

This Week in Agriculture:

A Mixed Bag of Information from the Week That Was: June 17, 2011

- **A nasty week for all three major markets. Higher food costs, global economic weakness, ethanol subsidies in the crosshairs of Congress and general profit taking were the main driving factors that sent these markets spinning.**
- **Ethanol demand has underpinned the market significantly over the last year, with over 5 billion bushels a year going to ethanol production. Extremely high cash prices had blending margins in the red for many plants. Rumors, and eventual confirmation of some Eastern ethanol plants shutting down or reducing grind caught the attention of traders, sending some demand side bulls running to the sidelines.**
- **Last week's ethanol production report showed a slowdown in production for the first time in several weeks with output down 35,000 barrels a day from the week prior. According to the report ethanol stocks also increased, showing a possible slowdown in usage in the near-term.**
- **At the same time the Senate held two votes this week on amendments that would completely do away with the 45-cent per gallon blending credit as well as the 54-cent per gallon ethanol import tariff as of July 1st. The first vote failed, letting the industry breathe just a bit easier. However, late yesterday the second attempt passed. Of course the bill still has to pass the House and be signed by the president, but the idea that ethanol is losing the support of lawmakers in Washington D.C. causes some concern regarding potential corn demand as we move forward.**
- **Outside economic factors have weighed on the market pretty heavily as well. This week the housing crisis that started in 2008 was deemed worse than what was experienced during the Great Depression. Housing prices have dropped 33% from their peak, versus the 31% drop experienced in the Thirties. The slow recovery has traders concerned the average household will not be able to afford the 3-5% increase in food costs already predicted for the year ahead.**
- **Some support is likely to stay in place long-term however due to tight global supplies. The UN's Food and Agriculture Organization believes global farm output will need to increase by 70%, including a 100% increase in developing countries by 2050, just to keep the population fed.**
- **The good news when it comes to food production is farmers in the U.S. are able to produce more with less. According to the Fertilizer Institute farmers have been able to nearly double their corn production using less nutrients. In 1980 farmers grew 6.64 billion bushels of corn using 3.9 lbs of nutrients per bushel. In 2010 farmers were able to grow 12.45 billion bushels of corn using only 1.6 lbs of nutrients per bushel. We have been able to increase our production by 87.5% while actually decreasing our fertilizer usage.**

The big money players will continue to manipulate the market as we move ahead. Keep in mind this is the 4th significant price drop we've seen since fall. The first drop took 95 cents from the corn market before regaining and moving higher, the 2nd and 3rd each took nearly \$1.35 from the corn market respectively. So far we have seen the July corn board trade a dollar lower than highs set last Friday. Whether we come back or not will rely heavily on fund activity, demand ideas and of course weather. Volatility and uncertainty are going to remain in the driver's seat as we move towards pollination.

Remember, market direction is never guaranteed, target orders will allow you to catch those sharp bursts higher. Give us a call with any questions, we're here to help. Until next week, have a great weekend and stay safe!

All the Best!
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