

Wheat



Extension Section Crops Outlook



Mark Welch
Economist—Grain Marketing
July 29, 2008



Conclusion

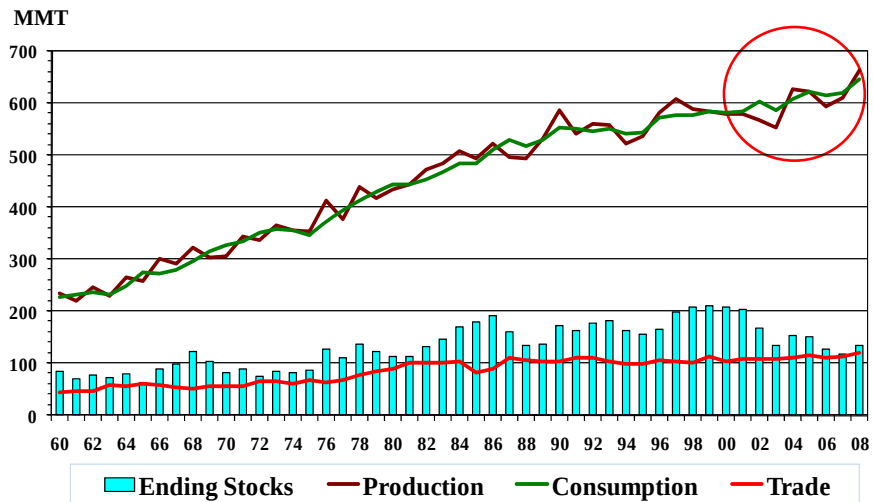


“Without the runaway demand growth of ethanol, many of the recent stories need to be rewritten in short order.”

--Michael Swanson, Economics Department, Wells Fargo



World Wheat Situation

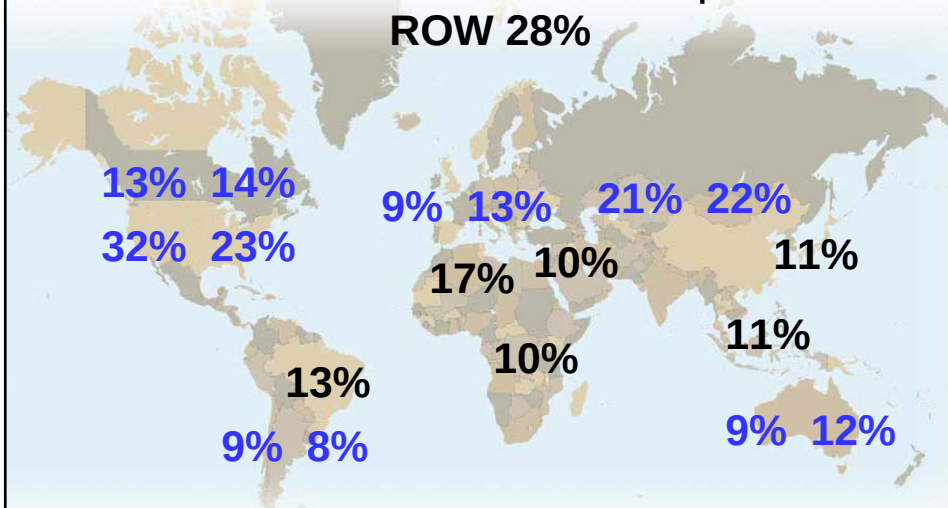


Source: Wasde

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2007/2008 Wheat Imports

ROW 28%

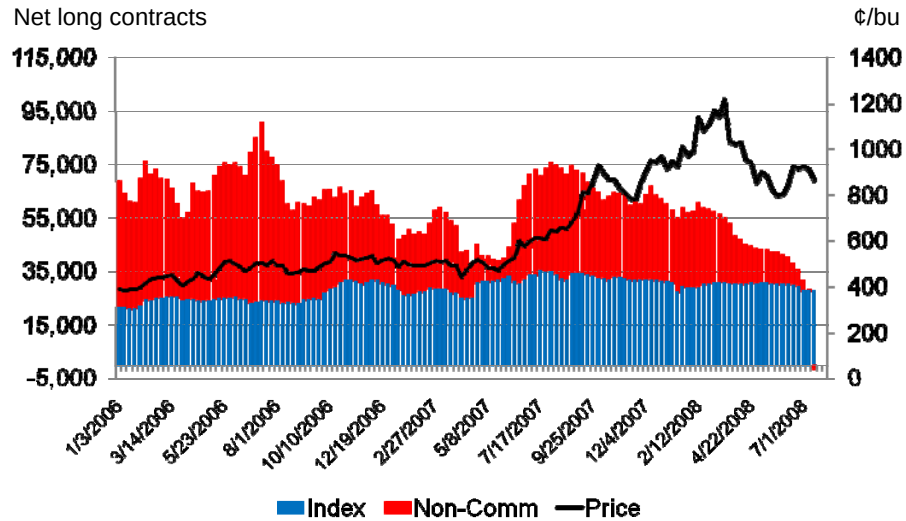


World Wheat Exports 07/08, 08/09

ROW: 9%, 8%

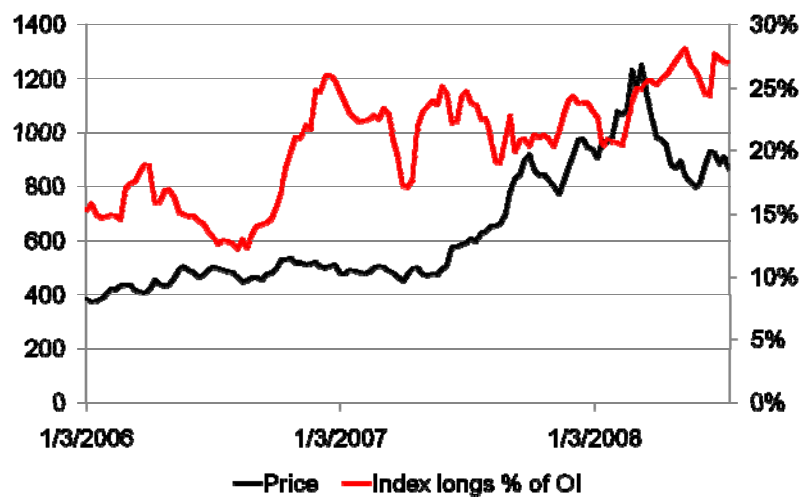
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KCBT Wheat Speculative Interest



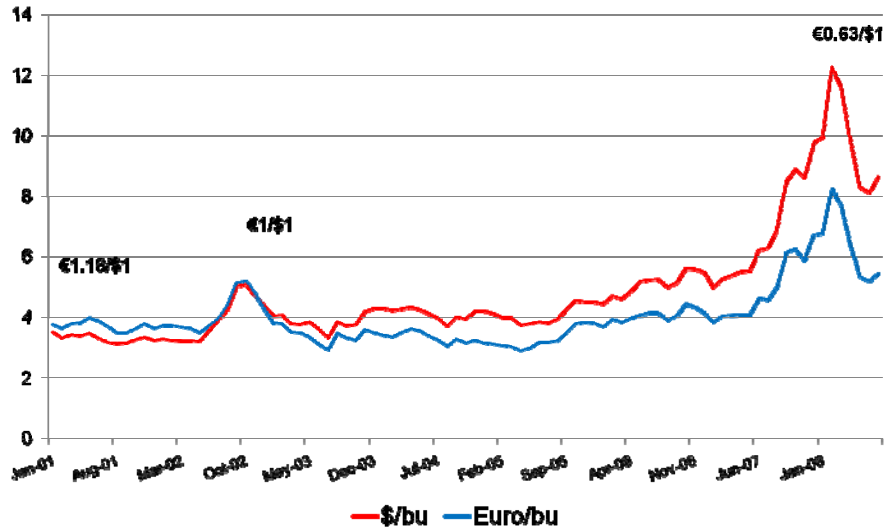
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Index Long Positions as a Percent of Open Interest



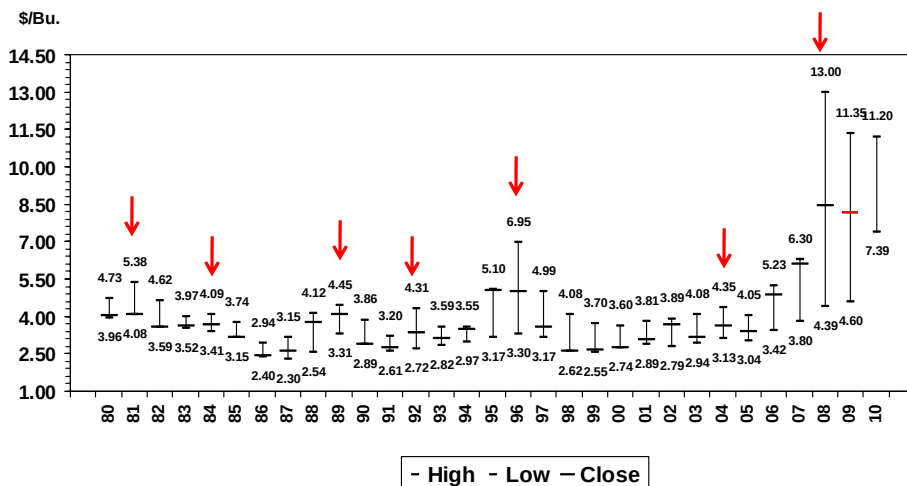
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HRW Prices



