

**Addressing Cow  
Herd Management  
and Business  
Issues:  
Corn Economy**



60<sup>th</sup> Annual Florida Beef  
Cattle Short Course  
Gainesville, Florida  
May 4-6, 2011

Nevil C. Speer, PhD, MBA  
Western Kentucky University




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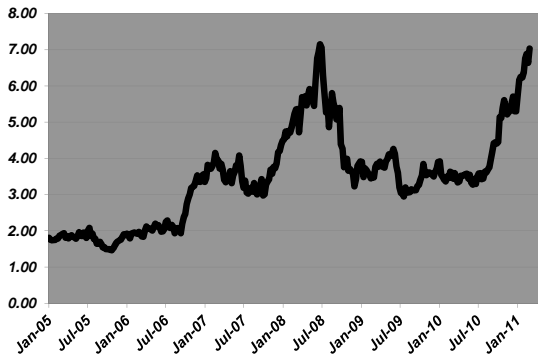
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**Weekly Omaha Corn (\$/cwt)**




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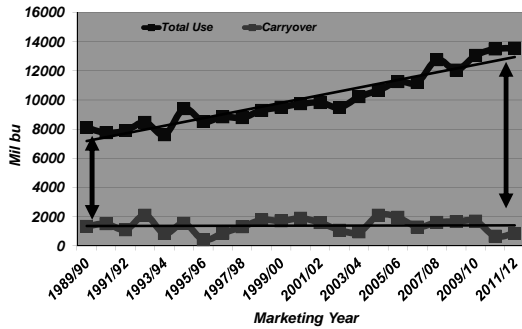
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**Corn: Total Use / Disappearance vs Carryover**  
(Adapted from USDA)




