CGM Producer Newsletter Jan 2010

Another fiscal year has come and gone for CGM and it was another respectable year in terms of bushels taken as well as profitability. Record fall crops made up for a mediocre wheat crop. During fiscal year 2009 the CGM group of Coops took the following bushels (in millions): Wheat 26.4, Corn 8.1, Milo 7.5, and 6.4 beans with total grain receipts of 48.9 million bushels. Harvest will be upon us before we know it, so a lot of grain needs to move over the next 4 months.

One question that has been asked over the last 6-10 months is why basis is wide compared to "normal" basis levels on most grains. The answer is complicated at best but I will try to hit on a few major points. Most of the widening basis can be attributed to Supply and Demand functions in the marketplace.

- Wheat - We have seen carryout grow tremendously from the 08/09 crop year to what is projected for the 09/10 crop year. Given the current carryout numbers, futures levels never backed off hard until lately. So you have big "futures" levels and "wide" basis levels to help offset a non-competitive US price compared to the world. Even with the recent run down in the wheat futures, US wheat is still high priced in comparison to other places in the world.

- Corn - There are basically the same reasons as wheat with the demand shortfall being feed usage instead of the export market on wheat. There is a huge amount of grain on the ground around the country, and that hits basis hard while people are trying to get that "at risk" grain sold and off the ground as fast as possible. Add to that quality issues going on around the country and you add fuel to the fire.

- Milo – Milo basis has however been narrower this year than last as issues in corn quality have helped milo basis. One year ago Milo was trading for approximately 81% to the price of corn. Today it is approximately 90%. A 9% increase on a $3 commodity means milo basis is 27c/bu higher than one year ago in comparison to corn.

- Soybeans – Bean basis has been slightly weaker this year than historical due to the crush demand side of the business, but the export market was strong this year. So overall we feel bean basis has been flat to historical values.

Concerns have been expressed by producers in our trade area that ever since CGM has started marketing their grain and setting local bids, basis has been very weak. I want to assure you that we are basing those bids off of the bids we receive from end users. Things that affect basis are handling costs, transportation costs, as well as local supply and demand. Local supply and demand will be influenced by the world market as well because shuttle trains from our area move to the export market. Handling charges have increased in recent years. Electricity is higher, labor is higher, insurance is higher, etc.etc. Transportation cost has also increased in the last few years. It goes up and comes down, but it is overall higher. Now let's throw Supply and Demand into the equations.

- Wheat: On the Supply side we are looking at Carryout expected at almost 1 BILLION bushels = almost 50% carryout to use ratio. In both cases the highest or very close to the highest numbers we have seen in over 20 years. On the Demand side we are looking at the lowest usage in 20+ years with the exception of 2002. What does that do to basis?

<u>Increased handling and transportation costs + historically high supply + historically low demand = HISTORICALLY LOW BASIS!</u>

- Corn: On the Supply side we are looking at approximately 1.75 billion bu carryout and 13.5% carryout to use. Neither is historically high, and you have demand projected to be the highest ever at 13.07 billion bushels. Here is where basis becomes more of a local supply and demand factor. Highest local receipts for fall crops ever, local feeding industry hurting, cattle numbers down in feedlots, high supply of at risk grain" on ground." What does that do to basis?

<u>Increased handling and transportation costs + historically high local supply + historically low feed demand = HISTORICALLY LOW BASIS!</u>

So what does all of this mean to you and your marketing? First off, there is nothing you can do about world supply and demand. Someone who I consider very wise once told me "the best cure for high prices are high prices and the best cure for low prices are low prices." Meaning if prices are too high, demand will go down, and if prices are too low, demand will go up. The renewable energy act has changed that on corn and milo somewhat as ethanol production has become mandated by law and subsidized by the government. Demand has gone higher, Production has gone higher, and Prices are still historically high. It has however hurt the livestock industry tremendously, and we are still seeing issues today.

When marketing grain it is very important to not get caught up in all of the numbers that you cannot control but rather look at the real numbers that affect you directly. What is your cost of production per bushel? What do you need to make on top of your breakeven to live on and stay in business? What marketing plan actions should I put into place? The market is well above what I need to live on and is in the top 1/3 of the last 5 years price history - should I sell? All of those questions are for you to find out and act on. If you would like help in figuring your cost of production, or for help carrying out your marketing plan please contact your local branch manager or whoever your contact person is to sell your grain. They can help you work through some of these questions or problems and get you on track to positive marketing rather than reactive marketing.