

*2009 Outlook...or  
“When Am I Going to Feel Good  
Again About Being in the Turkey  
Business?”*



Dr. Thomas E. Elam

President

FarmEcon LLC

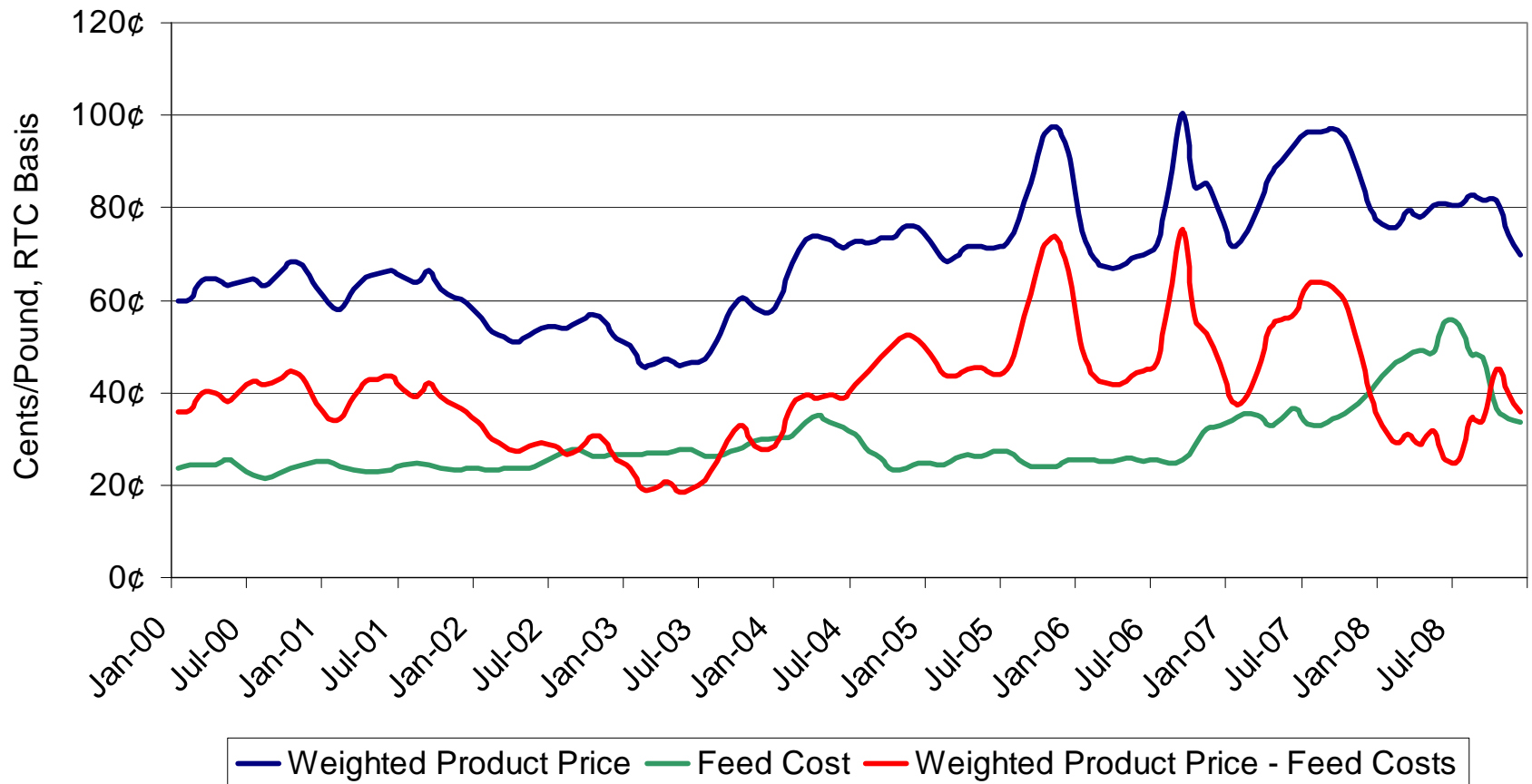
February 5, 2009



*What went wrong?*

Just  
about  
everything

## *New FarmEcon Model: RTC Value Per Pound and Feed Costs - 2008 Issues Involved both Cost and Prices*

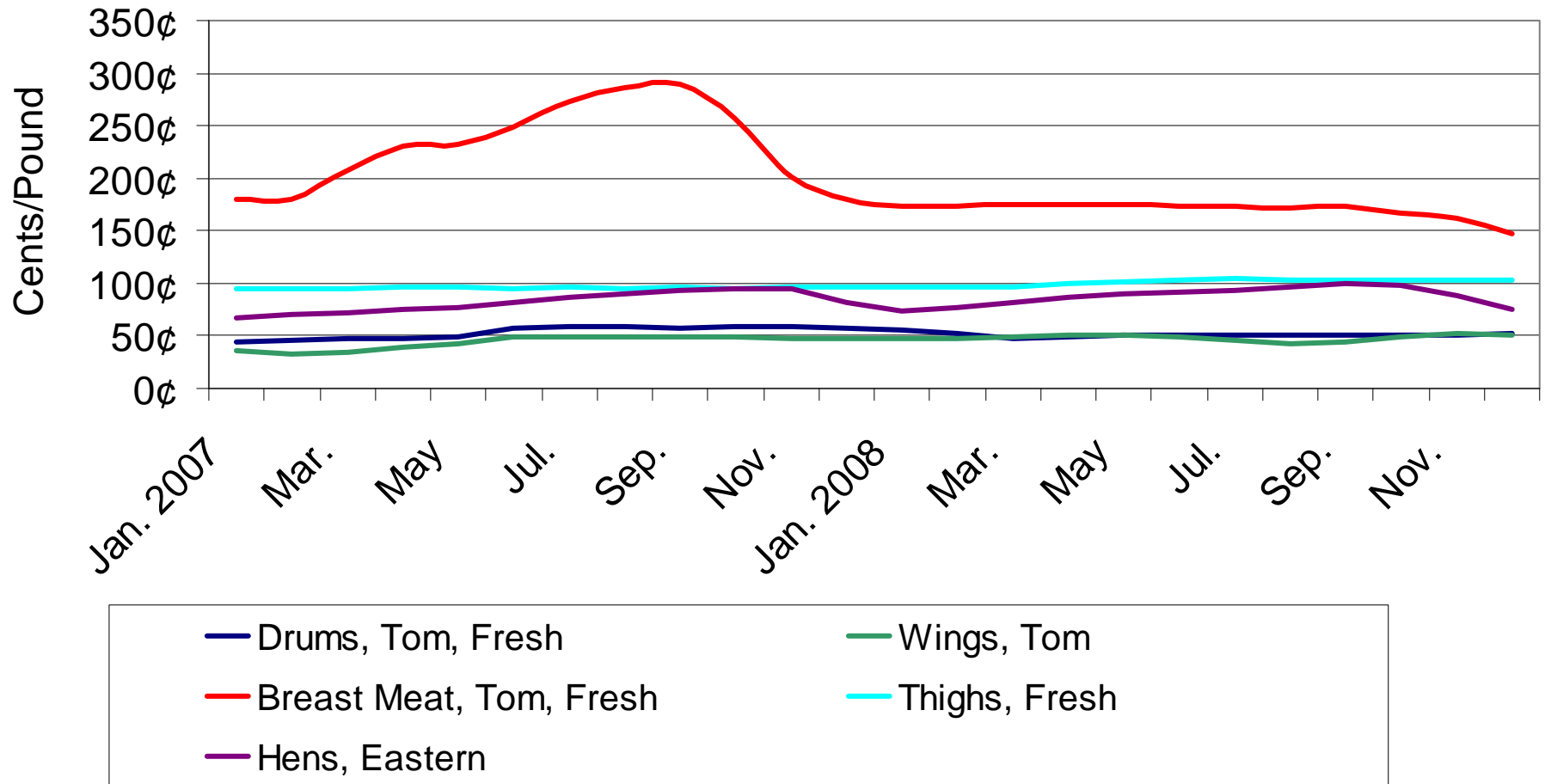


# *Clouds on the Horizon?*

## *(From the 2008 Outlook Talk)*

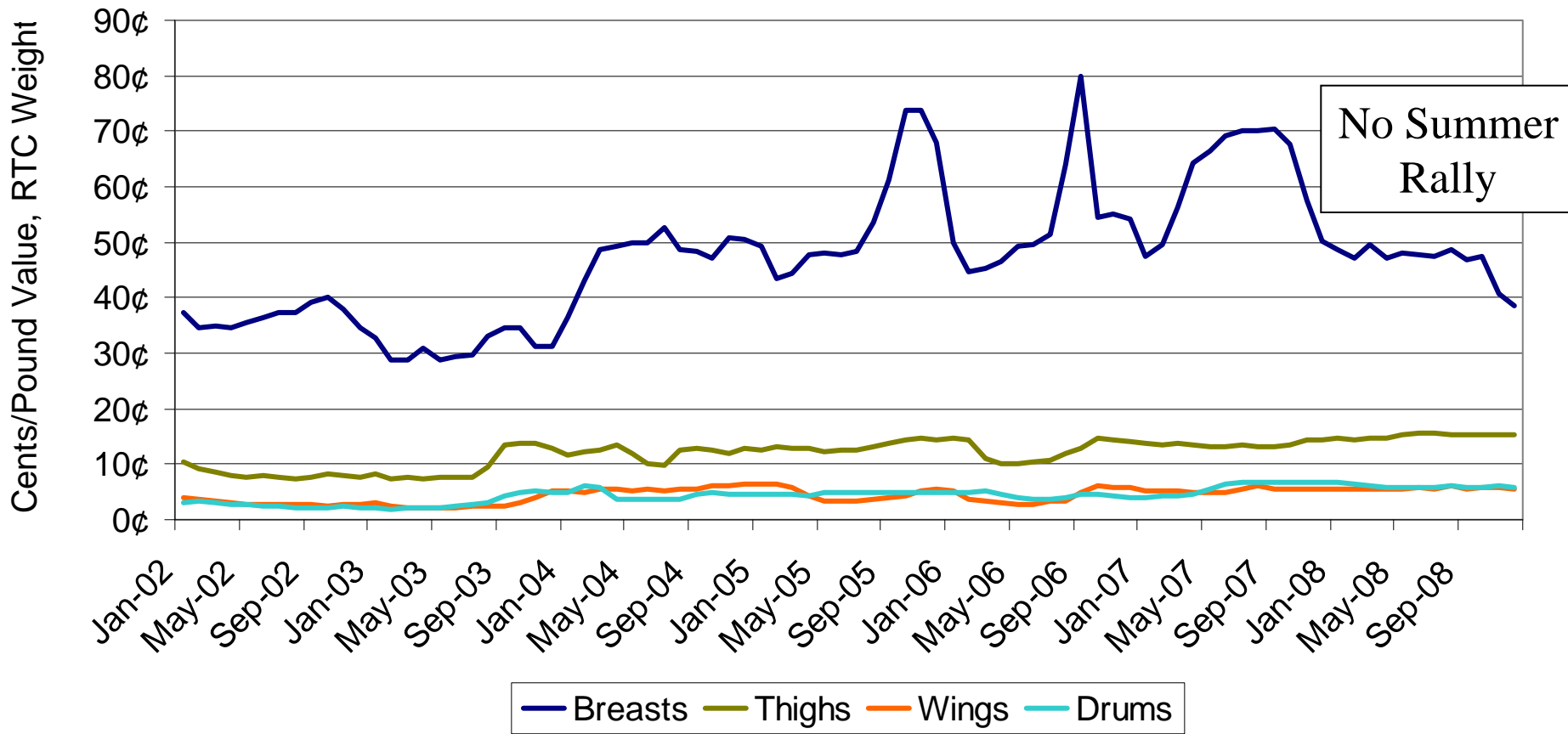
- ✓ Feed costs have moved to a new plateau
- ✓ 2008-2009 recession looming
- ✓ Record-high total beef/pork supplies
- ✓ Turkey and broiler production increasing
- ✓ Brazil has targeted turkey exports
- ✓ Bottom line – in the face of larger supplies demand growth will not be as robust

