

MY 2007-08 Grain Market Outlook Remains Bullish

USDA unveiled their first supply and demand projections for Marketing Year 2007-08, which begins June 1 for wheat and barley and October 1 for corn. These S&D fundamentals remain bullish for grains in general, and feed grains in particular, as the strong demand base for corn as an ethanol feedstock means carryover will remain very tight at least for the next year. With snug carryover, extended downside price risk appears somewhat limited. However, continued price volatility is almost certain in a market environment where every bushel of production will count.

U.S. Wheat & Feed Grains Supply & Demand for MY 2007-08, million bushels (USDA, May 11, 2007)

	Wheat			Corn			Barley		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
	Actual	USDA-May	USDA ^a May	Actual	USDA-May	USDA-May	Actual	USDA-May	USDA-May
Beg stocks	540	571	412	2114	1967	937	128	108	63
Production	2105	1812	2174	11,114	10,535	12,460	212	180	210
Imports	82	115	100	9	10	15	5	10	20
Total Supply	2727	2498	2685	13,237	12,512	13,412	346	298	293
Food, seed & industrial	993	1007	1011	2981	3525	4790	158	155	155
Ethanol		1603	2150	3400					
Feed	153	170	230	6141	5850	5700	52	55	50
Exports	1009	910	975	2147	2200	1975	28	25	20
Total usage	2155	2087	2216	11,270	11,575	12,465	238	235	225
End stocks	571	412	469	1967	937	947	108	63	68
Ave. farm price	\$3.42	\$4.27	\$4.35-4.95	\$2.00	\$3.00-3.20	\$3.10-3.70	\$2.53	\$2.88	\$2.85-3.45

Idaho grain marketing strategies

We are providing market insights from Idaho grain marketing experts. This market commentary is provided as a guideline for producers in preparing and implementing their 2007 Grain Marketing Plans and should be considered opinion only and not a guarantee of future market behavior.

Although the full extent of damage will not be evident until harvest, anecdotal evidence indicates a production loss of 100 million bushels hard red wheat and 50 million bushels soft red wheat. *My estimate of a 150 million bushel loss is conservative when compared to some analyst's forecasts.*

AGRISOURCE, INC., RECOMMENDS THE FOLLOWING ACTIONS FOR 2007-08 CROP WHEAT:

Note: prices are based on South Central and Eastern Idaho Points. Those producers in Northern Idaho please add \$.50 cents to the recommended prices.

DARK NORTHERN SPRING WHEAT:

- Sell 40% of Dark Northern Spring wheat, if prices reaches \$5.00 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of Dark Northern Spring wheat, if prices reaches \$5.20 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of Dark Northern Spring wheat, if prices reaches \$5.40 or better or if price not reached sell the 20% by March 31, 2008.

HARD WHITE OR HARD RED WINTER WHEAT:

- Sell 40% of HWW or HRW wheat, if prices reaches \$4.50 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of HWW or HRW wheat, if prices reaches \$4.75 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of HWW or HRW wheat, if prices reaches \$5.00 or better or if price not reached sell the 20% by March 31, 2008.

OTHER MARKET TRENDS TO WATCH FOR MARKET DIRECTION:

- Australia is heading for another 100-year drought unless relief comes in the next 30-60 days. It is still very early in their season, they don't harvest until late December, so there is still some time left for moisture. If it doesn't come, it will be another major factor in the wheat market.
- Eastern European countries and the Ukraine also are having dry weather.
- China is suffering dryness.
- Crude oil prices will play a major role in wheat prices in the next nine months.

WHAT TO DO WITH MY WHEAT HERE IN IDAHO?

The prices you are seeing for wheat are the highest in ten years. The questions you have to ask yourself personally are:

- What price am I really waiting for?
- How much higher do I think these prices can go?
- How much profit can I make at these levels?



Bill Mendenhall, President, AgriSource, Inc., Burley, ID

There are many factors to watch closely this season. If you can remember the 1996-97 seasonal pattern we feel the 2007-08-crop year will follow it very closely.

Up until the early April freeze, most users had been expecting near record world production and lower prices into early summer. The Easter weekend freeze came as a surprise and was colder than many past April episodes. The combination of the strong freeze and a wheat crop that had been ahead of schedule this spring due to plentiful moisture and warmer than normal March temperatures led to a sharp decline in crop conditions. Kansas, with 23% of all US wheat acreage, saw a 41% drop in its crop rating from 77% on April 2 to 36% good/excellent mid month.

SOFT WHITE WHEAT:

- Sell 40% of SWW wheat, if prices reaches \$4.25 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of SWW wheat, if prices reaches \$4.50 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of SWW wheat, if prices reaches \$4.75 or better or if price not reached sell the 20% by March 31, 2008.



Keith Schumacher, Grain Division Manager, Primeland Cooperatives, Lewiston, ID

As we approach harvest for the 2007 crop many of you have the same aggravating question in mind. **When is the right time to sell new crop?** With the extremely small carryout in from the 2006 crop, in particular for corn, wheat, and barley, there is high level of emotion that that is tied to this year's crop. It is a difficult decision as when to time your sales, because as we all know markets can and will evaporate as fast as they arise.

