



Planting Decisions for 2009 – Leave Your Options Open

As corn and soybean farmers turn their attention to planting considerations for 2009, a number of factors need to be tracked closely at both the local and global level if profit opportunities are to be maximized. But just as importantly, a new mindset needs to be adopted that recalibrates price expectations down from last summer's spectacular highs to more realistic levels that still represent a significant premium to historic averages.

It is easy to get despondent at the aggressive price slides we've seen in corn and soybeans since July, and cling to the hopes that those highs are still attainable again given the right mix of strong demand and production hiccups. However, we believe this summer's price surges were the result of a 'perfect storm' of events that are highly unlikely to materialize again any time soon. Plus, this Fall the USDA unearthed an additional 3 million acres of productive land that had previously been unaccounted for – and presumably will still be in play next Spring. So anyone holding out for \$7 cash corn may need to be prepared to wait a very long time.

But that doesn't mean that excellent profit opportunities will not surface in 2009. We believe that they will, but that only those producers who are looking for the right signals and are flexible enough to move fast will be able to grasp them fully.

The main factor to keep close tabs on is the price of fertilizer. A combination of surging global demand, tight freight space and soaring natural gas prices steered fertilizer to unprecedented heights in 2008, but those costs have proved slow to respond to the recent slump in grain prices – so far. Matched with rising rent levels, exorbitant urea and nitrogen prices rendered overall input costs for corn production especially high this past year, and are still a major factor working against the corn farmer as we approach 2009. However, we believe a marked decline in fertilizer prices from current levels could well be seen by mid-March 2009, which will boost corn's appeal to many farmers and could lead to a notable increase in corn acreage from 2008 levels. Of course, this is still a big if at this point, but right now there are a number of factors suggesting lower fertilizer prices are on the way – both here and abroad.

Another important issue is the ruptured credit system that has plagued the financial arena in recent months. The US agricultural industry appears to have been quite well insulated from those problems so far, but reports are emerging that South American farmers are having trouble securing favorable loan terms that may hinder expansion plans in that region. Should that be the case, and South American growers encounter any soybean production problems this winter, we believe this will result in acute pressure being applied to US farmers to plant more soybeans next year.

This brings us to our final key factor to consider going into 2009. There's no doubt the soybean market has been knocked off stride by the USDA's unearthing of more than 2 million extra US soybean acres that had been planted this past growing season. That enlarged acreage pie has certainly alleviated some of the tension that had underpinned the soybean market in recent months, and raises questions about how many acres this crop needs to hold onto in 2009.

However, global inventories of soybeans remain historically tight, while usage is still on an upward trajectory, especially in China - meaning that any production shortfalls in 2009 will be acutely felt. In light of the fact that the most critical growing phase for South American producers still lies ahead, it is critical that US farmers who have not yet allotted all their acres keep space available for additional

soybean production should any weather issues affect Southern hemisphere bean emergence this winter. Weaker fertilizer prices will certainly make corn an appealing crop for many growers, but the soybean price has the potential to outperform to the upside should Brazilian or Argentine producers stumble over the coming months.

It is this potential for a New Year soybean rally just as corn becomes potentially more economical - and therefore popular - that makes us stress the importance of producer flexibility over the coming months. We appreciate that many farmers have locked in a majority of their inputs for the next growing season, and so have already largely defined their production landscape for 2009. But for those who still have to decide their exact crop allotment, we recommend holding off from making firm decisions until we get a better feel for how South American bean production is going, and where fertilizer prices will be trading in the Spring.

Farmers who leave their options open have the real possibility of being able to capitalize on favorable price moves while staying within their core strengths, and avoid a potentially detrimental stampede into corn merely because declining fertilizer prices improve crop economics from current levels. In all, 2009 may lack the fireworks of this year, but we believe that with diligence and flexibility the informed farmer can make it one for the history books. Good luck!

