



Louisiana Food and Fiber Industry Monitor

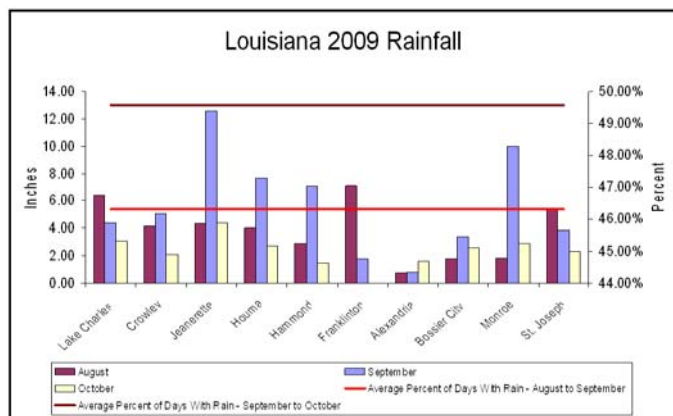
Kurt Guidry
Department of Agricultural Economics and Agribusiness



Current Production Situation

Producers continue to be busy with harvest. For some crops, producers are putting the finishing touches on the 2009 year while for others; harvest has just started or is in the heart of the harvest season. Producers also have begun to making preparations for planting of fall planted crops such as winter wheat and ryegrass.

Just at the time of year in which most producers hope for dry conditions, the month of September brought large rainfall totals for much of the state. These rains have created harvest delays for most crops in the state as both the amounts and frequency of the rains kept producers out of the fields. Across the state during August and September, it rained slightly over 46 percent of those days. During September and the first week of October, it rained for roughly 50% of the days. So, for about the last two months, it has rained 1 out of every 2 to 3 days.



Source: LSU AgCenter, Louisiana Agrilimatic Information

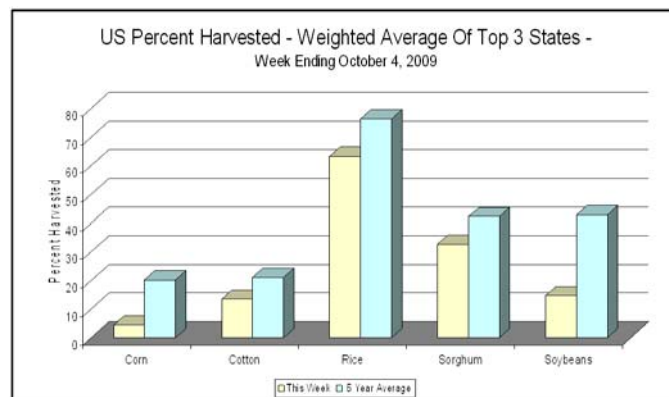
This persistent rainfall has started to cause some real concern throughout the state in terms of quantity and quality damage associated with delayed harvest. The latest crop progress report for the state shows that both cotton and soybean harvest are significantly behind both last year's pace and the 5 year average. Sweet potato harvest has started in the state and is also off to a slower-than-normal start due to harvest delays. For all of these commodities, continued weather delays would likely only add to the concern and would likely begin to result in fairly significant quantity and, particularly, quality reductions.

Table 1. Louisiana Crop Development

	05-Oct-09	Previous Week	Previous Year	5 Year Average
Corn - % Harvested	100	99	100	100
Cotton - % Bolls Opening	92	89	100	98
Cotton - % Harvested	17	5	43	45
Pecans - % Harvested	3	1	0	3
Rice - % Harvested	94	88	94	97
Soybeans - % Dropping Leaves	86	78	88	91
Soybeans - % Harvested	58	50	68	74
Sorghum - % Harvested	98	97	97	99
Sweet Potatoes - % Harvested	22	19	27	37
Sugarcane - % Planted	95	90	71	92
Sugarcane - % Harvested	1	0	1	2

Source: USDA, National Agricultural Statistics Service

Slower-than-normal harvest progression is also being experienced for many crops across the United States. Cotton and rice harvest has been slowed due to wet conditions while corn and soybean harvest has been delayed due to later-than-normal crop development stemming from planting delays this spring. Examining the top 3 states, in terms of planted acreage, harvest progression is significantly behind the 5 year average pace for both corn and soybeans.