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July KCBT Wheat Prices



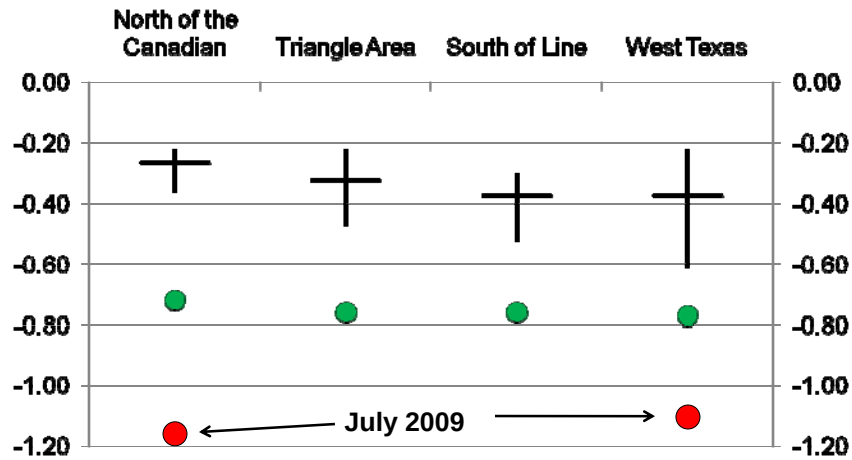
- High - Low - Close

7/14/08

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Texas Wheat Harvest Basis

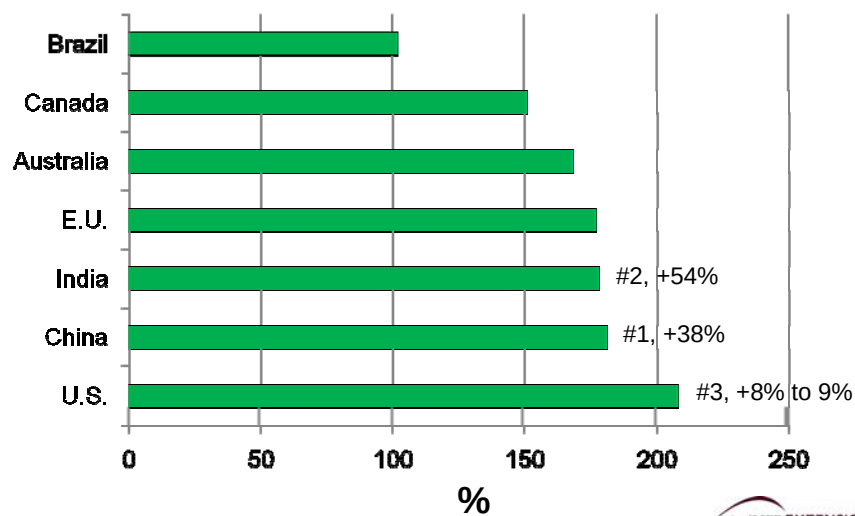
High, Low, Average (2003-07); New Crop (2008)



Source: <http://mastermarketer.tamu.edu/>

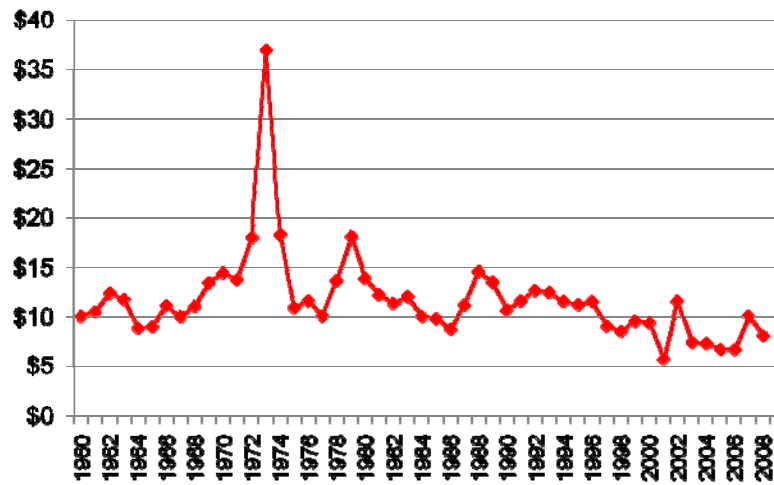
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World DAP Price Increase 2004 to 2008

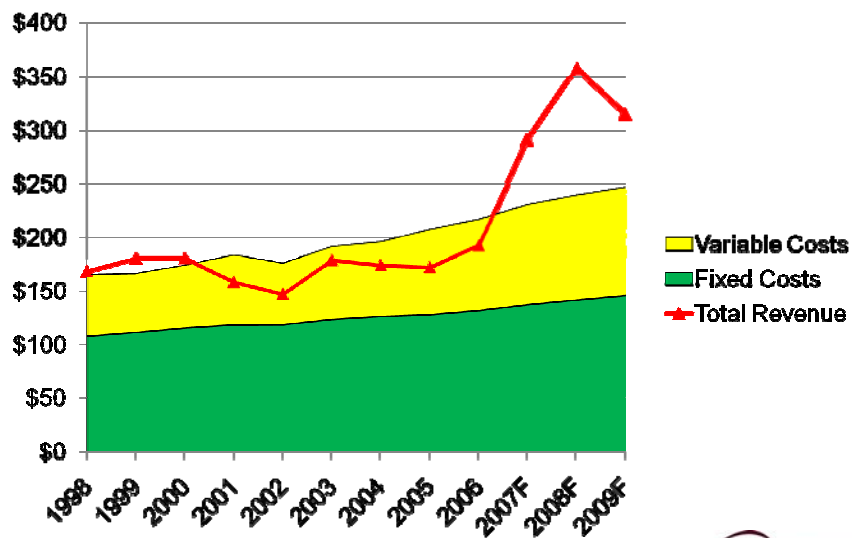


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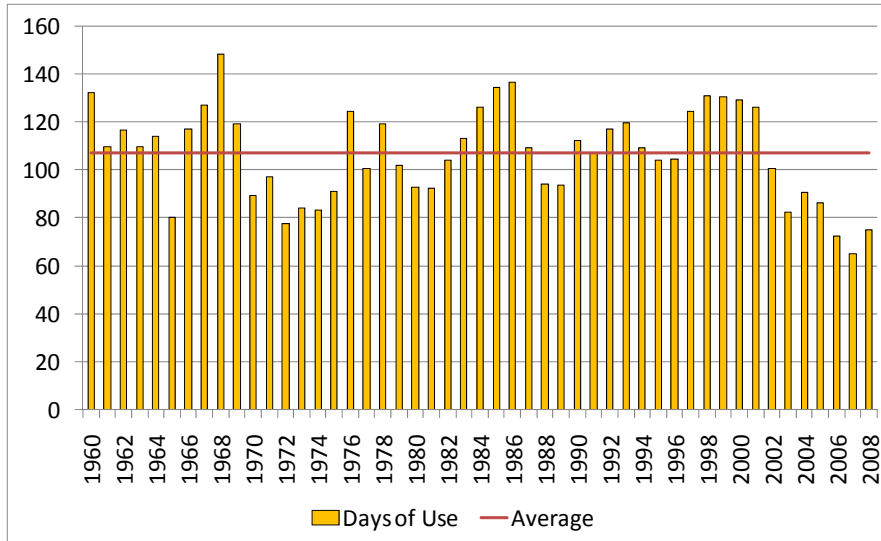
Returns to Nitrogen