# 2007-2008 Prices Reflect Higher Production and Weakening Demand

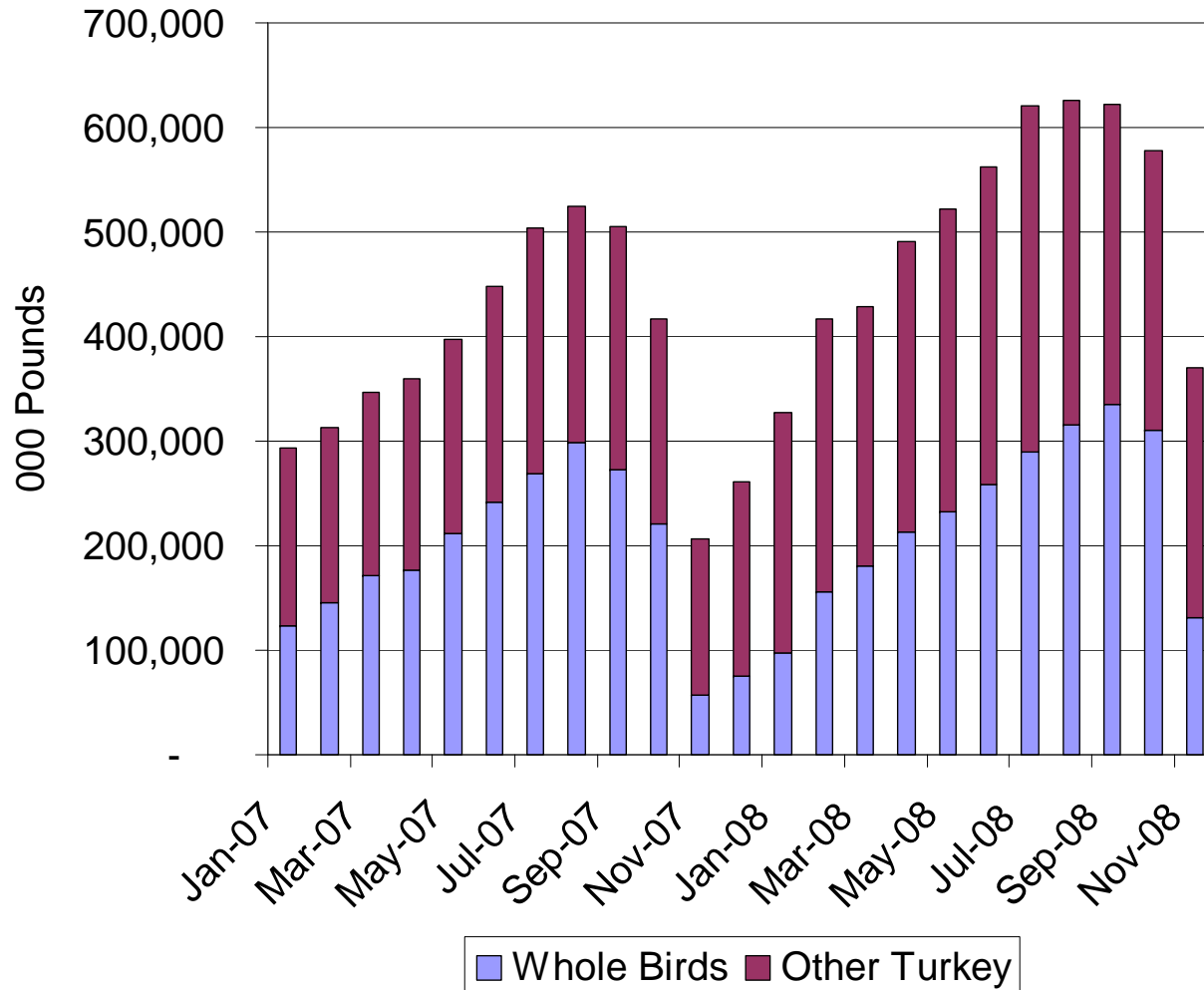




# Parts Values/Pound RTC Turkey Breast Meat Prices Killed 2008



# *Inventories got out of control*



## *How important are frozen stocks?*

- Regress season and stocks of “other turkey parts” (2003-2008) on breast meat price
- As “other” stocks increase breast meat (Fresh, Tom) price declines
- 88 million pounds of “other” stocks increase Nov. 2007 to Nov. 2008
  - Worth about 65 cents/lb. on breast meat price
  - Actual price difference was only 40 cents

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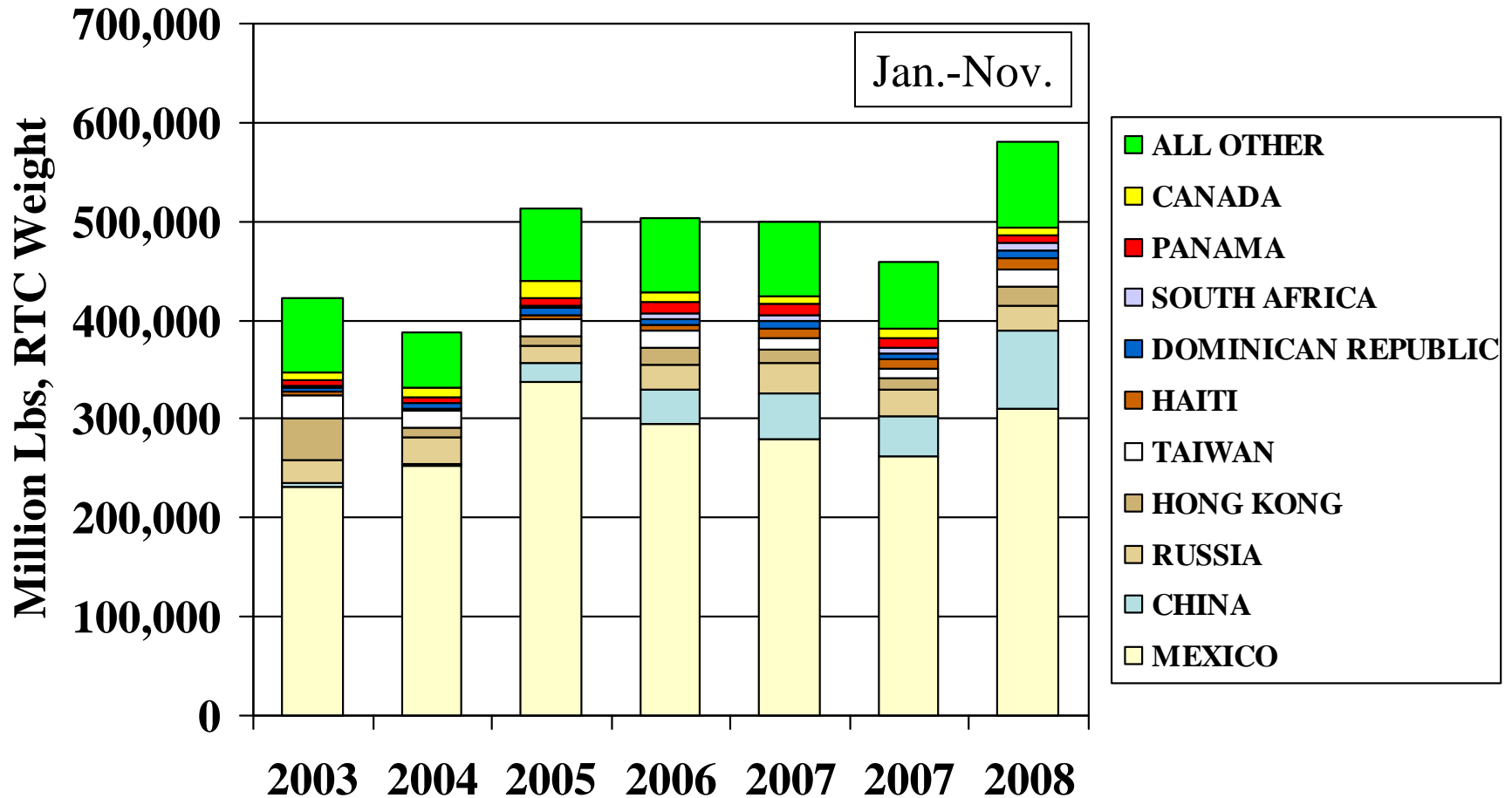


