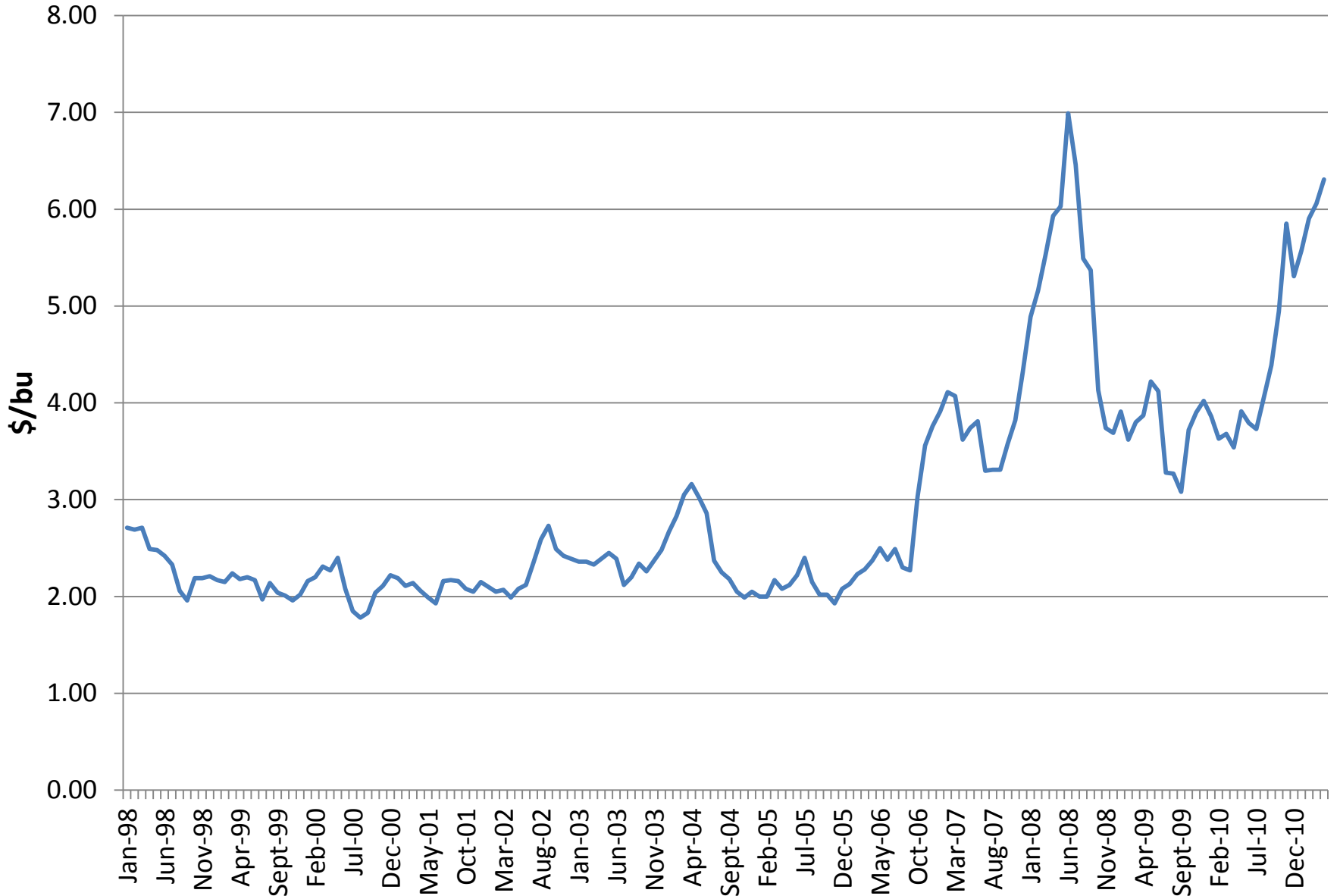


Feed Price Outlook

