



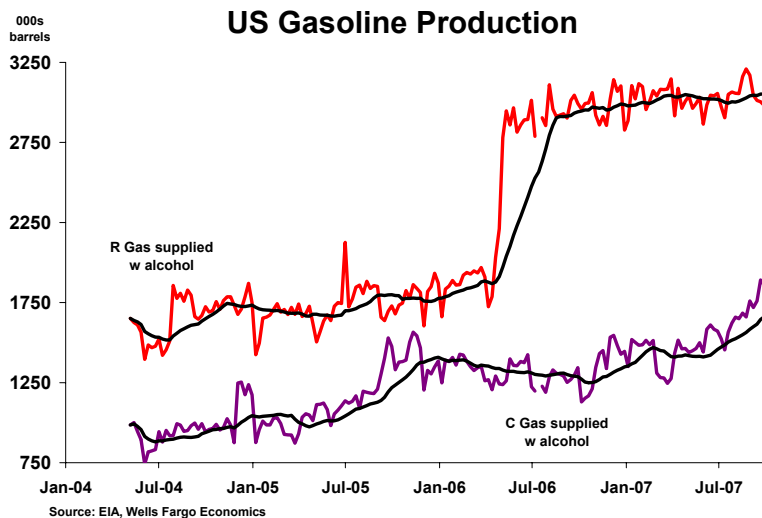
Wells Fargo Economics Row Crop Markets – October 2007

Market Summary: A Slow Leak

The October WASDE report failed to give agricultural producers the right signals. They should take a more bearish view of the market and make more sales today before prices decline. This applies to both old and new crop sales.

Instead of popping the corn demand balloon, the USDA lets a little bit of demand escape each new report. Once again, they dropped ethanol's corn demand by 100 million bushels. This timid approach to estimating the biggest and most dynamic agricultural demand factor does a disservice to agricultural producers. They continue to fail in two ways. First, the USDA never explains its ethanol demand model – if they have one at all. Second, they leave the ethanol co-products out of the explicit feed supply and demand analysis.

The following graph should be a mandatory marketing point for all agricultural producers.



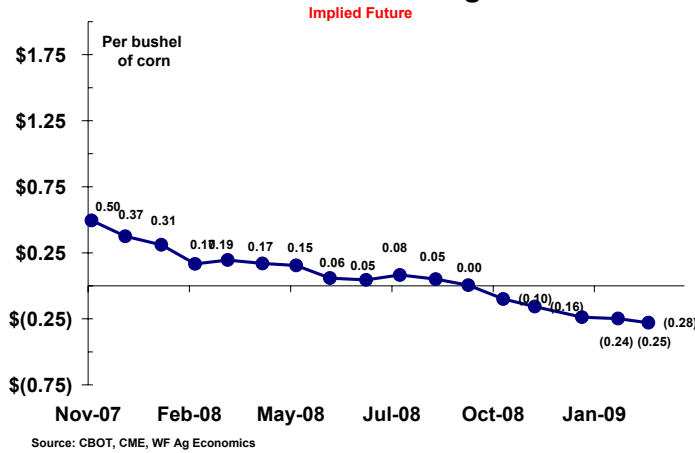
Ethanol has two uses. First, it serves as an oxygenate, improving gasoline's quality. Ethanol also replaces gasoline as a fuel. The red line represents the first usage. Ethanol has completely filled the oxygenate market. The purple line tracks the second market. Ethanol has just started to push out gasoline in many markets. The difference between the two revolves around price. The oxygenate is mandated, and the fuel replacement is not mandated. To gain market share in the fuel replacement market, ethanol needs to price itself competitively as a transportation fuel. In Brazil with its long-term usage of ethanol as a fuel, the market has found that a 30% discount of ethanol relative to gasoline makes it work. This roughly approximates the relative BTUs per gallon of ethanol to gasoline.

With driving miles static, the demand for oxygenate remains flat. As additional ethanol production comes online, it needs to take market share from gasoline. **To take market share, it must offer as good or better a deal to the blenders.** The October 5th weekly shipments of gasoline with alcohol reached an all-time record of 5,093 thousand barrels a day, and it will continue to climb. Unfortunately, the national spot market prices ethanol at \$1.70 a gallon with crude oil at \$80/barrel to make this happen.

