



Who We Are

- Consultants and innovative management solutions providers to the agriculture and food industries.
- We provide Specialized research and consultation both in-house and offsite to:
 - Downstream food production companies
 - Agricultural input buyers
 - Crop and livestock Production companies and individuals
 - Producer and user associations
 - Agriculture and food industry lenders














Initial Overview


- Corn based ethanol production in the U.S. and Canada continue to be a major source of demand for corn and is supporting historically higher grain prices.
- During the first half of 2008, the grain markets corn, wheat, oilseeds and other commodities have hit all time record prices.
- Vegetable oil consumption in Europe for bio-diesel is also supporting the vegetable oils complex (soybean oil, Palm oil, canola)
- Increasing human consumption in South East Asia and India of vegetable oils is on the increase as living standards increase.
- Bio-Fuel (energy) production from corn, vegetable oils has been a major driver of price and to a degree the price volatility increase has also been driven partly by increased demand, a weaker US\$ and partly by increased speculative activity.





 **The Major Issue**


- Since the summer 2008 highs, prices have dropped to new contract lows partly due to the stronger US\$, the deleveraging of speculative activity, fear of a deep global severe and prolonged recession and the "perceived" decline in demand for commodities in general including the fall in energy prices.
- Has demand for feed, food, ethanol and/or energy (oil) and exports declined? If it has then supply is not an issue but prices will still be supported by the increased use of grains for bio-fuels.
- Bio-Fuel (energy) production from corn and vegetable oils continues to grow, for now.
- President elect Obama is bullish for ethanol, alternative energy and infrastructure.
- Seasonality still matters even in a volatile world





 **Initial Overview**

- What are the fundamentals driving this phenomenon and how long is this likely to last?
- Going forward grain users and growers are still going to need to make a decision about when to buy or sell. How do we plan our marketing and take advantage of increased volatility?

 **Bio-fuels Current Impact on prices... 1**

- During '08 corn used to produce ethanol in the U.S. increased by about 22% or 3.7 billion bushels.
- USDA estimates that Soybean oil usage for bio-diesel is also expected to increase from year prior
- The increase of soybean acres to corn in 2008 has reduced U.S. corn carryout and driven corn prices higher.
- Increases in global demand for bio-fuels is also driving the prices of palm oils, canola oil and other oilseeds higher
- Increases in crude oil and gasoline have supported this rapid expansion in demand and prices in the past.

Bio-fuels Current Impact on prices... 2

- During 2008 CBOT (and cash) corn, soybeans and soybean oil prices hit sharp highs even with the second largest U.S. corn harvest in history
- Wheat prices also hit highs in early 2008 based on tight SUPPLY side shortfalls – mainly in Australia but since have corrected as supplies were replenished.
- The impact on regional markets around the world has been very significant depending on dependence on imports and disposable income used for procuring food
- China has limited expansion of use of corn for bio-fuel production
- Food has always been a strategic resource; Governments will have to address this challenge

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Seasonality in Corn

Source: Moore Research Centre Inc.

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Seasonality in Soybeans

Source: Moore Research Centre Inc.

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Est. Ethanol Industry Economics

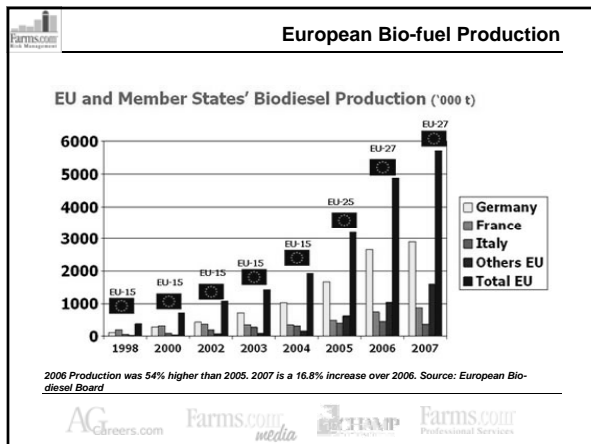
Farms.com Risk Management Ethanol Proforma Income Estimator

