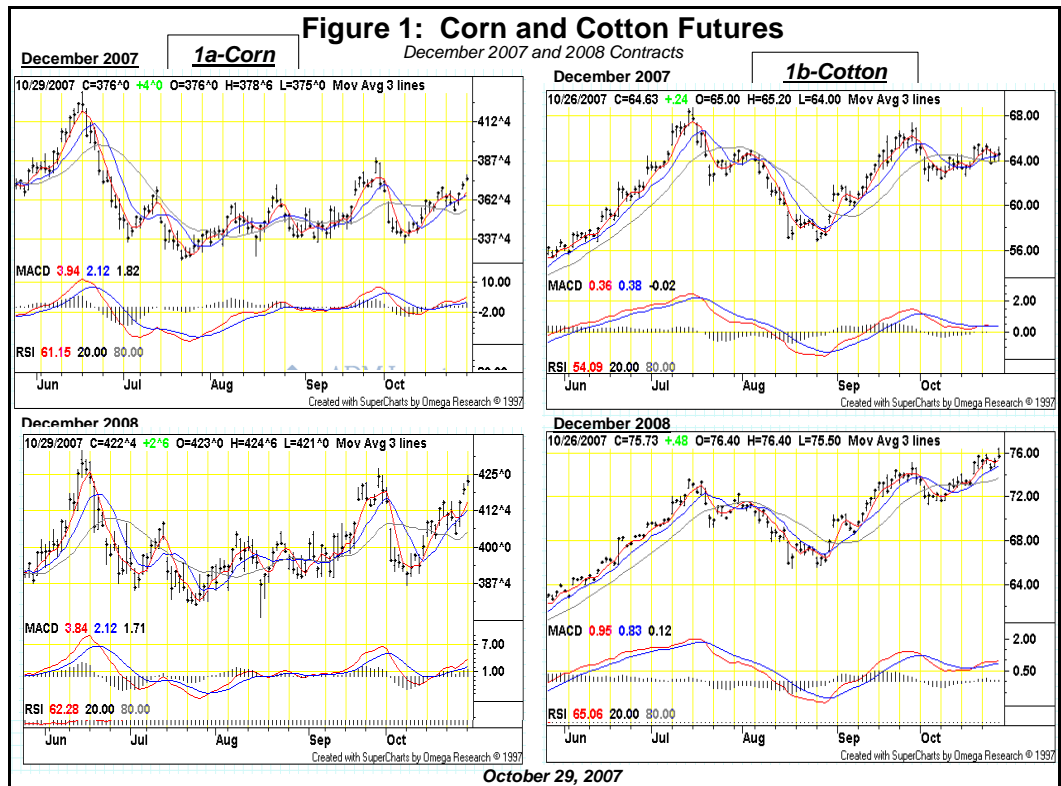


Corn, Soybeans and Cotton Market Showing Strength After Recent Weakness Corn Production Up 26%, Cotton Down 16%

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The corn, soybean and cotton market rallied recently after early October '07 weakness, providing excellent pricing opportunities as producers start to firm-up planting intentions for 2008. Record high crude oil prices are fueling the market. December '07 corn futures contract closed at \$3.76/bu in the Chicago Board of Trade (CBOT) on Monday (10/29/07) after dropping to about \$3.40/bu in early October. December '08 and December '09 contracts were trading at about \$4.23/bu. (See Figure 1a). Futures price bids for soybeans followed similar trends with most '07 and '08 contract trading above \$10/bu on the CBOT.

With corn closely tied to ethanol, record high prices for crude oil are helping to prop up the corn and soybean markets. And, while supply/demand fundamentals do not appear to support a major cotton market rally, it appears the recent improvement in the cotton market is associated with market spill-over from record high energy prices. December '07 and December '08 futures contracts for cotton on the New York Cotton Exchange (NYCE) were trading at about 65 and 76 cents, respectively on Monday (10/29/07). (See Figure 1b).



Corn

USDA's October 12, 2007 corn production forecast for the 2007/08 season at a record 13.318 billion bushels was up just 10 million bushels from last month's estimate, but up 2.783 billion bushels (up 26.4 percent) from 10.535 billion bushels produced last year. USDA's October 12, 2007 report surprised the market. Trade was expecting USDA to raise production by at least 100 million bushels. USDA instead, dropped national average corn yields by about one bu/ac to 154.7 bu/ac and raised the estimated planted and harvested acres by 700,000 acres, for a net effect of increasing the production estimate by only 10 million bushels..

Meanwhile, the corn crop continues to make excellent progress with 73 percent of the crop harvested as of October 28, 2007 compared to a five year average of 69 percent. Trade still expects a higher production estimate in November, but prices should remain strong as world production is down and the estimate of U.S. exports is up.

