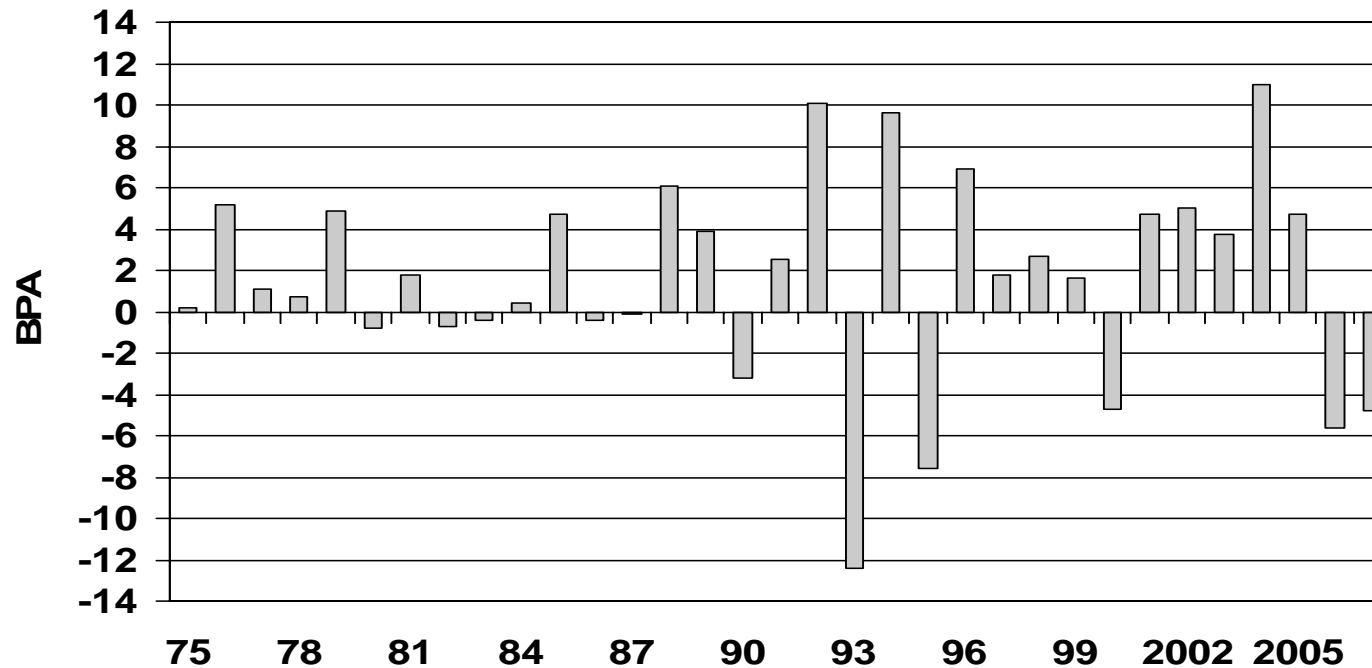


# United States Corn Yield and Trend



# U.S. CORN YIELD

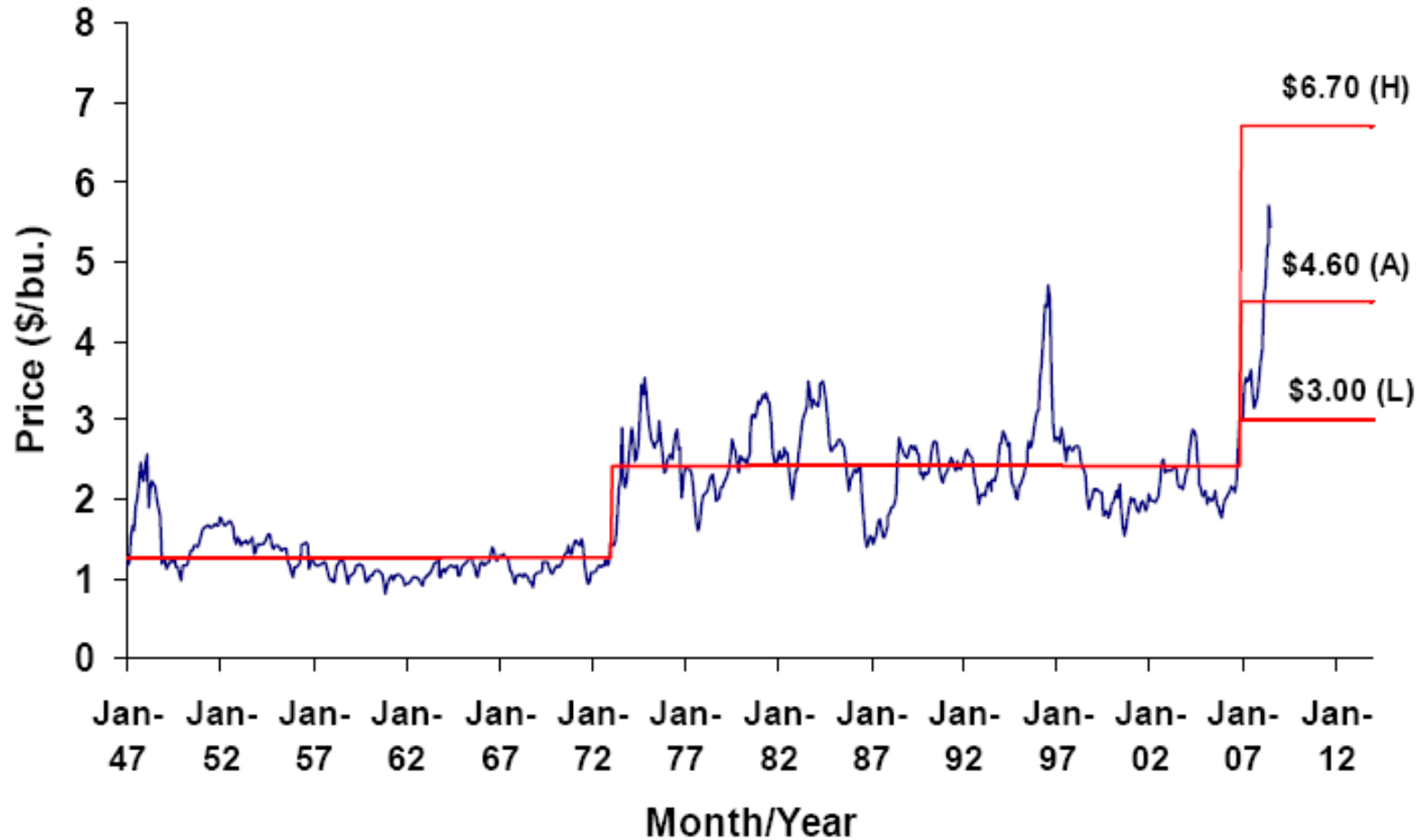