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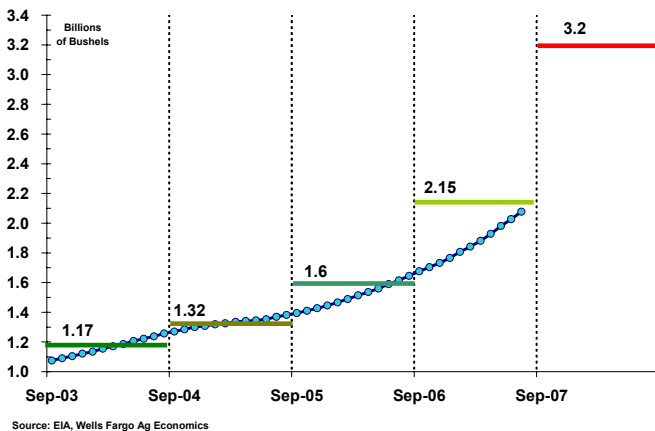
The current price indicates a nearly 80 cents a gallon discount to the “normal” price spreads. This implies that each bushel of corn going into ethanol generates \$2.24 less per bushel. Using the futures market contracts, the implied net of feedstock margins will be little to negative.

Ethanol Gross Margins



With this type of profit stress in ethanol’s future, the USDA continues to miss the mark for ethanol’s corn usage. Just imagine if crude oil drops all the way to \$60/barrel – OPEC’s target price. This would reduce the price of ethanol per gallon by another 60 cents assuming the same spread. That would be another \$1.70 lost revenue per bushel of corn. This would make a train wreck of corn demand.

Corn/Ethanol: 12 Month Trailing Usage



At the moment, 6.8 billion gallons of domestic production plus imports has put spreads into a tailspin. The USDA’s 3.2 billion bushel estimate implies another 2.1 billion gallons plus of supply. My estimate of balance ethanol production needs calls for 2.4 billion bushels of corn usage. And, that estimate might be too aggressive to recover the historical spreads.

Using a better estimate of ethanol into corn and factoring co-products displacing corn feed, the market probably only needs to plant 82 million acres next year to meet next year’s corn usage. That wouldn’t do anything to reduce corn stocks. I am sure that this represents the most bearish analysis in the market. Even so, I will put my detailed weekly analysis of gasoline with ethanol distribution up against most of the warm and fuzzy hopes for China to ride to the rescue with huge export demand.

Why focus on the corn market? Wheat and soybeans offer a bullish situation with tight stocks. They do for the moment, but if 15 million acres swings back to soybeans and wheat, they won’t for long. This means producers need to be aggressively marketing on all fronts. If ethanol can’t pull the corn train at \$4/bushel, all bets are off.

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Agricultural Cash Prices Forecast
Wheat - # 2 Kansas City Spot Price
October 07

Overview: The current picture for wheat remains bullish. With production problems in many of the wheat producing countries, wheat supplies have failed to recover significantly. This leads to lower global stocks, and the US has picked up the slack in terms of exports.

The only real disconnect in the market's current readings comes from the demand side. Higher priced wheat will not cause greater demand. It will reduce demand, especially in price-sensitive low-income wheat importer markets. The fact that we have a temporary surge in wheat orders should not be confused with good demand.

One thing I learned from working the trade import desk for Cargill in Colombia was that orders can be cancelled. And, they get cancelled with impunity.

If your largest customer in a market decides prices are tumbling, don't be surprised if they find "problems" with the current orders. You would think that the traders would enforce their contracts, but they have to play for the long term. Many a trader has seen a great trade come undone, and the importer has walked away free.

At the moment, many orders are being placed "just in case." You can't really separate the wheat from the chaff in these markets, but you need to keep your perspective on how much demand is really out there.