When late March planting intentions showed U.S. wheat acres increasing by 5%, corn 15%, and barley 7%, many of the worries of the winter months were eased. Based on these seeding intentions, it appeared as if the U.S. would have enough production to meet the needs of the coming year. But one additional component was necessary to meet these projections – ideal weather. Clearly, the weather component will be the “x-factor” for determining price direction for this marketing year. If the intended acres get seeded and the weather is favorable, expect to see price declines from current levels. If drought conditions arise in the U.S. or other major producing nations, expect price surges based on these types of events. Also expect an extremely high level of market volatility and price swings due to the amount of emotion that is tied to the 2007 crop based on the small carry-in levels from the 2006 crop. However, these small carry-in levels will also provide the market with some underlying support until the crop is in the bin.

The best plan for the 2007 crop is to have a tiered pricing plan in place. Your plan should include pricing objectives for certain portions of your crop when we see price surges. If you want to keep yourself in the market after you have priced portions of your crop, replacing ownership with out of the money call options could work out well this year with the high level of volatility in the market. If you are not prepared to part with your crop and the market has a nice run, purchasing put options will allow you to maintain ownership but provide some protection. However,

be prepared to spend a pretty penny for options based on the high level of volatility the market is experiencing this year.

Last fall CBOT wheat futures and KCBT hard red winter wheat futures rose to right around the \$5.50 mark.

- I suggest having a large portion of your production (50-75% based on your comfort level and the stage your crop is in) sold if we approach these levels.
- If you want to buy calls to replace sales, I would suggest buying calls in this price range, or at least buying put options to give some protection, if you have done nothing at that point.
- If the market reaches that level, we will likely see some selling from the trade, simply because this is where the market “ran out of steam” last fall after the small U.S. harvest and Australian drought news hit the market. If the market does decide to surpass this level you will still have 25 to 50% of your crop remaining, or have your calls in hand.

Barley should continue to trade at fairly attractive levels. My pricing objectives for the 2007 crop are around \$160/ton coast price. I feel this price takes into consideration both the direly tight carryout from the 2006 crop as well as the increase in seeded acres in the PNW for the 2007 crop. However, if we experience drought condition in the Corn Belt or in major barley producing areas or Australia, look for higher numbers.



Randal Olstad, Palouse Manager, Columbia Grain International, Pullman, WA

SOFT WHITE WHEAT:

I see SWW following CHI futures until we get to June. At that time we will start seeing a basis increase over the CHI through August. I believe this because SWW seeded acres will be unchanged from last year and carry over stocks are extremely tight. Also importing nations will be in need of new crop stocks as soon as possible which will help hold up SWW prices through September. The possibility of Australia having a large SWW crop (it is very rare that an exporting country has a back to back drought) will start weighing on the market in October through January. SWW Basis should be in the .40c to .55c range Aug, Sep and the cash market will be flat from Oct. through Jan 08. (So if you believe this) a good strategy would be.

- I would be 40% contracted SWW before harvest using HTA or (hedge to arrive) this is selling the futures and waiting on the SWW basis to gain

over the Chicago if you don't like the futures play sell the cash at \$5.25 to \$5.50.

- I would also be looking at selling 20% of Chicago Dec 08 Futures @ \$5.08 or higher for the 2008 crop year.
- My basis goal is 40c to 50c over the Dec 07. futures (Flat cash \$5.50 to \$5.60) Portland.
- Harvest I would sell another 40% off the combine and push my 08 sales to 40% at this time if Australia's crop looks to be average or above. (Flat cash \$5.00 \$5.25 Portland) & (Dec 08 futures \$4.90 to \$5.00)

DARK NORTHERN SPRING WHEAT:

DNS values should hold into harvest with the Canadian crop being 13% smaller and the U.S. crop a million acres smaller as well. Protein is going to be a big problem this year in the U.S. because of higher fertilizer prices. Growers are putting on just enough for yield not protein. Plus with the Kansas crop looking to be about 75,000 to 150,000bu smaller due to frost damage in April hard wheat supplies will again be tight.

- I would forward contract 30% to 40% at \$6.15 to \$6.20 Aug (Portland cash values) and at this time I would sell 10% to 20% of my DNS 08 crop using the Minneapolis dec futures (HTA \$5.10 to \$5.20).
- If I had protein at harvest I would hold for better protein scales in October and sell the rest then, be looking for protein scales to be 10 to 15c a quarter up.
- If I didn't have protein I would sell it all off the combine. Scales should be in the 6c to 7c a quarter down at harvest and the flat cash market should be in the \$6.00 to \$6.10 level.

BARLEY:

With Australia looking to rebound from the '06 drought, U.S. barley producers should be concentrating there barley sales in August and September.

- Right now I would be 40% sold new crop at (\$145 to \$155per/ton Portland levels) and have the rest sold before October (in the \$150 to \$160per/ton range).
- The Japan market will want U.S. barley till October after that they will wait for the Australia barley that comes off in December. This will likely lower U.S. values \$25 to \$40 per/ton.

