

Global Grain and Oilseeds Trade Outlook

Dry Cargo International
Amsterdam, May 27 2008

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Outline

Issues

- Biofuels
- Food Prices
- China and India

Content

- 24-month Review
- Looking Forward
- Trade Implication

A North American Perspective – US feed grains 60 percent of trade

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24 Month Review

- Pre State of the Union Address - October 2006
- US Alternate Fuel Mandate
- Post State of the Union Address - February 2007
- Pre harvest 2008 Prospects - June 2007
- Post Harvest 2008 Reality - October 2007
- Non sense Season - February 2008
- The Here and Now - May 2008
- About rice

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October 2006

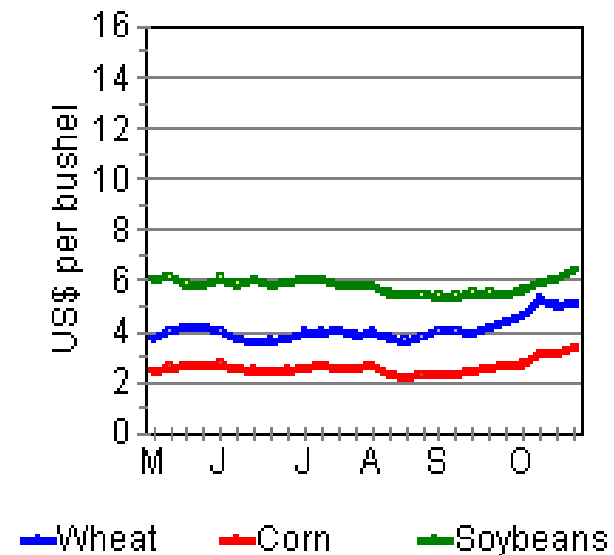
Wheat: The impact of the drought related failure of the Australian wheat crop was becoming apparent. Both reduced global consumption and a 20% reduction in global ending stocks were being forecast.

Coarse grains: Global production was expected to decline slightly, but for a second successive year. Use was, however, forecast to increase mainly of US ethanol production.

Oilseeds: A continued expansion in global output was expected to be sufficient to keep ending stocks at record levels.

Prices, particularly for wheat, were beginning to strengthen.

October 2006



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October 2006 Global S & D's

• M tonnes	Output	Supply	Trade	Use	Ending Stocks
• Wheat					
• 2005/06 (Est.)	618.9	770.3	115.3	623.1	147.2
• 2006/07 (Proj.)					
• September	596.1	742.2	110.7	615.8	126.4
• October	585.1	732.4	109.0	613.1	119.3
•					
• Coarse grains					
• 2005/06 (Est.)	974.4	1152.7	104.0	986.3	166.5
• 2006/07 (Proj.)					
• September	969.4	1136.5	104.8	1010.8	125.8
• October	964.8	1131.2	105.1	1010.6	120.6
•					
• Oilseeds					
• 2005/06 (Est.)	388.3	444.5	76.9	317.2	61.5
• 2006/07 (Proj.)					
• September	386.5	447.3	82.2	324.6	58.2
• October	390.4	451.9	82.7	325.9	61.1
•					
• <i>Source: USDA</i>					
•					

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US Ethanol Mandates

- **January 24, 2007:** President George W. Bush in his "State of the Union" address noted the US:
- *"... must increase the supply of alternative fuels, by setting a mandatory fuels standard to require 35 billion gallons of renewable and alternative fuels in 2017 -- and that is nearly five times the current target."*
- At the time the US was two-third of the way to meeting the "current" 2012 target. But was using 20 percent of the US corn supply to do it. The expectation was that cellulose based ethanol production and coal gasification would be big future contributors.
- **December 19, 2007:** The Energy Independence and Security Act was signed into law with a 2022 36 billion gallon mandate.