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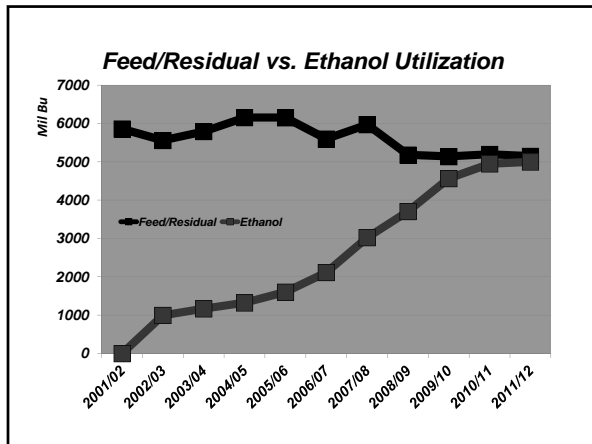
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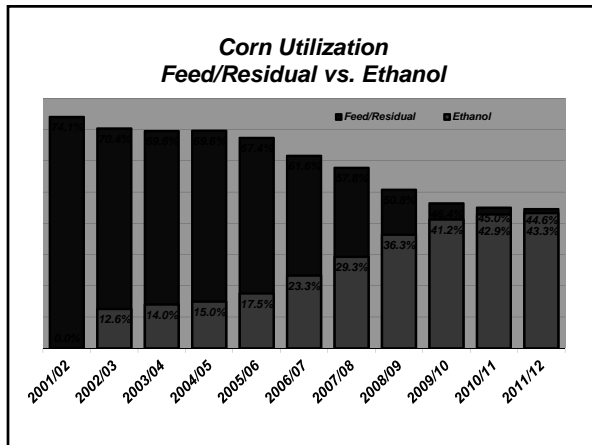
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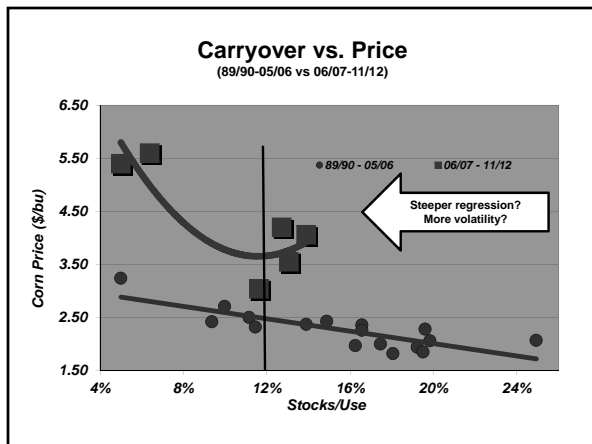
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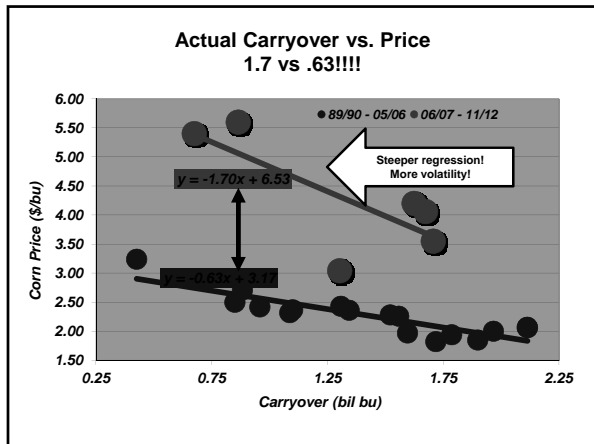
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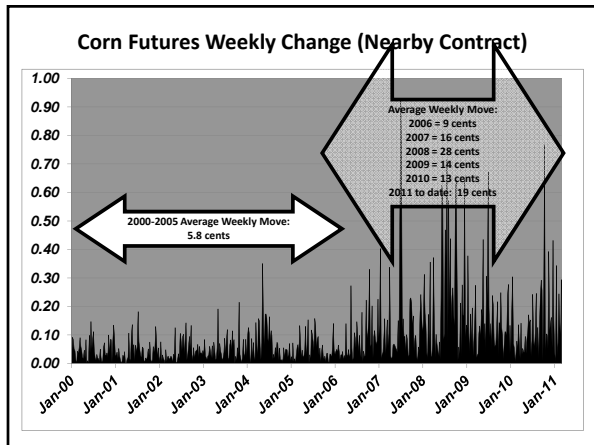
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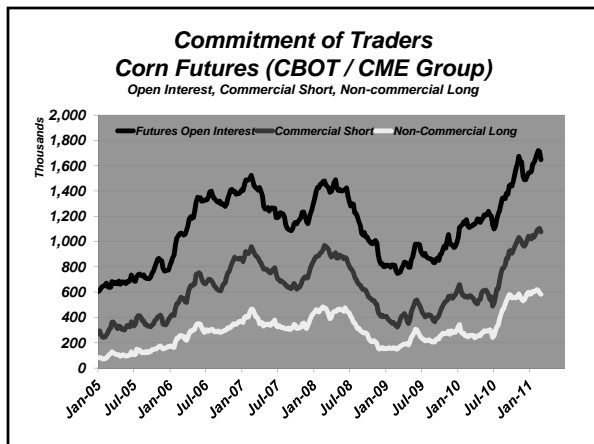
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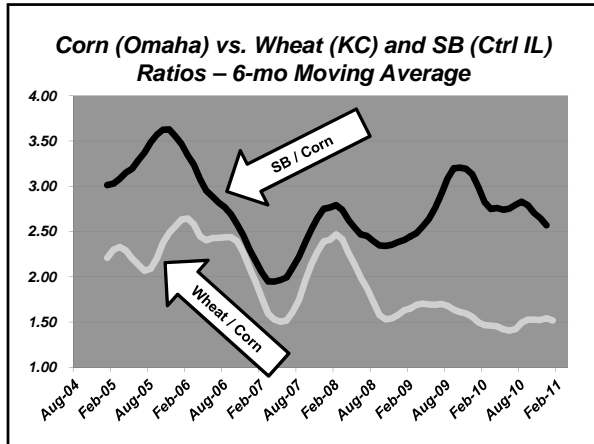
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## CORN: EXPORTS