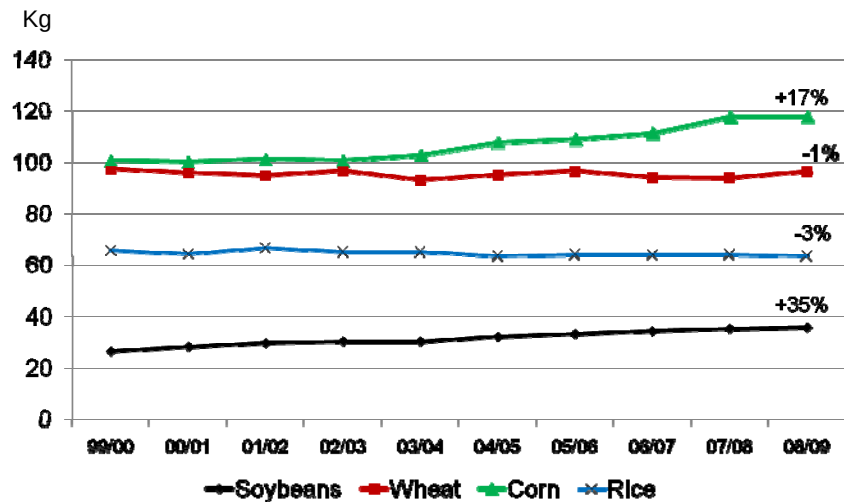
Wheat Costs and Returns



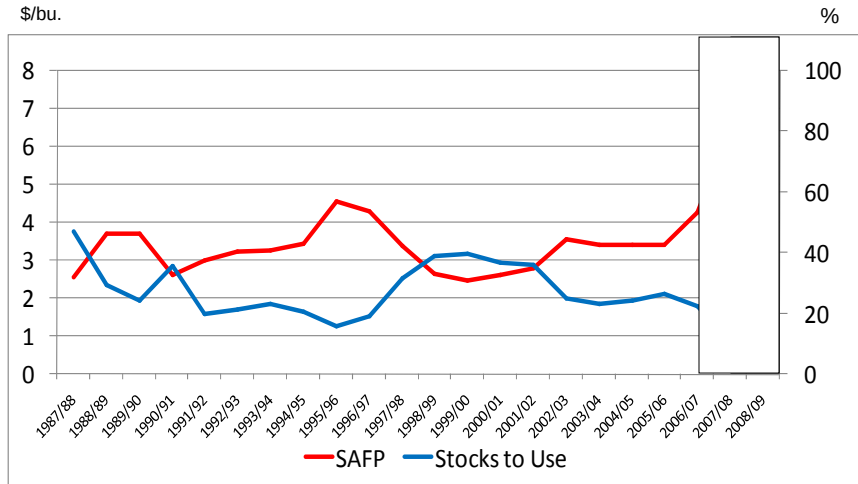
World Wheat: Days of Use on Hand



World Per Capita Consumption



Wheat U.S. Season Average Farm Price vs. Stocks to Use Ratio



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U.S. Wheat Supply/Demand

	04/05	05/06	06/07	07/08	08/09	09/10
Planted Ac. (Mil. Acs.)	59.7	57.2	57.3	60.4	63.5	64.5
Harvested Ac. (Mil. Acs.)	50.0	50.1	46.8	51.0	56.6	57.5
Yield (Bushels)	43.2	42.0	38.7	40.5	43.5	42.0
Supply	----- Million Bushels -----					
Beginning Stocks	546	540	571	456	306	537
Production	2,158	2,105	1,812	2,067	2,461	2,415
Imports	71	81	122	108	100	100
Total Supply	2,775	2,726	2,505	2,631	2,866	3,052
Disappearance						
Feed and Residual	182	160	121	20	285	200
Food and Seed	988	993	1,019	1,038	1,044	1,090
Exports	1,066	1,003	909	1,267	1,000	940
Total Use	2,235	2,155	2,049	2,325	2,329	2,230
Ending Stocks	540	571	456	306	537	822
Carryover/Use (%)	24.16	26.50	22.25	13.16	23.06	36.86
Avg. Farm Price (\$/Bu.)	3.40	3.42	4.26	6.48	6.75-8.25	↓

7/11/08

2007/08 estimated; 2008/09 projected; numbers may not add due to rounding; SOURCE: USDA/NASS/ERS/WASDE

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Input costs pushing farm risk levels higher

Jul 18, 2008 9:46 AM, By Roy Roberson

...he has an opportunity to make a lot of money with his 2008/2009 crops. Unfortunately, he says, "I also have the opportunity to lose more money than I've ever lost."



Manage the Margin

Do not focus only on absolute prices for either inputs or outputs

**Analyze
relative
revenues
and costs**

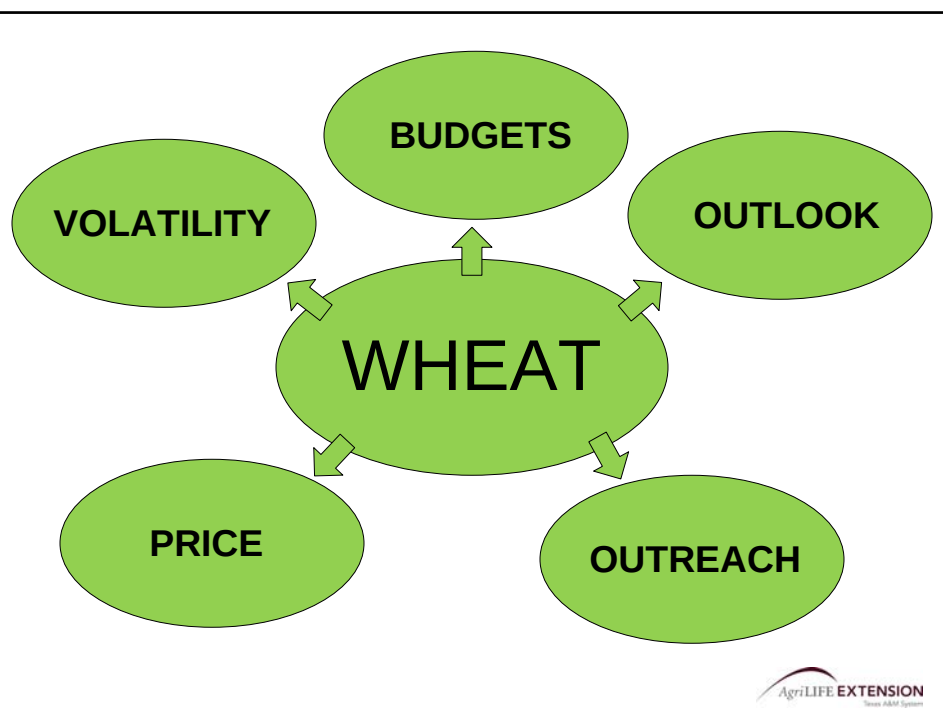
**Focus
on profit
margin**

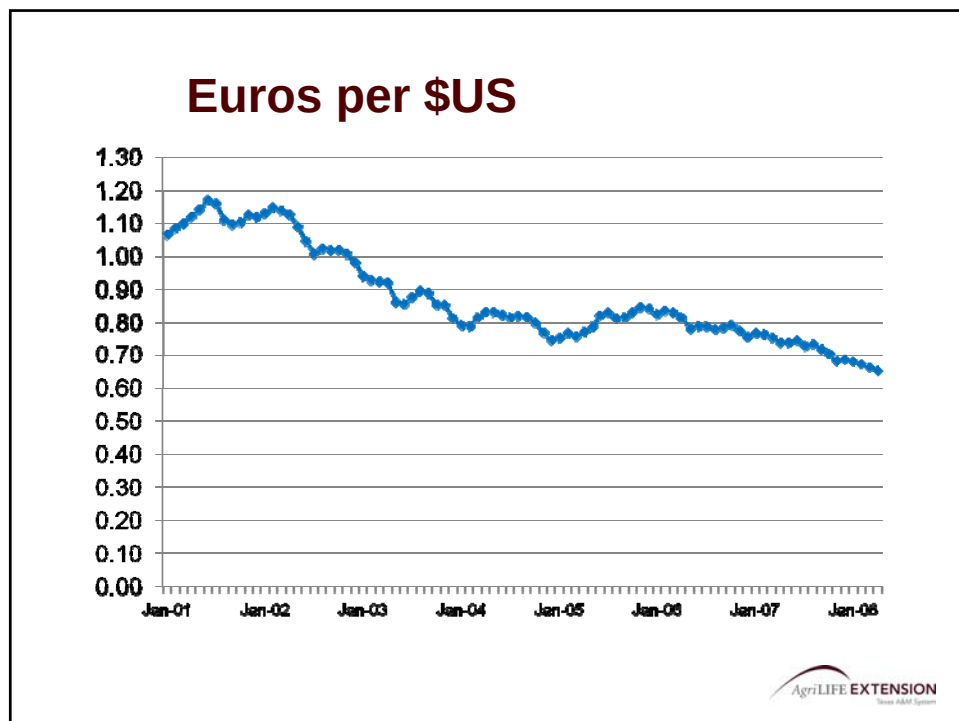
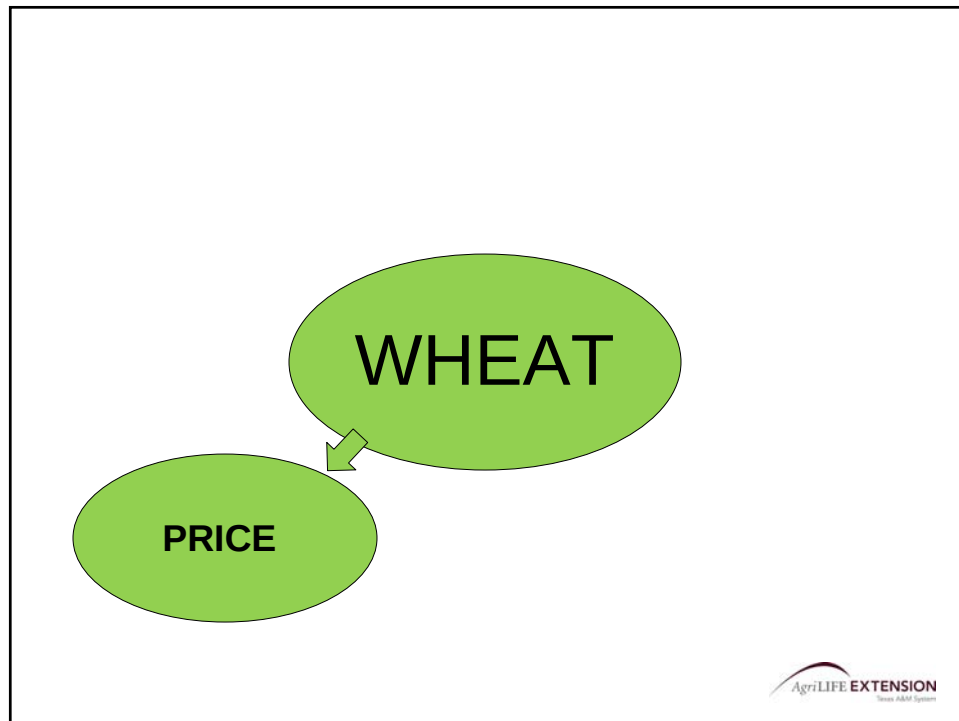