## Final vs. September



CNYLDF-S

# Monthly Farm Price of Corn in Illinois

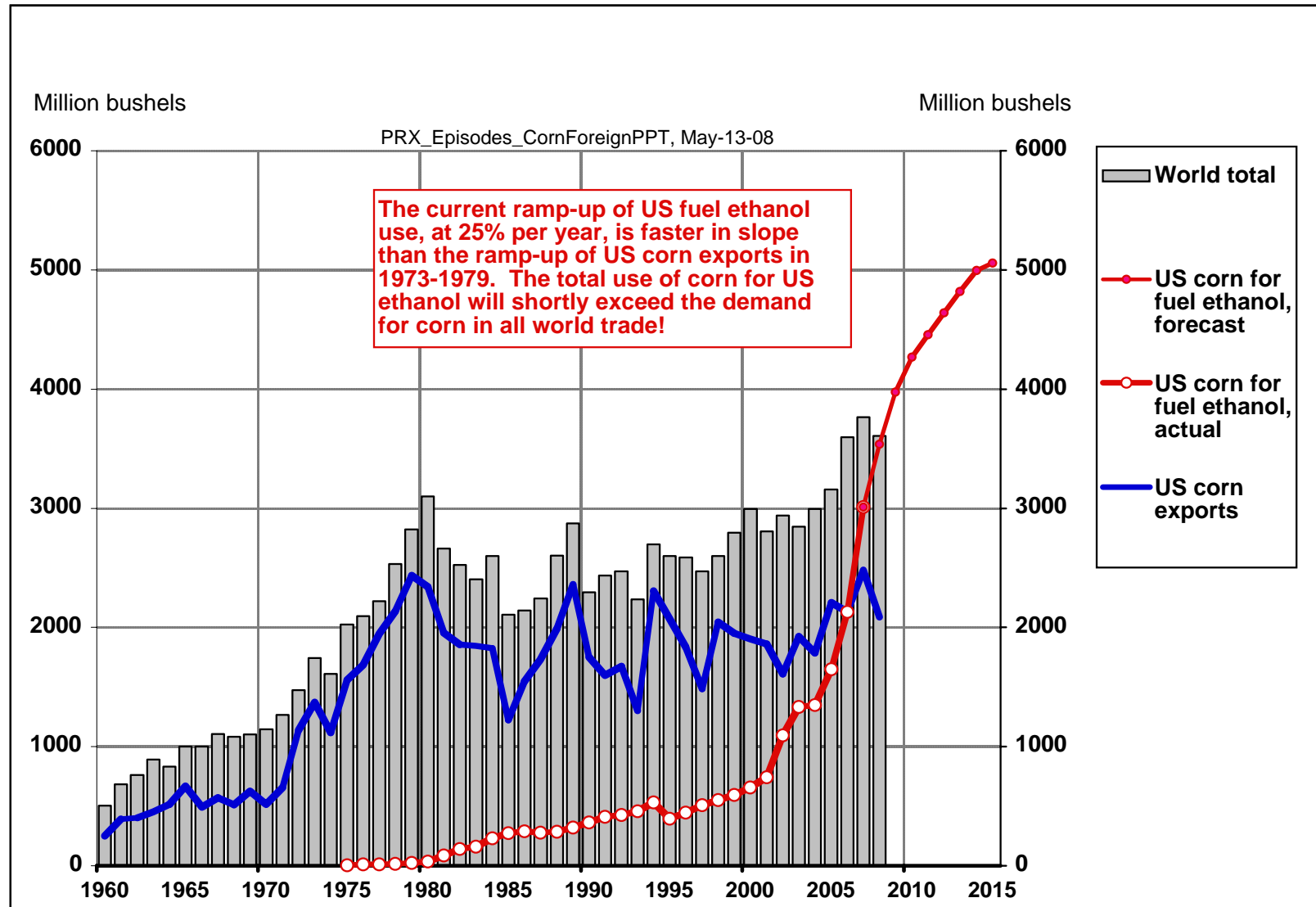
January 1947- July 2008 and Projected Future Range\*