**Bloomberg**  
**China Corn Imports May Surge, U.S. Grains Council Says**  
 October 05, 2010, 12:37 PM EDT

**IWKU**

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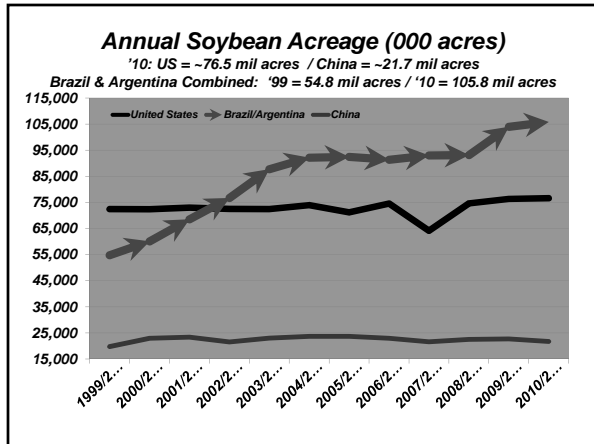
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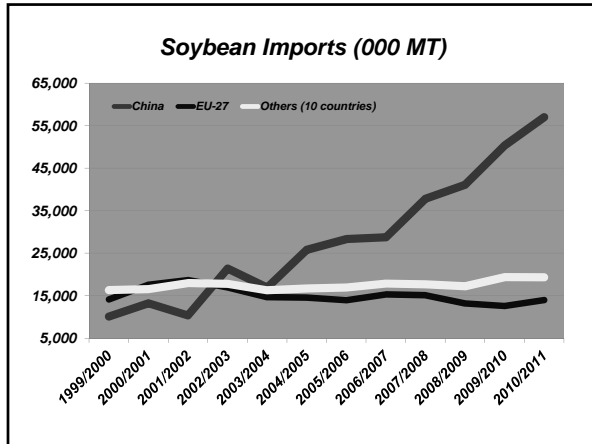
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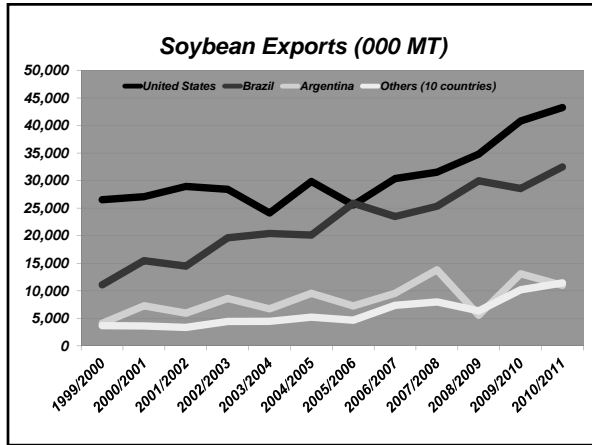
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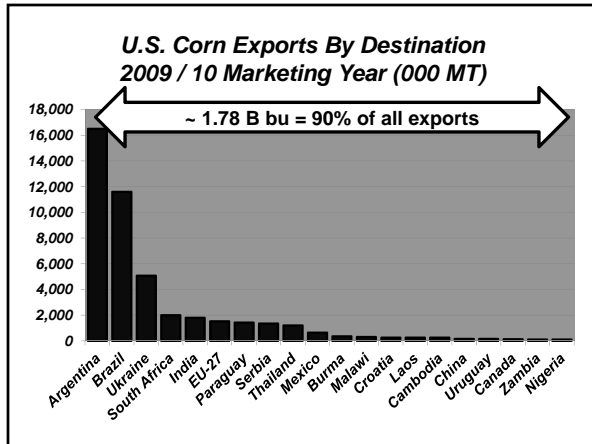
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**World Corn Supply and Use (09/10)**

Million Metric Tons (MMT)	Beginning Stocks	Production	Imports	Domestic Feed 2/	Domestic Total 2/	Exports	Ending Stocks
World 3/	147.82	812.38	89.79	482.7	815.66	<b>96.89</b>	144.54
United States	42.5	332.55	0.21	130.57	281.42	50.46	43.38
Total Foreign	105.32	479.83	89.58	352.12	534.24	<b>46.43</b>	101.16
Major Exporters	5.11	36.22	0.28	9.7	17.3	18.5	5.8
Argentina	0.99	22.8	0.25	5	6.9	16.5	0.64
South Africa	4.11	13.42	0.03	4.7	10.4	2	5.16
Major Importers	18.22	107.06	52.24	112.16	160.36	3.42	13.74
Egypt	1.4	6.82	5.83	10.1	12.5	0.02	1.53
EU-27 6/	6.15	57.15	2.93	45	60	1.52	4.71
Japan	1	0	15.98	11.4	16	0	0.98
Mexico	3.56	20.37	8.3	14.2	30.2	0.64	1.39
Southeast Asia 7/	4	22.61	6.22	20.6	28.6	1.24	2.99
South Korea	1.47	0.08	8.46	6.36	8.41	0	1.59
Selected Other							0
Brazil	12.08	56.1	0.55	40	47	11.6	10.13
Canada	1.83	9.56	2.1	7.65	11.61	0.13	1.76
<b>China</b>	<b>53.17</b>	<b>1.58</b>	<b>1.3</b>	<b>11.2</b>	<b>15.9</b>	<b>0.15</b>	<b>53.31</b>
FSU-12	1.58	18.04	0.23	11.3	12.92	5.6	1.34
Ukraine	0.73	10.5	0.01	4.8	5.5	5.07	0.67