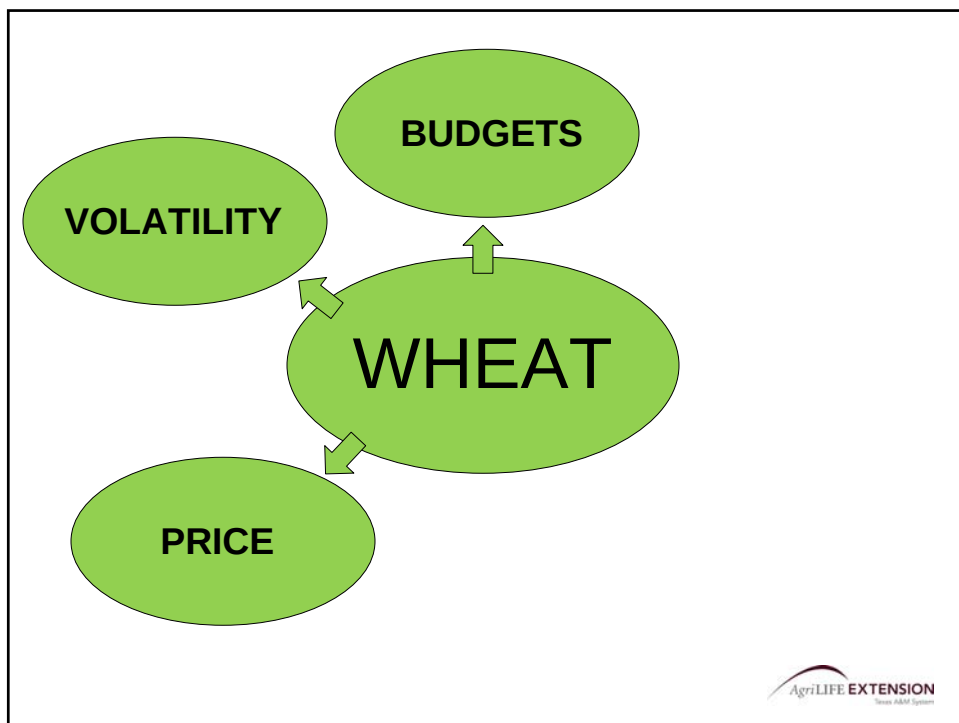
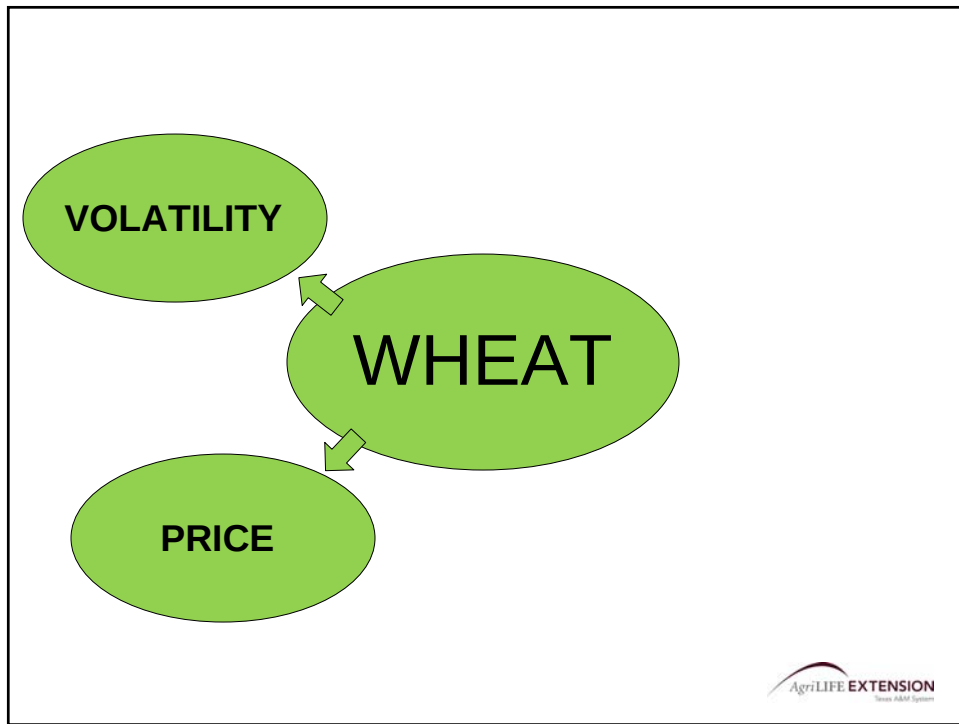
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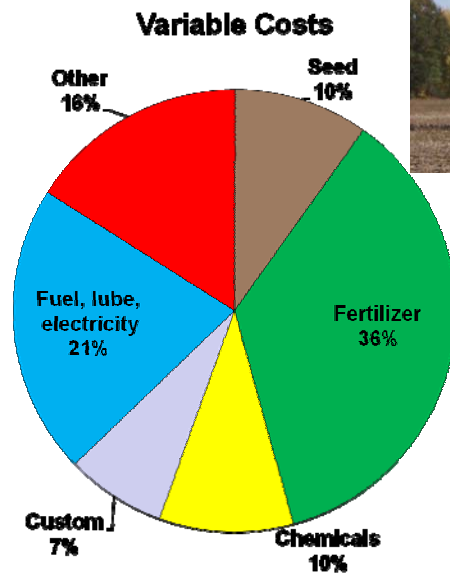
<http://agecoext.tamu.edu/index.html>