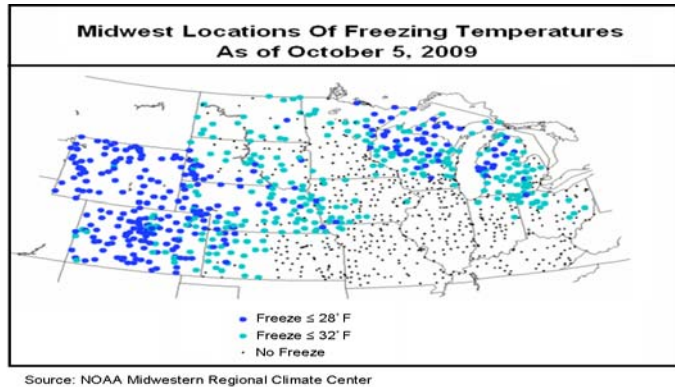


Source: USDA, National Agricultural Statistics Service

As mentioned before, the delayed harvest brings real concerns for increased potential for late season weather difficulties. In particular, the concern over the increased potential for frost/freeze damage to later harvested corn and soybean crops has likely helped provide some risk premium to these markets over the last several weeks and may have provided to spillover impact to other commodities.

While this concern over the potential for crop damage has definitely been a factor in the market, it has yet been able to generate any significant price improvement. One reason for this has been the lack of a major frost/freeze threat for the Midwest. In fact, freezing temperatures in the Midwest have been fairly limited to this point. The other reason for the lack of

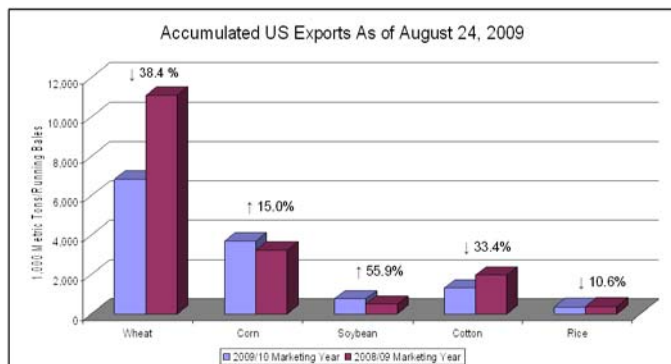
price impact has been that crop conditions for both corn and soybeans are currently some of the highest ratings experienced over the past several years. So, despite the freeze threat, the strength of the crops continues to point to fairly large production levels.



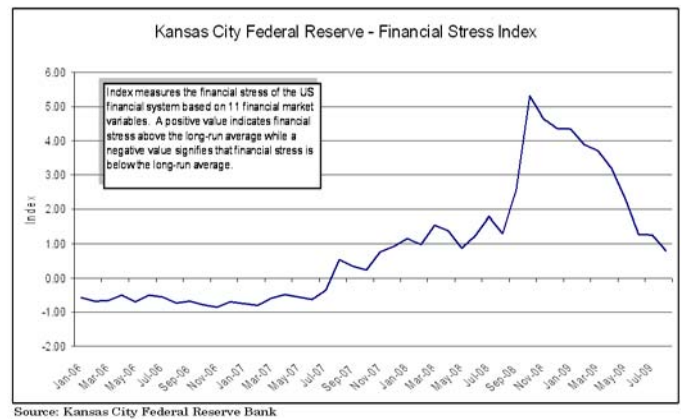
Current Price Situation

The inability of the market to create any significant price movement despite the freeze concern appears to be a sign that the market has already penciled in large supply numbers for the 2009/10 marketing year for soybeans and corn. For rice and cotton, however, there is some speculation that there could be relatively significant reductions in production levels as persistent rains in Arkansas and parts of Texas is believed to have caused yield reductions.

