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

2007/2008 Wheat Imports
ROW 28%

World Wheat Exports 07/08, 08/09
ROW: 9%, 8%
KCBT Wheat Speculative Interest

Net long contracts

Index Long Positions as a Percent of Open Interest

Price  Index longs % ofOI
HRW Prices

July KCBT Wheat Prices
Texas Wheat Harvest Basis
High, Low, Average (2003-07); New Crop (2008)

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

World DAP Price Increase
2004 to 2008

Brazil
Canada
Australia
E.U.
India
China
U.S.

0 50 100 150 200 250

% #1, +38%
#2, +54%
#3, +8% to 9%
Returns to Nitrogen

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

<table>
<thead>
<tr>
<th>$/bu.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>8</td>
<td>80</td>
</tr>
</tbody>
</table>

SAFP - Stocks to Use

U.S. Wheat Supply/Demand

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

Variable Costs
- Fertilizer: 36%
- Fuel, lube, electricity: 21%
- Chemicals: 10%
- Custom: 7%
- Other: 16%
- Seed: 10%

Prices Paid by U.S. Farmers
2008 over 2007

% Increase
- Fertilizer: 65%
- Fuel: 43%
- Seed: 30%
- Machinery: 7%
- Wages: 6%
- Chemicals: 4%
## Wheat Production Costs and Returns

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

### Wheat Budgets Outlook

- **BUDGETS**
- **VOLATILITY**
- **OUTLOOK**
- **PRICE**

**WHEAT**
U.S. Wheat Stocks to Use

Source: USDA

U.S. Wheat Use

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

7/11/08
All U.S. Wheat Stocks

- 5-year Avg
- 2007/08
- 2008/09e

![Graph showing wheat stocks over time](Image)

WHEAT

- VOLATILITY
- BUDGETS
- OUTLOOK
- PRICE
- OUTREACH
The 10 Commandments

Of Successful Commodity Trading

IV. Thou shalt not let thy emotions rule.

Separate what you think from what you want.
World Wheat Harvested Area (mil acres)

2007/08

India: 180
EU-27: 61
FSU-12: 51
China: 57
US: 69
ROW: 117

535 million acres

Texas Wheat Acres

- Difference
- Planted
- Harvested

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

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)
Price of Bread vs. Price of Wheat

Value of Wheat in a Loaf of Bread
Overall Commodity Situation

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

World Wheat Exports

[Graph showing world wheat exports with data for Australia, FSU-12, EU-27, and US from 2004/05 to 2007/08]
Grain Prices

Food versus Fuel
America works. And works well. And it often starts on our farms.

---John Phipps

**2007/08 Wheat Yields**

![Graph showing wheat yields for different countries in 2007/08 season]
Iowa Corn Production Costs and Revenue

$/acre

Y-Values

- Y-Values
- Linear (Y-Values)

\[ y = 1.092x + 55.73 \]

\[ R^2 = 0.226 \]
### World Wheat Supply/Demand Estimate

<table>
<thead>
<tr>
<th></th>
<th>05/06</th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Harvested (000 hectares)</td>
<td>218,438</td>
<td>211,942</td>
<td>216,740</td>
<td>226,887</td>
</tr>
<tr>
<td>Yield (MT per hectare)</td>
<td>2.85</td>
<td>2.80</td>
<td>2.78</td>
<td>2.84</td>
</tr>
<tr>
<td>Beginning Stocks (MMT)</td>
<td>150.62</td>
<td>147.84</td>
<td>124.30</td>
<td>112.48</td>
</tr>
<tr>
<td>Production (MMT)</td>
<td>621.65</td>
<td>593.66</td>
<td>602.31</td>
<td>645.00</td>
</tr>
<tr>
<td>Domestic Consumption (MMT)</td>
<td>624.43</td>
<td>617.20</td>
<td>616.55</td>
<td>631.00</td>
</tr>
<tr>
<td>Ending Stocks (MMT)</td>
<td>147.84</td>
<td>124.30</td>
<td>110.06</td>
<td>126.48</td>
</tr>
<tr>
<td>Carryover/Use (%)</td>
<td>23.64</td>
<td>20.10</td>
<td>17.78</td>
<td>20.04</td>
</tr>
</tbody>
</table>

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

![Graph showing the relationship between bushels of corn and tons of anhydrous ammonia over time.]
“…as a general rule, the shorter the period we are considering, the greater… the influence of demand on value; and the longer the period, the more important will be the cost of production on value.”

--Lord Alfred Marshall (1890)

**How high? How long?**

![Graph showing the price of Anhydrous Ammonia (NH3)](source: NASS)

**Anhydrous Ammonia (NH3)**

![Graph showing the price of Anhydrous Ammonia (NH3)](source: NASS)
World Wheat Imports, 2007/08

North Africa 17%
Sub-Saharan Africa 10%
S. America 13%
East Asia 11%
Mld. East 10%
ROW 26%

Source: WASDE

World Wheat Exports

2007/08: 113.77 mmt
2008/09: 120.46 mmt

Source: WASDE