	Base													
	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00
	114%	113%	111%	110%	109%	108%	108%	107%	107%	106%	106%	106%	106%	105%
Cost of purchased corn (\$bu)														
Cost per unit (gallon)														
Corn	\$0.71	\$0.80	\$0.89	\$0.98	\$1.07	\$1.16	\$1.25	\$1.34	\$1.43	\$1.52	\$1.61	\$1.70	\$1.79	\$1.79
Gas, labour, trans and SG&A costs	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
Est. Total production cost per gallon:	\$1.47	\$1.56	\$1.65	\$1.74	\$1.83	\$1.91	\$2.00	\$2.09	\$2.18	\$2.27	\$2.36	\$2.45	\$2.54	\$2.54
Income Streams														
From ethanol sales (\$/gallon)	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65	\$1.65
From DDG sales	\$0.20	\$0.23	\$0.25	\$0.27	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42	\$0.43	\$0.45	\$0.45
Gross income per gallon:	\$1.85	\$1.88	\$1.90	\$1.92	\$1.95	\$1.97	\$1.99	\$2.01	\$2.03	\$2.05	\$2.07	\$2.08	\$2.10	\$2.10
Est. margin per gallon:	\$0.38	\$0.32	\$0.25	\$0.19	\$0.12	\$0.06	(\$0.01)	(\$0.08)	(\$0.15)	(\$0.22)	(\$0.30)	(\$0.37)	(\$0.44)	(\$0.44)
% income from ethanol	89%	88%	87%	86%	85%	84%	83%	82%	81%	81%	80%	79%	79%	79%
% income from DDGs:	11%	12%	13%	14%	15%	16%	17%	18%	19%	19%	20%	21%	21%	21%
DDG price per Ton:	\$64.40	\$72.38	\$80.07	\$87.56	\$94.87	\$102.01	\$109.00	\$115.00	\$120.90	\$126.72	\$132.46	\$138.12	\$143.72	\$143.72

Source:
USDA, EIA, D. Cobain at KSU studies and in-house estimates and research

Note: production cost estimates are derived from VERASUN (VSE) files for year-end 2008.

- ### Bio-fuels Current Impact On Prices
- The USDA estimates that during the 2008 marketing year (Sept '08 – Aug '09) 3.7 billion bu of corn will be used to produce ethanol in the U.S. compared to about 3.1 billion bu during 2007. In 2009 this number is expected to grow to 4.23 billion bushels with an additional mandate of 1.5 billion more gallons for 2009.
 - USDA estimates that Soybean oil usage for bio-diesel is increasing to 3.1 billion lbs during the 2008 marketing year compared to 2.9 billion lbs year prior. A more modest growth but still a growth.
 - During 2008 soybean planted acres increased to the disadvantage of corn.
 - As things stand corn and soybeans now have reduced carryout's going into 2009. Setting up a tough acreage contest in 2009.
 - Global demand for bio-fuels continues to support prices for other vegetable oils: palm oil, canola oil, sunflower oil and indirectly other crops.
 - This industry is tied to energy prices - crude oil and gasoline and the direction of energy prices in 2009 will partly dictate where corn prices are headed.





Implications of Profitability Dynamics

- The ethanol industry is currently challenged by profitability, lower energy/ethanol prices with rising corn prices.
- According to DTN Ethanol Center, there are 17 corn ethanol plants cancelled, 33 on hold, 19 not producing, 182 operational, 224 planned and 46 under construction as of Dec. 24, 2008.
- Plants (even NEW plants) can be expected to buy corn and be profitable at >\$5 per bushel *provided ethanol sells at \$2.00 a gallon or higher*
- Bio diesel profitability is also dependent on the price vegetable oil and is much more fragile. Vegetable oil demand is more CONSUMER driven.
- The price of crude oil (and by extension gasoline) may end up putting a floor under the price of corn, soybeans, canola etc.





Far East Demand Surges

- China and India are both on rapid growth curves. China annual GDP growth is >8%, India is >5%, however, this recent global recession is calling into question these growth rates.
- Short-term the fear is about demand destruction but longer-term growing populations will continue to demand lifestyles and diets similar to North America
- With increased affluence there has been an increase in food demand particularly meats (China), vegetable oils etc
- Implications: the two most populous countries in the world are increasing their food imports including wheat, vegetable oils and potentially other foods – A major issue going forward.

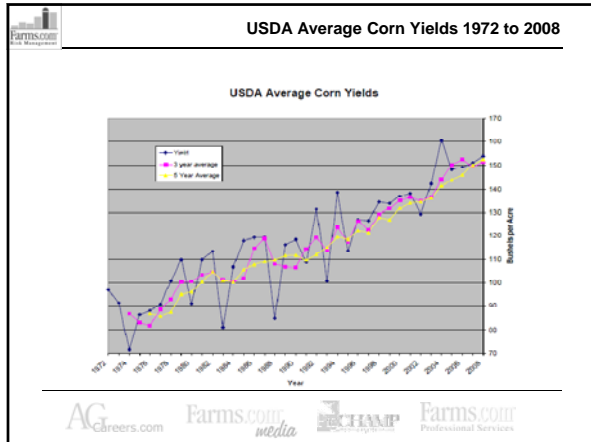




Bio-Fuels' Future

- Despite what some say, "net energy" math is NOT the issue – the issue is farm-gate and plant profitability
- Alternative ethanol feedstock (e.g. switch grass) will only displace corn as a farm crop if the FINANCIALS are clearly shown to be superior
- The metaphysical arguments – world food supply, energy balance, efficiency etc – MUST always give way to rock hard financial realities
- Soy oil used for Bio diesel OR for consumption continues to grow.





