



Rabobank

March 2009

Agri Commodity Markets Research

2009 US crop plantings intentions and stocks reports

Earlier today the United States Department of Agriculture (USDA) released two reports of significance for the world agri commodity markets.

The first was the Planting Intentions Report which shows the results of a grower survey of US farmer planting intentions for a number of crops in the 2009 season. The Planting Intentions Report is increasingly becoming a major annual event for grain and oilseeds and cotton markets, providing a key indicator of production and price movements in the year ahead.

The second report was a quarterly US grain stocks report, showing stock levels at 1 March 2009. This report is of increased importance this year given the global economic slowdown and its impact on grain consumption.

Highlights of the USDA Planting Intentions Report

- The USDA estimated 2009 corn acreage at 85 million acres, 1.2% below last year's acreage but still the third largest planted acreage and slightly above average market expectations
- Soybean acreage is estimated at 77 million acres, the largest soybean acreage on record, slightly above last year's area and below average market consensus
- Total wheat acreage for 2009 is estimated at 58.6 million acres, down 7% from 2008
- Spring wheat acreage is estimated at 13.3 million acres, down 6% from 2008
- Durum acreage is estimated at 2.45mm acres, down 10% from 2008
- Total cotton acreage is estimated at 8.81 million acres, 7% below last year's and the lowest planted area since 1983 but above market expectations

It is worth noting that this survey is taken during the first two weeks of March and only shows farmers' intentions at that point in time. Actual planting acreage is released by the USDA at end of June and may differ significantly from the previously stated intentions. For example, history suggests that actual corn acreage planted will be 1% to 2% higher than the USDA March Planting Intentions Report indicates.

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Results released by the USDA today indicate a soybean acreage below market expectations, corn was slightly above average market expectations. Forecasts ranged from 77 million acres to 82 million acres for soybean acreage and from 81.4 to 86 million acres for corn, compared to 74.5 million acres for soy and 86 million acres for corn planted in 2008.

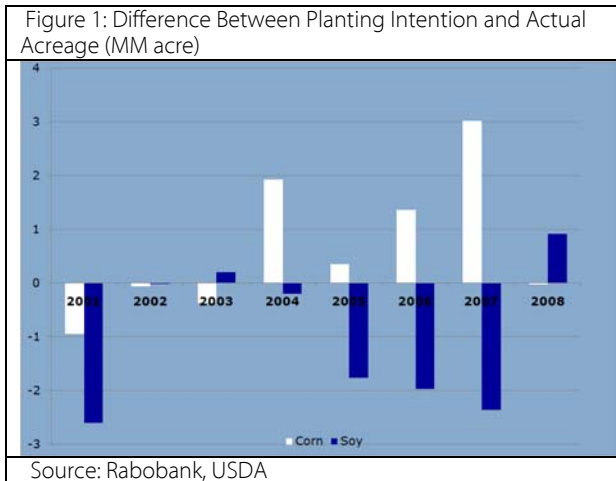
Highlights of the USDA Stocks Report

- The corn stock levels at 1 March 2009 were in line with market expectations, up 1% year-on-year (YOY) and a 3-year high. Consumption for the quarter fell 9% compared to 2008 with lower feed use demand due to fewer poultry, pig or cattle numbers on feed. A direct impact of the US and global economic slowdown.
- Soybean stocks were recorded at 1.3 billion bushels, 9% lower YOY. There has also been a shift in stocks to on-farm from off farm storage. Usage for the December – March quarter was 5% higher YOY, supported by strong export sales to China.
- All wheat stocks were recorded as 46% higher than year-earlier levels reflecting the weak domestic feed situation, slow US export pace in 2008/09 and the impact of a record production of world wheat.

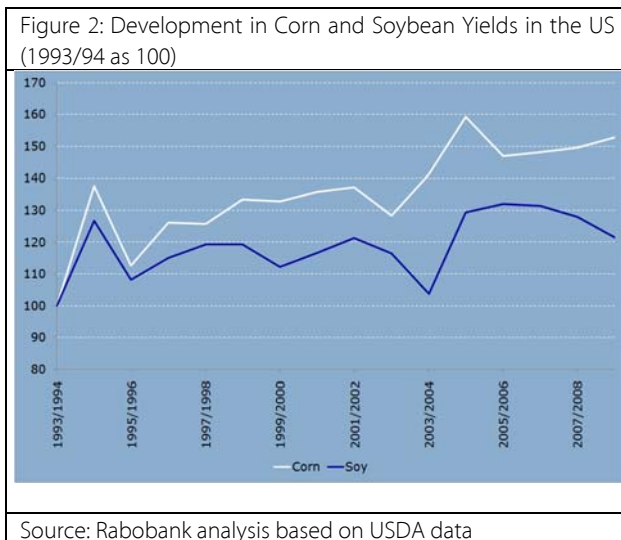


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Farmers in the most productive areas of the US have a competitive advantage in producing corn. Corn yields are not only higher in the US than most other corn-producing countries, but they have also been consistently improving at a faster rate than soybean yields due to the constant development of technologies such as genetically modified seeds.



Rabobank estimates for the 2009 crop indicate that variable costs for a corn crop for a high farm are approximately USD 410 per acre, compared to variable costs around USD 225 per acre for soybeans.