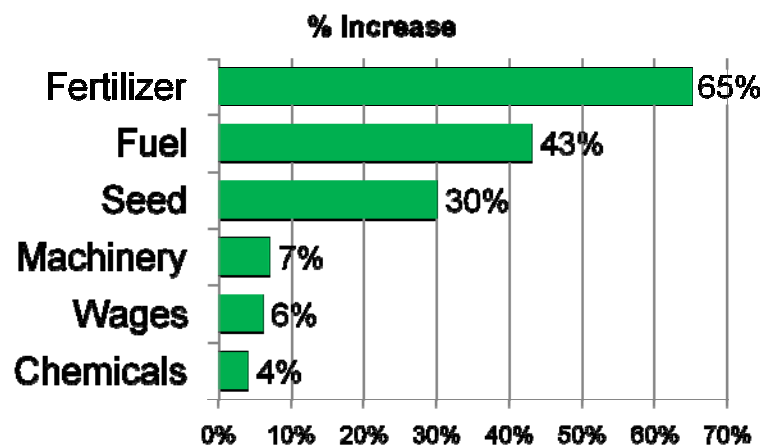




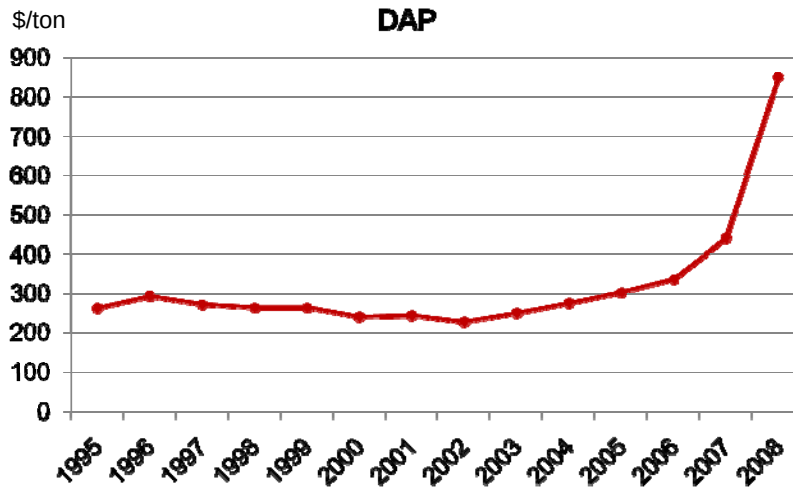
Wheat Budgets



Prices Paid by U.S. Farmers 2008 over 2007

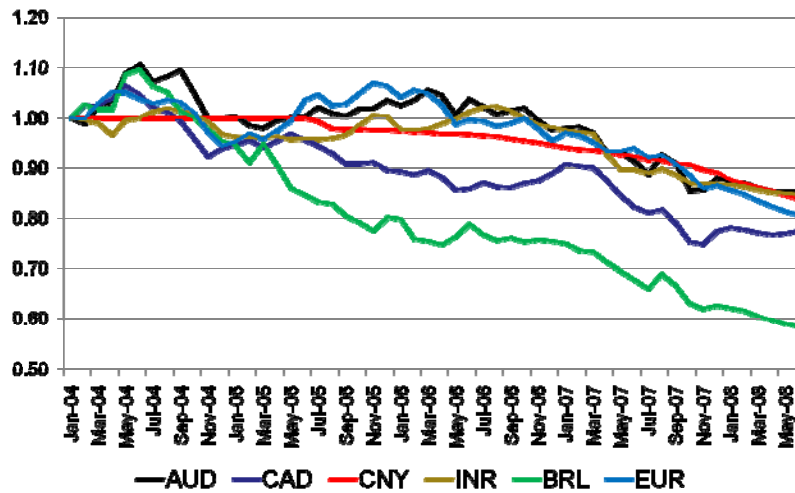


Diammonium Phosphate, 18-46-0



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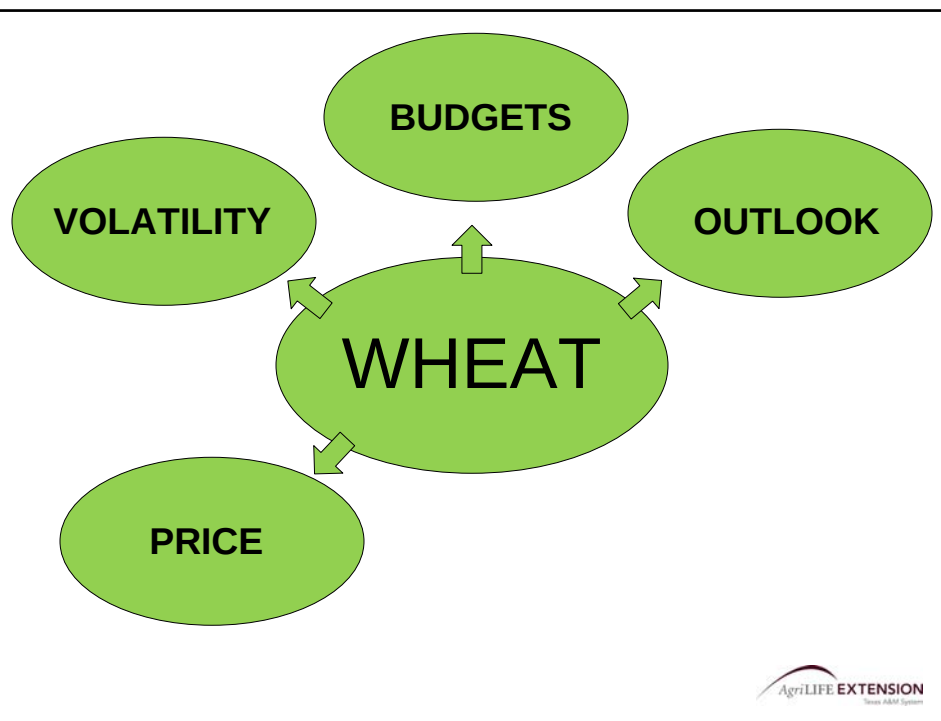
Exchange Rates: Value of Local Currency Relative to the USD



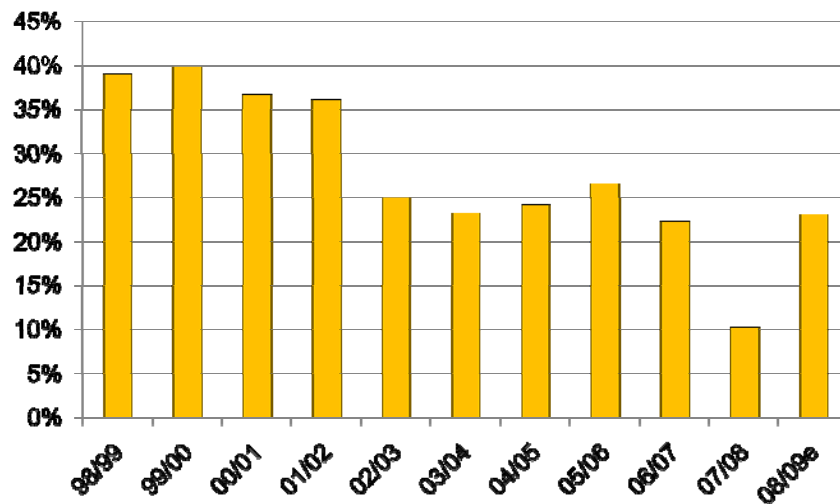
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Wheat Production Costs and Returns

	2006	2007F	2008F	2009F
Seed	8.46	9.51	9.72	9.95
Fertilizer	28.44	33.33	35.46	36.30
Chemicals	8.84	9.23	9.60	9.88
Other	39.27	41.39	43.08	44.96
Total Variable Costs	85.01	93.46	97.86	101.09
Land	40.86	42.93	43.98	45.28
Labor	24.18	24.49	25.09	25.68
Machinery	51.33	53.86	56.26	58.14
Other	15.40	16.02	16.34	16.68
Total Fixed Costs	131.77	137.30	141.67	145.78
Total Variable and Fixed Costs	216.78	230.76	239.53	246.87
Yield	38.7	40.5	43.5	42.0
Price	4.78	7.00	8.02	7.50
Total Revenue (incl. gov't)	192.24	291.70	358.07	315.00



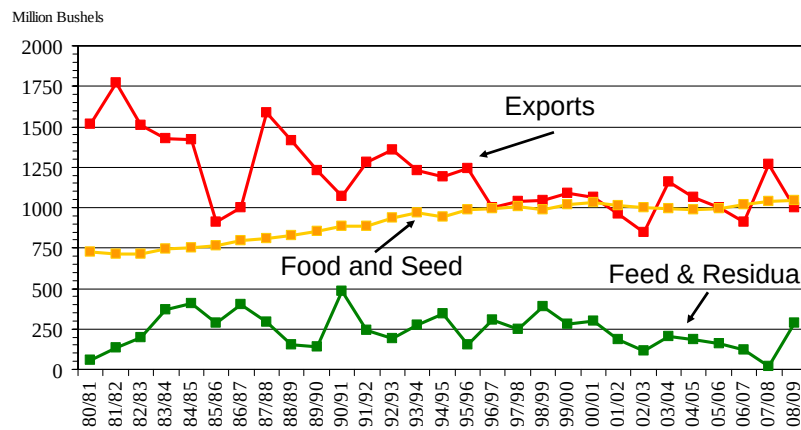
U.S. Wheat Stocks to Use



Source: USDA

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U.S. Wheat Use

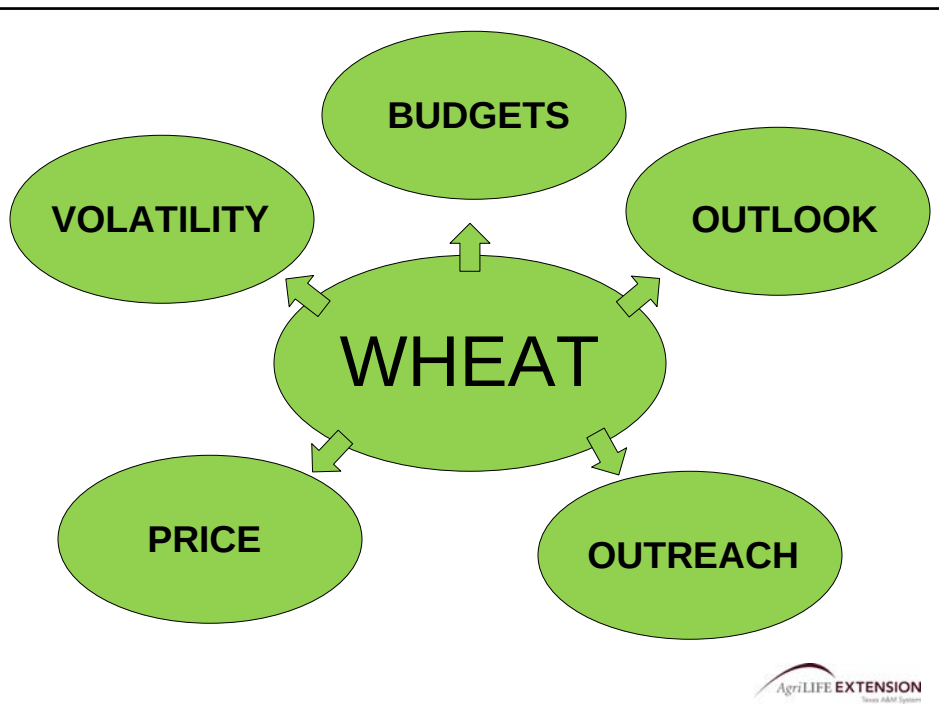
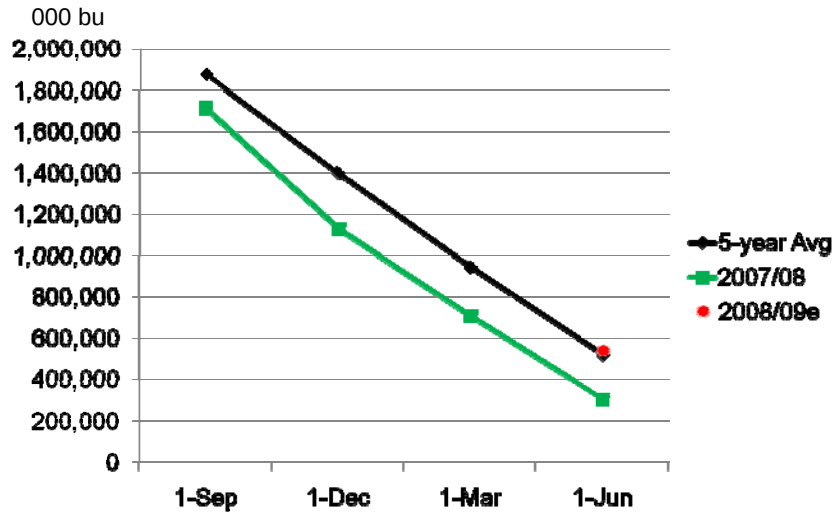


Source: Wheat Yearbook, USDA/ERS, WASDE, USDA
2007/08 estimated; 2008/09 projected