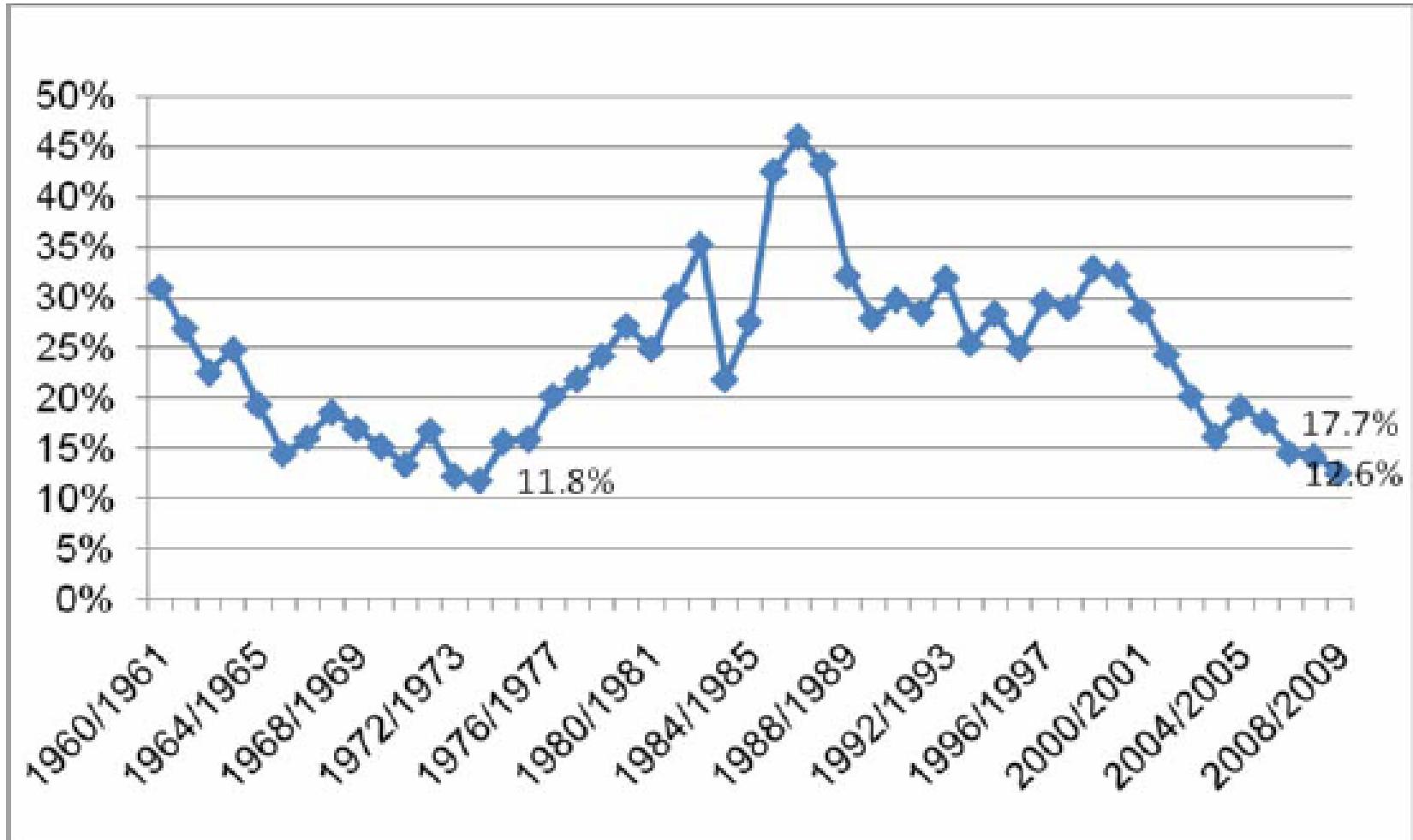
Source: USDA

\*H: High, A: Average, L: Low

# World Total Corn Imports, US Corn Exports, & US Corn Fuel Ethanol Use, 1960-2015



# World Corn Stocks-to-Use

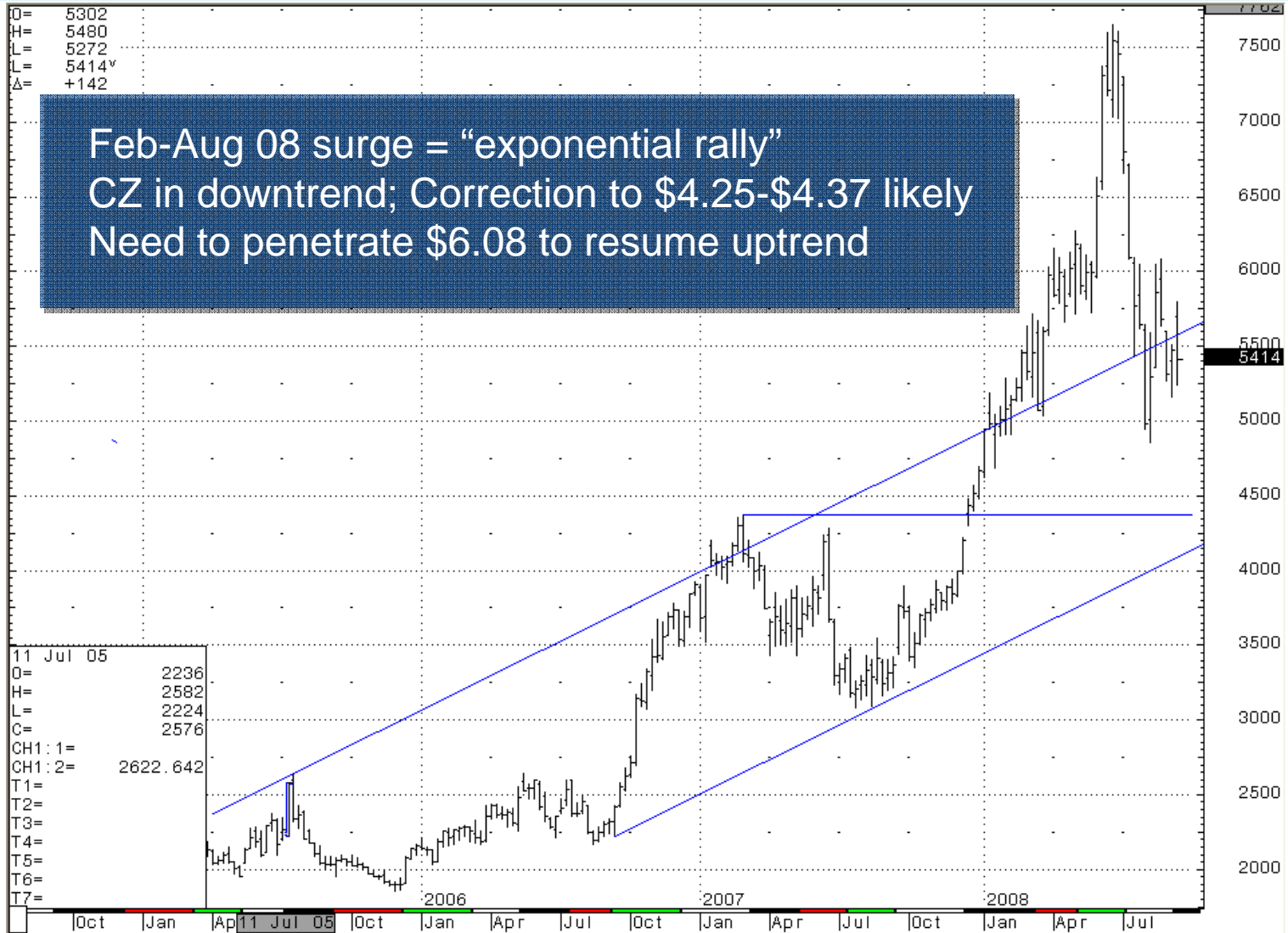


## Corn Wrap Up:

- Release of ear weights on Oct report increase confidence on size of '08 US crop (lower USDA Sept BPA adds risk)
- Corn Prices tied to ethanol-gas-crude-economic growth—(ethanol industry relegated to breakeven returns)
- Pro Ex 08/09 US corn ethanol use (-330 mb) vs. USDA
- Pro Ex Blue Sky model on-farm \$4.75-6.25 thru 2018
- US Corn stocks tight again 9/10 unless '09 corn yield above trend
- 9/09 global CN stks shrink but 08/09 imports down 9 mmt
- CH gains on WH 8/22-11/22 70% last 10 years (4 of last 4)
- **Bottom line—More fund liquidation likely if '08 US yield 153 BPA or higher: CZ target \$4.50-4.75 if '08 crop swells**