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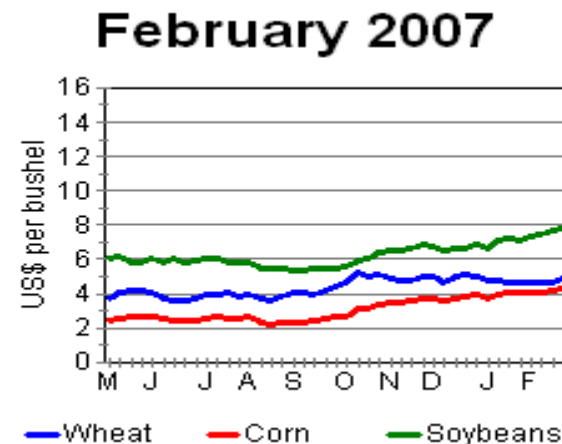
February 2007

Wheat: 2007 production was forecast to recover but wheat prospects were expected to be supported by corn markets.

Coarse Grains: A 50% increase in corn use for ethanol production was forecast and only with record acreage and yield would perspective demand be met.

Oilseeds: A switch from soybean to corn production was expected to help relieve the surplus global oilseed situation.

Prices for corn directly and soybean indirectly increased.



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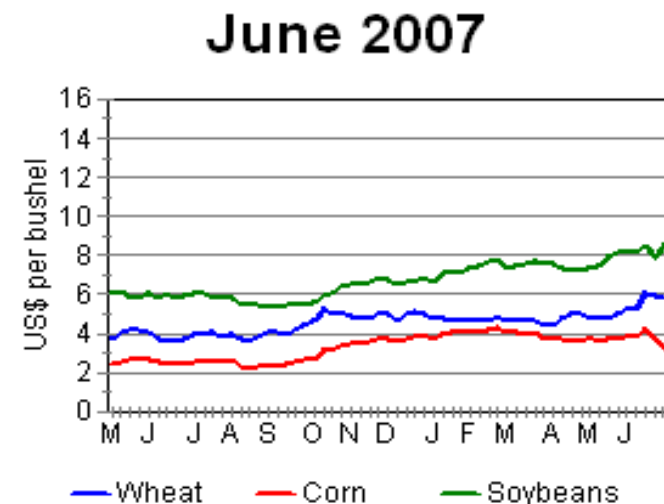
June 2007

Wheat: Global wheat production prospects began to falter beginning in eastern Europe and with them any prospects for a recovery in supplies.

Coarse Grains: The switch from soybeans and others crop exceeded expectation and a crop capable of meeting all prospective demand was in the making.

Oilseeds: Oilseed output was forecast to decline for the first time in a decade as a result of reduced US area of soybeans.

Prices for wheat, against expectations, rose while those for corn declined.



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June 2007 Global S & D's

• M tonnes	Output	Supply	Trade	Use	Ending stocks
• Wheat					
• 2006/07(Est.)	594.1	743.1	106.5	621.1	122.0
• 2007/08(Proj.)	610.2	732.1	107.4	620.1	112.0
• Coarse grains					
• 2006/07(Est.)	976.0	1,139.5	109.5	1,014.1	125.4
• 2007/08 (Proj.)	1,056.4	1,181.7	105.8	1,060.2	121.5
• Oilseeds					
• 2006/07(Est.)	404.3	468.7	82.5	329.9	71.3
• 2007/08(Proj.)	399.0	470.3	88.3	342.5	60.8
• <i>Source: USDA</i>					

