

Ethanol, Corn, & Cattle

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*Cattlemen's College
 NCBA Convention
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U.S. President George Bush Signed the Energy Act on Dec. 19, 2007

The *Energy Independence and Security Act of 2007* expands the Renewable Fuels Standard (RFS) by requiring 36 billion gallons of renewable fuel be used annually by 2022



ETHANOL REDUCES AMERICA'S DEPENDENCE ON FOREIGN OIL. ▶

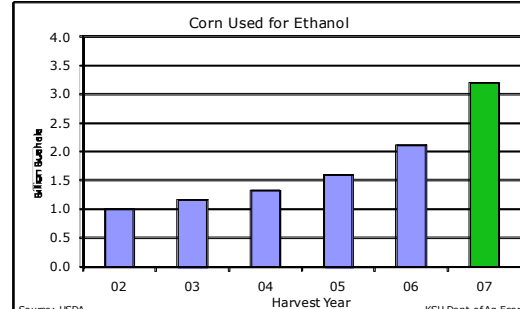


U.S. Ethanol Industry at a Glance

	2006	2008
• Number of operating ethanol plants:	97	137
• Plants under construction or expanding:	35	70
• Current production capacity: (BGPY)	4.8	7.6
• Projected production capacity:	11.5 BGPY end of 2008	13.4 BGPY end of 2009
• Feedstock percentages:		
Corn	97	
Sorghum	2	
Other	1	

Source: M. Woolverton, K-State Ag. Economics & RFA

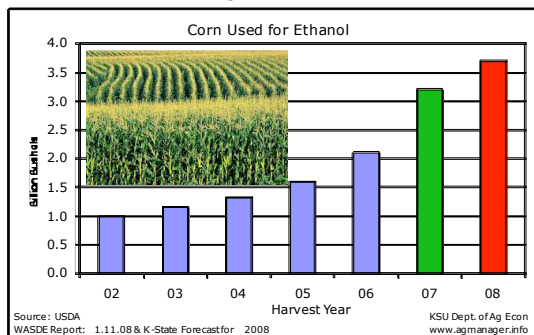
Ethanol Is A Big Corn Demand Driver



Source: USDA
 WASDE Report: 1.11.08

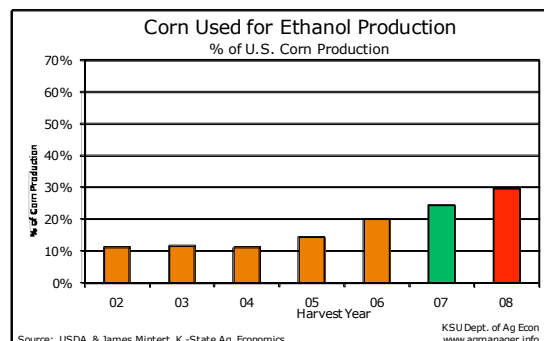
KSU Dept. of Ag. Econ
www.agmanager.info

Ethanol Is A Big Corn Demand Driver



Source: USDA
 WASDE Report: 1.11.08 & K-State Forecast for 2008
www.agmanager.info

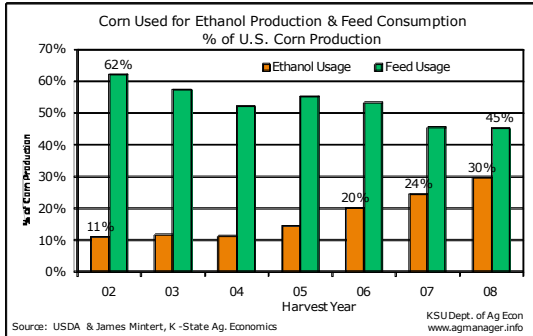
Growing % of U.S. Production Going To Ethanol



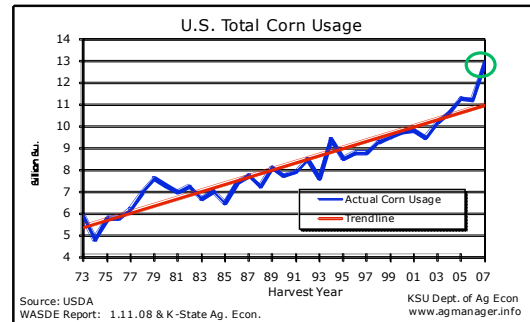
Source: USDA & James Mintert, K-State Ag. Economics