*Was There ANY Good News?*

**Yes there was!**

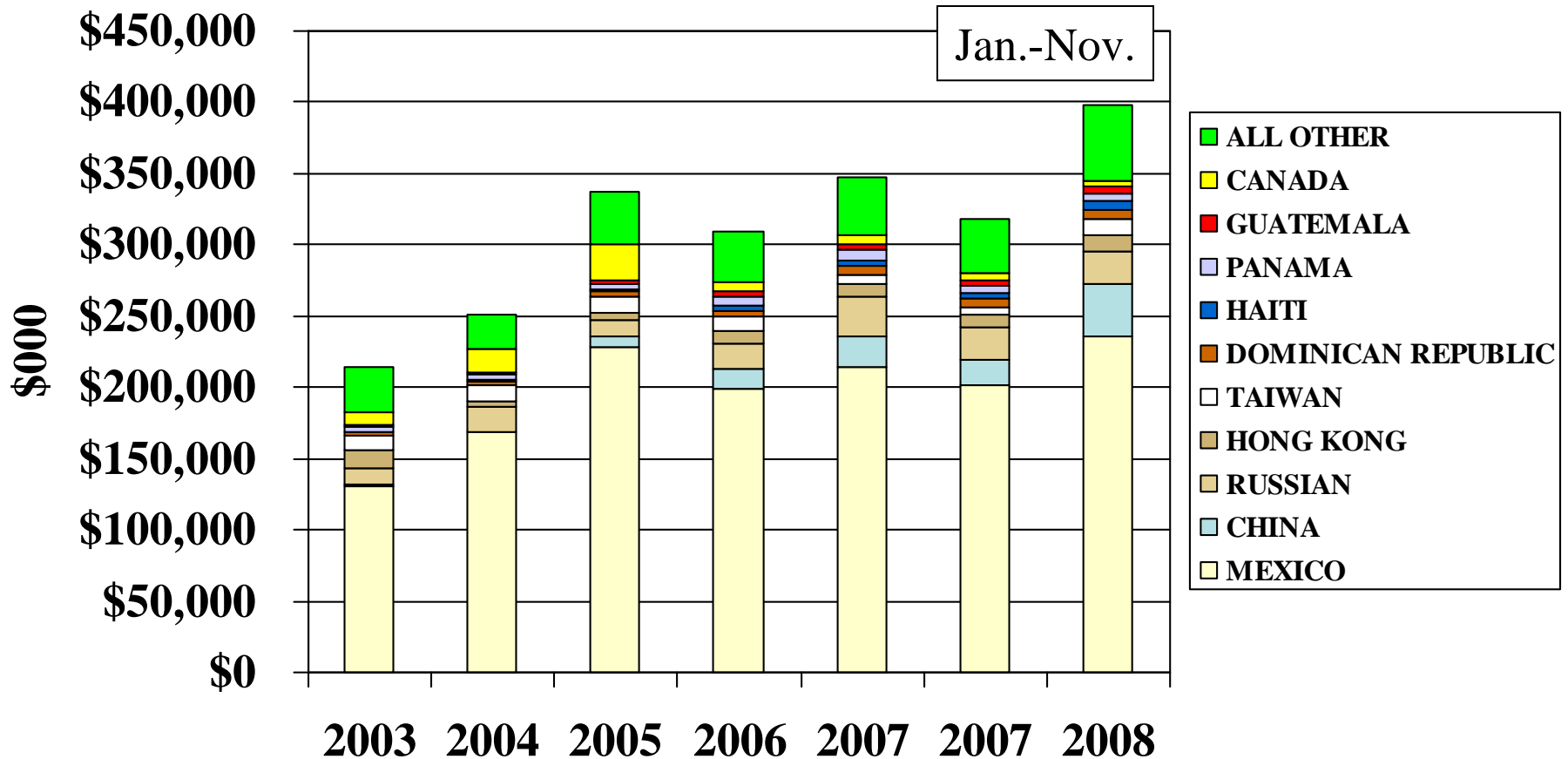
# Exports Set a New Record

## Mexico and China Lead Growth

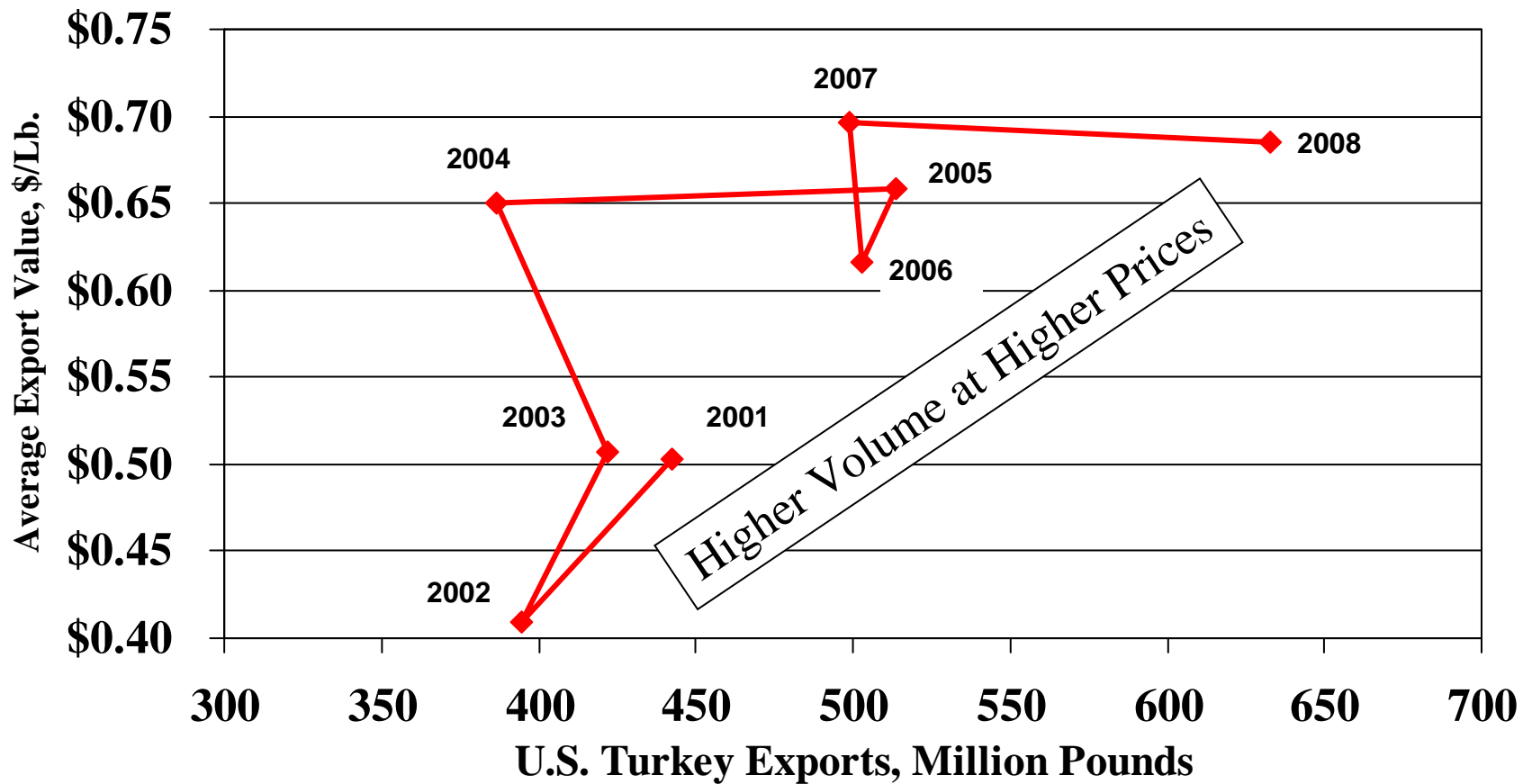




# Export Value Sets a New Record



# Export Demand Increase 2001-2008



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*2009 – Will I Feel Better?*

# *From Last Year: 2008 OUTLOOK*

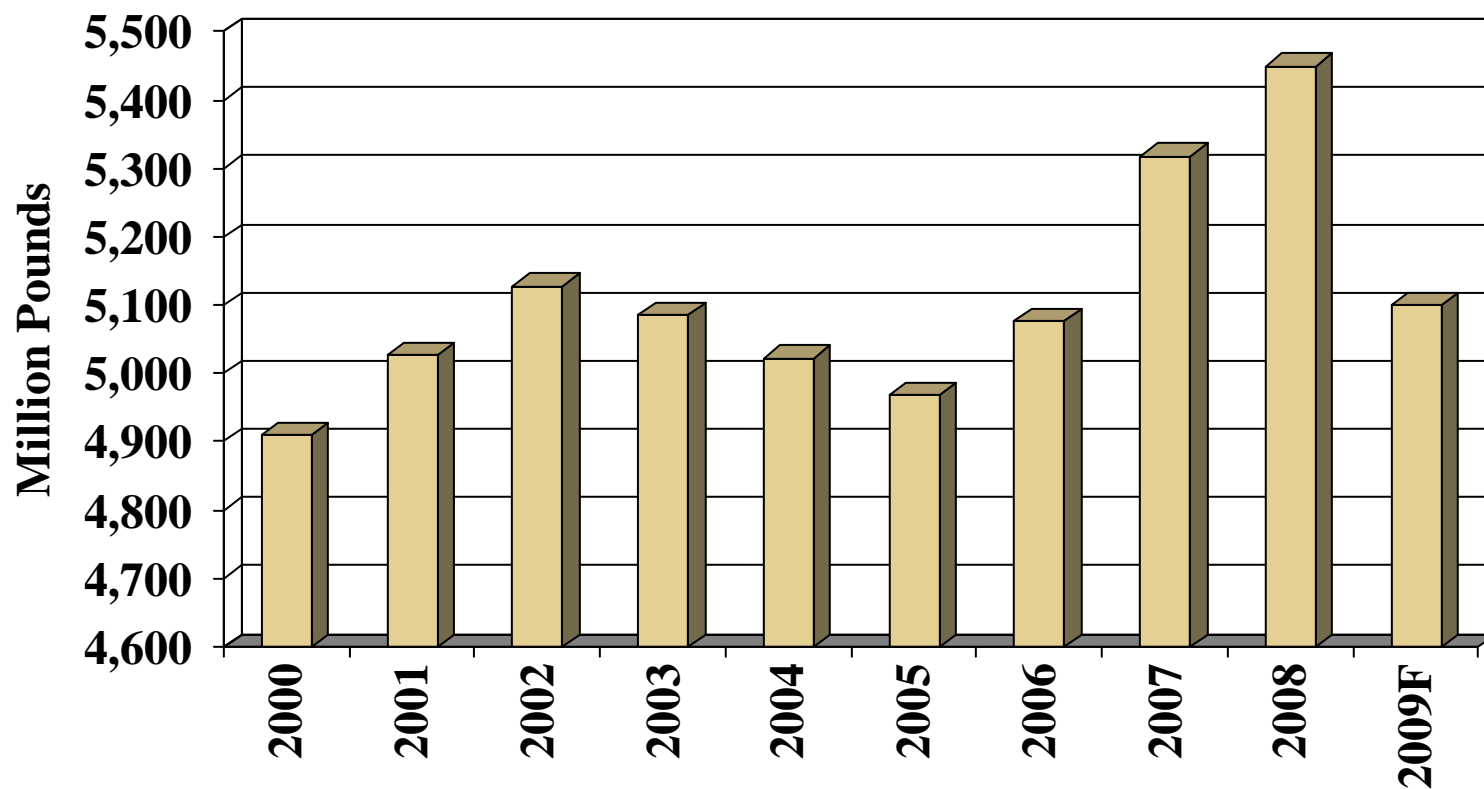
Bottom line: A deteriorating balance of higher costs, increasing production, and a more difficult demand growth scenario.