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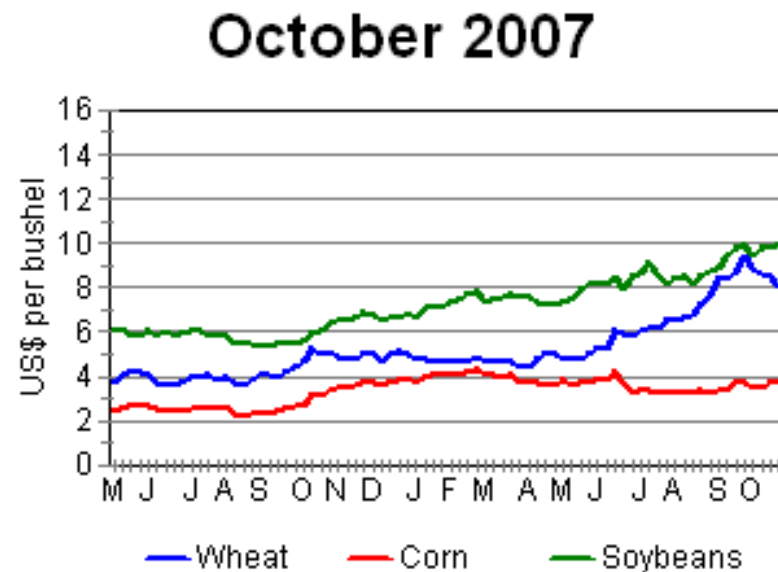
October 2007

Wheat: Crops continue to falter around the world with even the Australian crop again failing to meet expectations.

Coarse Grains: The US maize crop exceeds all expectations with near record yield off near record area. Global coarse grain markets are well supplied.

Oilseeds: Little change in the fundamentals.

Prices: Wheat prices advance as global supply situation tightens, even pushing soybean values higher. Corn prices are static.



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February 2008

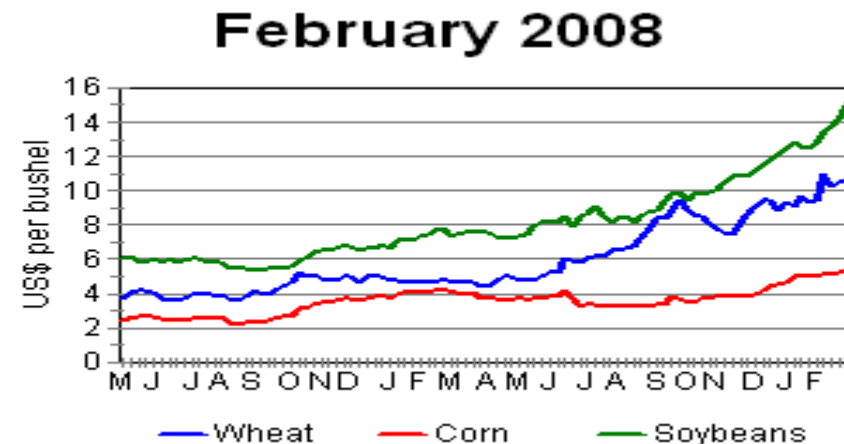
Non sense season – time to take a vacation!

Beans in the teens, wheat over \$10.00 /bushel in Chicago and double that in Minneapolis

Some saying corn prices need to be higher to buy acres from soya beans for 2008.

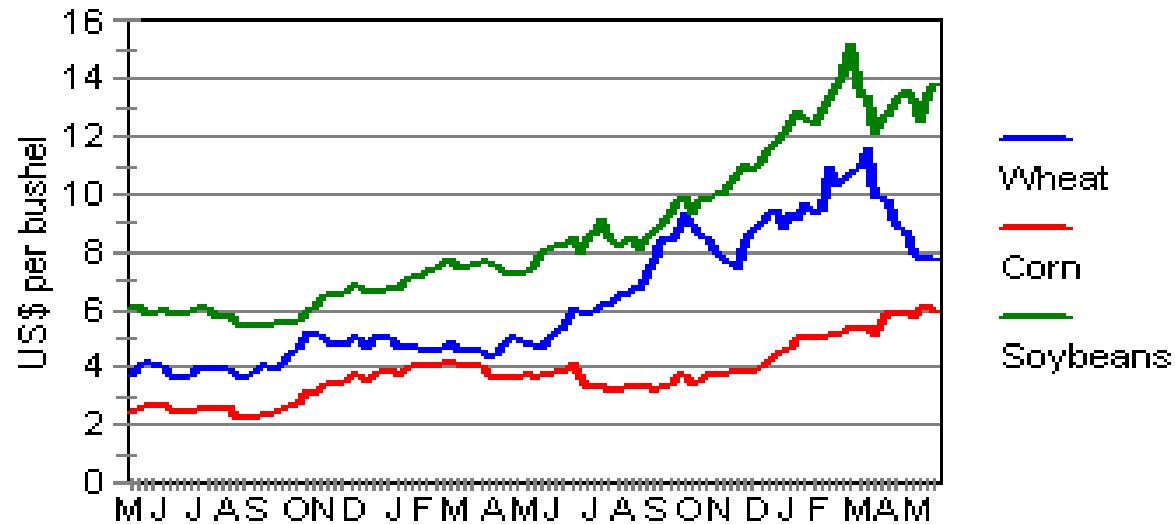
Others saying soybean prices need to be higher to buy acres from corn for 2008.