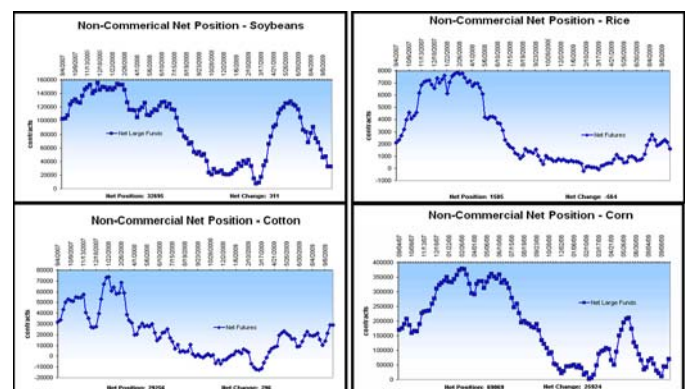
While the uncertainty surrounding 2009 production could still provide some surprises, it appears that sufficient supplies will exist for most commodities and that more emphasis will be placed on the demand side for price direction. For most commodities, export demand is a critical component to total demand and use. Export demand through this point in the marketing year has been a mixed bag depending on the commodity of interest. Export demand for both corn and soybeans has been strong to this point in the marketing year. Soybeans, in particular, continue to experience very strong demand primarily from China. Unfortunately, for other crops such as wheat, rice, and cotton, export demand continues to be a large reason for a lack of price improvement.



The outlook for export demand will likely be formed by the rate of the economic turnaround and its impact on the strength of the US dollar. As signs continue to point to an improving economy, hopefully, it also points to an improving demand base for agricultural commodities. Another factor tied to the improvement of the economy and financial markets is the potential return of the type of investment in the commodity markets that generated the historical prices experienced in 2008. One measure of the strength of the financial markets in the United States is the financial market stress index calculated by the Kansas City Federal Reserve. This index relates the performance of the financial markets to a long-term average. As the index falls, it is an indication of reduced stress or, conversely, improved strength of the financial markets. The index continued to improve during the September 2009 estimates and is the lowest since October 2008.



As financial markets continue to improve, there is a hope that there will be increased interest in the commodity markets by the non-commercial speculative traders. The large net long position of the non-commercial traders in all of the commodity markets in 2007 and the first half of 2008 was a major factor in the historical price levels experienced. The ability of these markets to return, even close to, those types of levels will likely require a return of the non-commercials to levels approaching those prior to the economic collapse.



Currently, futures prices for most agricultural commodities remain in a mostly sideways trading pattern (See Table 2). Concerns over late season weather difficulties have likely helped support some of these markets from their normal seasonal downturn into harvest. However, once the true sizes of these crops are known, it will be the ability of demand that will likely determine the type of post harvest rally the markets will experience. For most of these crops, recent history would suggest that prices strengthen in the fall and winter as the market focuses on attempting to capture or retain acres. That will likely continue to be the trend particularly if signs of improving economics continue to exist. For the livestock sector, lower grain prices in 2009 have helped to stabilize the financial condition. However, livestock prices are at considerably discounted levels to year ago levels and look to remain at lower levels as total meat supplies continue to be ample and demand continues to struggle.

Table 2. Closing Futures Prices – October 6, 2009

Commodity	Unit	Contract Month	Closing Price		
			08/27/09	Previous Week	Previous Year
Corn	Bushel	Dec 09	\$3.58	\$3.41	\$4.24
Soybeans	Bushel	Nov 09	\$9.10	\$9.17	\$9.22
Wheat	Bushel	July 10	\$5.04	\$4.96	\$6.42
Cotton	Pound	Dec 09	\$0.6298	\$0.6145	\$0.5441
Rice	Cwt	Nov 09	\$13.15	\$13.31	\$17.64
Sugar (World Price)	Cwt	Jan 10	\$23.43	\$24.42	\$12.74
Fed Cattle	Cwt	Dec 09	\$83.55	\$85.60	\$94.78
Feeder Cattle	Cwt	Nov 09	\$92.75	\$95.78	\$97.80
Class III Milk	Cwt	Nov 09	\$14.21	\$13.56	\$15.35
Crude Oil	Barrell	Nov 09	\$70.88	\$66.71	\$87.81
Natural Gas	1,000 Cu Ft	Nov 09	\$4.88	\$4.88	\$6.84