# *2009 OUTLOOK*

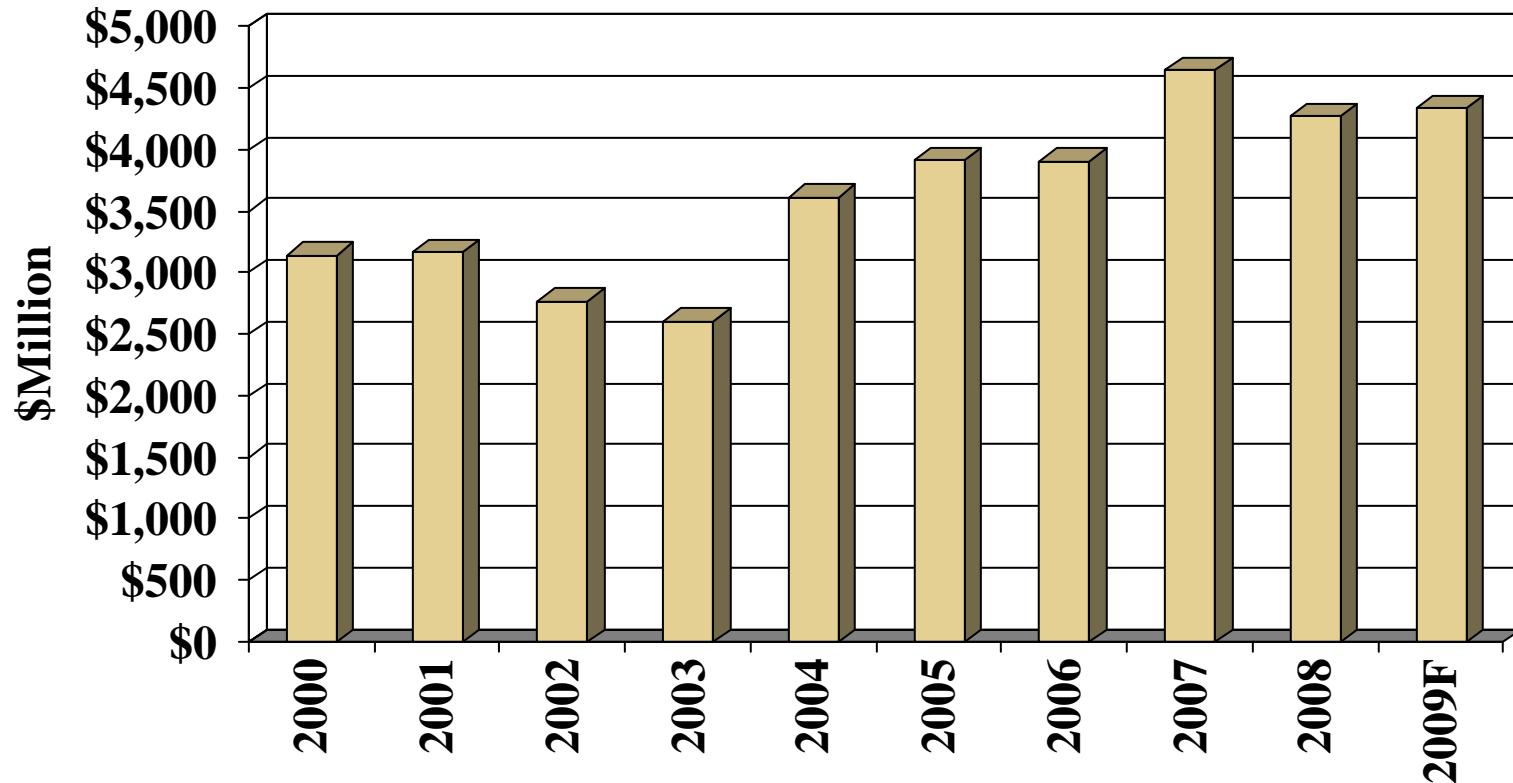
Summary: Declining production sets the stage for higher prices, feed costs likely to be less volatile, but export and U.S. demand remain a huge question mark.



# *U.S. Market RTC Turkey Consumption*

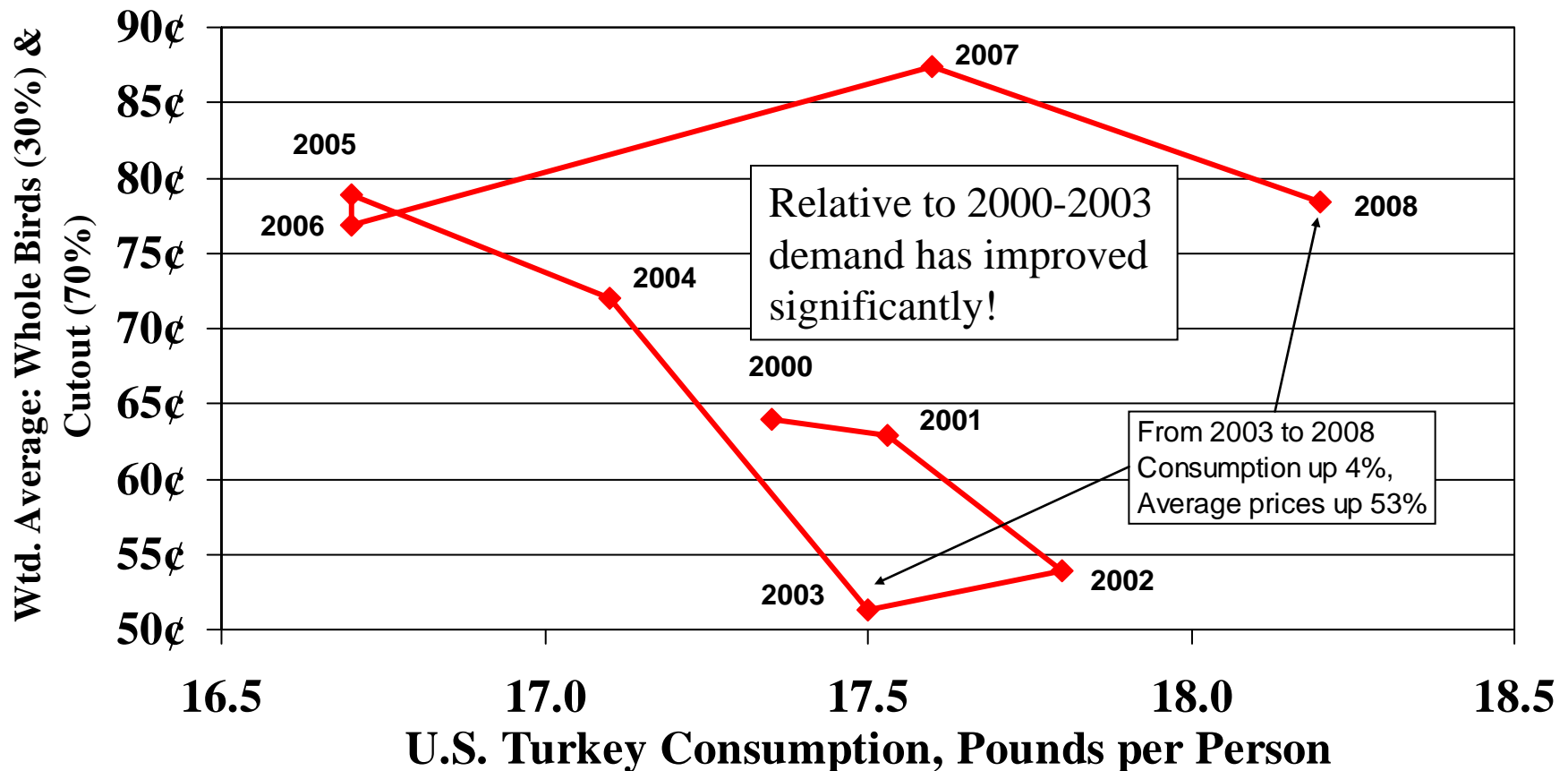


# *Estimated Value of the U.S. Market\**

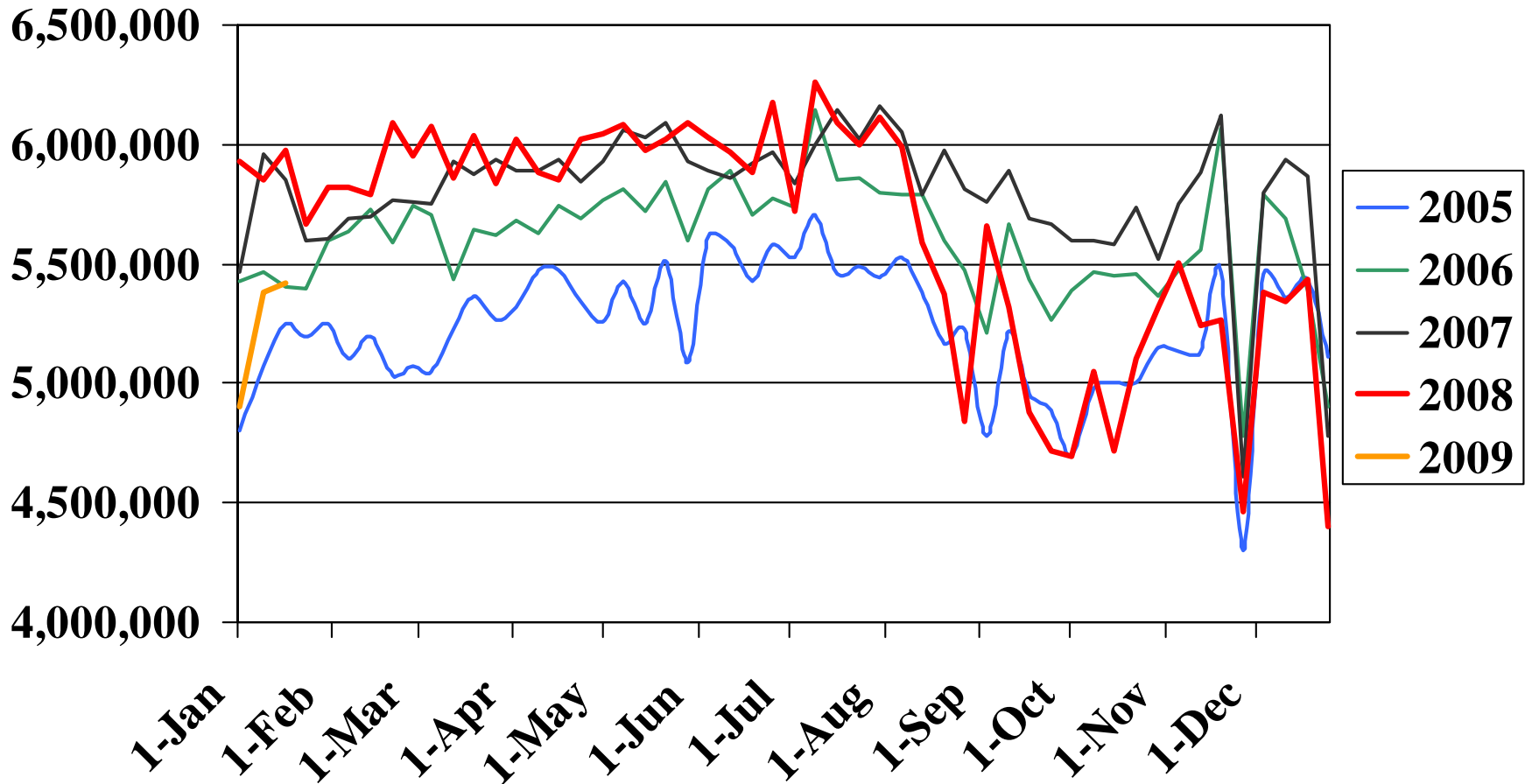


\*ex-processor, 30% whole birds, 70% cutout X Domestic Consumption

# Given Near-Record High Domestic Consumption U.S. Demand Was Good



# *Poult Placements, UB, Weekly Point to Lower 2009 Production*



# 2009 Turkey Forecast Details

(Production, Use and Stocks in Million Pounds)