But nothing had really changed from October.



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May 2008



Back to the sanity of weather markets!

Wheat: Again the expectation that global output will be sufficient to meet needs. USDA plus 8%, IGC plus 7%, FAO 9%. No nay sayers yet.

Coarse grains: If US corn area is lost to soybeans as indicated from US prospective plantings survey and perhaps late seeding: feed, ethanol and/or exports will need to be rationed.

Soybeans: Supplies have shrunk so increases in area is needed

Prices: Wheat reflects expectation of improved supplies. Corn and soybeans are still competing.

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May 2008 Global S & D's

• M tonnes	Output	Supply	Trade	Use	Ending stocks
• Wheat					
• 2007/08(Est.)	606.4	730.5	109.6	620.4	110.0
• 2008/09(Proj.)	656.0	766.0	117.5	642.0	124.0
• Coarse grains					
• 2007/08(Est.)	1,067.1	1,201.9	125.7	1,067.0	135.0
• 2008/09(Proj.)	1,070.6	1,205.6	119.3	1,078.4	127.2
• Oilseeds					
• 2007/08(Est.)	390.8	463.8	88.5	341.7	56.7
• 2008/09(Proj.)	423.0	479.7			
• <i>Source: USDA</i>					

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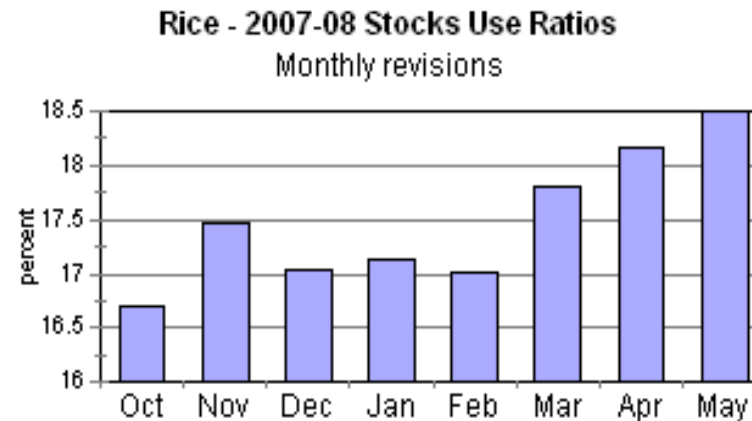
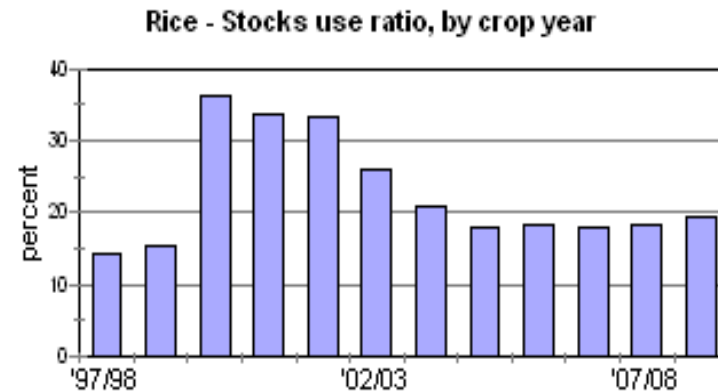
About Rice

The market does not make sense to me.