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All U.S. Wheat Stocks



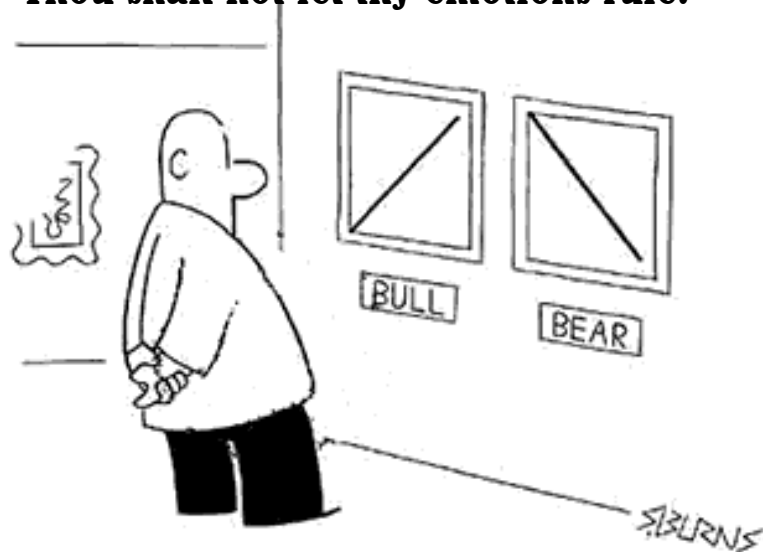
The 10 Commandments



Of Successful Commodity Trading

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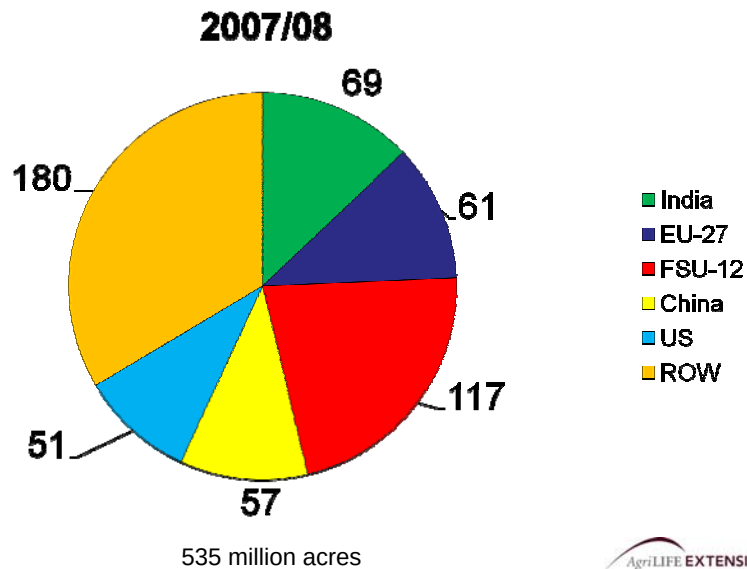
IV. Thou shalt not let thy emotions rule.



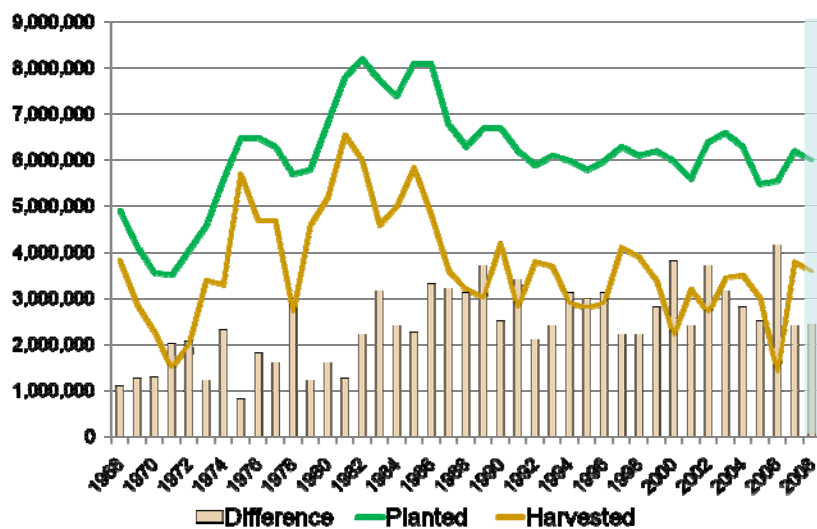
Separate what you think from what you want.

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World Wheat Harvested Area (mil acres)

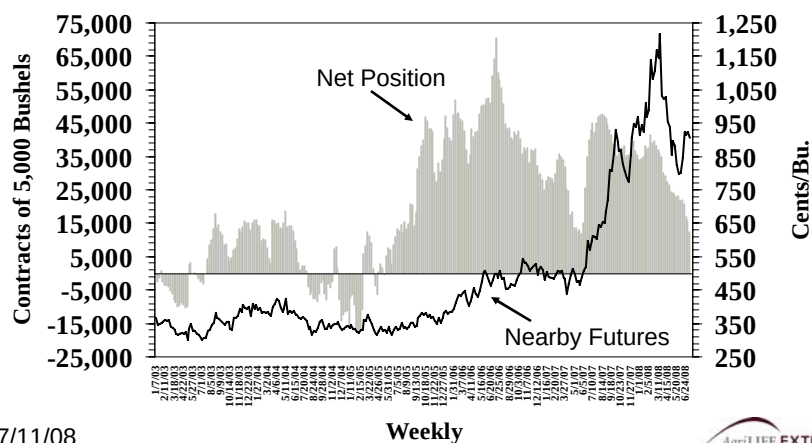


Texas Wheat Acres



KCBT Wheat Commitment of Traders (Futures Only) Reportable Non-Commercial Positions and Nearby Futures Prices

January 7, 2003 Through July 8, 2008



7/11/08

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Headlines to Watch

**Oil Sets New High,
Nears \$120** (WSJ, 4/23/08)

Oil Prices Surge
(WSJ, 10/16/07)

**Crude Oil Closes at a
Record** (WSJ, 10/13/07)

**Dollar Hits New Low as
Euro Passes \$1.60**

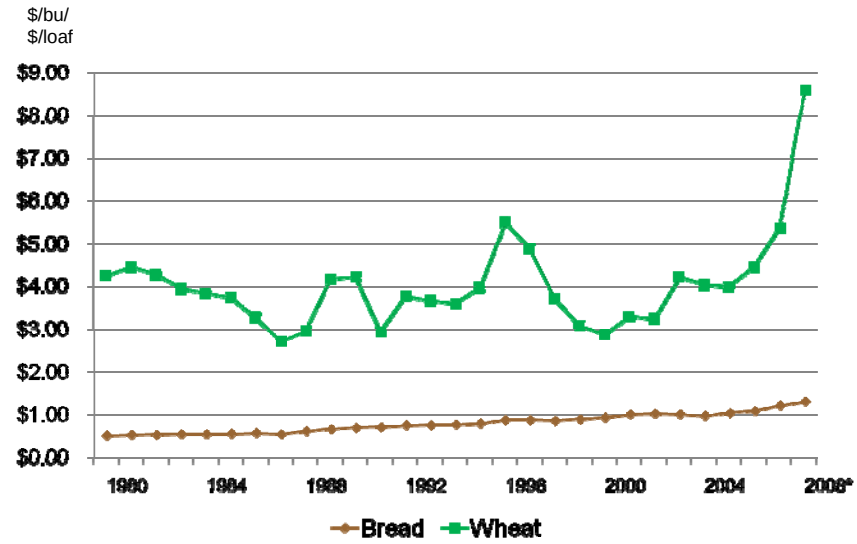
WSJ, 4/23/08



**ECONOMISTS SAY RECESSION
RISK IS CLIMBING** WSJ, 12/11/07

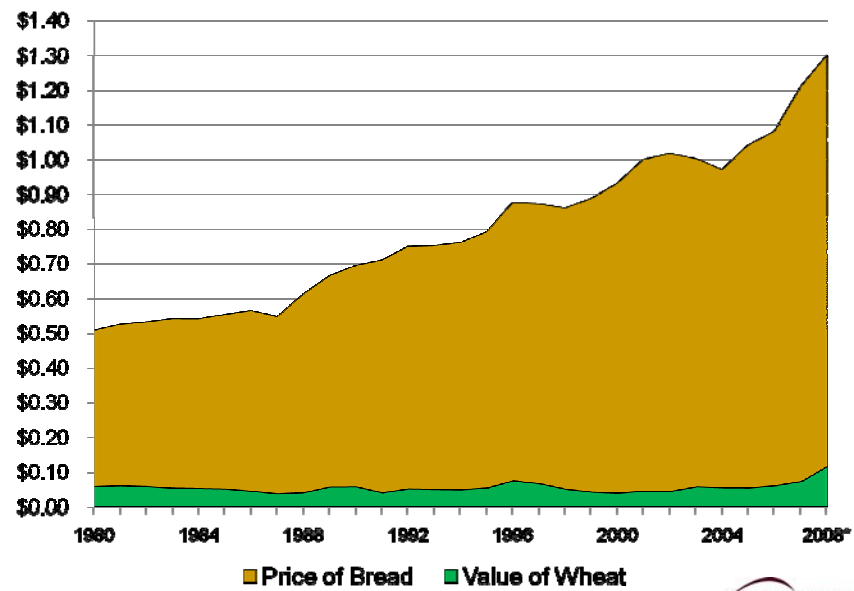
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Price of Bread vs. Price of Wheat



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Value of Wheat in a Loaf of Bread