	2005	2006	2007	2008	2009fcst	Pct. Change
Beginning Stocks	288	206	218	261	482	85%
Production	5,456	5,634	5,914	6,250	5,750	-8%
Total Supply	5,744	5,840	6,132	6,511	6,232	-4%
Exports	570	546	554	654	625	-4%
U.S. Consumption	4,968	5,076	5,318	5,375	5,250	-2%
Per Capita (Lbs.)	16.7	16.9	17.6	18.0	17.3	-4%
Total Use	5,538	5,622	5,871	6,029	5,875	-3%
Ending Stocks	206	218	261	482	357	-26%
USDA Hen Price, \$/lb.	\$0.734	\$0.770	\$0.821	\$0.876	\$0.860	-2%
USDA Tom Price, \$/lb.	\$0.717	\$0.768	\$0.820	\$0.873	\$0.860	-1%
USDA Breast Meat, \$/lb	\$2.094	\$2.147	\$2.306	\$1.699	\$2.200	29%
USDA Thigh Meat, \$/lb	\$0.917	\$0.849	\$0.957	\$1.013	\$0.950	-6%
USDA MDT, \$/lb	\$0.267	\$0.212	\$0.246	\$0.255	\$0.250	-2%
Margin over Feed, ¢	53.4¢	50.1¢	52.3¢	32.8¢	44.0¢	34%

## *From Last year: Summary*

- Demand growth will be more challenging
  - ▣ Recession more likely every day
  - ▣ Large supplies of competing meats, esp. pork
- Feed costs will be record-high
- U.S. turkey production growth 2-3%?
  - ▣ Bird numbers will be up more than production?
  - ▣ Feed costs argue for lighter average weights
- Exports look healthy, weak dollar helping
- Prices likely need to fall to use more turkey
- Margins will shrink, losses likely for some companies
  - ▣ Could look like 2002-2003, or worse
  - ▣ Declining demand was the main problem then
  - ▣ Feed cost increases are the major issue today



## *2009 Outlook Summary*

- Demand will be a major challenge
  - Economy in recession most, if not all, 2009
  - At least competing meat supplies are shrinking
  - Chicken breast meat prices are increasing
- Feed costs will remain very high
- U.S. turkey production will decline
- Exports need to remain healthy
- Turkey prices will increase, but how much, when?
- Margins will improve, but will not be generous
- Feed cost outlook buffered by larger corn stocks
- Volatility not as bad as 2008

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# *Feed Cost Outlook 2009/2010*

## *Ethanol Factoids*

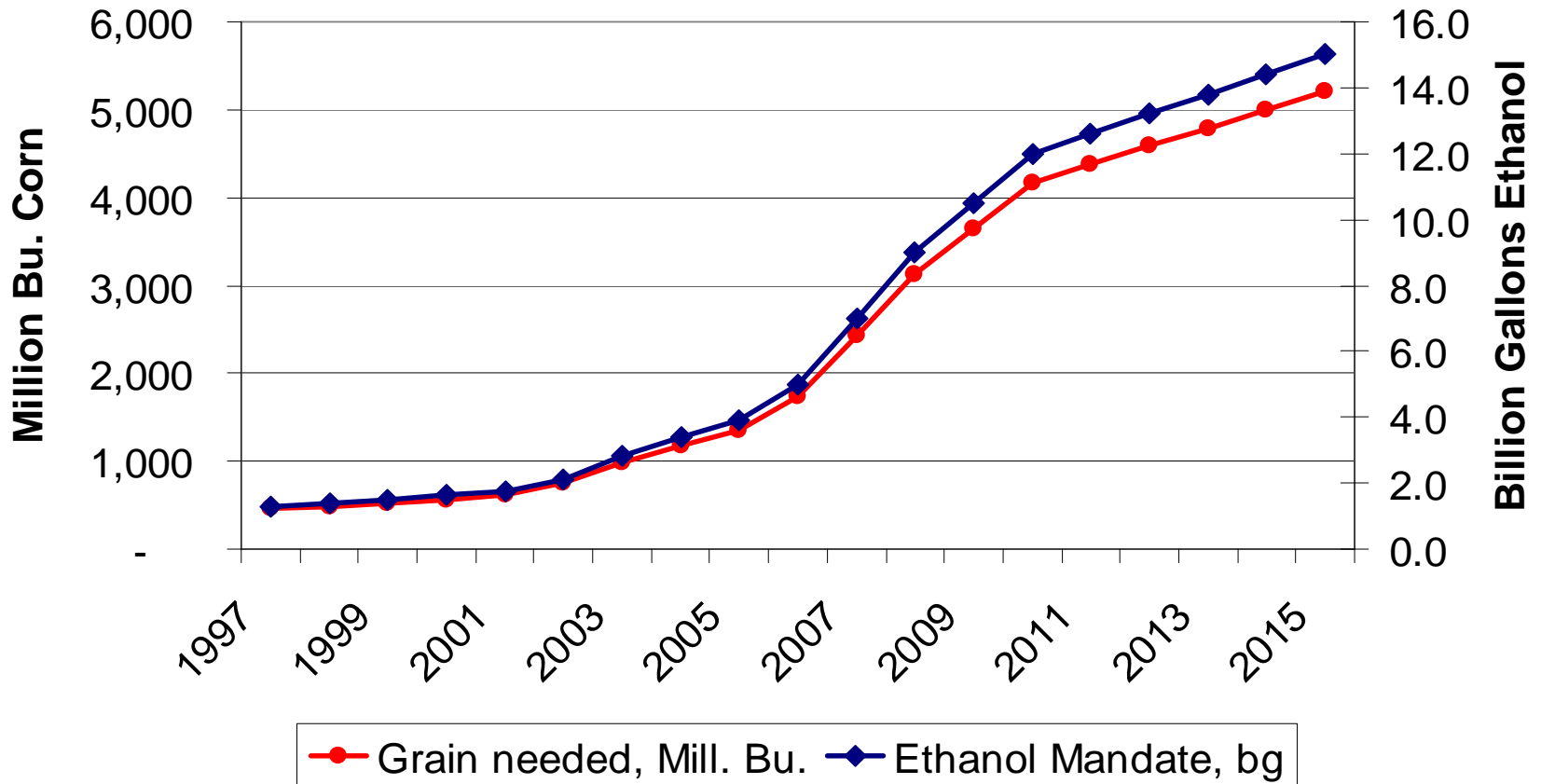
- About 18% of ethanol capacity is closed due to bankruptcy or poor margins
- The cost of a commercial scale cellulosic ethanol plant is \$10-20/gallon capacity
- Burning corn to replace natural gas and using that gas to power vehicles would generate more net energy than ethanol made from corn

# 27 Currently Idle Ethanol Plants

Plant Name	City	State	Feedstock	Capacity	Start Date
Abengoa Bioenergy Corp.	Portales	NM	Milo	30	Jul-05
Alchem LLP	Grafton	ND	Corn	11	1990
AltraBiofuels Coshocton Ethanol LLC	Coshocton	OH	Corn	60	Oct-07
AltraBiofuels Indiana LLC	Cloverdale	IN	Corn	88	N/A
Cascade Grain Products LLC	Clatskanie	OR	Corn	113	Dec-07
Central Wisconsin Alcohol	Plover	WI	Seed Corn / Whey	7	N/A
DENCO LLC	Morris	MN	Corn	24	Sep-99
E3 BioFuels LLC	Mead	NE	Corn	25	Dec-06
Gateway Ethanol LLC	Pratt	KS	Corn/milo	55	Jun-07
Greater Ohio Ethanol LLC	Lima	OH	Corn	54	Nov-07
Husker Ag LLC	Plainview	NE	Corn	67	Mar-03
Manindra Ethanol Corp.	Hamburg	IA	Corn / Wheat Starch	8	N/A
Melrose Dairy Proteins LLC	Melrose	MN	Cheese Whey	3	N/A
Pacific Ethanol Inc.	Madera	CA	Corn	40	Oct-06
Parallel Products	Bartow	FL	Beverage Waste	4	N/A
VeraSun Albert City LLC	Albert City	IA	Corn	100	Nov-06
VeraSun Albion LLC	Albion	NE	Corn	100	Oct-07
VeraSun Bloomingburg LLC	Bloomingburg	OH	Corn	100	Mar-08
VeraSun Central City LLC	Central City	NE	Corn	96	Apr-04
VeraSun Dyersville LLC	Dyersville	IA	Corn	110	Sep-08
VeraSun Hankinson LLC	Hankinson	ND	Corn	110	2008
VeraSun Janesville LLC	Janesville	MN	Corn	110	N/A
VeraSun Linden LLC	Linden	IN	Corn	100	Aug-07
VeraSun Marion LLC	Marion	SD	Corn	110	Feb-08
VeraSun Ord LLC	Ord	NE	Corn	45	May-07
VeraSun Welcome LLC	Welcome	MN	Corn	110	2008
VeraSun Woodbury LLC	Lake Odessa	MI	Corn	50	Sep-06
White Energy	Plainview	TX	Corn	100	Apr-08
<b>Total Idle</b>				<b>1,830</b>	