Therefore, I don't understand it.

But political perceptions are reality.

And even Walmart rationed customers



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Looking forward

- Food costs and Bio Fuels
- US Renewal Fuels in a political context
- Renewable Fuel Alternatives
- US Political tea leaves
- Policy options for Exporters
- 1972 Revisited

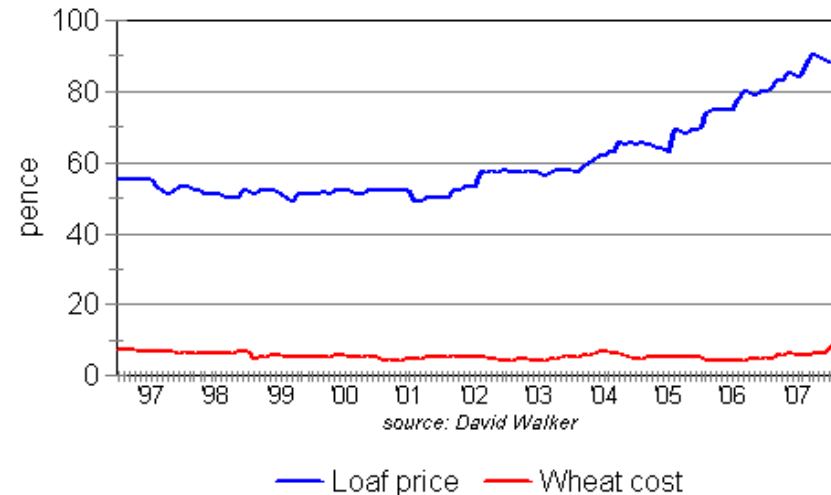
Food Cost and Bio Fuel Debate

Has the use of grain and oilseeds for fuel resulted in higher food prices?

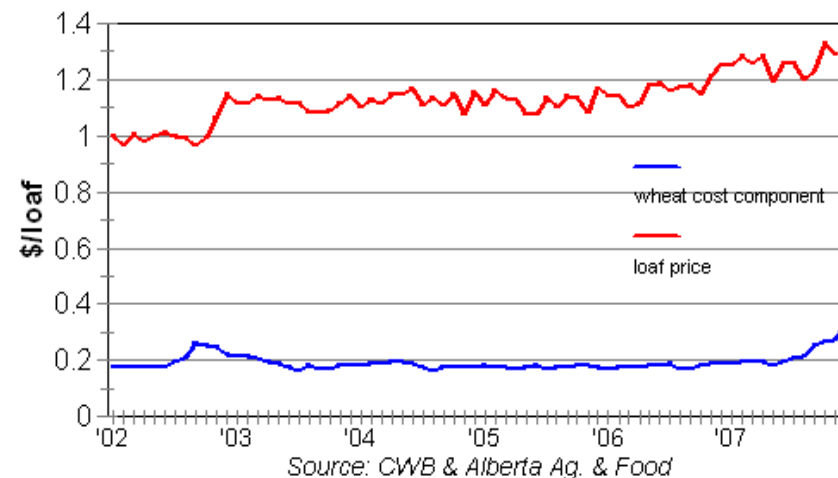
- Probably not much yet. The big move in wheat prices was related to short crops, corn prices have only recently started to rise.

- And other things than wheat prices, like energy and competition, seem to be at play .