Expected Price Range (next 12 months): KCBOT Futures \$5.37 to \$9.15 per bushel
KCBOT Spot \$5.32 to \$8.07 per bushel

Higher Prices

- Decreased production estimates
- Lower domestic and global stocks
- Weaker dollar

Lower Prices

- High prices dampen global usage
- High prices push up domestic and global acreage

US Supply and Demand

Wheat	September	October	Change
Beginning stocks:	0.46	0.46	-
Production	2.11	2.07	(0.05)
Imports	0.09	0.09	-
Total supply	2.66	2.61	(0.05)
Domestic use	1.19	1.15	(0.04)
Exports	1.10	1.15	0.05
Total use	2.293	2.301	0.01
Ending stocks	0.362	0.307	(0.05)

2007/08 Crop Year Billions of Bushels

13%

Global Supply and Demand

Wheat	September	October	Change
Beginning stocks:	125.1	122.7	(2.4)
Production	606.2	600.5	(5.8)
Imports	104.1	103.0	(1.1)
Total supply	731.3	723.2	(8.1)
Total use	619.0	616.2	(2.7)
Exports	106.9	105.8	(1.1)
Total use	619.0	616.2	(2.7)
Ending stocks	112.4	107.0	(5.4)

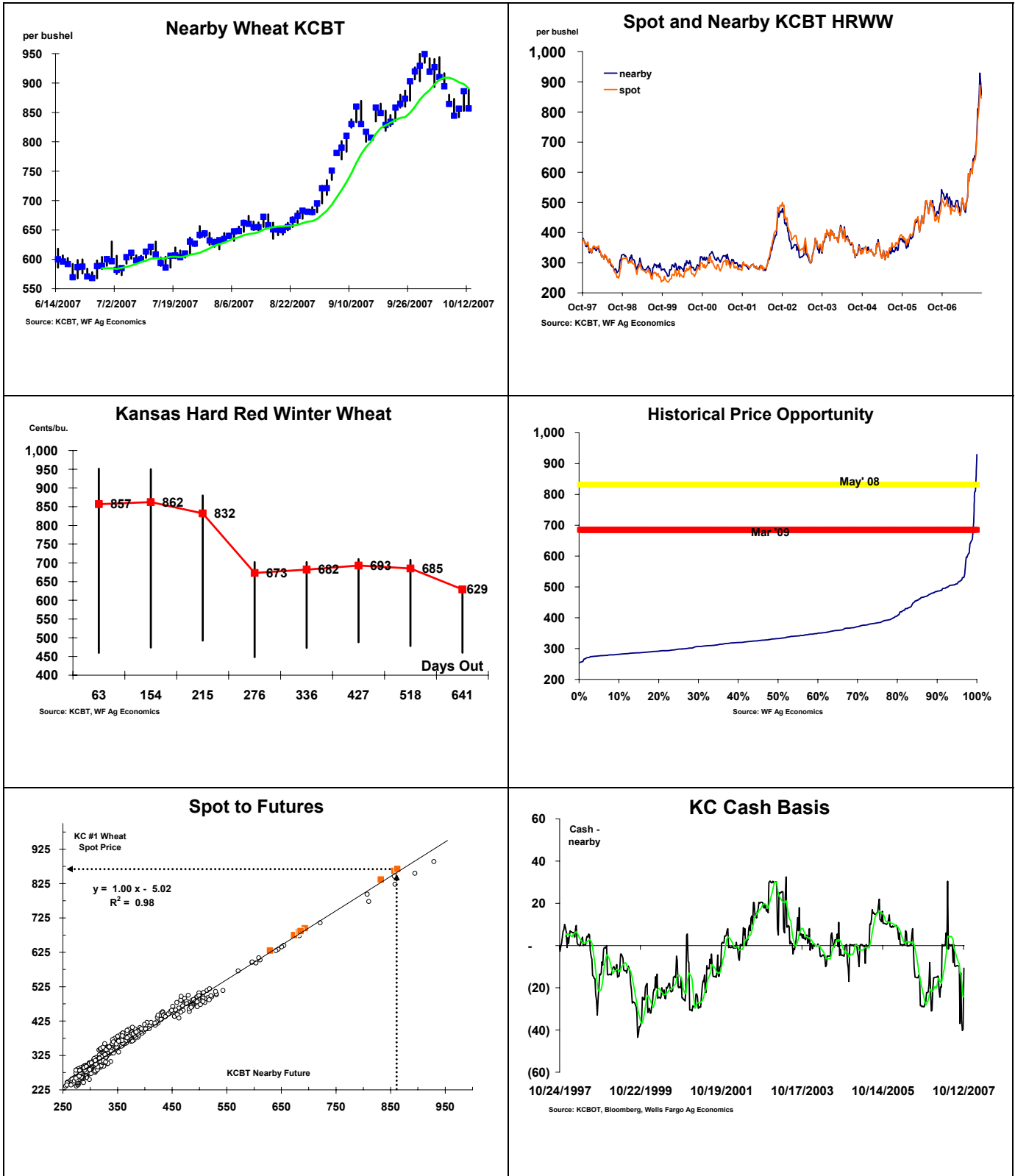
2007/08 Crop Year Millions MTs

17%

Agricultural Cash Prices Forecast

Wheat - #2 Kansas City Spot Price

October 07



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Agricultural Cash Prices Forecast
#1 Yellow Soybean, Central Illinois Spot
October 07

Overview: The USDA estimates basically stayed the same for the domestic supply and demand. Global estimates only edged slightly higher for carry-out stocks. The same analysis applies in the soybean market as the wheat market.