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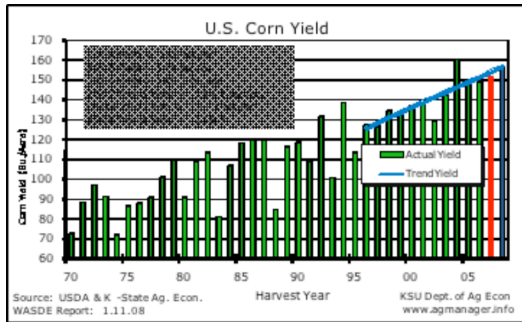
Ethanol Will Soon Rival Feed As Largest Consumer of Corn



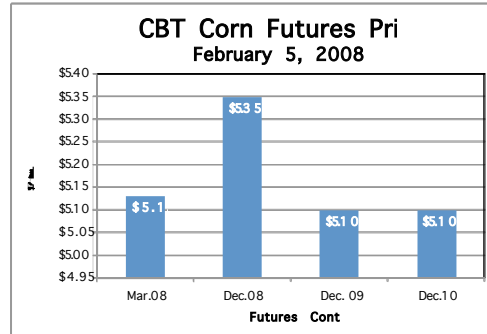
Total Corn Usage Growing Rapidly



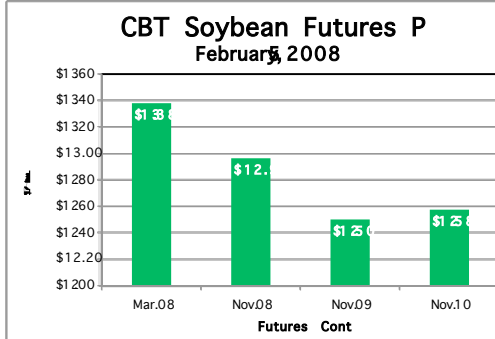
Technology Continues To Improve



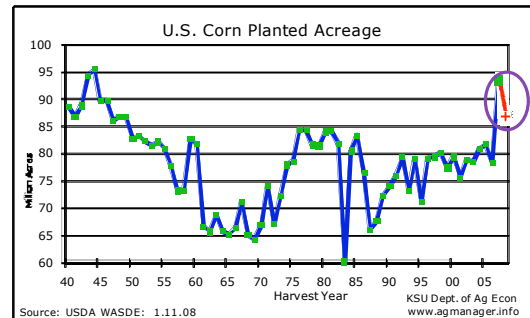
Question for 2008: Will High Prices Keep Corn Acreage Up?



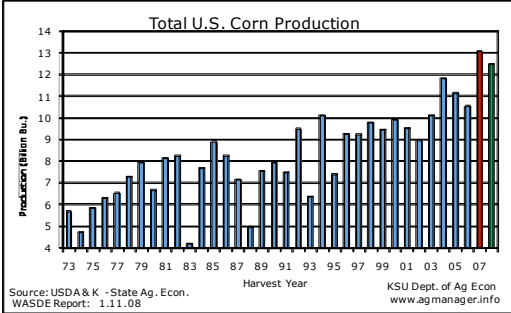
Competition From Other Crops Will Be Strong



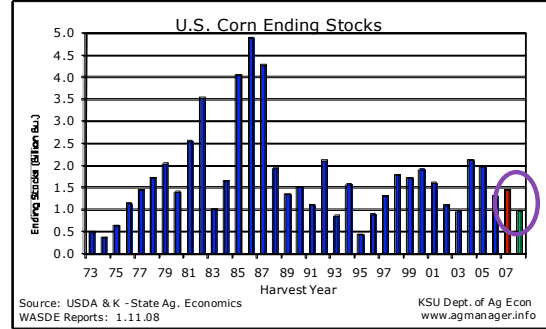
USDA Thinks '08 Acreage Will Decline From '07's Post-WW2 Peak