Compared to last year, Rabobank estimates indicate increases in production costs of 25% and 15% for soybeans and corn, respectively. Farmers are facing some difficulties expanding their credit lines to finance crops, which should help explain the expansion in soybean acreage relative to corn. At a time when the cost of capital has increased and farmers are becoming more risk averse, soybean crops

may look more attractive as they require less fertiliser and demand less capital per acre than corn. In addition, soybean prices relative to cotton have also contributed to a shift in acreage in a number of southern states towards soybeans.

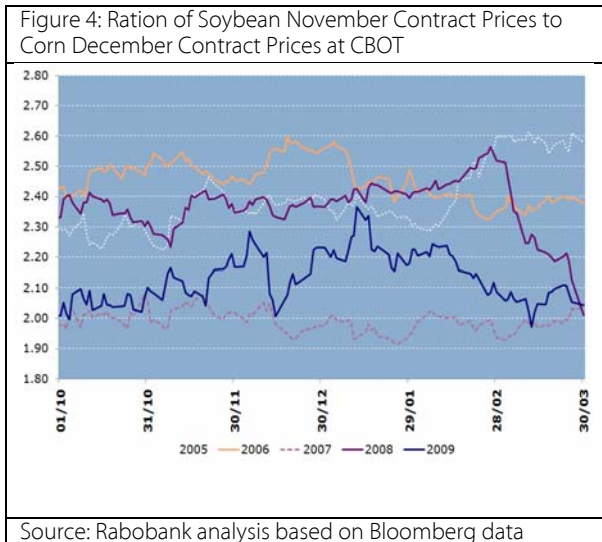
Nevertheless, farmers in the higher yield corn-producing areas continue to favour corn. When forecasting crop returns based on today's price forecasts, planting corn is likely to be more rewarding than planting soybeans. For an estimated yield of 160 bushels per acre for corn and 50 bushels per acre for soybean, Rabobank estimates a gross margin of USD 72 per acre for corn compared to USD 7.45 acre for soy—including a land rental cost of USD 205 per acre—considering corn and soy prices at USD 3.76 and USD 8.73 per bushel, respectively. This analysis is based on standard application rates for crop inputs. Farmers may save on fertilisers and other inputs to drive short-term profitability higher and may be more comfortable cutting inputs for a soy crop rather than for corn.

Figure 3: Comparison of Production Costs for Soybeans and Corn

U.S. Soybean Cost Structure (USD/MT)			US Corn Cost Structure (USD/MT)		
	2009	2008 Change		2009	2008 Change
Land Rental	151	140 8%	Land Rental	50	47 8%
Labour & machinery	37	30 23%	Labour & machinery	23	25 -6%
Seeds	40	24 68%	Seeds	23	16 49%
Chemicals	23	29 -23%	Chemicals	9	11 -12%
Fertiliser, lime and gypsum	71	35 105%	Fertiliser, lime and gypsum	42	31 33%
Total farm	321	257 25%	Total ex-farm	148	129 15%
Expected yield (MT/ha)	3.4	3.4	Expected yield (MT/ha)	10.04	10.04
Cost per bushel	8.73	6.99	Cost per bushel	3.76	3.28

Source: Rabobank estimates

Moreover, when comparing the ratio of future prices of soybeans to corn for the contracts expiring November 2009 and December 2009, corn prices are stronger, relative to soy prices, than they were in the past five years, with exception of 2007. The development of this relationship over the coming weeks is important as it could lead to a shift in farmers' decisions before they actually plant their crops.



Conclusions

Corn

Corn plantings for the 2009 season are only slightly lower YOY and above most market expectations. Assuming today's acreage reflects actual planting in the spring, the planted area in the US dedicated to corn production will have fallen by 9% in only two seasons, albeit from record levels. Sharply higher input costs, a collapse in prices and intense competition for acreage from soybeans has eroded corn area over this period. Assuming trend-yield levels are achieved this season, the combination of lower acreage and increased ethanol consumption are expected to result in a contraction in US corn ending stocks for the 2009/10 season, however, animal feed demand and export demand remain major uncertainties.

Weather conditions in the spring will determine if farmers are able to plant all of this acreage to corn with current forecasts indicating a wet start to the planting period.

Price Direction Indication - Neutral, albeit likely to be dragged higher by soybeans initially.

Soybeans

Planting intentions below market expectations in the US will increase the importance of favourable weather conditions in the spring, with tighter than expected new crop fundamentals now having to be factored into prices.

Prices will likely continue to be sensitive to both the weather and political volatility and crop development in South America.

Price Direction Indication – Short-term bullish support from lower than expected acreage, strong export pace and South American uncertainty.

Wheat

US farmers have responded to market signals by indicating their intentions to plant less marginal acres in 2009.

Significantly higher stock levels make any bullish movement in wheat markets likely to be short lived. Despite an all wheat acreage decline of 7% YOY and some concerning crop conditions in the Hard Red Winter (HRW) wheat belt an abundance of world wheat supplies suggest it is unlikely to see a dramatic erosion of stock levels in the US. That said, there may be some tightening of high-protein milling wheat supplies this season, supporting a widening in price spreads between grades.

Price Direction Indication – Neutral to bearish, but short-term movements likely to be supported by soybean as price leader.

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