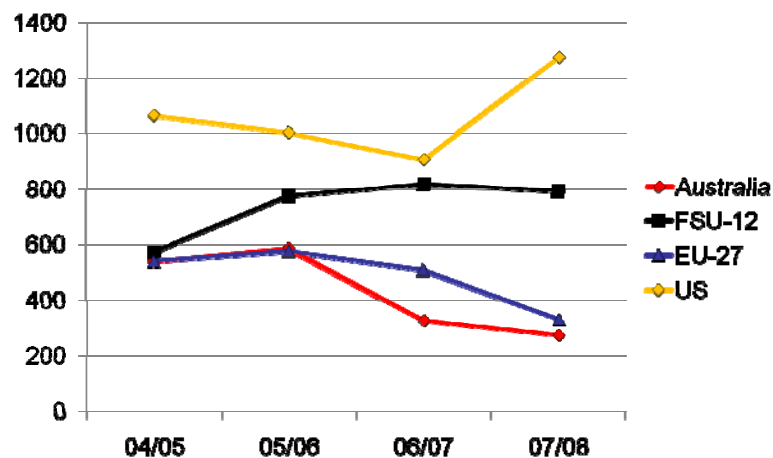
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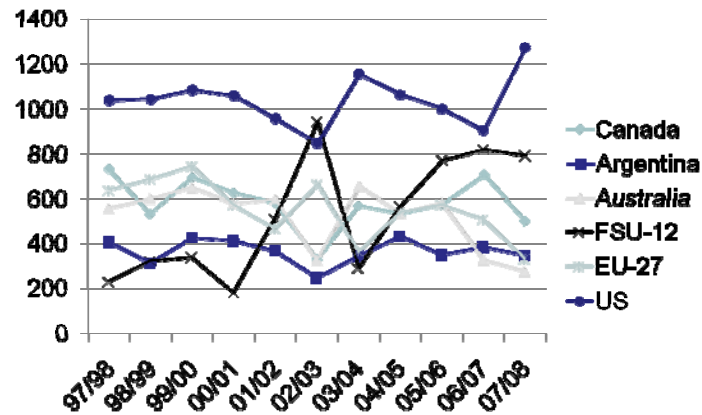
Overall Commodity Situation

- Supply and Demand (+)
- Outside Markets (+)
- Political Climate (+/-)
- Recession (-)