Initial Conclusions

- Having a Marketing plan continues to be important for success in the farming business
- BASIS is one of the major factors that affects the final price you get for your products
- A weaker US\$ (and stronger C\$) has certainly impacted BASIS and the prices we receive in C\$
- There are reasons to believe that the BASIS for corn will improve (higher RELATIVE cash price) during the coming 12 months or so

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Farmers and Producers Challenge

- Farmers and Producers are often too busy to focus on Marketing and Price Risk Issues
- Large % of Farmers market their outputs when prices are in the bottom quartile
- When prices are "HIGH" it becomes difficult to take the money. This is the "miss the boat syndrome".

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Basic Components of a Selling Plan

- Three Basic steps underpin our view of "Best Practice":
 - We need to have a good idea of our Cost of Production (COP)
 - We should attempt to have a basic understanding of the price seasonality in our Business and the opportunity the market is giving us at any time
 - We then develop a selling plan that includes target prices and a net revenue goal
- **The objective is Long Term Equity and Wealth Building**

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Cost Of Production

- Crop Producers have to put in work to estimate their cost of Production (COP)
- To arrive at COP use your current yield trend if your average yield is relatively stable. Use first quartile yield or insurance yield if NOT
- COP sets the bar we have to jump to begin making a profit
- Allocate fixed costs across ALL acres. Use weighted average CASH land costs i.e. average out cost of your own land, rented land and land you are still paying down
- Arrive at CASH COP and ALL Costs COP (includes non-cash cost)


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Sample Simple Selling Plan for 2008


Farms.com Risk Management Sample simple Step Selling Plan


Corn				per bu	per MT		
				Conversion:	39.37		
Cost of Production (COP)				C\$3.40	C\$133.86		
Acres:	1000						
Yield per acre	140						
Production	140,000						
	CBOT	Hensell BASIS	Proportion Sold				
1st Sale	\$4.30	\$0.11	15%	21,000	C\$4.41	C\$173.62	C\$92,610.00
2nd Sale	\$4.50	\$0.11	15%	21,000	C\$4.61	C\$181.50	C\$96,810.00
3rd Sale	\$4.80	\$0.11	25%	35,000	C\$4.91	C\$193.31	C\$171,850.00
4th Sale	\$4.60	\$0.11	15%	21,000	C\$4.71	C\$185.43	C\$98,910.00
5th Sale	\$4.40	\$0.11	15%	21,000	C\$4.51	C\$177.56	C\$94,710.00
6th Sale	\$4.60	\$0.11	15%	21,000	C\$4.71	C\$185.43	C\$98,910.00
			100%	140,000	C\$4.67	C\$183.86	C\$653,800.00
Average Profit(Loss) =>					C\$1.27	C\$50.00	C\$177,800.00

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 **Pricing/Hedge Strategies**


- Two general strategies:
 1. Protecting a minimum price
 - a. Leave grain open and then book grain when your target price(s) are reached
 2. Book grain when a target price is achieved
 - a. Consider using paper if we anticipate further upside opportunity
- This is the basic bare bones minimum. Then adapt plans as the market unfolds.
- Lock in Basis (fully or partially) at Seasonally favorable time

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 **Risk Tolerance and Price Targets**

- One of the biggest challenges for farmers with crops selling is taking action and making the sale – the hold-up is “what if prices go higher?”
- The real question should be “what if prices go lower, much lower?” as happened in 2007 and 2008. Ask yourself what is the risk vs. reward?
- Question that may help: What is your risk tolerance? How much debt do you have? How far can you delay selling (receiving cash) if you needed to?
- If your ability to absorb loss or for delaying cash receipts is low (being hit by interest charges), **SELL EARLY**
- If you hope for higher prices use options (a limited risk) to chase prices

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 **Conclusions**

- The bio-fuel industry has supported and continues to support cash crop prices
- This is likely to continue as long as energy prices remain high
- Volatility (the rate of up and down movement) in cash crop prices is likely to stay very high over the next two years at least
- Even more important to use a measured approach to your crop selling
- Three basic steps: know your COP, understand the seasonal trend of your crop(s) and have a detailed selling plan with target prices and total revenue
- Avoid the “miss the boat” syndrome
- If you need it: **SEEK PROFESSIONAL HELP IN MARKETING**

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