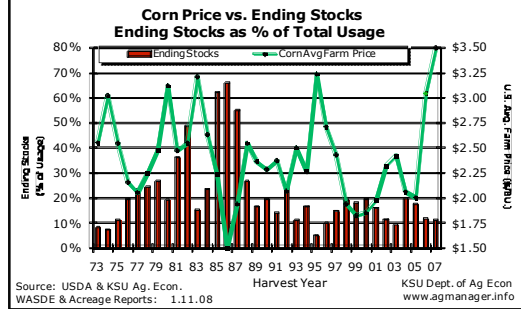
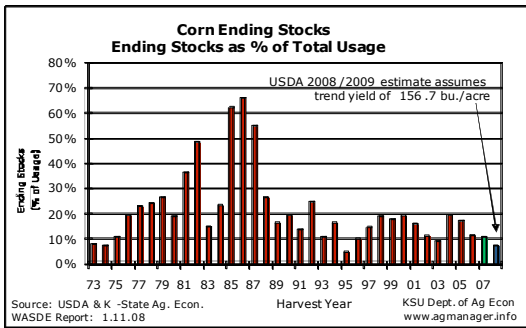
'08 Corn Production Still Expected To Be 2nd Highest On Record



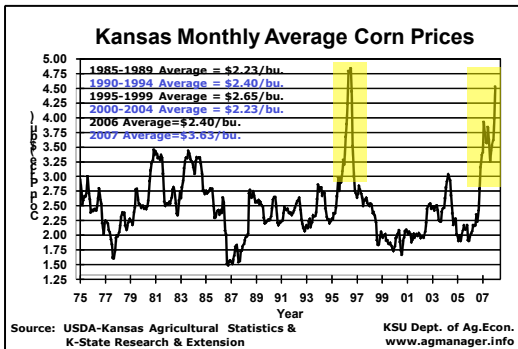
But Under This Scenario Ending Stocks Could Still Decline Significantly



And Ending Stocks Could Drop Back Below 10% of Annual Usage



More Price Spikes In The Future

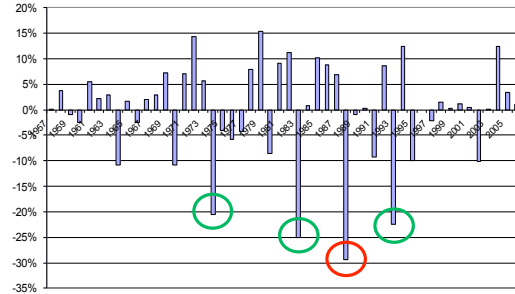


What are some of the risks to this scenario?

“I can’t predict whether or not we will have a drought next year. However, if we don’t have a drought by 2011 it will be the first time in approximately 800 years that we have gone this long without a major drought in the Corn Belt.”

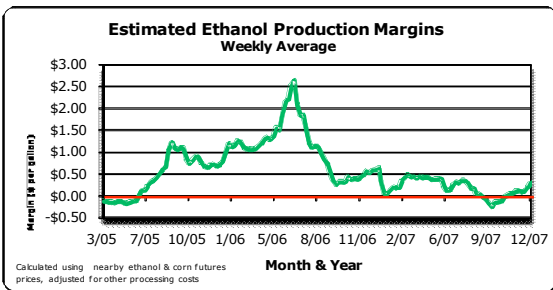
Elwynn Taylor, Ph.D.
 Professor of Agronomy
 & Iowa State University Climatologist
 Addressing K-State’s Risk & Profit Conference on August 17, 2007

Historical Corn Production Deviations Deviations from Long-Term Trend Yield

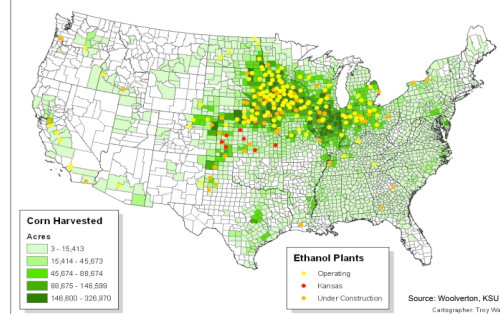


Source: Iowa State University, CARD

Usage Mandates Will Drive Industry Even Though Margins Have Been Poor



New Construction Slowing Down But Mandated Usage Will Drive Future Expansion Ethanol Plants