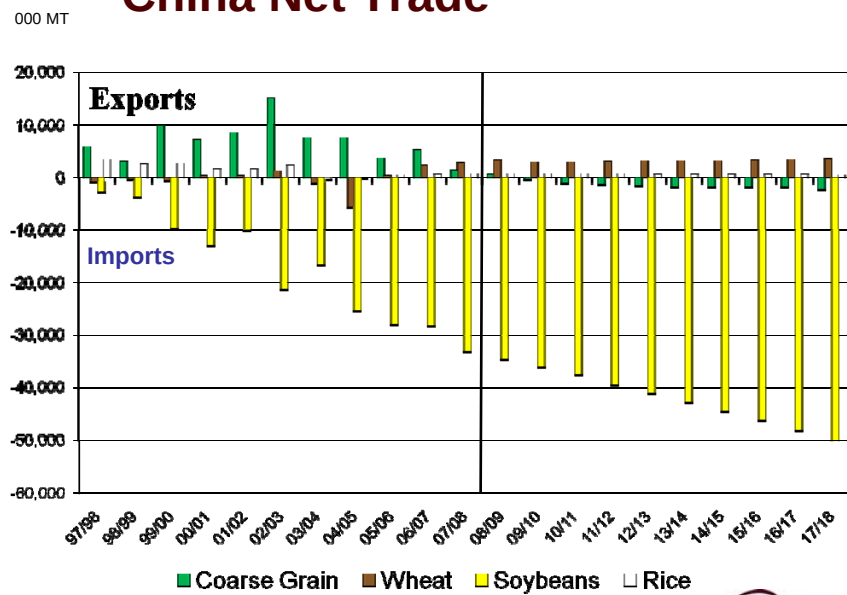
World Wheat Exports



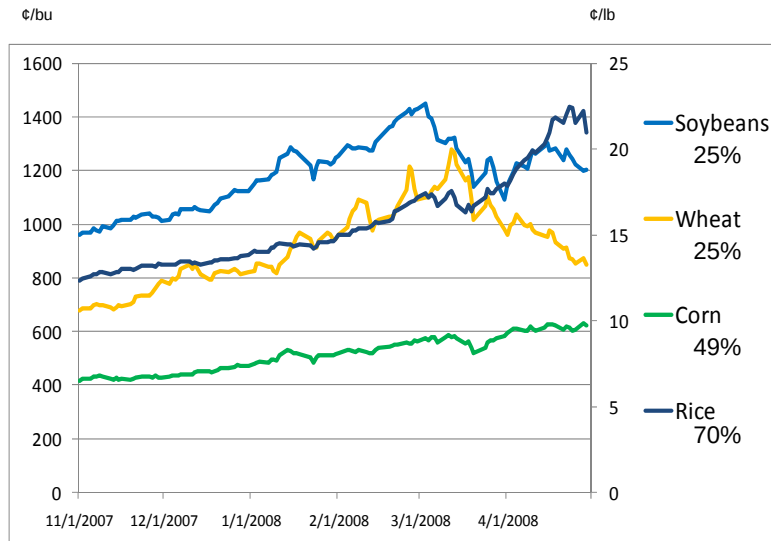
World Wheat Exports



China Net Trade

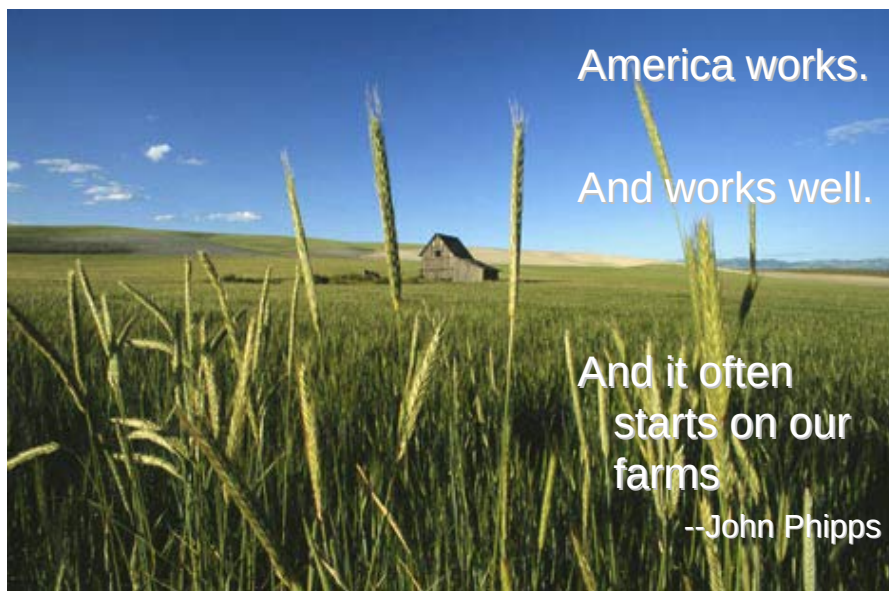


Grain Prices

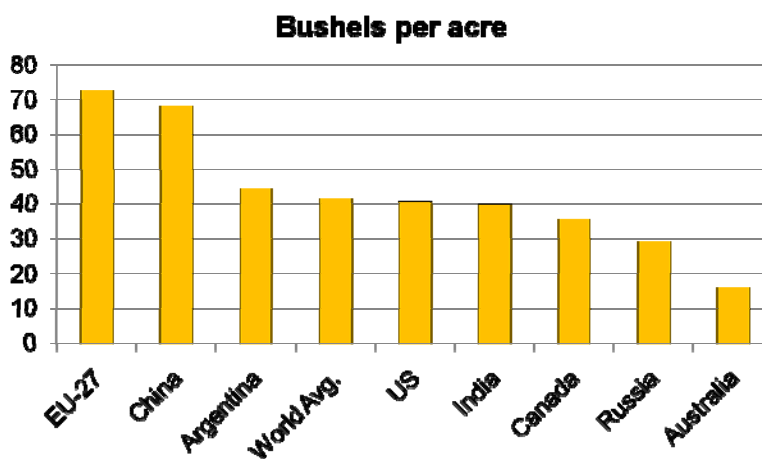


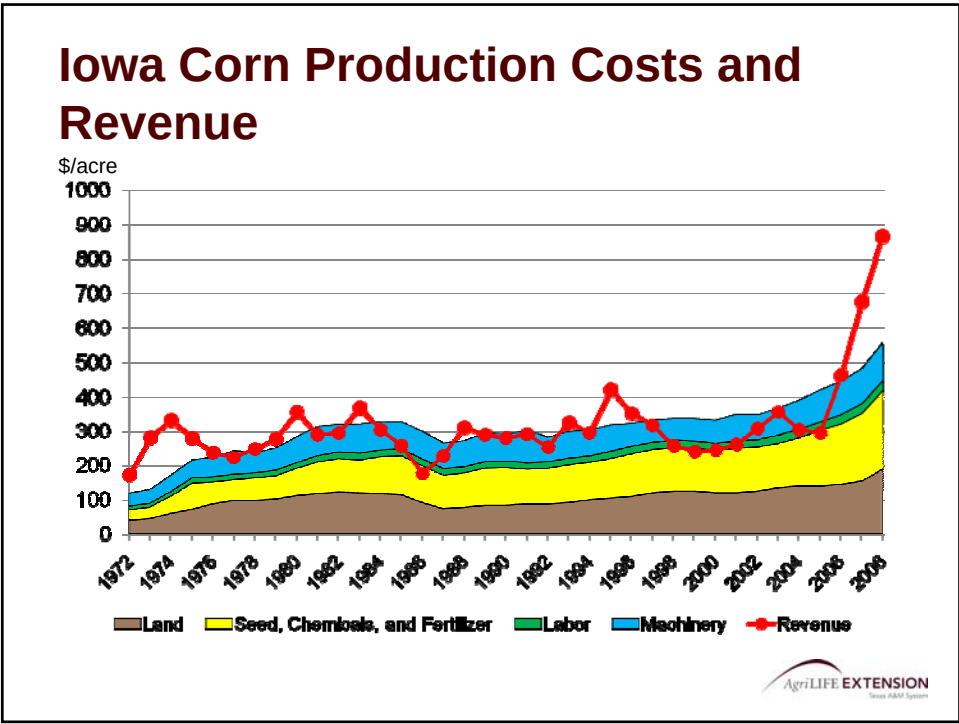
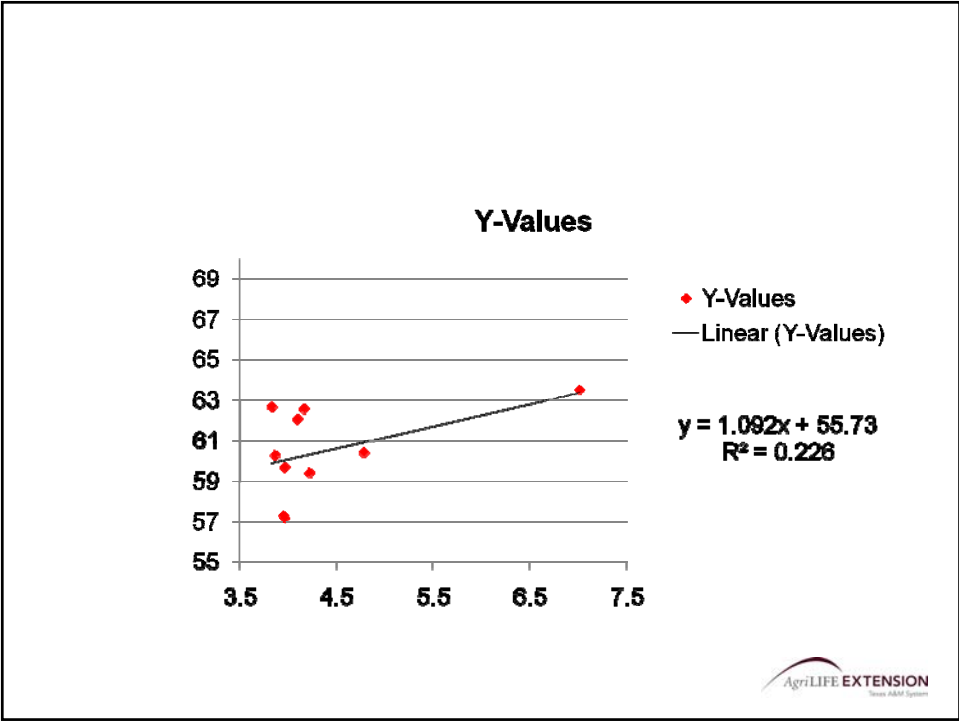
Food versus Fuel





2007/08 Wheat Yields





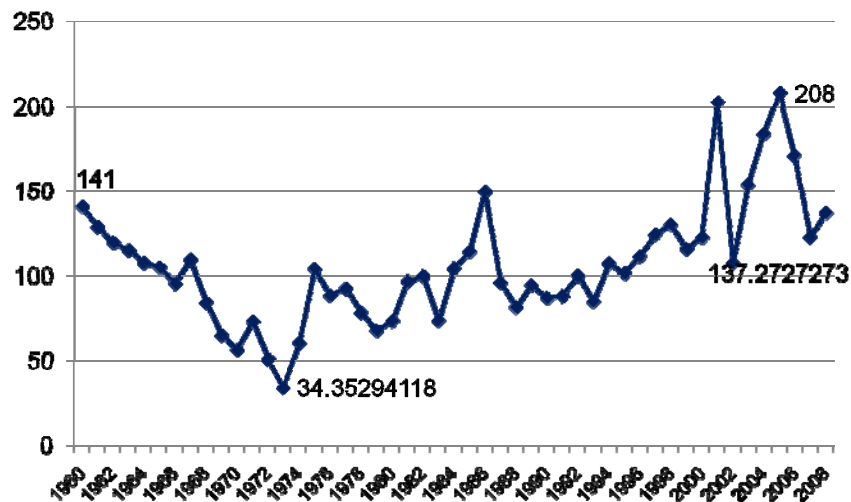
World Wheat Supply/Demand Estimate

	05/06	06/07	07/08	08/09
Area Harvested (000 hectares)	218,438	211,942	216,740	226,887
Yield (MT per hectare)	2.85	2.80	2.78	2.84
Beginning Stocks (MMT)	150.62	147.84	124.30	112.48
Production (MMT)	621.65	593.66	602.31	645.00
Domestic Consumption (MMT)	624.43	617.20	616.55	631.00
Ending Stocks (MMT)	147.84	124.30	110.06	126.48
Carryover/Use (%)	23.64	20.10	17.78	20.04
Avg. U.S. Farm Price (\$/Bu.)	3.42	4.26	6.55 – 6.75	5.12

2006/07 estimated; 2007/08 projected; numbers may not add due to rounding; SOURCE: USDA/NASS/ERS/WASDE/FAPRI/IGC



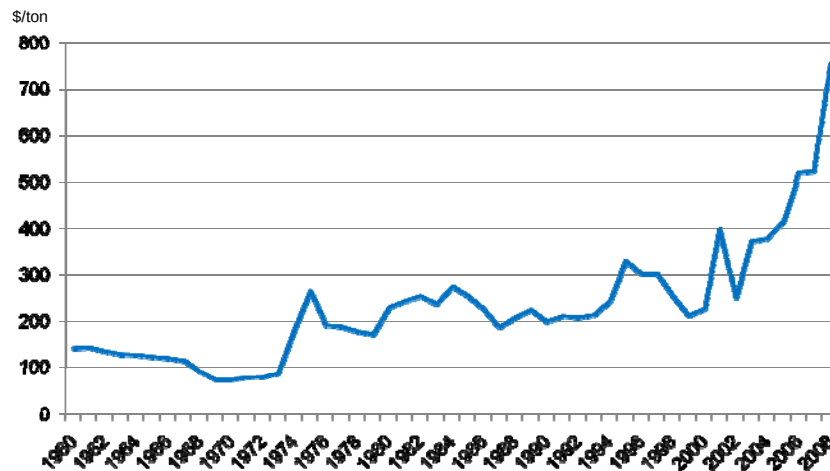
Bushels of Corn to buy 1 ton of Anhydrous Ammonia



How high? How long?

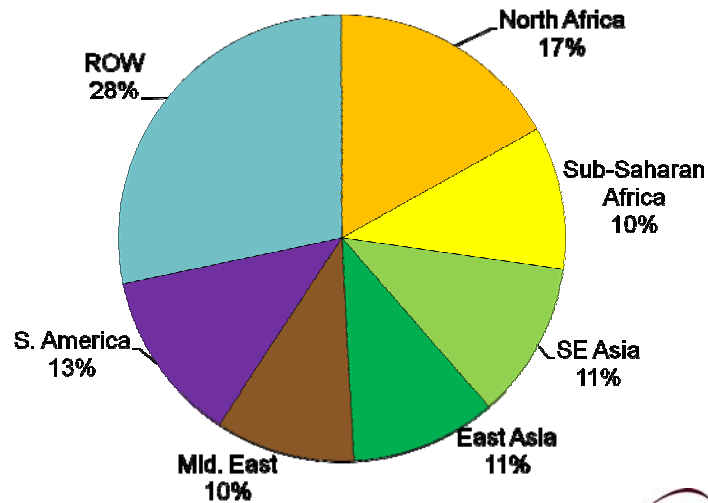


Anhydrous Ammonia (NH₃)



Source: NASS

World Wheat Imports, 2007/08

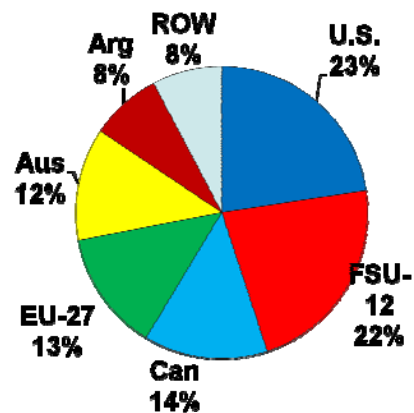
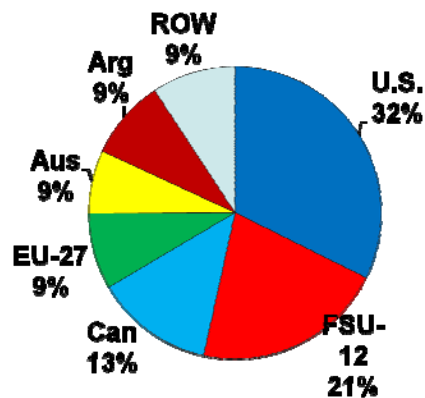


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World Wheat Exports

2007/08: 113.77 mmt

2008/09: 120.46 mmt



Source: WASDE

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