# Mandated Corn-based Ethanol Production And Corn Required

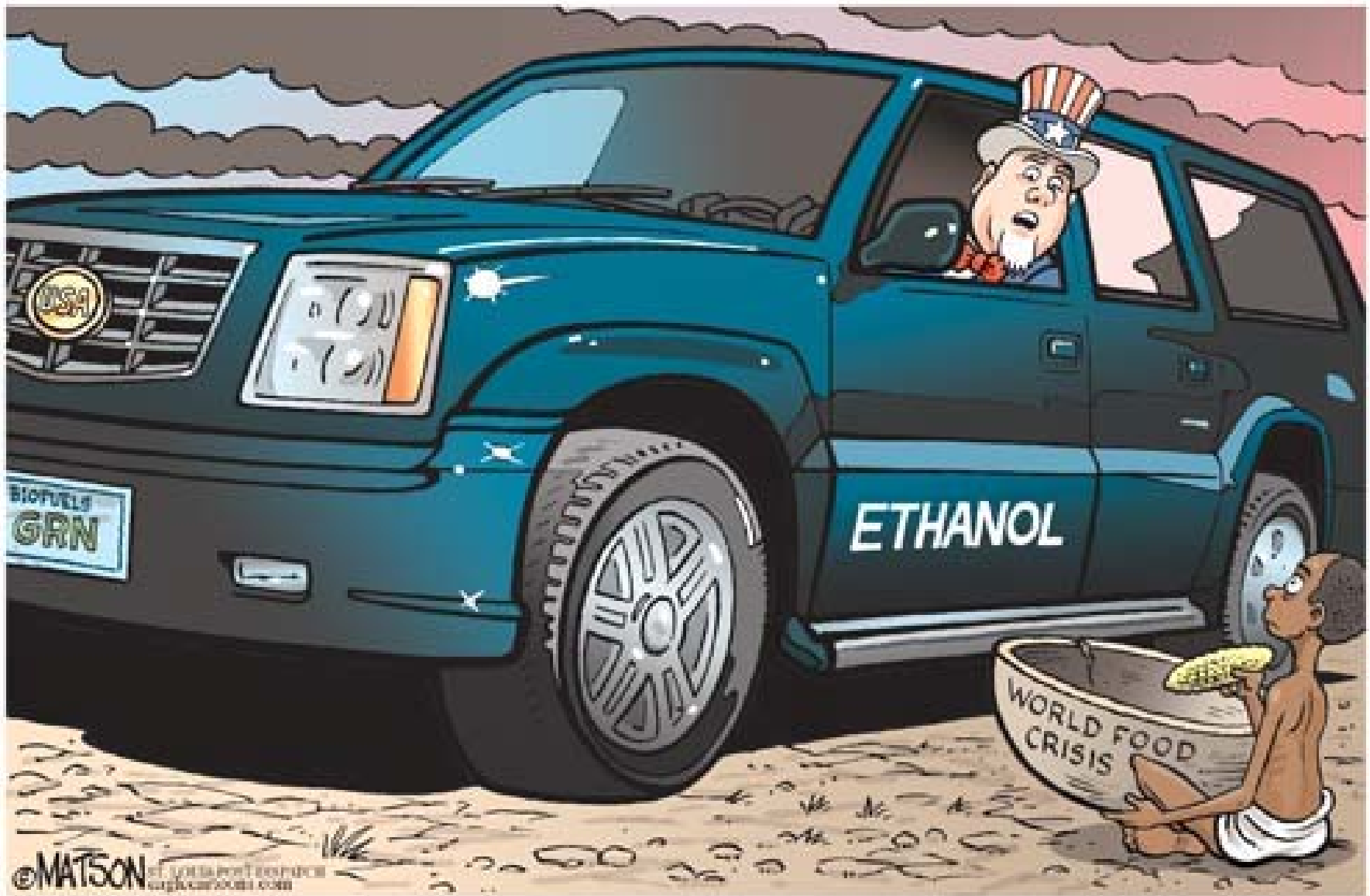


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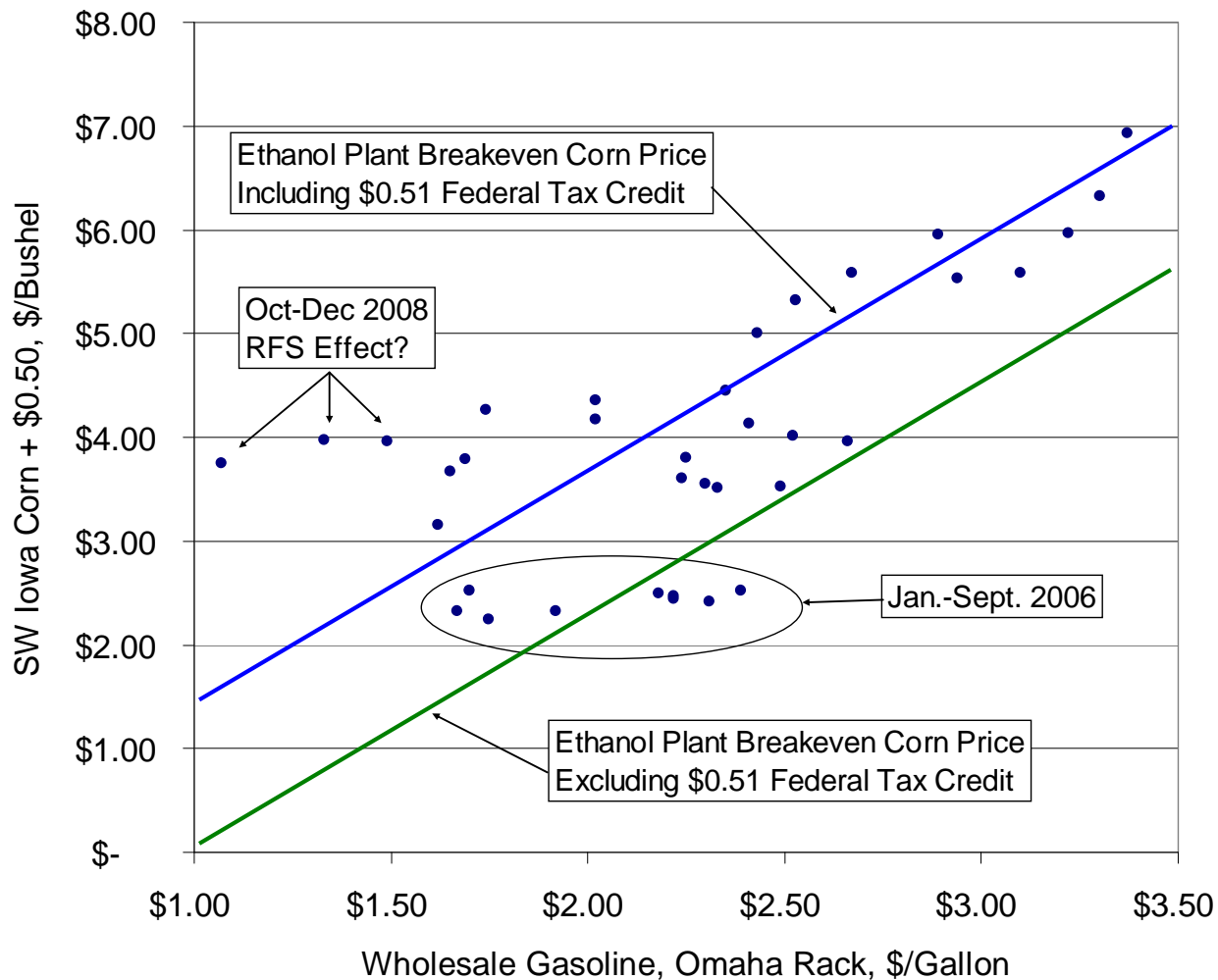
TURKEY  
the perfect protein™



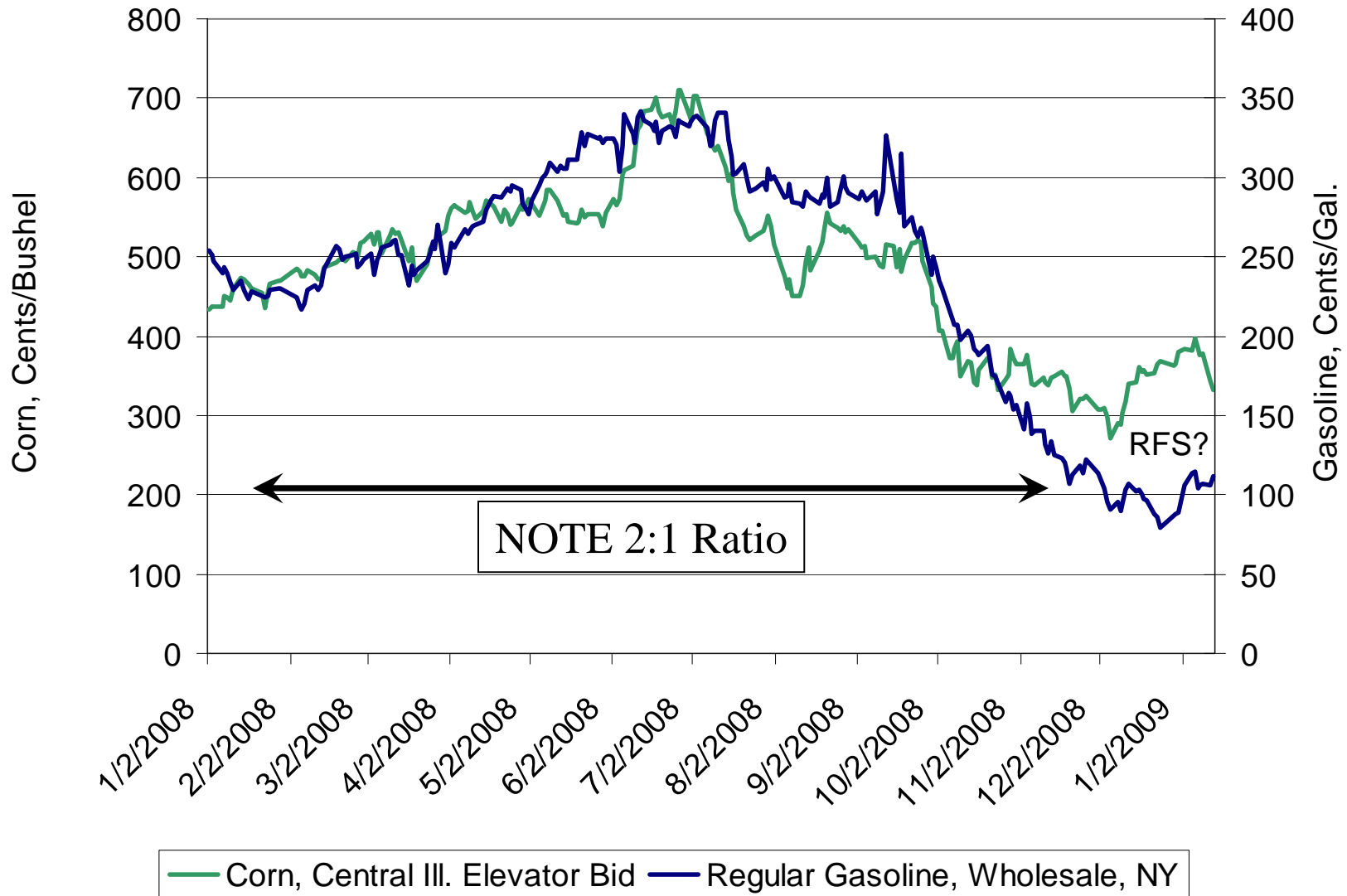
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"YOU GONNA EAT THAT?"