Source: DTN, AgDayta Online

One last mention regarding prices is the fact that for many commodities there has been significant improvement in basis levels. For corn, sorghum and soybeans, current basis levels for nearby delivery are substantially improved from the same time last year. Much of this is attributable to lower futures prices that more closely reflect supply and demand conditions versus the futures prices seen last year that were inflated by non-commercial activity in the markets. Basis levels would be expected to remain relatively strong for corn and soybeans as long as export demand continues to perform as well as they have thus far in the marketing year. Wheat basis levels are expected to remain at below historical levels given the recent struggles in export demand.

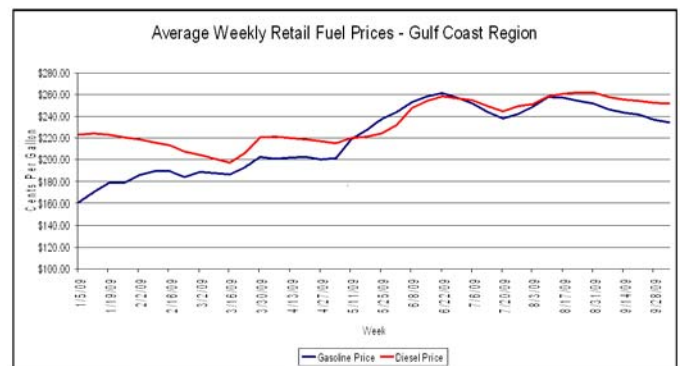
Table 3. Average Statewide Basis Bids For Nearby Delivery, Selected Commodities

Commodity	5-Oct-09	8-Oct-08
	Dollars/Bushel	Dollars/Bushel
Corn	-\$0.23	-\$0.58
Grain Sorghum	-\$0.39	-\$1.71
Soybeans	-\$0.04	-\$1.45
Wheat	-\$1.66	-\$2.37

Source: DTN, AgDayta Online

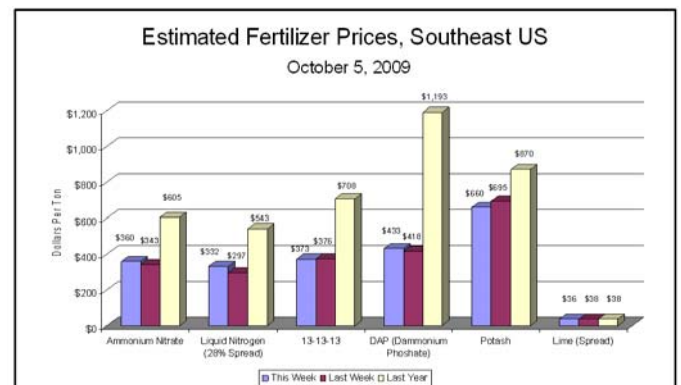
Current Input Price Situation

Prices for fuel and fertilizer continue to be at discount levels to those experienced last year. Retail diesel prices were down slightly this week from the previous week and continue a trend of sideways to slightly lower prices. Long term outlook for diesel prices obviously are highly influenced by projections for crude oil prices. While crude oil prices have generally traded in a range from \$65 to \$75 per barrel over the last few months, examining crude oil contracts into 2010 and 2011 indicate an expectation of a slight price increase to the high \$70's to Low \$80's. Also, as the economy continues to move on a path of recovery, it would be expected that demand for energy and other production inputs would increase which could result in higher prices.



Source: Dept of Energy, Energy Information Agency

As with fuel prices, fertilizer prices are significantly lower than last year. The reduction in fertilizer costs has been partially due to a reduction in natural gas prices as well as less favorable supply and demand conditions for the fertilizer industry. This has left prices at much more manageable levels for producers. However, for the first time in the last two months, there was slight increase in fertilizer prices in the current week from the previous week. Rather than being a sign of a fundamental increase in fertilizer prices, this is more likely a sign of increased demand heading into planting of winter wheat, winter forages and other fall planted commodities.



Source: USDA, Agricultural Marketing Service