Don't believe that higher prices will somehow stimulate greater demand. There might be some volatility in global sourcing, but that involves a different issue. Brazil has shown time and time again that it stands ready to bring additional acreage into play when prices make it worthwhile. Brazil expanded its production of soybeans by 91% over the last decade with more acres and better yields. That expansion is not done.

Obviously, the hopes of higher prices rest on China's huge demand increases. In the last decade, China has tripled its usage of soybeans. They have tripled in part because Brazil was there with reasonably priced soybeans to buy.

The rate of Brazil's expansion and China's demand growth will be linked very closely. The US's role will be to help smooth out the expansion kinks. This is one of those years like 2004 where the US gets paid for having the beans when nobody else does. And, just like 2004, it won't last too long.

If I was not so bearish on ethanol's spread to gasoline, I could be more bullish on the amount of time it will take to recover the soybean stocks. Unfortunately, until the energy market shows some stability around that spread, the soybean and wheat markets will gyrate with it.

Expected Price Range (next 12 months): CBOT Futures **\$7.35 to \$11.05 per bushel**
NASS Cash **\$6.94 to \$9.75 per bushel**

Higher Prices

- A relatively weak dollar continues to support exports
- Domestic stocks-to-usage at 7%

Lower Prices

- Relatively high global stocks-to-usage at 22%
- Brazilian production growth

US Supply and Demand Estimates

Soybeans	September	October	Change	
Beginning stocks:	0.56	0.57	0.02	
Production	2.62	2.60	(0.02)	
Imports	0.00	0.00	-	
Total supply	3.18	3.18	(0.00)	
Domestic use	1.99	1.99	(0.00)	
Exports	0.98	0.98	-	
Total use	2.96	2.96	(0.00)	
Ending stocks	0.21	0.21	(0.00)	7%