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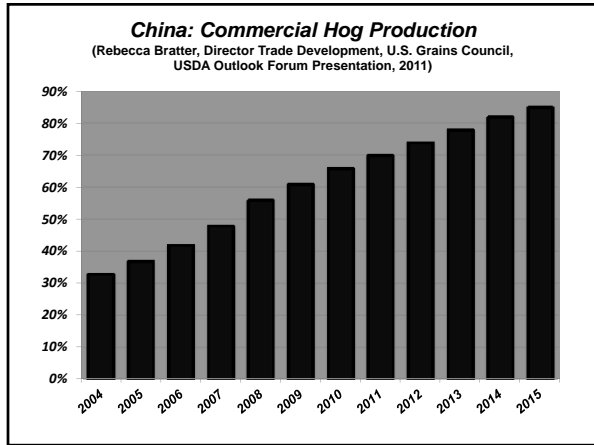
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## THE INFLUENCE OF ETHANOL

10 billion gallons of ethanol production are used to produce renewable energy and help reduce the greenhouse gas footprint.

60 ethanol companies have generated \$1.2 billion in ethanol credit, reducing CO2 emissions by 20 million tons.

Ethanol provides high quality, high octane fuel to improve engine performance and reduce emissions.

**WKU**

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### Ethanol – General Observations

- Profitability / Sustainability

- Mandates
- Corn Price
- Ethanol / Gas Margin
  - 45-cent / gal tax credit
  - Ethanol  $\pi$  up to a 45-cent premium over gas



- 150 B gal annual fuel use
  - E10 represents 15 B gal
  - Nearing blend wall

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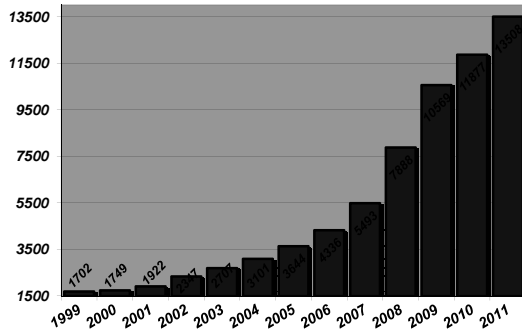
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**Jan. 1 Annual Ethanol Capacity (mil gal)**  
Adapted from Renewable Fuels Association (RFA)




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### Ethanol Plant Alternative Scenarios: Crude, Gasoline and Shutdown Price of Corn

Source: Darrell Good and Scott Irwin, UofI (March, 2011)

Crude Oil Price (\$/bbl)	Wholesale Gasoline Price (\$/gal)	Shutdown Price of Corn for Ethanol Plants (\$/bu)
75	2.00	5.89
95	2.50	7.84
110	3.00	9.78
130	3.50	11.72
150	4.00	13.66

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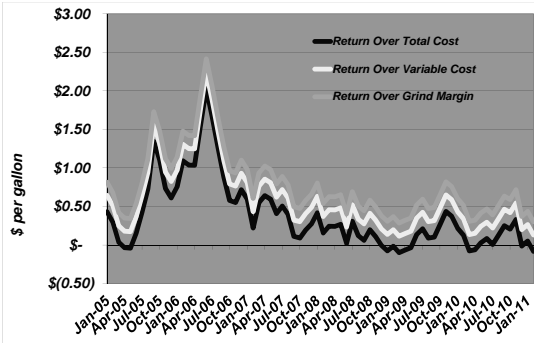
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### Ethanol Profitability

Source: USDA AMS Iowa Ethanol Report, EIA




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### Ethanol Plant Locations (Source: RFA) (Implications for E85)

Biorefinery Locations




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### NEW DYNAMICS




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**Financial Ramifications  
Markets Always Uncertain...  
What's New is Amplified Volatility!**

- 25,000 head feedyard
- Daily corn usage: 7-8,000 bu
- Equivalent to 675,000 quarterly
- Current moving average = 30 cents
- Wrong decision: ~\$200,000+
  - For just one quarter!!!!
  - \$4/head over 2 turns
  - Potentially wipes out annual profit



Purchasing inputs is increasingly time consuming and complex




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**Capital Requirements**

- \$1/bu = ~\$55/head (750-lb yearling)
- 30,000 head feedyard = \$1.65 mil!!!!