Graph 1: UK wheat costs & bread prices



Canadian Wheat Costs and Bread Prices



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Food Cost and Bio Fuel Debate

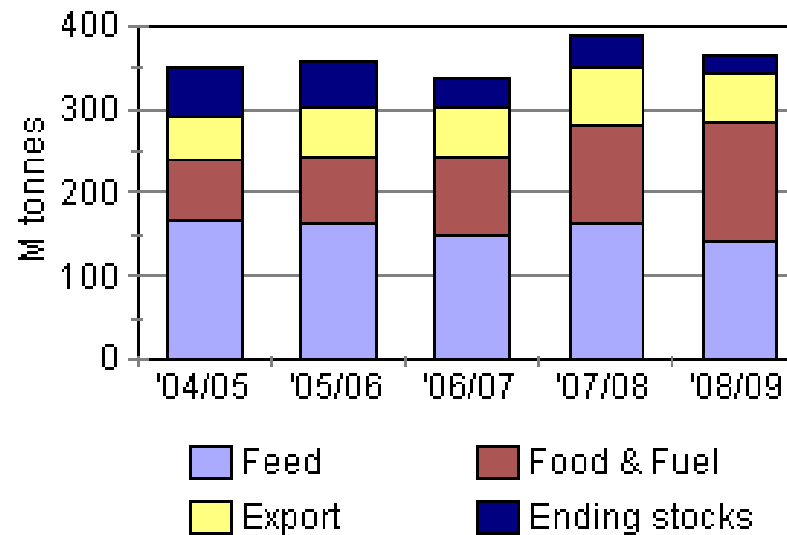
Will the use of grain for ethanol result in higher food prices?

- Almost certainly, **if the politicians let it**

- US feed grain use projected to decline this year

- By the fourth quarter US meat production is expected to start declining on a year-on-year basis.

US Feed Grain Use



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US Renewable Fuels, Political Pluses

- Energy Security
- Environment - clean air
- Rural Development
- Farm Income support
- Energy Conservation

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Renewal Fuel Alternatives

- Sugar - Brazil and elsewhere
- Vegetable Oil - bio diesel, German specialty
- Grain Starch - US maize ethanol and others
- Cellulose - “Brigadoon” technology
- None truly economic

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The political tea leaves

- **March 9, 2007:** In Brazil, Bush announces ethanol deal
- **February 20, 2008:** USDA Secretary Ed Schafer Says Renewable Fuels Boost Food Prices
- **April 25, 2008:** Texas Gov Requests Waiver From Renewable Fuels Mandate [Connecticut follows].
- **April 29 2008:** U.S. Secretary of State Condolezza Rice - Biofuels Output May Contribute To High Food Prices
- **May 19 2008:** Bush Administration Opposes Extending Ethanol Tariff

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Political Options

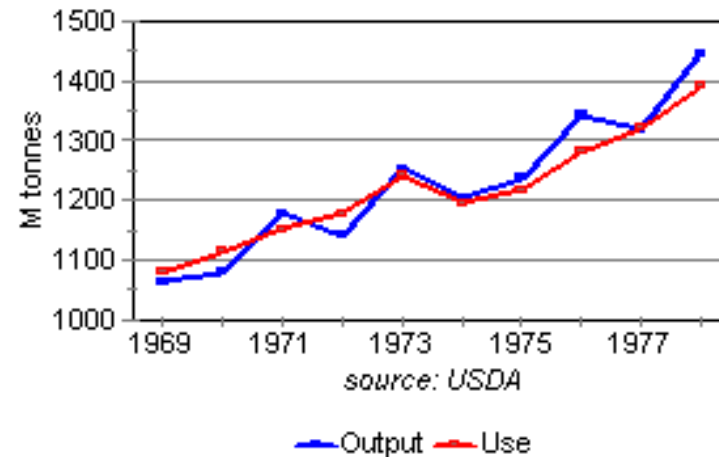
- US – embargoes, Afghan/Soviet and soya bean experiences
- US - lower import tariff on sugar ethanol
- EU - re-impose export “taxes”
- FSU and Argentina already in the game
- Canada’s central selling agency