2007/08 Crop Year Billions of Bushels

Global Supply and Demand Estimates

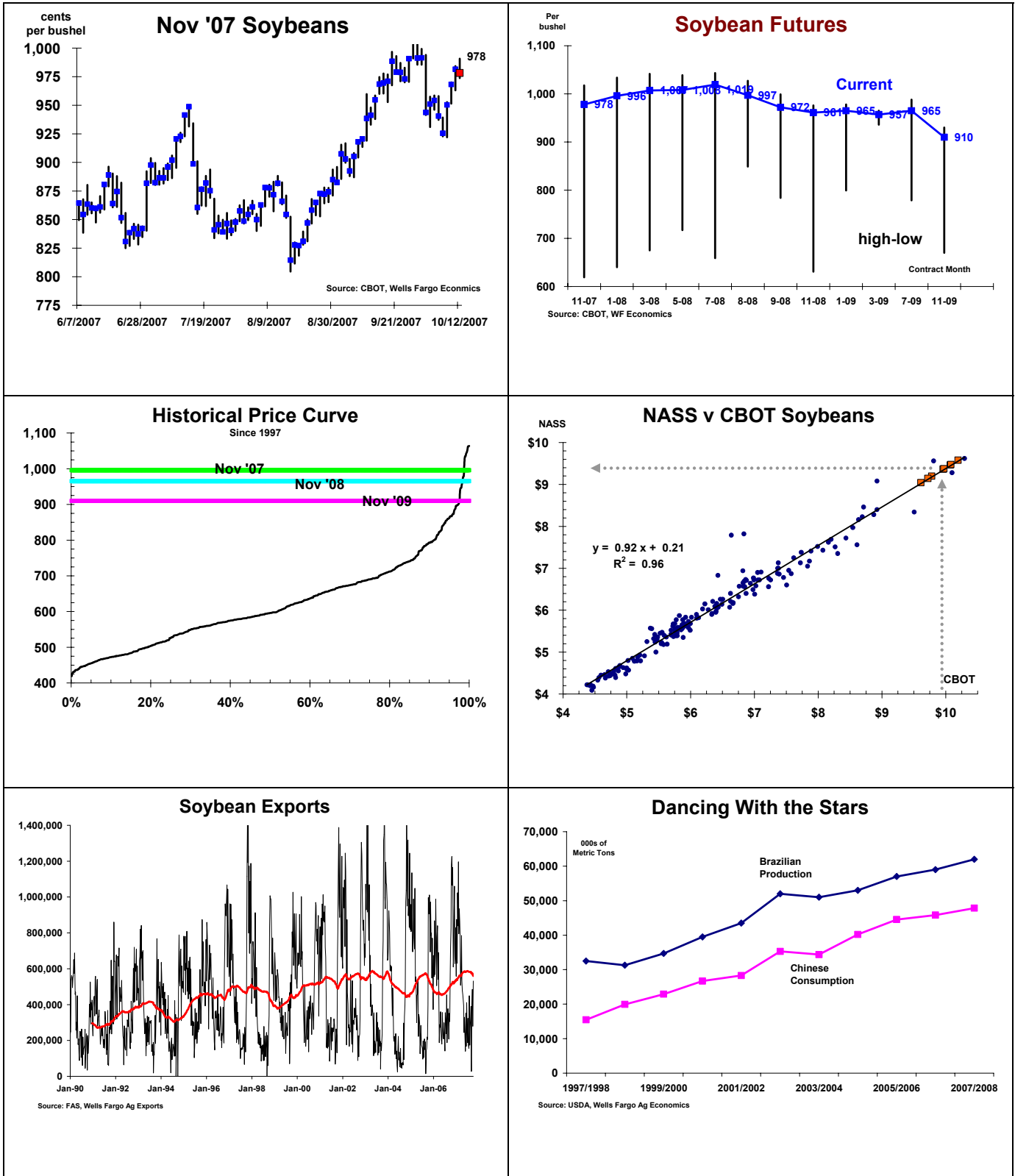
Soybeans	September	October	Change	
Beginning stocks:	63.1	62.9	(0.1)	
Production	221.3	221.0	(0.3)	
Imports	74.0	75.0	1.0	
Total supply	284.3	283.9	(0.4)	
Global use	233.9	233.3	(0.7)	
Exports	75.0	74.9	(0.1)	
Total use	233.9	233.3	(0.7)	
Ending stocks	50.4	50.8	0.4	22%

2007/08 Crop Year Millions MTs

Agricultural Cash Prices Forecast

#1 Yellow Soybean, Central Illinois Spot

October 07



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Agricultural Cash Prices Forecast
#2 Yellow Corn, Central Illinois Spot
October 07

Overview: Do the math. To produce a billion bushels of corn at 157 bushels per acre yield and a 92% harvest to plant ratio, you need 6.9 million acres. If you plant 82 million acres, you should produce 11.9 billion bushels of corn, meeting all the current needs. This still leaves you with heavy carry-out stocks.

In my analysis, the carry-out stocks are even heavier than the market assumes because of co-products. Year-to-date exports through August have declined by 30% from a year ago. Corn byproduct shipments have been 1.6 million metric tons in 2007 versus 2.3 million metric tons in 2006 for the same period. With greater ethanol production, the domestic market must be picking up the difference.