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# Weekly Corn

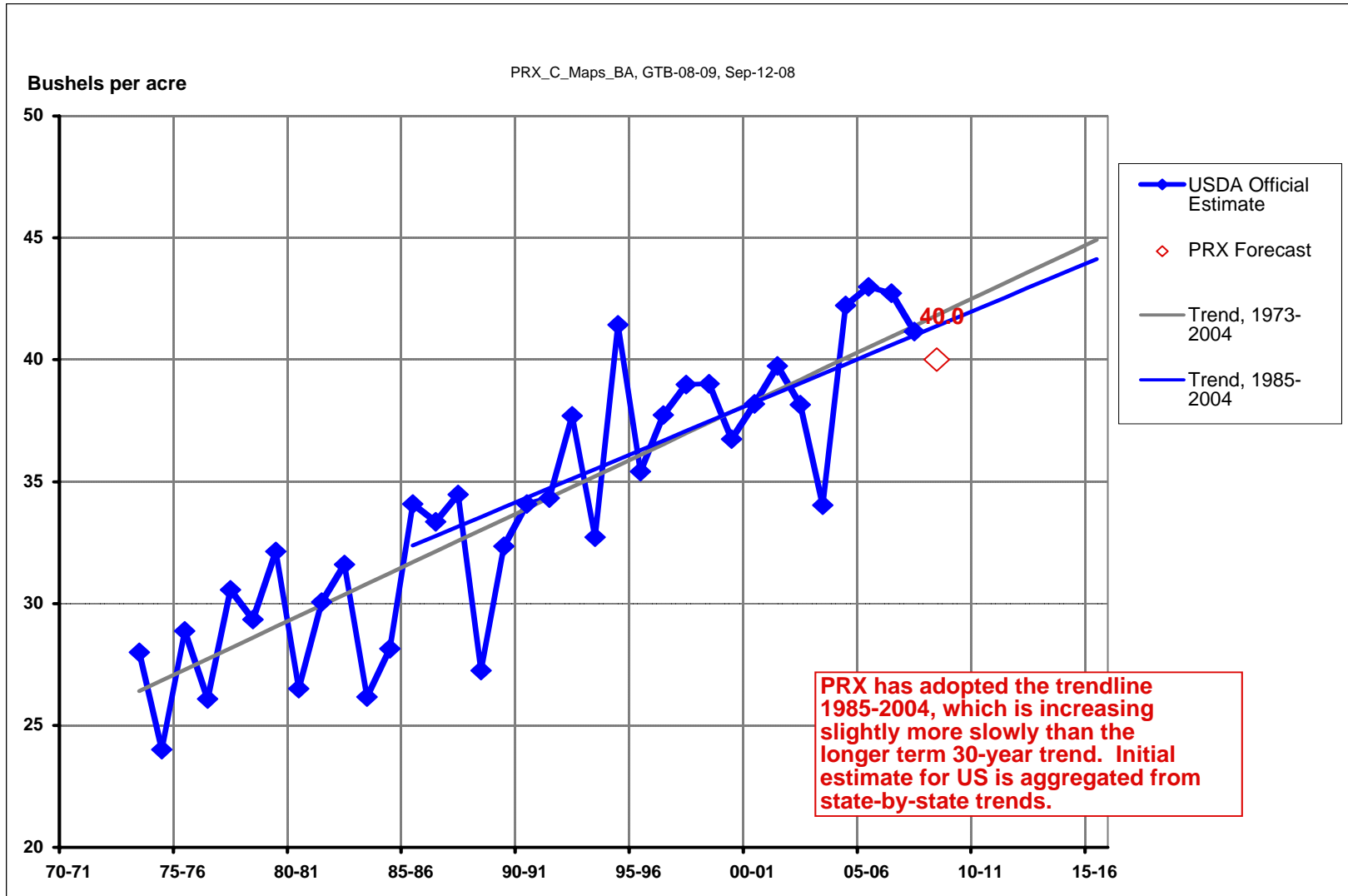


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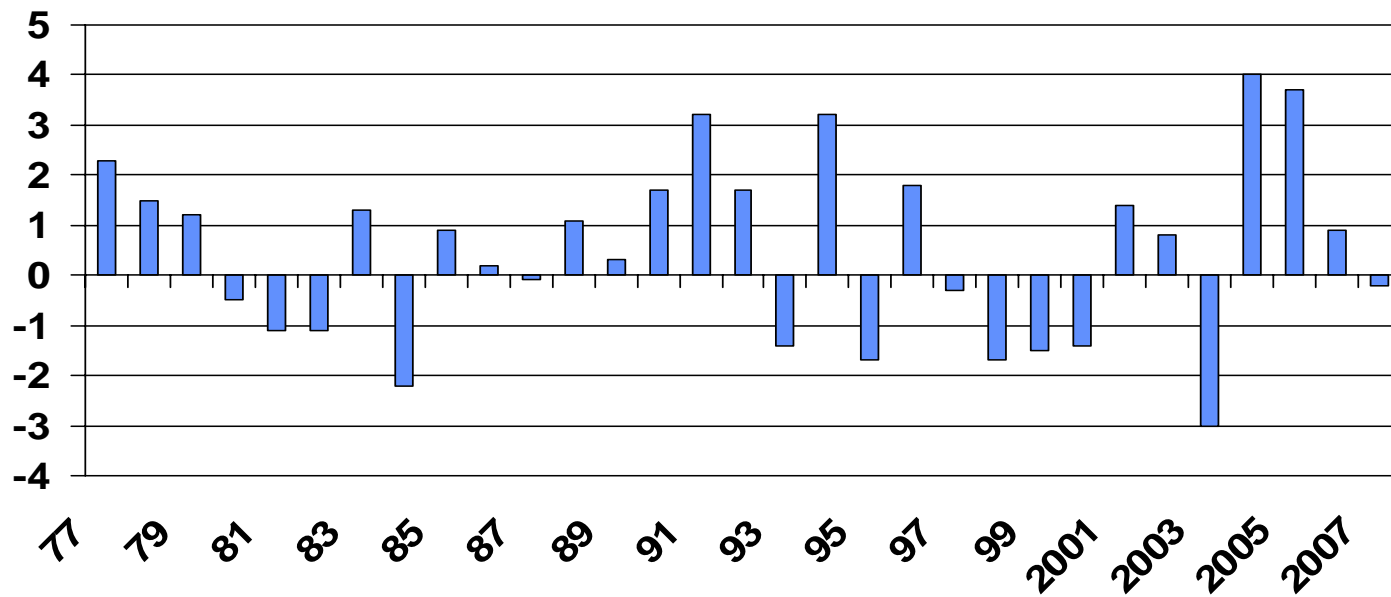
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# United States Soybeans Yield and Trend