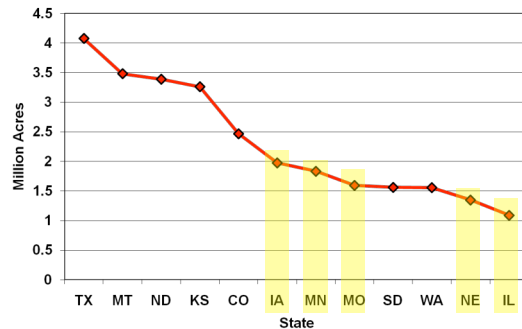


Will Addition of CRP Acreage Push Production Up?

	Land in Crops (Millions of acres)	
	5 yr. Ave.	07/08 USDA
Corn	79.6	92.9
Soybeans	74.2	64.1
Hay	62.4	61.8
Wheat	59.5	60.5
Cotton	14.1	11.1
Grain Sorghum	8.1	7.8
Principal Crops	322.0	320.1
CRP		35.9

Total crop land in the United States – 441.6 million acres

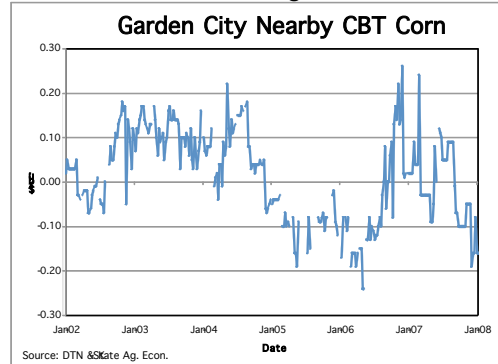
U.S. Land in CRP Leading States, 2007



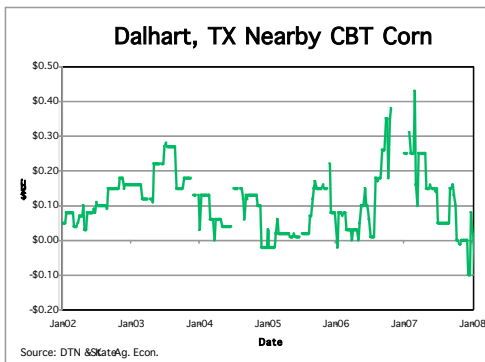
Source: USDA & Woolverton, K-State Ag. Economics

Ethanol Management Implications

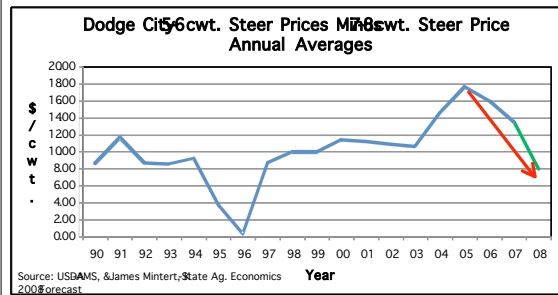
Corn Basis Becoming More Variable



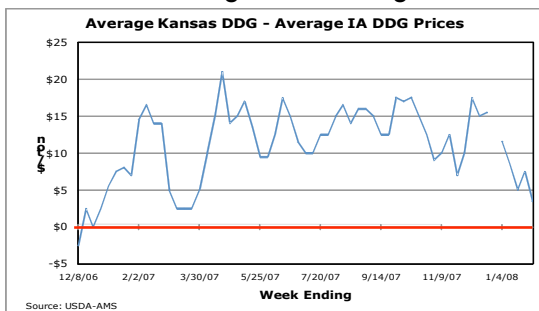
Corn Basis Becoming More Variable



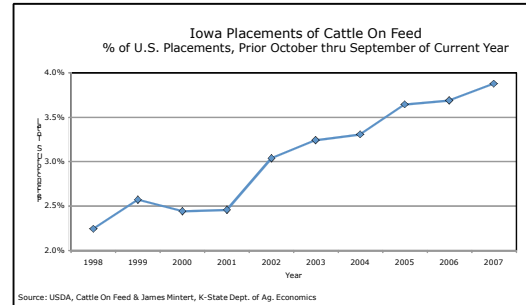
Rising Feed Prices Cause Price Spread To Collapse