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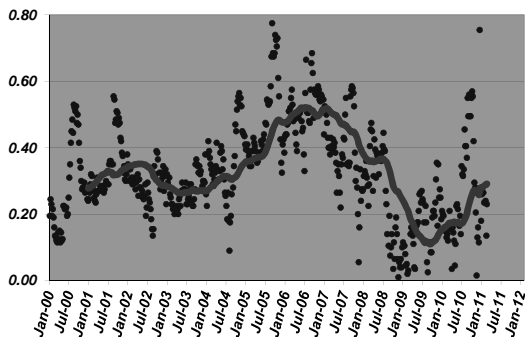
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**Weekly TX Triangle Corn Differential  
(\$/bu: Basis Omaha) 52-week moving average**




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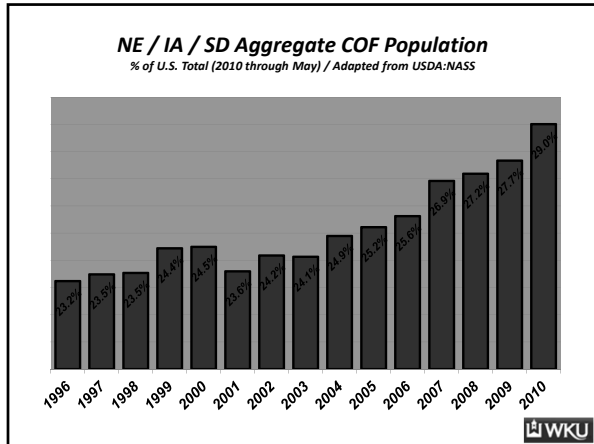
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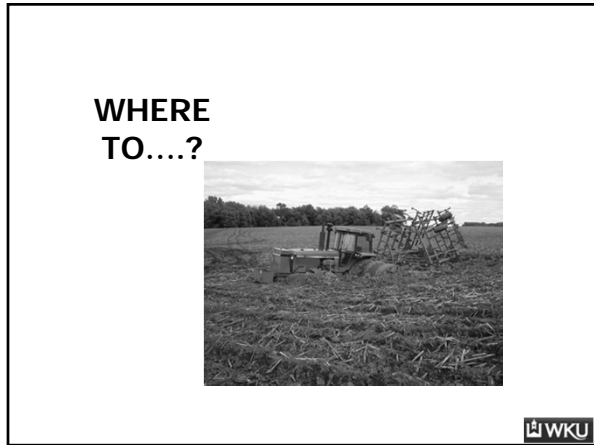
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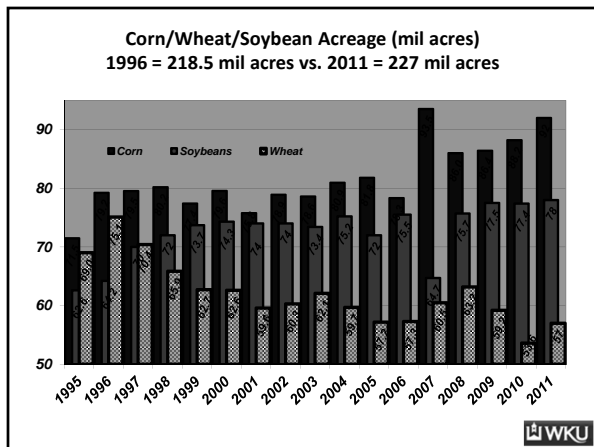
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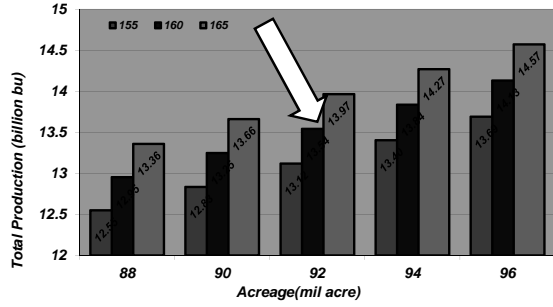
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**Corn Production: Varying Acreage (mil acre) and Yield Estimates (bu/acre) - 92% Harvest**




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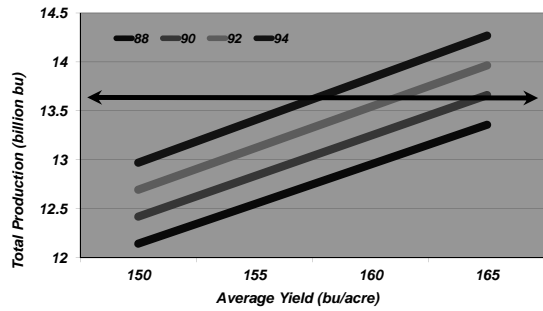
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**Corn Production: Varying Acreage (mil acre) / Yield Estimates (92% Harvest)**  
 USDA Corn Disappearance = 13.56 bil bu




