ALABAMA COOPERATIVE Extension SYSTEM
Your Experts for Life

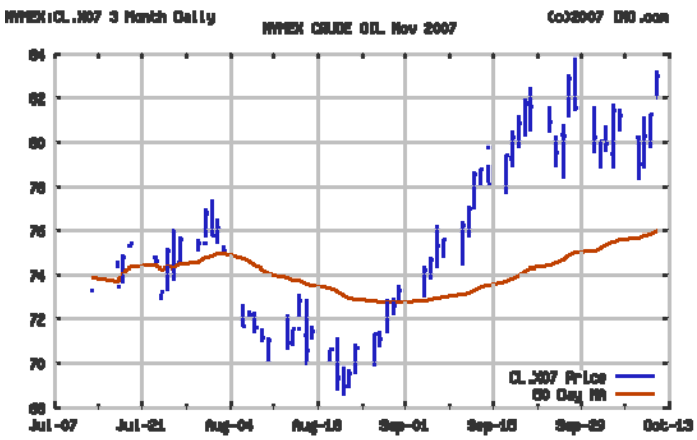
AG ECONOMIC SERIES

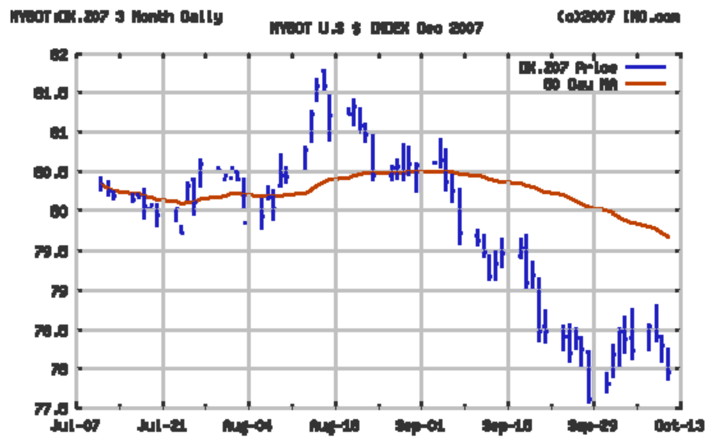
# TIMELY INFORMATION

## Agriculture & Natural Resources

### Ag Market Situation Update

Below you see the last three months trading in two commodities that are very important to the ag markets: crude oil and the dollar. As you can see, they are mirror images. As the dollar has declined in value, crude oil has increased in price. Thus, the price of corn, soybeans, wheat, and even cotton has increased. Since the beginning of September, crude oil has increased about $10 per barrel. Every dollar increase in the price of a barrel of crude implies that the distillers can afford to pay about 7 cents more for a bushel of corn. So, an $80 price on barrel of crude supports about a $5 price on a bushel of corn. The decline in the value




of the dollar might have something to do with the increase in the price of the crude, but it doesn't affect the oil-corn price conversion relationship directly. I underline that word "directly" because it does have an indirect effect. About a third of our corn has traditionally been exported. The value of the dollar has a tremendous impact on the amount of all kinds of ag products we sell overseas (especially including cotton). A decline in value of the dollar makes our products cheaper overseas. (It helps our exports but makes our imports more expensive. This may or may not be a good thing, depending on you point of view.)

An important component in the price of soybeans is the value of the oil. To the left is the chart of the last three months of trading for soybean oil. You would expect it to be similar in shape to the crude market, and it is with one exception. There is a huge gap upward in the bean oil market in early September that you don't see in the crude chart. You try to rationalize these moves, and I take that jump, which we see in most of the ag commodities, as the point where the market realized that the competition for cropland in 2008 is going to be intense. Of course, several of them have since gapped back down as much or more.

In fact, a central function of the commodity markets for the next few years may be to influence planting intentions and crop size. Right now, July 08 Wheat is at $6.80, Nov 07 beans at $9.70, Dec 07 Corn at $3.50 and Dec 07 Cotton at 65 cents. It seems to me that wheat and beans are overpriced in relation to corn and cotton (and cotton is underpriced in relation to everything). It seem the market want more beans and wheat, less corn and cotton.

So, my crop market advice for next year is you can either go with the flow or be a contrarian. If you plant "what the market want" you should price it early, maybe even before planting, in case there is a big surplus. If you take a chance and plant what the market says is less in demand, you should price it late and hope for a shortage. This year, it looks to me like the market is calling for a wheat-soybeans doublecrop. If you plan to meet that demand, go ahead and price your crop now. If you decide to plant corn or cotton, hold off on pricing those crops until after harvest, perhaps even until the spring of 2009. That is how I interpret these latest market moves.

Cotton’s week so far has been pretty good, considering. Considering that “pretty good” means we seem to be recovering from the big selloff last week. According to the experts, we can thank whatever progress we have on the rumors of rain damage to the cotton in China. Maybe it even rained there, I don’t know. China’s a big country, surely it rained there somewhere. ]

In other news on the market, the WTO talks are going down the tube. Apparently there is a misapprehension on the part of our negotiators. They thought that if we gave up a bunch of concessions the developing countries would give us something back. They should have known better. So now the WTO idea is that we abolish our farm support system to put ourselves at the mercy of the world market without the developing countries- in this case Brazil, India, South Africa, Argentina, Indonesia, The Philippines, and Venezuela – having to open their borders to imported goods.

Today the new supply and demand report is out, and it looks to me like there are no surprises. They decreased increased beginning stocks and decreased ending stocks very slightly, thus raising the S/U ratio a tad. They also lowered trade a little from last month. I don’t look for a big market impact from this report, but we will see. The thing to remember is that this year we still have a five million bale or six percent reduction in ending stocks. I copied the table onto the next page if you are interested.

Bob Goodman, 334-844-5633, **bobg@auburn.edu**

Table 2--World cotton supply and use estimates

| | | 2007/08 | | |
|---|---|---|---|---|
| Item | 2006/07 | July | Aug. | Sep. |
| | | *Million 480-lb. bales* | | |
| Supply: | | | | |
| Beginning stocks-- | | | | |
| World | 57.75 | 57.32 | 57.86 | 56.79 |
| Foreign | 51.70 | 47.52 | 48.16 | 47.09 |
| Production-- | | | | |
| World | 119.15 | 115.79 | 115.92 | 117.18 |
| Foreign | 97.56 | 98.29 | 98.57 | 99.37 |
| Imports-- | | | | |
| World | 36.74 | 41.30 | 41.06 | 40.08 |
| Foreign | 36.72 | 41.28 | 41.04 | 40.06 |
| Use: | | | | |
| Mill use-- | | | | |
| World | 123.22 | 127.16 | 127.78 | 127.78 |
| Foreign | 118.27 | 122.76 | 123.18 | 123.18 |
| Exports-- | | | | |
| World | 37.41 | 40.81 | 40.58 | 39.70 |
| Foreign | 24.41 | 23.81 | 23.88 | 23.00 |
| Ending stocks-- | | | | |
| World | 56.79 | 50.78 | 51.52 | 51.56 |
| Foreign | 47.09 | 44.88 | 45.72 | 45.36 |
| | | *Percent* | | |
| Stocks-to-use ratio: | | | | |
| World | 46.1 | 39.9 | 40.3 | 40.4 |
| Foreign | 39.8 | 36.6 | 37.1 | 36.8 |

Last update: 09/13/07.
Source: USDA, World Agricultural Outlook Board.