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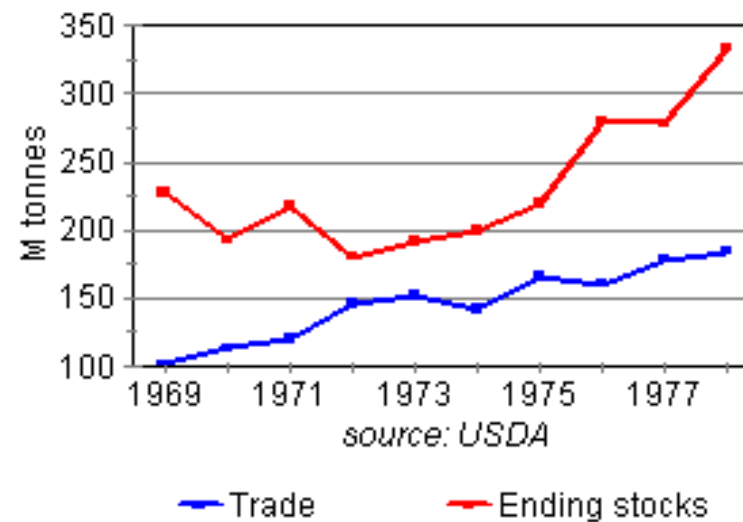
1972 Revisited

- Beyond the range of previous experience
- The Supreme Soviet's contribution
- Even a drought in Australia
- Tight supply short lived with supply response
- Nice lift in trade
- Comparing the Moscow and Washington decisions

Global Output and Use, 1969-78



Global Trade & Ending Stocks, 1969-78



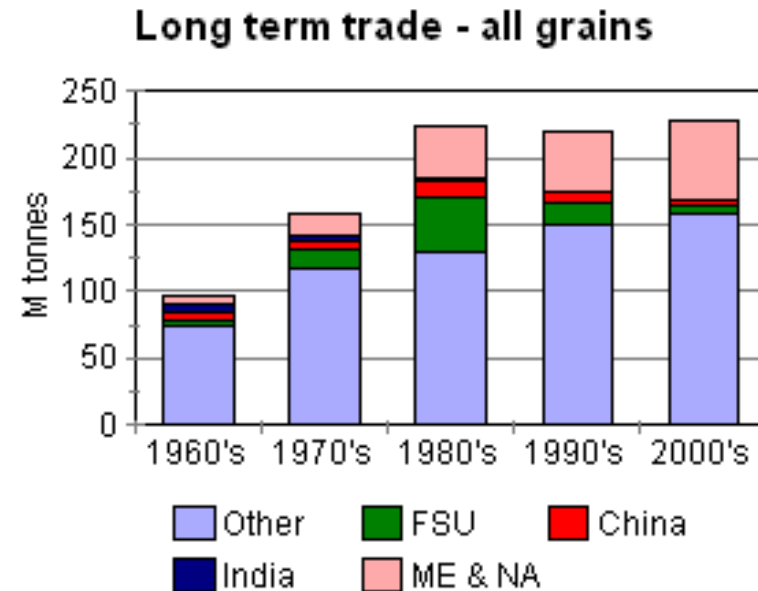
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Odd thoughts

- Trade and tight grain and oilseed markets
- Trade with high freight costs
- Regionalised trade
- Seasonality of cargoes

Long term grain trade trends

- Includes other than sea borne
- Very diverse cargo destinations - top 11 wheat importer less than 50 percent of trade
- 1960's India, China, FSU and ME & NA less than 20 percent
- 1970's FSU and ME & NA emerging, India declining
- 1980's Growth in FSU and ME & NA continues, China occasional big importer
- 1990's Growth in ME & NA offsets decline in FSU
- 2000's Ditto with FSU on the other side of the ledger



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Conclusions

- Political intervention prompted by rising food costs is likely to slow development of US ethanol production.
- This may take the form of lower import tariffs on ethanol encouraging offshore sugar ethanol supply.
- Other jurisdictions may take similar action, and already have in the more general context of rising food prices.
- Bio-fuels are, therefore, probably not the threat to bulk trade that they may appear to be.
- Growth in trade in grain and oilseeds may, however, be restricted in the short term.
- But current incentive prices are most likely to result in a global supply response.
- Growth in world trade will thereafter resume, driven in the main by demand from the Middle East and North Africa.

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