# Gasoline and Corn Price Link

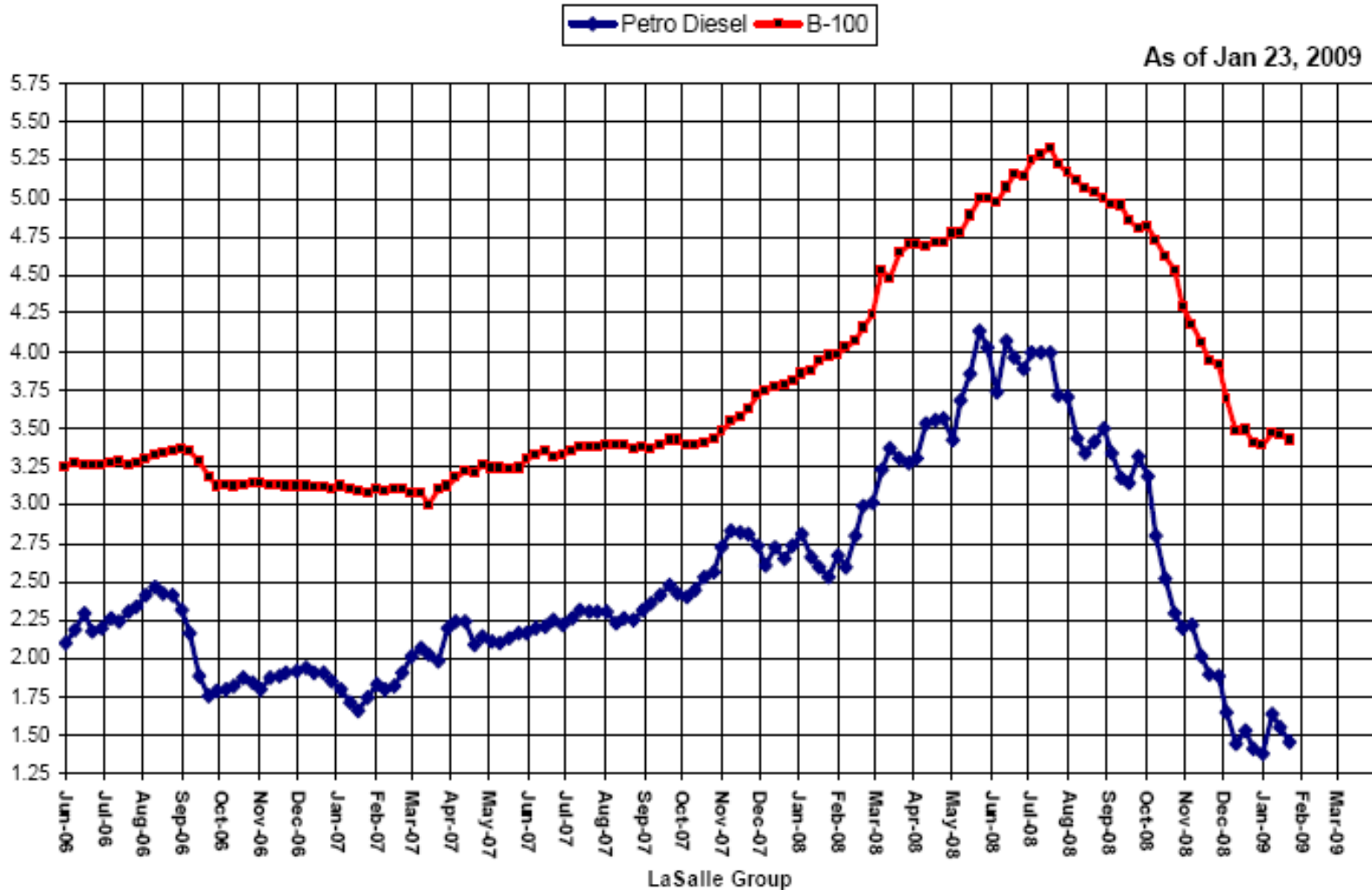


# Corn priced by energy value





# *Soyoil and Biodiesel Price Link*



## *Why the 2:1 corn/gasoline ratio?*

- Corn's energy value dominates corn demand as energy gets expensive
- Corn is the variable ethanol cost in the short run
- 1 bu. corn = 2.7 gal. ethanol + 17 lb. DDGS
- 2.7 gal. ethanol = 1.8 gal. gasoline energy\*
  - So, almost 2:1 just with gasoline value
  - DDGS price also plays a role
- Corn up \$1/bu. = DDGS value up 20.4 cents/bu.\*\*

\*Based on same BTU content, ethanol has 66% energy of gasoline

\*\*Regression of monthly corn and DDGS prices from 1/2006 to 12/2008

## *Why the 2:1 Ratio?*

*Assume gasoline up by \$1.00/gal.*

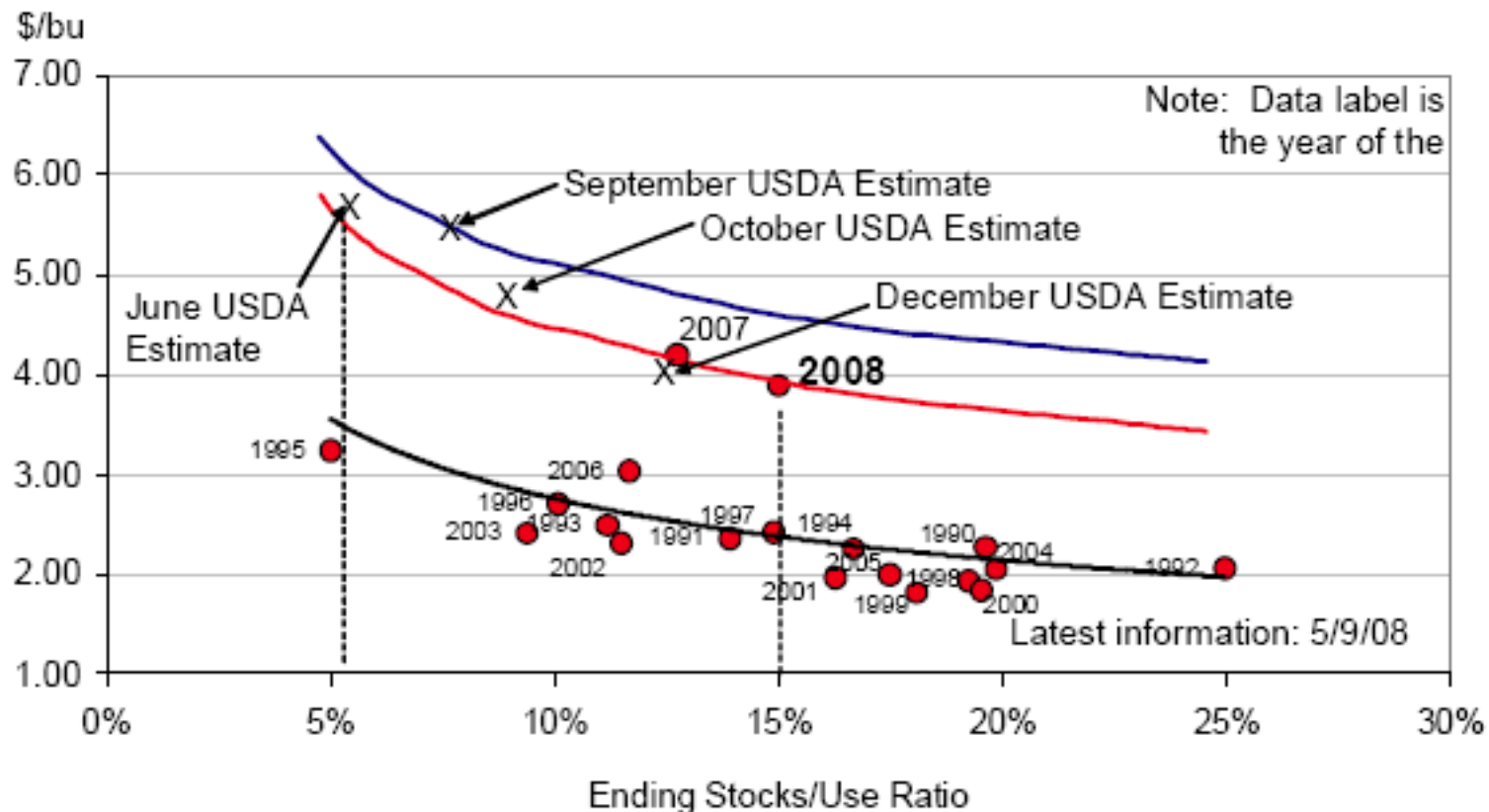
- Corn energy value up by \$1.80/bushel
- DDGS price increases, adding to corn value
  - Adds another \$0.37/bu.
  - (\$1.80 corn price increase x \$0.204 value/bu.)
- Total corn value increase = \$2.17
- Not statistically different from \$2.00





# Corn Stocks/Price Curve Shifts Up

## U.S. CORN PRICE VS. S/U RATIO 1990-2008



## *From Last Year - Corn Outlook – 2008/2009*

- Potential ethanol demand for corn
  - About 3.6 billion bushels in CY 2008
  - Going to be 4+ billion in CY 2009
- 2008 corn acres likely to decrease
- Historic collision of ethanol and food is coming, and sooner rather than later
- Mandated use creates price insensitivity
- 2008/09 corn price could go to \$6-8/bushel
  - How much acreage goes to beans + weather?
  - 2008 crop failure could take corn to over \$10

## *Corn Overview – 2009/2010*

- Potential ethanol demand for corn
  - About 3.6 billion bushels in CY 2009
  - Going to be 4.2 billion in CY 2010
- 2009 corn acres about same as 2008
- Mandated use creates corn price volatility
- 2009/10 corn price could go back to \$6-8
- Where oil prices go, so goes corn and all other carbohydrates



## *Protein Meal Overview – 2009/2010*

- 2009 soybean acres likely to increase
- Soybean/corn price of 2.5:1 or better normally causes a shift to soybeans
- If credit an issue 2009 cash costs are key
- Corn cash cost about \$400/acre\*
- Soybean cash cost about \$225/acre\*
- Current returns over cash costs plus risk factors slightly favor beans over corn