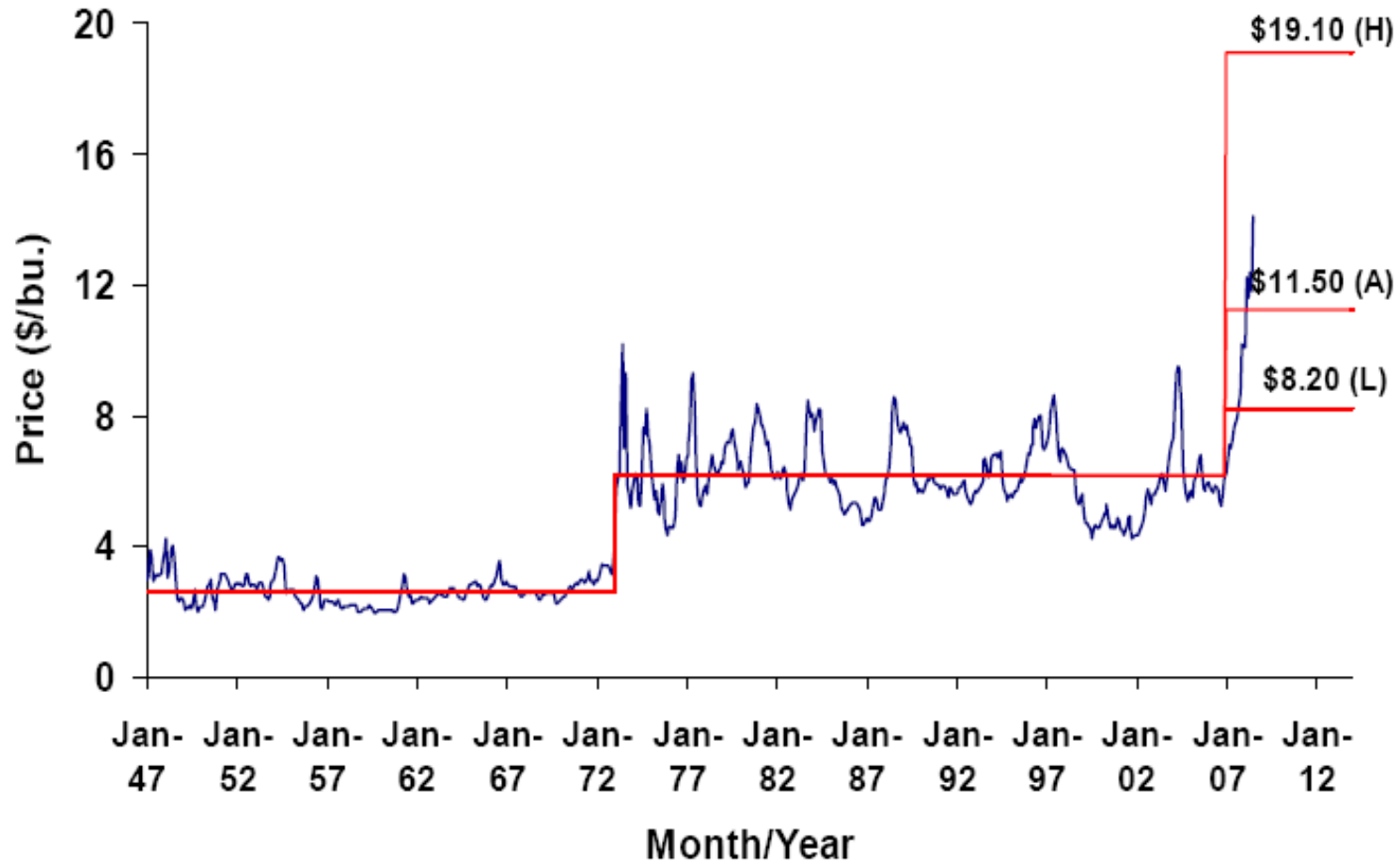
# US Soybean Yield Final vs. Sept



Soysepfm

# Monthly Farm Price of Soybeans in Illinois, January 1947 – July 2008 and Projected Future Range\*

Figure 5. Monthly Farm Price of Soybeans in Illinois,  
January 1947- July 2008 and Projected Future Range\*



Source: USDA

\*H: High, A: Average, L: Low

# Soy Complex Wrap-up

- Fall price action driven by '08 US crop size vs. expectations
- If BN BPA declines Sept to Oct—strong bias for further cuts into Jan
- Empty bin space & prior high prices suggests strong farmer holding
- Large '08 PRC soy crop slows bean import pace
- Large supply of competing oilseeds offsets slowing expansion in Brazil
- 30 year seasonal negative through end Oct-rally into mid Nov and then negative through year end
- Pro Ex Blue Sky model \$10.18-12.47 on-farm thru 2018
- **Bottom-line—If \$11.00 doesn't hold—downside target \$9.60**

# Weekly Soybeans



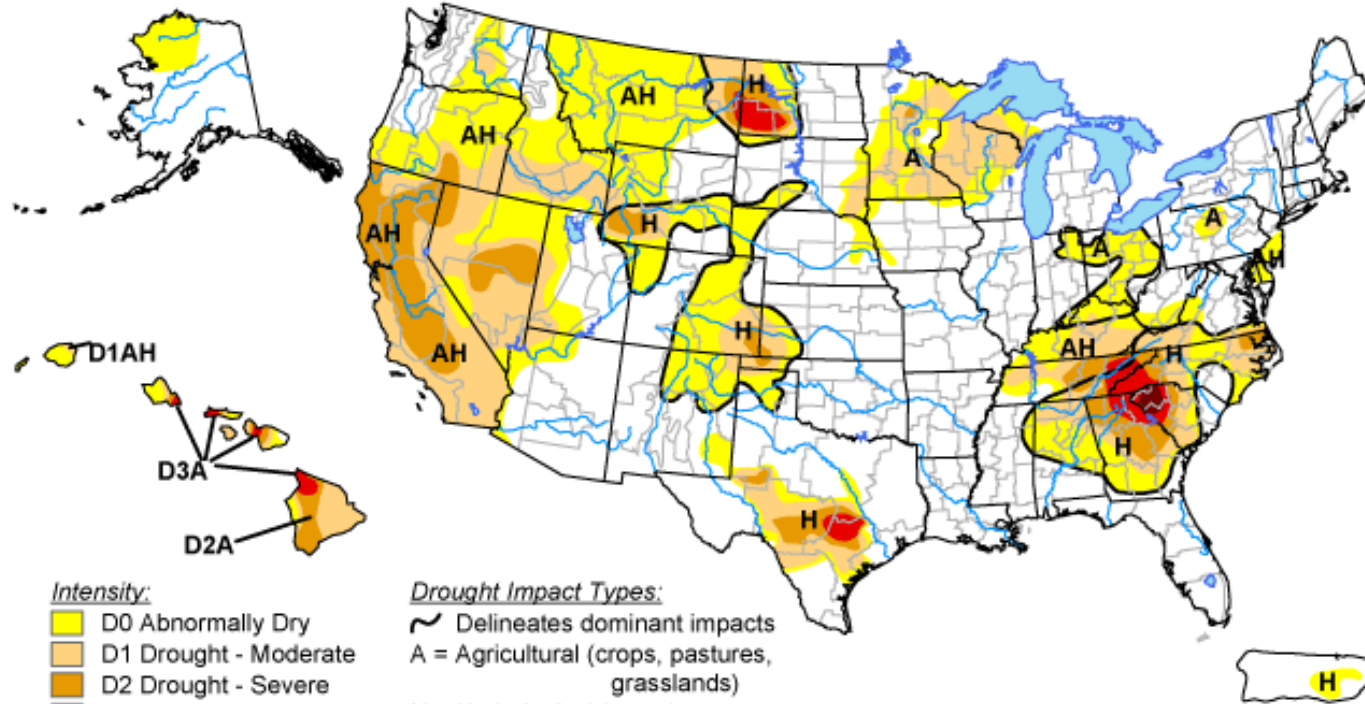
Major long term price peak posted in 7/08  
 Strong support \$10.65-\$11.00  
 Penetration of \$10.65 suggests \$9.60  
 Need to penetrate \$13.64 to resume uptrend

Source: CQG, Inc. © 2008 All rights reserved worldwide. www.cqg.com



# Weekly Soybeans

## U.S. Drought Monitor September 16, 2008 Valid 8 a.m. EDT



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.