This differential accounts for the higher than expected stocks of corn as byproducts have displaced corn as a feed input. This dynamic seems to be getting greater, not smaller, as we build out ethanol plants.

If the planted corn acres decline from 93 million to 80 million, fertilizer demand will adjust accordingly. Nitrogen fertilizer imports through August are up 23% versus the same period in 2006. Less demand and more supply should cause prices to fall. The fly in the ointment is how low fertilizer stocks are.

If fertilizer stocks need to be replenished, fertilizer prices won't drop as far as my scenario might suggest.

Expected Price Range (next 12 months): CBOT Futures **\$2.80 to \$4.20 a bushel**
NASS Cash **\$2.45 to \$4.05 a bushel**

Higher Prices

- Any negative supply shock to oil
- Possible weather setbacks in the 2007 crop

Lower Prices

- Massive acreage gains
- Exports and feeding usage depressed by higher prices

US Supply and Demand Estimates

Corn	September	October	Change
Beginning stocks:	1.1	1.3	0.16
Production	13.3	13.3	0.01
Co-products	1.0	1.0	(0.03)
Imports	0.0	0.0	-
Total supply	15.5	15.6	0.14
Feed	5.9	5.7	(0.15)
Ethanol	3.3	3.2	(0.10)
Other	1.4	1.4	-
Exports	2.3	2.4	0.10
Total use	12.8	12.6	(0.15)
Ending stocks	2.68	2.97	0.29 23%

2007/08 Crop Year Billions of Bushels

Global Supply and Demand Estimates

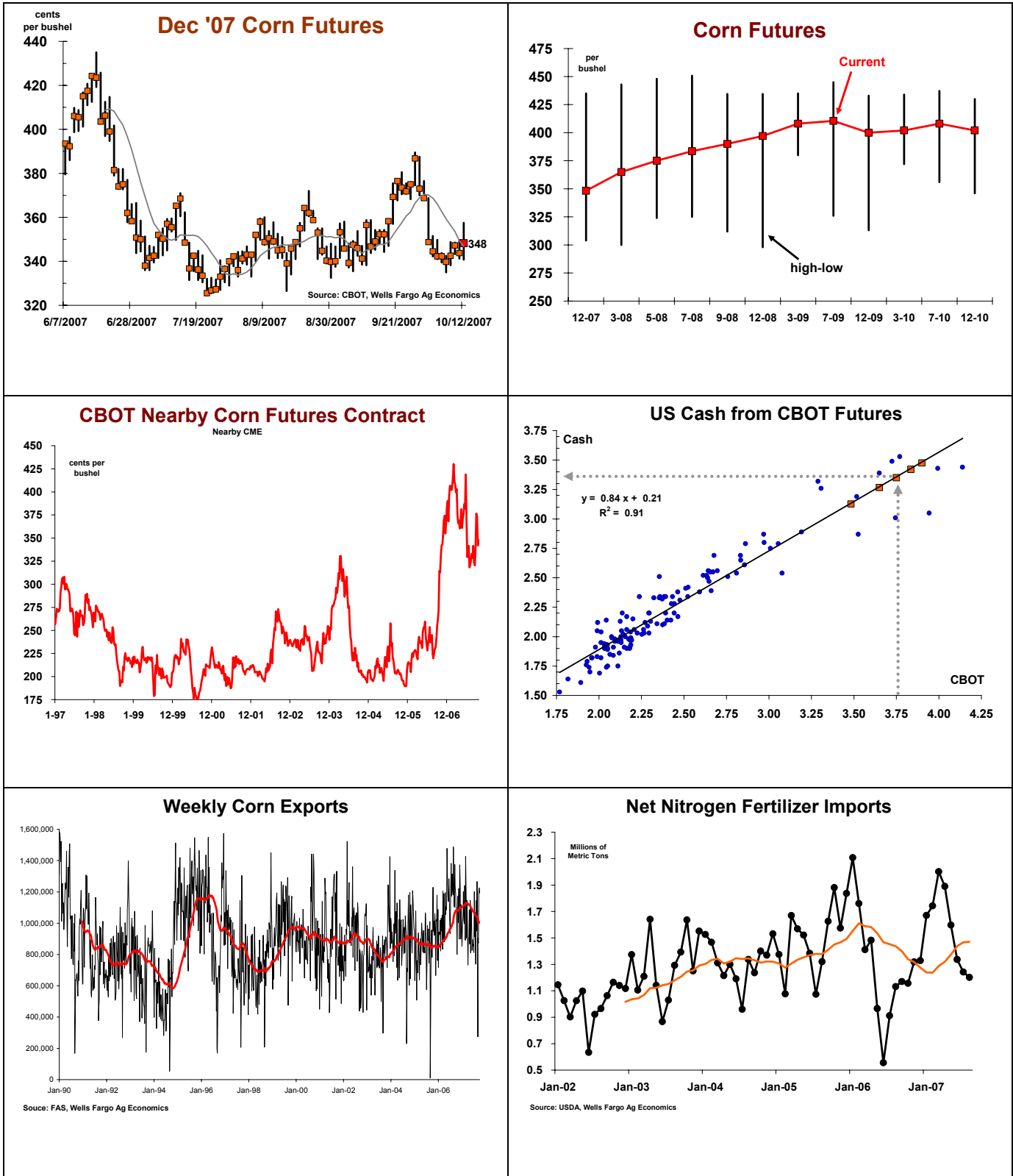
Coarse Grains	September	October	Change
Beginning stocks:	131	135	4.0
Production	1,062	1,053	(8.5)
Imports	113	115	2.4
Total supply	1,193	1,188	(4.5)
Usage	1,060	1,053	(7.6)
Exports	112	115	2.6
Total use	1,060	1,053	(7.6)
Ending stocks	132	135	3.1 13%