## *Corn/Meal Price Outlook – 2008/2009*

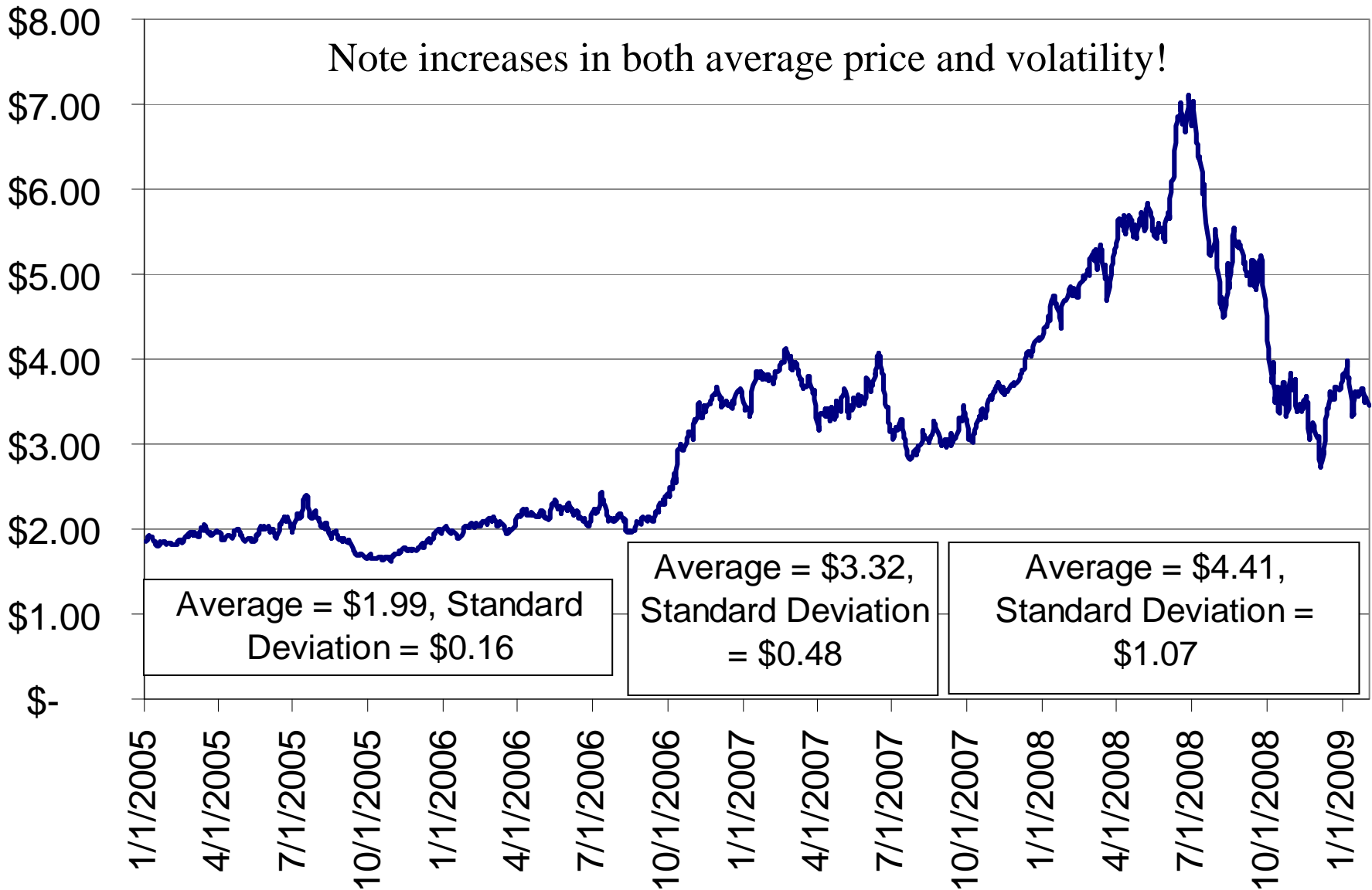
- Corn prices remain at \$3.25-\$4.50, meal at \$250-350, through May-June
- Weather and acres drive prices after that
- 2009-2010 price outlook – some relief
- Biofuel production will grow due to RFS
  - Ethanol use mandate = ethanol price mandate
  - Volatile energy prices are critical to outlook
  - More volatility in feed ingredients likely

# Corn Outlook – 2007/2008\*

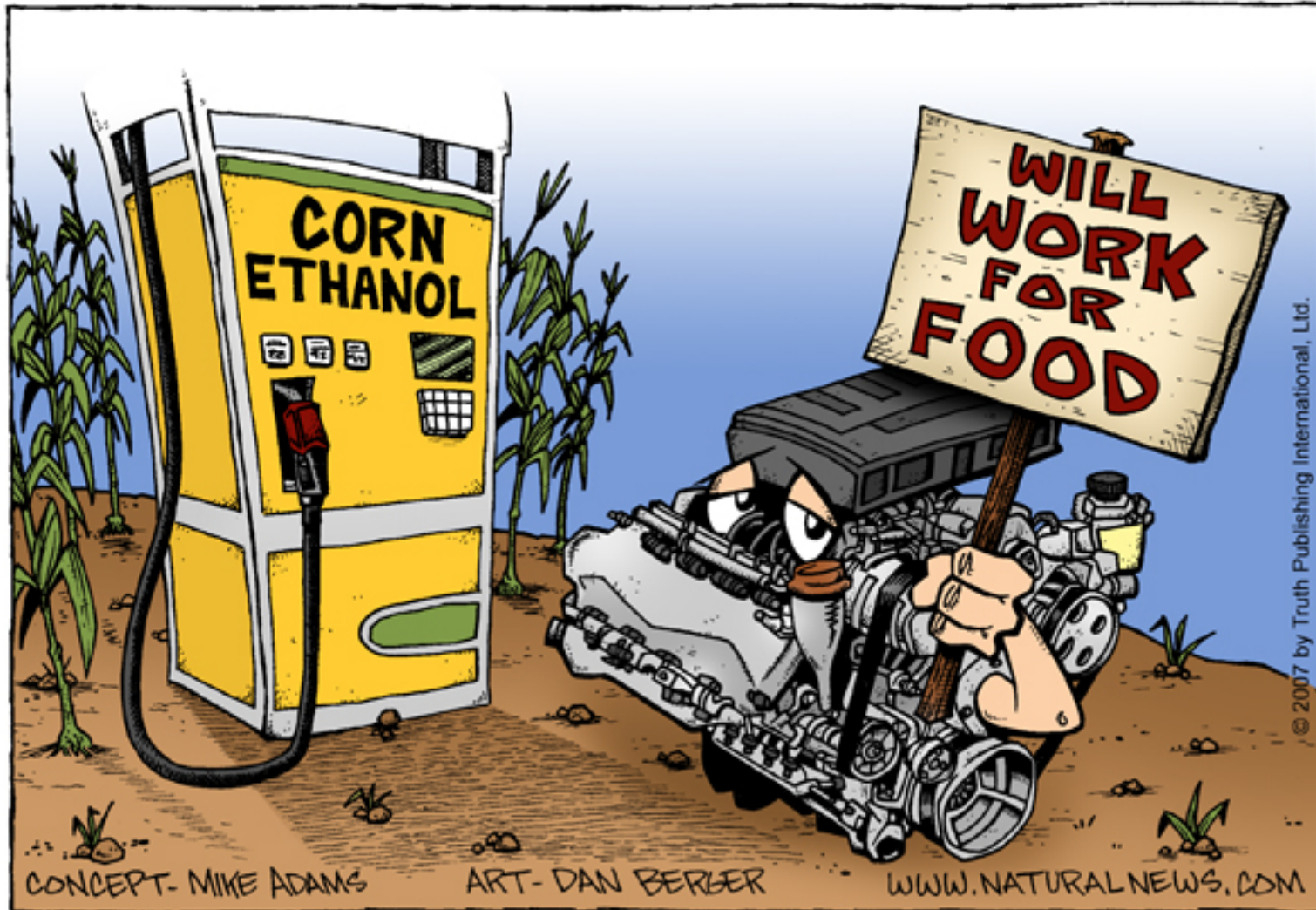
	<i>2006/2007</i>	<i>2007/2008</i>	<i>Forecast 2008/2009</i>	<i>Forecast 2009/2010</i>
Planted Acres, Million	78.3	93.5	86.0	85.0
Harvested Acres, Million	70.6	86.5	78.6	78.0
Yield, Bu./Acre	149.1	150.7	153.9	152.0
Beginning Stocks, Mill. Bu.	1,967	1,304	1,624	1,790
Production, Mill. Bu.	10,531	13,038	12,101	11,856
Feed Use, Mill. Bu.	5,591	5,938	5,300	5,100
Exports, Mill. Bu.	2,125	2,436	1,750	1,650
Food, Seed, Industrial, Mill. Bu.	3,490	4,363	4,900	5,500
Fuel Ethanol, Mill. Bu.	2,119	3,026	3,600	4,200
Total Use, Mill. Bu.	11,207	12,737	11,950	12,250
Ending Stocks, Mill. Bu.	1,304	1,624	1,790	1,396
Average Farm Price, \$/Bu.	\$3.04	\$4.20	\$3.90	\$4.25

\* September 1 Crop Year

# #2 Yellow Corn, Central Illinois Elevator Truck Bid



# COUNTERTHINK: FUEL VS. FOOD



# Soybean Outlook – 2007/2008\*

	2006/2007	2007/2008	Forecast 2008/2009	Forecast 2009/2010
Planted Acres, Million	75.5	64.7	75.7	78.0
Harvested Acres, Million	74.6	64.1	74.6	77.0
Yield, Bu./Acre	42.9	41.7	39.6	42.0
Beginning Stocks, Mill. Bu.	449	574	205	225
Production, Mill. Bu.	3,197	2,677	2,959	3,234
Crush Use, Mill. Bu.	1,808	1,801	1,685	1,800
Exports, Mill. Bu.	1,116	1,161	1,100	1,150
Seed	80	93	90	90
Residual	77	-	73	75
Total Use, Mill. Bu.	3,081	3,056	2,948	3,115
Ending Stocks, Mill, Bu.	574	205	225	344
Soymeal Average Price, \$/Ton	\$205	\$336	\$290	\$275
Soybean Average Price, \$/Bu.	\$6.43	\$10.10	\$9.25	\$8.50

\* September 1 Crop Year

# *Turkey Feed Cost Outlook – 2009*

	2005	2006	2007	2008	2009
Corn Price, Central Ill. (\$/Bu.) + \$0.50	\$2.40	\$2.91	\$4.01	\$5.40	\$5.10
Soybean Meal Price (\$/ton , 47%) +\$20	\$211	\$197	\$256	\$357	\$325
Meat and Bone Meal, Diluth/Ton +\$20	\$197	\$188	\$256	\$358	\$320
Grease, Diluth/Ton +\$20	\$340	\$306	\$477	\$590	\$525
Turkey feed costs (¢/lb, Live)	20.2¢	21.2¢	27.7¢	36.0¢	32.4¢
Turkey feed costs (¢/lb, RTC)	25.5¢	26.8¢	35.1¢	45.6¢	41.0¢
Lowest Turkey feed cost (¢/lb, RTC)	23.9¢	24.6¢	32.7¢	33.7¢	na
Highest Turkey feed cost (¢/lb, RTC)	27.4¢	32.8¢	40.2¢	55.4¢	na
Turkey feed cost (¢/lb, RTC) Range	3.4¢	8.2¢	7.5¢	<b>21.7¢</b>	na

**Added \$0.50/bu. for corn and \$20/ton for soybean transportation and handling**

**Based on 2.6:1 FCR, 65% corn, 22.5% SBM, 5% meat and bone meal, 5.5% grease diet**



## *Summary:*

- Still adjusting to doubled feed costs
- The 2009 “Double-Whammy”
  - Lower production needed for higher prices to cover higher costs
  - Also need to reduce inventories at the same time
    - Need to take production down more than needed in the long run
- Second half of the year will look better than the first half
- Cost volatility lower, but an ongoing issue

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# Questions? Comments?