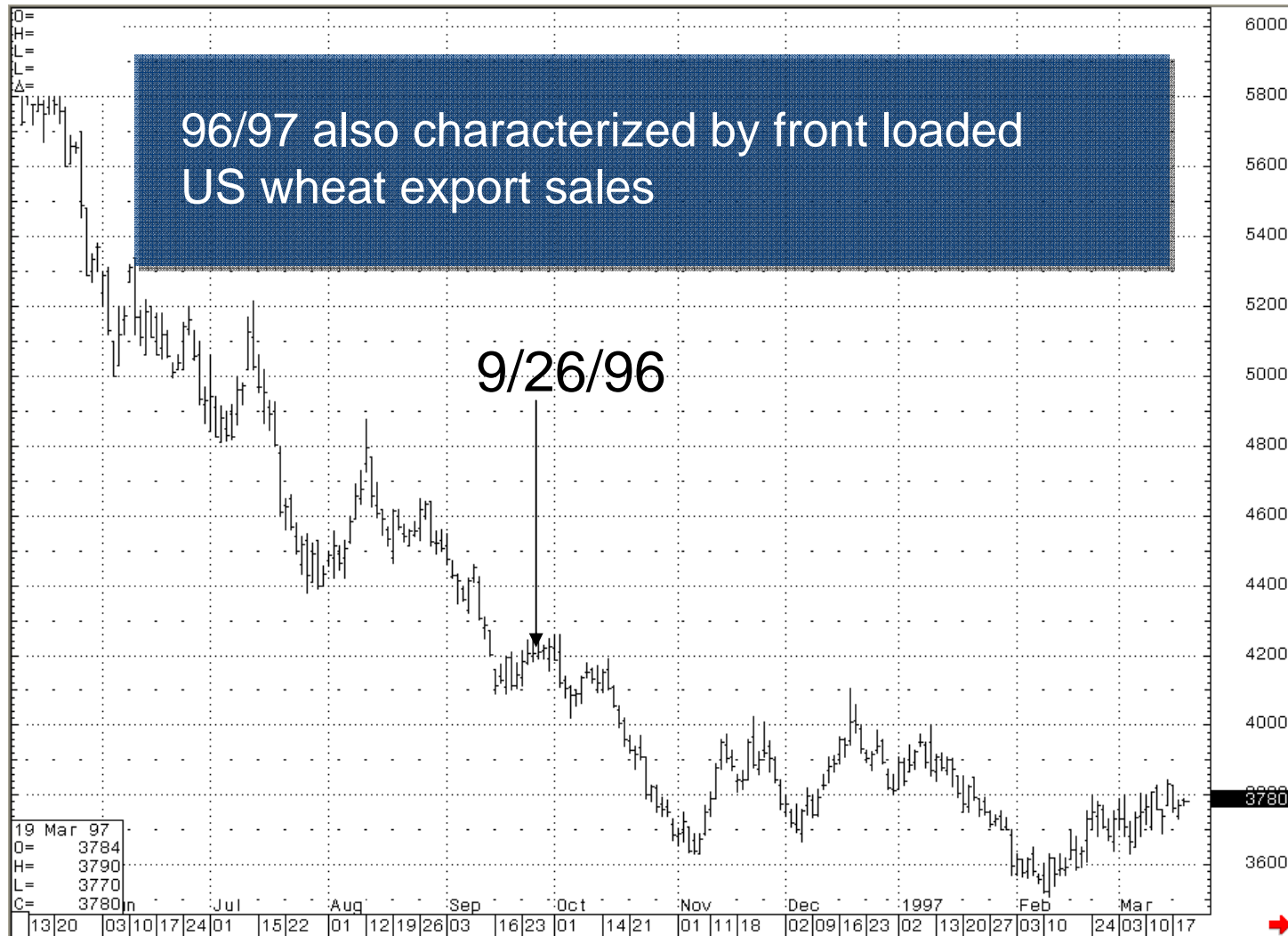
<http://drought.unl.edu/dm>



Released Thursday, September 18, 2008

Authors: Laura Edwards, WRCC, and Brian Fuchs, NDMC