2007/08 Crop Year Millions MTs

Agricultural Cash Prices Forecast

#2 Yellow Corn, Central Illinois Spot

October 07



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Agricultural Cash Prices Forecast
National Spot Price for Middling Cotton
October 07

Overview: The cotton market remains relatively bullish in the face of heavy cotton stocks domestically and globally. The October WASDE report gave and took. It reduced starting stocks by 200 thousand bales, and it increased production by 300 thousand bales. With demand unchanged, ending stocks edged up 100 thousand bales.

This leaves domestic and global stocks-to-usage ratios at 30% and 32% respectively. These are hardly shortage numbers. Even so, the futures market continues to offer 67 to 77 cents a pound for March 2008 to July of 2009. On a historical basis, these future prices imply cash prices nationally from 61 to 70 cents a pound.

Compared to the last ten years, these are relatively attractive market prices. Obviously, without the additional support payment, cotton profitability gets hit hard. And, the future of cotton payments continues to get cloudier with the ongoing WTO tussle between the US and Brazil.

Producers should be aggressive in current and future sales given the high stocks and high prices situation. Markets don't offer high prices typically when they have plenty of product available. This makes sense only if the supply growth shrinks noticeably in the next year.

Expected Price Range (next 12 months): NYBOT Futures \$0.54 to \$0.72 per lb.
NASS Cash \$0.48 to \$0.70 per lb.

Higher Prices

- Weaker US dollar versus Chinese currency

Lower Prices

- Modest domestic usage
- Modest exports
- Heavy stocks on hand both domestically and internationally

US Supply and Demand Estimates

Cotton	September	October	Change	
Beginning stocks:	9.7	9.5	(0.2)	
Production	17.8	18.2	0.3	
Imports	0.0	0.0	-	
Total supply	27.5	27.6	0.1	
Domestic use	4.6	4.6	-	
Exports	16.7	16.7	-	
Total use	21.3	21.3	-	
Ending stocks	6.2	6.3	0.1	30%