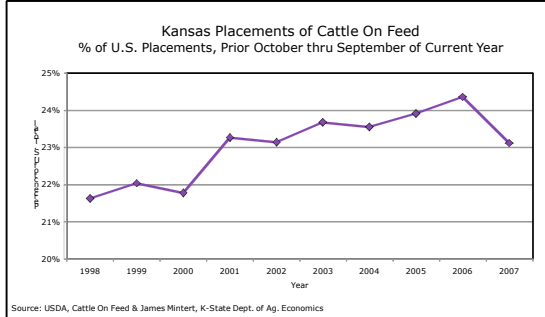
By-Product Feed Prices Higher in S. Plains But Show Signs of Coming Down



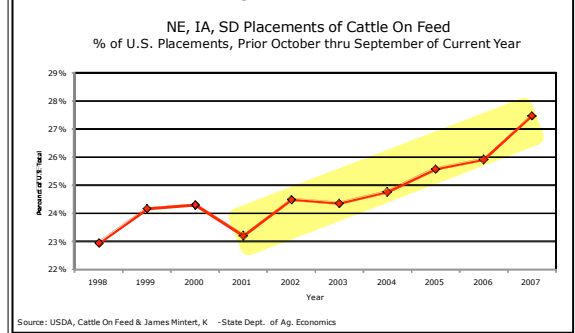
Cattle Feeding Shifting



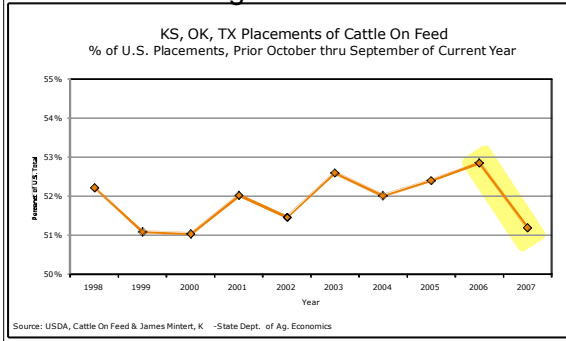
Cattle Feeding Shifting



Northern Plains & Upper Midwest Gaining Market Share

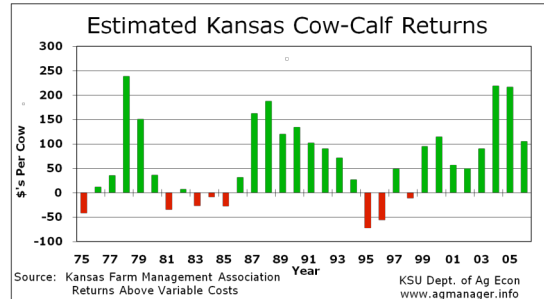


Southern Plains Losing Market Share



What About The Impact on the Size of the Cow Herd?

Drought Conditions Discouraged Expansion in '06 & '07



Kansas Beef Cow-Calf Enterprise Costs (Per Cow)

Total Costs Per Cow (includes labor, opportunity cost of owned capital, depreciation all feed costs, etc)	\$670/Head
Average Calf Price Needed / Cwt. To Cover All Costs	\$115-\$118/cwt.

Source: Rodney Jones, KSU

Ethanol's Impact On Herd Expansion

- Nine years of positive returns for cow-calf producers
- Calf prices are high by historical standards
- Why didn't expansion take place?
 - Weather
- Why won't expansion take place in '08 or '09?
 - Rising costs & declining prices leading to losses for some producers in '08

Summary of the Issues

- Ethanol is here to stay
 - Mandated usage levels will be key
- Feed grain users face more price risk
- Feed price risk management strategies likely to pay dividends in the future
- High feedgrain prices putting upward price pressure on forage feed resources
- Northward migration of cattle feeding is underway & will continue
- Could lead to reducing cow herd size in '08 & '09

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Thank You!