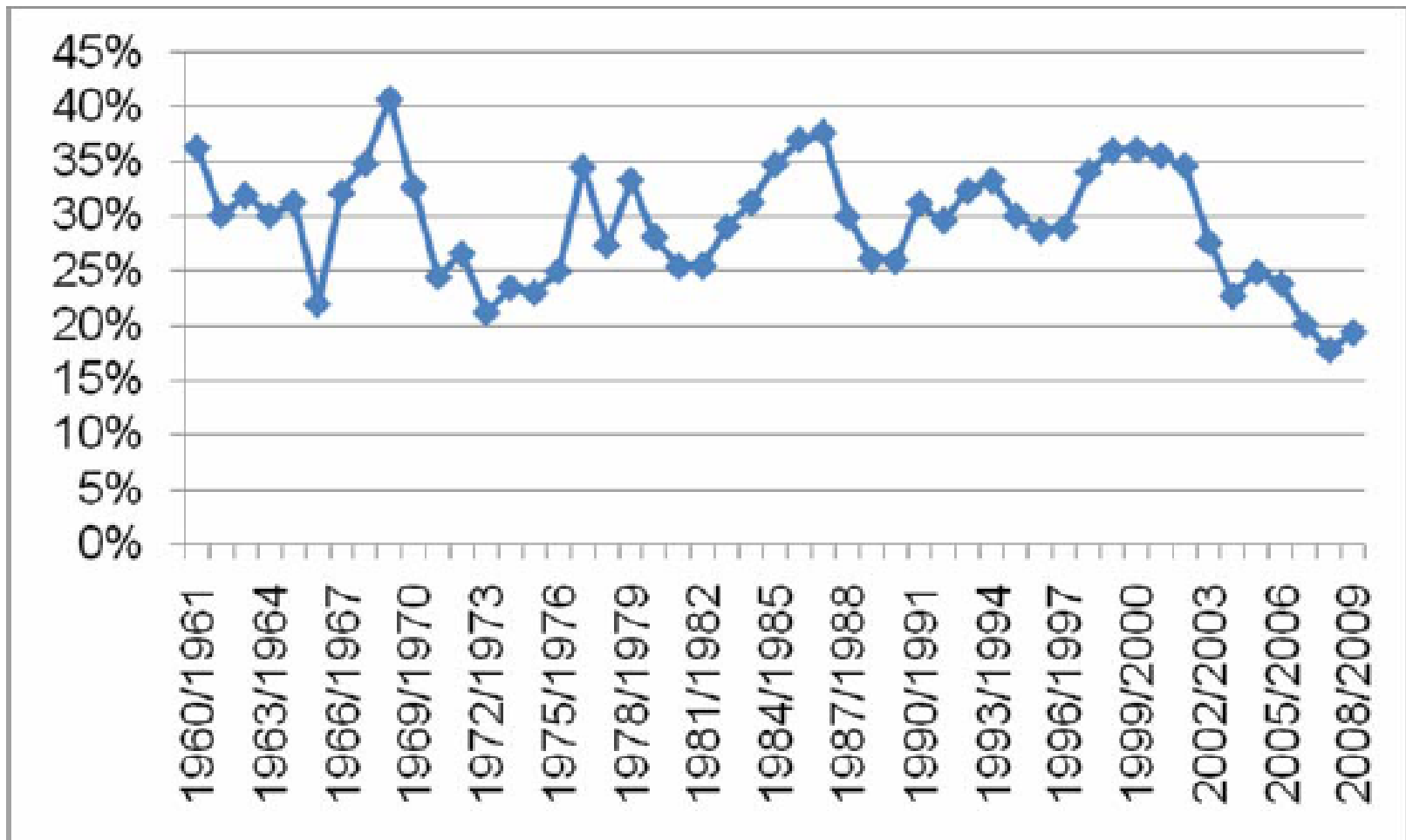
# CBOT March 1997



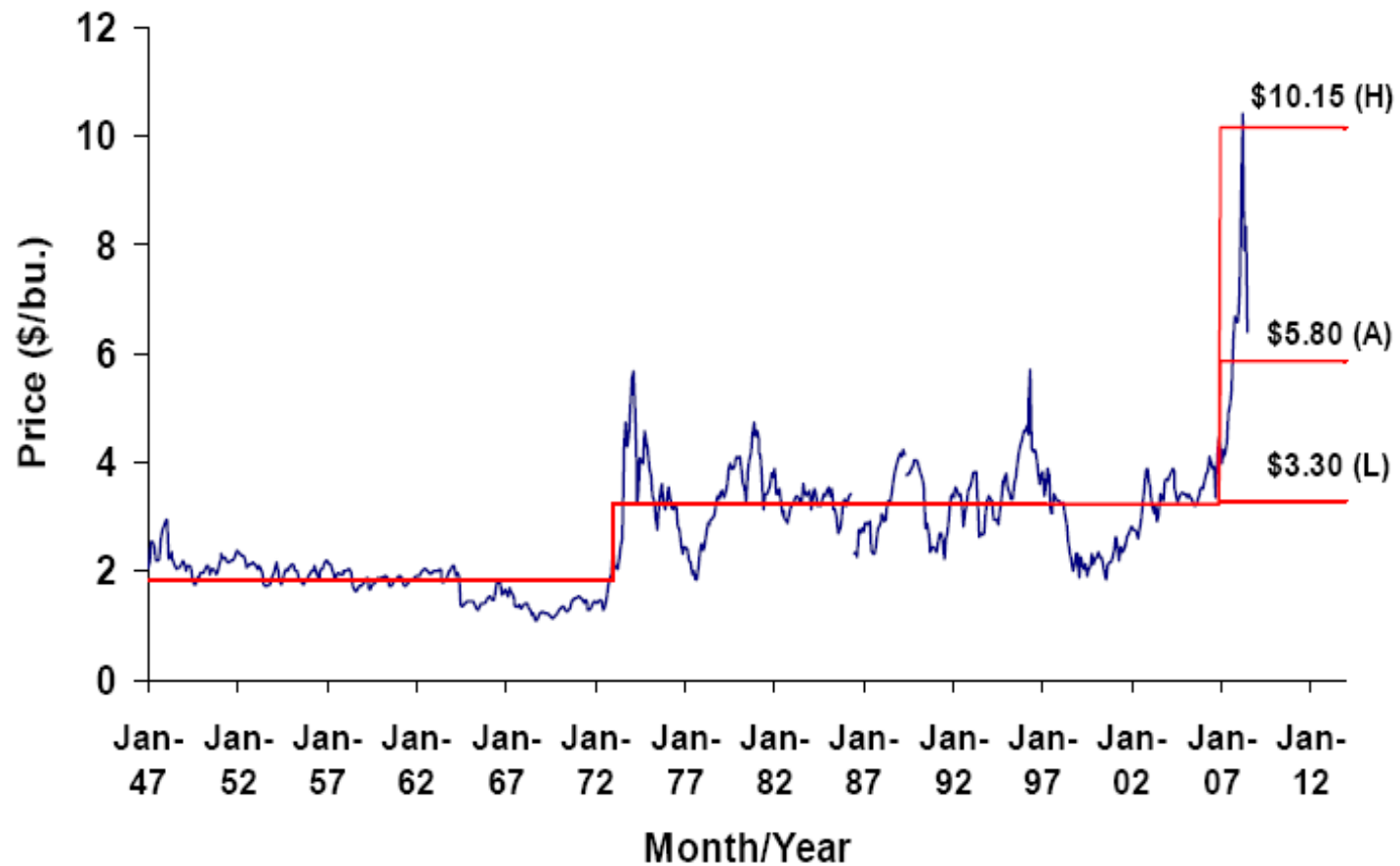
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# World Wheat Stocks to Use