The estimate of feed/residual use was dropped by 150 million bushels and the estimate of corn used for ethanol production was dropped by 100 million bushels for a net decrease in domestic use of 250 million bushels. Exports were increased by 100 million bushels to 2.35 billion bushels, the highest in 18 years. Production will exceed use by 678 million bushels and the estimate of ending stocks was raised by about 322 million bushels to 1.997 billion bushels from last month's estimate. Ending stocks remain at a relatively manageable 15.8 percent stocks-to-use ratio. (See Table 1).

Globally, coarse grain imports and exports were increased as reductions in foreign production were off-set by a higher estimate U.S. exports. World imports were raised 2.5 million tons with the largest increase for EU-27 as tighter wheat supplies were boosting coarse grain feeding and imports.

The season-average price received by farmers was projected at \$2.90 to \$3.50 per bushel, up 10 cents on both ends of the range, reflecting continued strong cash prices supported by strong export demand and higher soybean and wheat prices from last month's estimate.

Cotton

The domestic cotton market has been sluggish for several years as a result of large supplies and increased dependence on the export market. Currently, about 92 percent of this year's crop is slated for export markets. The market rallied significantly recently, probably as spill-over from high corn, soybean, wheat and energy prices. With record or near record prices for corn and feed grains there is going to be stiff competition for acreage next year.

Compared to last month, USDA's October 12, 2007 supply/demand report, indicated a lower estimate of beginning stocks, but higher production, resulting in 200,000-bale increase in ending stocks. So, there is ample supplies to meet market demands. The production estimate at 18.15 million bales was up 340,000 bales from last month's projection of 17.81 million bales due mainly to higher estimated production in Texas. Beginning stocks were reduced by 220,000 bales to 9.48 million bales. Domestic mill use and exports remained unchanged from last month. (See Table 1).

Globally, compared to last month, the '07/'08 forecasts include higher production including increases for China, the U.S.,

and Brazil, partially offset by reductions for Iran, Australia, Uzbekistan, and others. World consumption is 1.3 percent higher, as China's consumption for 2007/08 was raised 1.5 million bales to 55.0 million based on Chinese estimates and other evidence of continued strong consumption growth. World ending stocks were raised nearly seven percent from last month or 3.5 million bales, but are still down nine percent from beginning stocks.

Since the current cotton market rally appears fueled by high grain prices and competition for acreage next year, the market appears vulnerable. Producers planning to plant cotton next year should attempt to forward price part or all of their expected production.

Table 1: U.S. Corn and Cotton Supply/Demand

Item	Corn						Cotton					
	2003/04	2004/05	2005/06	2006/07	2007/08 ^{1/}	% CHNG	2003/04	2004/05	2005/06	2006/07	2007/08 ^{1/}	% CHNG
Planted Acreage	78.60	80.93	81.80	78.30	93.60	19.5%	13.48	13.66	14.25	15.27	10.85	-28.9%
Harvested Acreage	70.94	73.63	75.10	70.60	86.10	22.0%	12.00	13.05	13.80	12.73	10.54	-17.2%
Yield ^{2/}	142.20	160.36	148.00	149.10	154.70	3.8%	729.94	855.00	831.00	814.00	826.00	1.5%
Supply	----- Million Bushels -----						----- Million Bales -----					
Beginning Stks.	1,087	958	2,114	1,967	1,304	-33.7%	5.39	3.45	5.50	6.05	9.48	56.7%
Production	10,089	11,807	11,114	10,535	13,318	26.4%	18.26	23.25	23.89	21.59	18.15	-15.9%
Imports	14	11	9	12	15	25.0%	0.05	0.03	0.03	0.02	0.02	0.0%
Total Supply	11,190	12,776	13,237	12,514	14,637	17.0%	23.70	26.73	29.42	27.66	27.65	0.0%
Disappearance												
Feed and Residual	5,795	6,158	6,155	5,600	5,700	1.8%						
Food, Seed, & Industrial	2,537	2,686	2,981	3,486	4,590	31.7%						
Total Domestic Use	8,332	8,844	9,136	9,086	10,290	13.3%	6.27	6.69	5.87	4.95	4.60	-7.1%
Exports	1,900	1,818	2,134	2,125	2,350	10.6%	13.76	14.44	18.04	13.00	16.70	28.5%
Total Use	10,232	10,662	11,270	11,211	12,640	12.7%	20.03	21.13	23.91	17.95	21.30	18.7%
Unaccounted							0.21	0.11	-0.55	0.23	-0.05	0.0%
Ending Stks.	958	2,114	1,967	1,304	1,997	53.1%	3.45	5.50	6.05	9.48	6.40	-32.5%
Ending Stks./Use %	9.36	19.83	17.45	11.63	15.80	35.8%	17.22	26.03	25.30	52.81	30.05	-43.1%
Average Farm Price ^{2/}	2.42	2.06	2.00	3.04	3.20	5.3%	61.80	41.60	47.70	47.30	44.90	-5.1%

¹ SOURCE: USDA/NASS/ERS/WASDE October 12, 2007 Supply/Demand Report

² Bushels for corn; pounds for cotton