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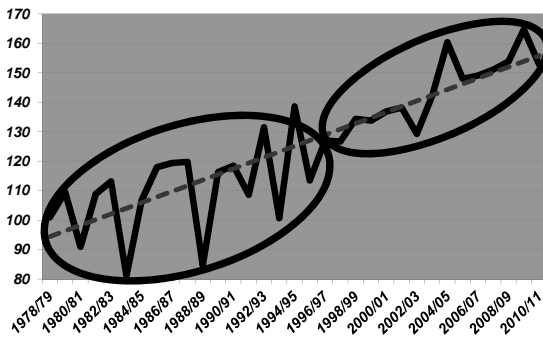
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**Corn Yield Trend (bu/acre)**




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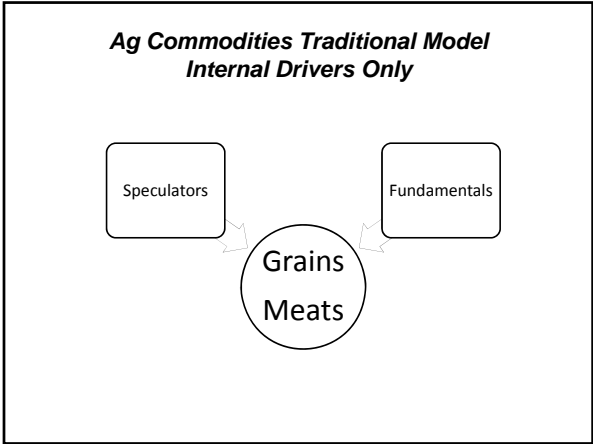
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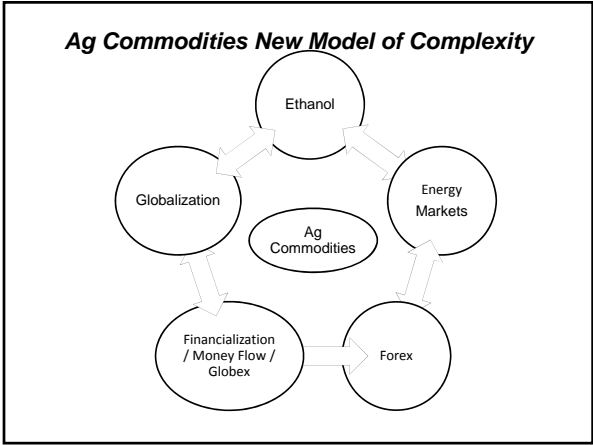
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**Risk =**  
**1. Danger**  
**2. Opportunity**

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## Business Transition: Black Swans

Black Swans Now a Regular Part of Market Landscape

Published: Wednesday, 18 Mar 2010 12:28 PM EDT Test Size

By: Jeff Cox

CMO, Sun Staff Writer

[Facebook](#) [Twitter](#) [LinkedIn](#) [RSS](#)



For global financial markets, once-in-a-lifetime events are happening with such regularity that black swans may as well be white swans.

Such supposedly rare occurrences, brought into the national consciousness largely through Nassim Taleb's 2007 book, "The Black Swan," have dominated the markets for more than a decade.



**"What you really want to plan for are 'what ifs' rather than counting on a linear forecast of what's going to happen."**

Gerald Greenwald, Founding Principal, Greenbriar Equity Group LLC  
Former Chairman and CEO, UAL Corp  
Former Vice-Chairman, Chrysler  
Bloomberg on the Economy; Jan 13, 2009




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## CZ11: March 15-18 Lots of Volatility!!!




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## A Matter Of Perspective: Duck or Rabbit?

- The wrong question:
  - What's the market going to be?
    - Implies single mindset of being price taker
    - Myopic: doing what we've always done
- The right question:
  - What's the business environment telling us?
  - How will we construct our marketing and management decisions around those signals?
  - Where do new opportunities lie?

Famous Optical Illusions



More Optical Illusions




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**Always remember, it's the worry you  
haven't even thought to worry about  
that should worry you the most!**

*Clarice Bean, Don't Look Now (Lauren Child)*



WKU

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