# Monthly Farm Price of Wheat in Illinois, January 1947 – July 2008 and Projected Future Range\*



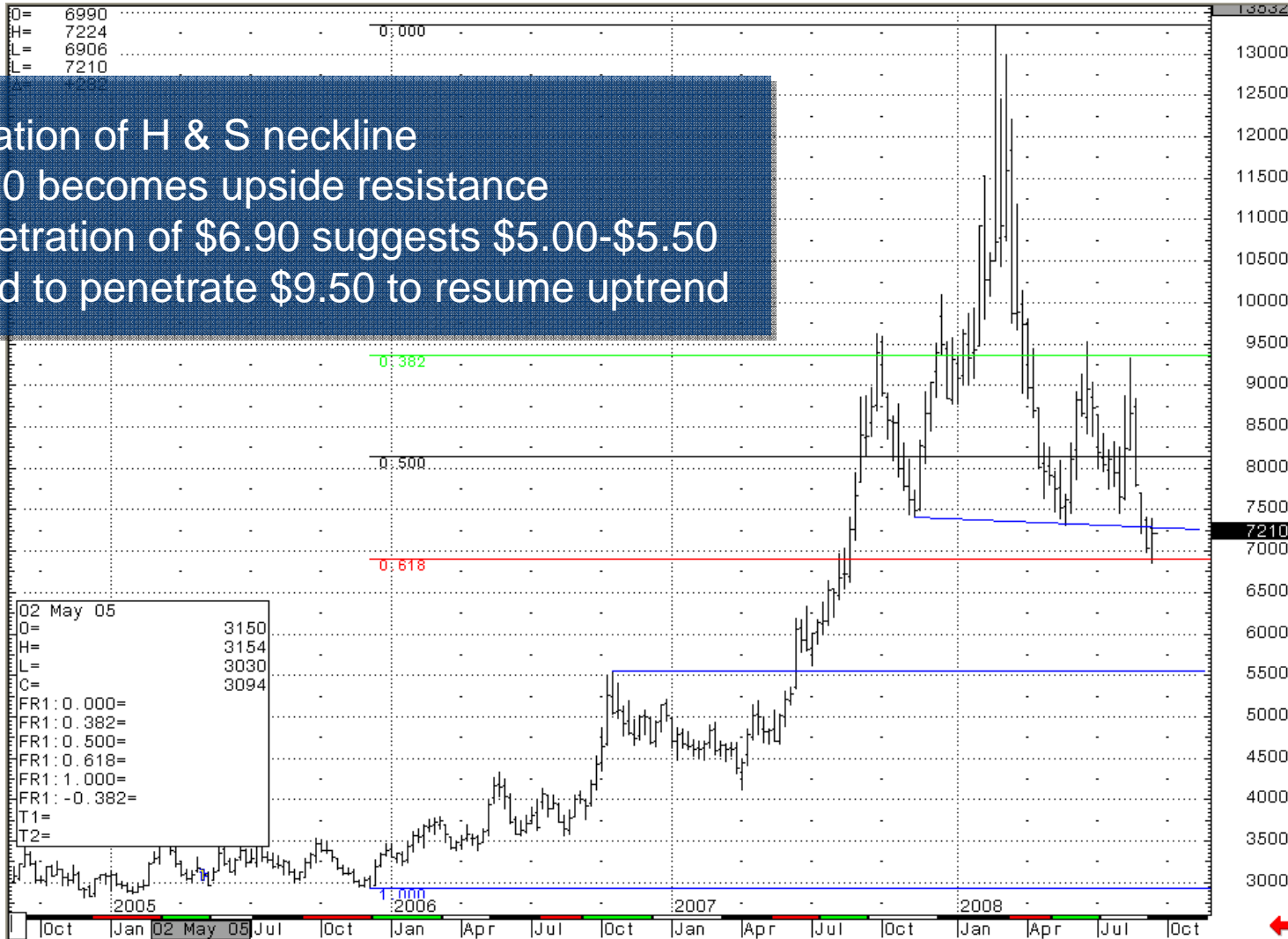
Source: USDA

\*H: High, A: Average, L: Low

# Wheat Wrap Up

- 65 mmt increase in world wheat production largest since 04/05
- US SRW burdensome while HRS stays tight (SRW needs ex. & feed)
- US faces still export competition from FSU/EU
- Best of 08/09 US wheat export sales passed
- 09/10 world wheat stocks poised to advance again if trend yields
- Wheat eroding contra-seasonally (30 year lower Oct 23-year end)
- **Bottom-line—penetration of \$7.00 suggests \$6.20-6.30**

# Weekly CBOT Wheat



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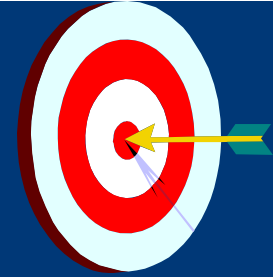
# Fusing Parts Into Key Take Home Points

- Selling climax in financials(?) allows grains to refocus on fundamentals
- Magnitude of grain sell-off tempers re-entry of longs on bull news
- '09 acreage fight dependent on final '08 yields
- Record course grain/wheat production outside US (global grain impts -5mmt)
- Slower global growth allows gains in productivity/acreage to close supply gap
- Marginal ethanol returns slows expansion after 2010
- If crude works lower (\$78 by early '09) corn price loses key support
- Margin clerk doesn't care about board sinking below cost of production
- **More back & fill after structural surge in prices; tailwind from CRB surge replaced with greater investor caution – risk for more commodity liquidation**

## Take Home Questions to Monitor

- How will '08 US row crop yields fair relative to expectations?
- Will '09 South American growing season unfold normally?
- Will end users go hand to mouth?
- Will lower crude/Nat Gas push fertilizer prices lower?
- Will PRC withstand typical post-Olympic economic slump?
- Will Congress consolidate regulation of financial/commodity markets?

# Moore Research Seasonals



- Buy SMZ/sell SMN from 10/7-11/6—profitable 14 of 15 years
- Sell KWH from 10/16-11/13—profitable 13 of 15 years
- Buy CZ/Sell WZ from 10/19-11/10—profitable 14 of 15 years

\*Over the past 15 years, a one lot contract bought, sold or spread as indicated in column 1 on the entry/exit dates specified in column 2 generated winning trades for the number of years indicated in column 3 for an average profit per one lot shown in column 4 according to Moore Research of Eugene, OR.

Seasonal tendencies are a composite of some of the more consistent commodity futures seasonals that have occurred over the past 15 years. There are usually underlying fundamental circumstances that occur annually that tend to cause the futures markets to react in similar directional manner during a certain calendar period of the year. Even if a seasonal tendency occurs in the future it may not result in a profitable transaction as fees, and the timing of the entry and liquidation may impact on the results. No representation is being made that any account has in the past or will in the futures achieve profits utilizing these recommendations. No representation is being made that price patterns will recur in the futures. Hypothetical performance results have inherent limitations. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. This is not a solicitation of any order to buy or sell, but merely a current market bulletin. Any statement of facts herein contained are derived from sources believed to be reliable, but are not guaranteed as to accuracy. Nor do they purport to be complete. No responsibility is assumed with respect to any statement nor with respect to any expression of opinion herein contained. Results are not adjusted for commission and fees.

- Buy SN/sell CN from 10/21-11/17—profitable 13 of 15 years

## MF Global Research '08 Trade Recs:

- Buy SX/sell SK @ 40 cents for upside objective of 25 cents
- Buy CZ/sell WZ @ \$1.75 for objective of \$1.25
- Buy OZ/sell CZ @ \$2.15 for downside objective of \$1.50
- Buy KWZ/sell WZ @ 36 cents for upside objective of 50 cents
- Buy SX 09/sell WZ 09 @ \$3.25 for upside objective of \$4.25
- Buy CZ09/sell SX 09 @ \$5.75 for objective of \$4.50

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"Did you skip over the interesting parts of your talk on purpose?"



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