2007/08 Crop Year Millions of Bales

Global Supply and Demand Estimates

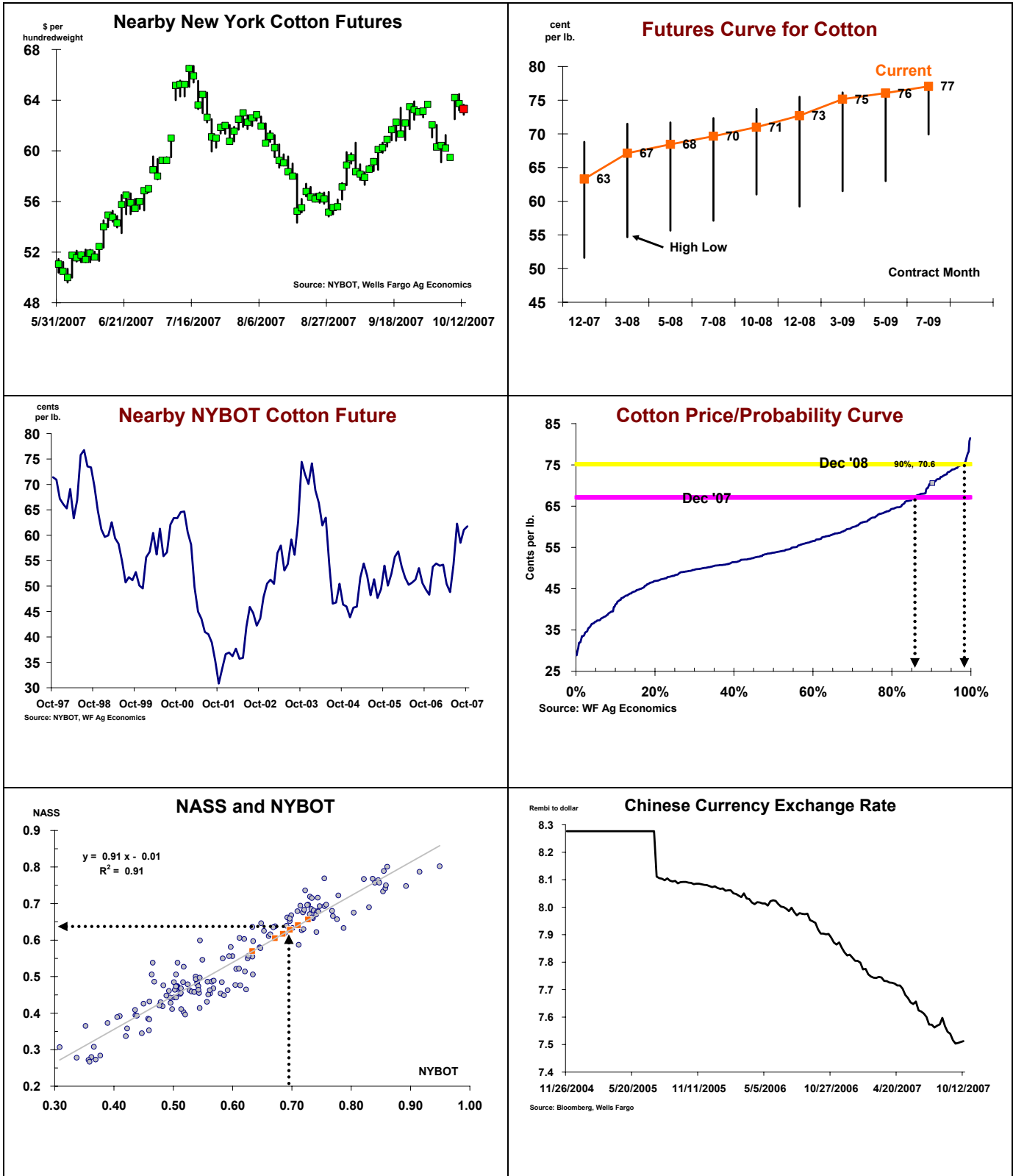
Cotton	September	October	Change	
Beginning stocks:	56.8	60.3	3.5	
Production	117.2	120.3	3.1	
Imports	40.1	40.6	0.5	
Total supply	174.0	180.6	6.6	
Total usage	127.8	129.5	1.7	
Exports	39.7	40.3	0.5	
Total use	167.5	169.8	2.3	
Ending stocks	51.6	55.0	3.5	32%

2007/08 Crop Year Millions of Bales

Agricultural Cash Prices Forecast

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October 07



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