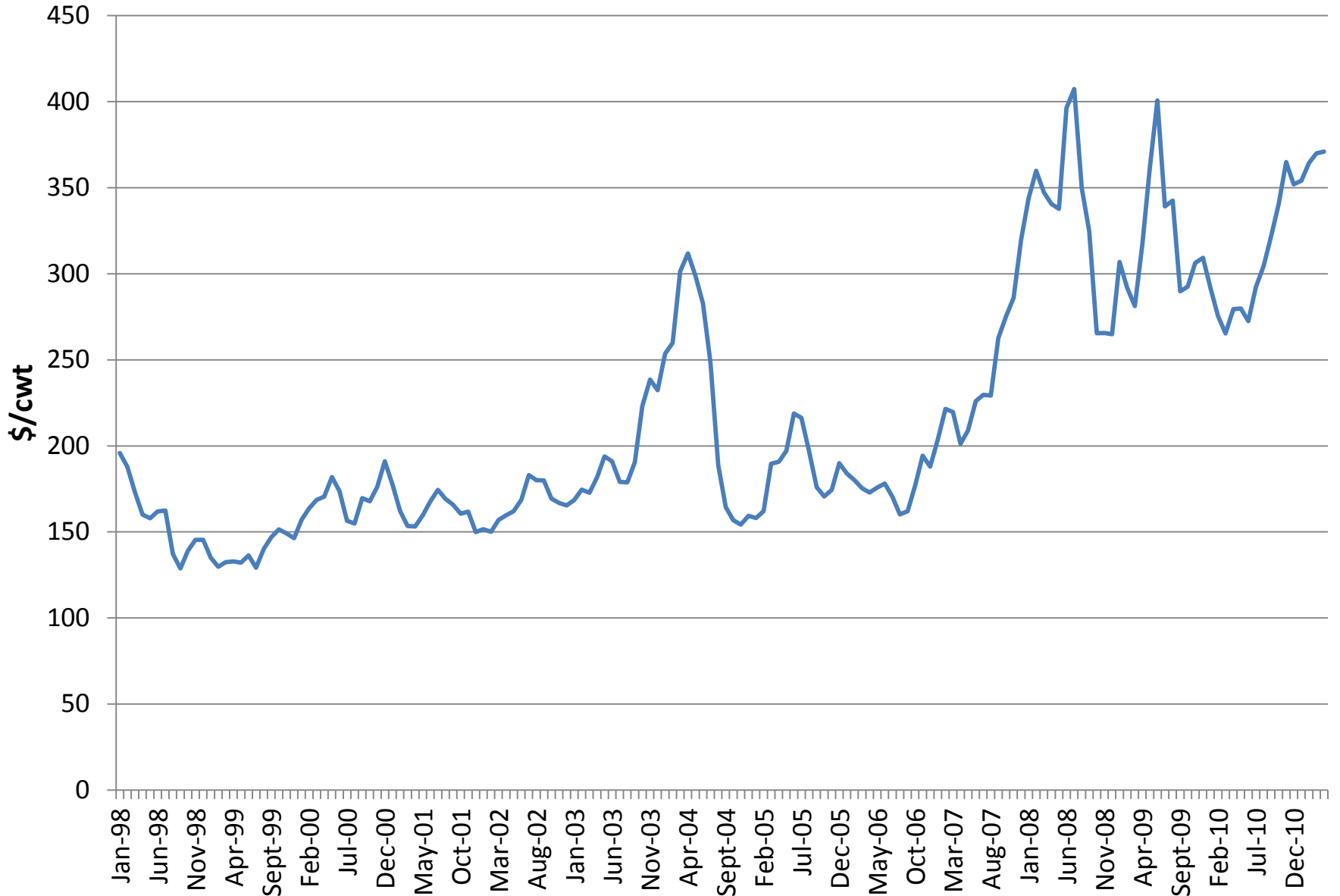
Bruce Babcock

Iowa State University

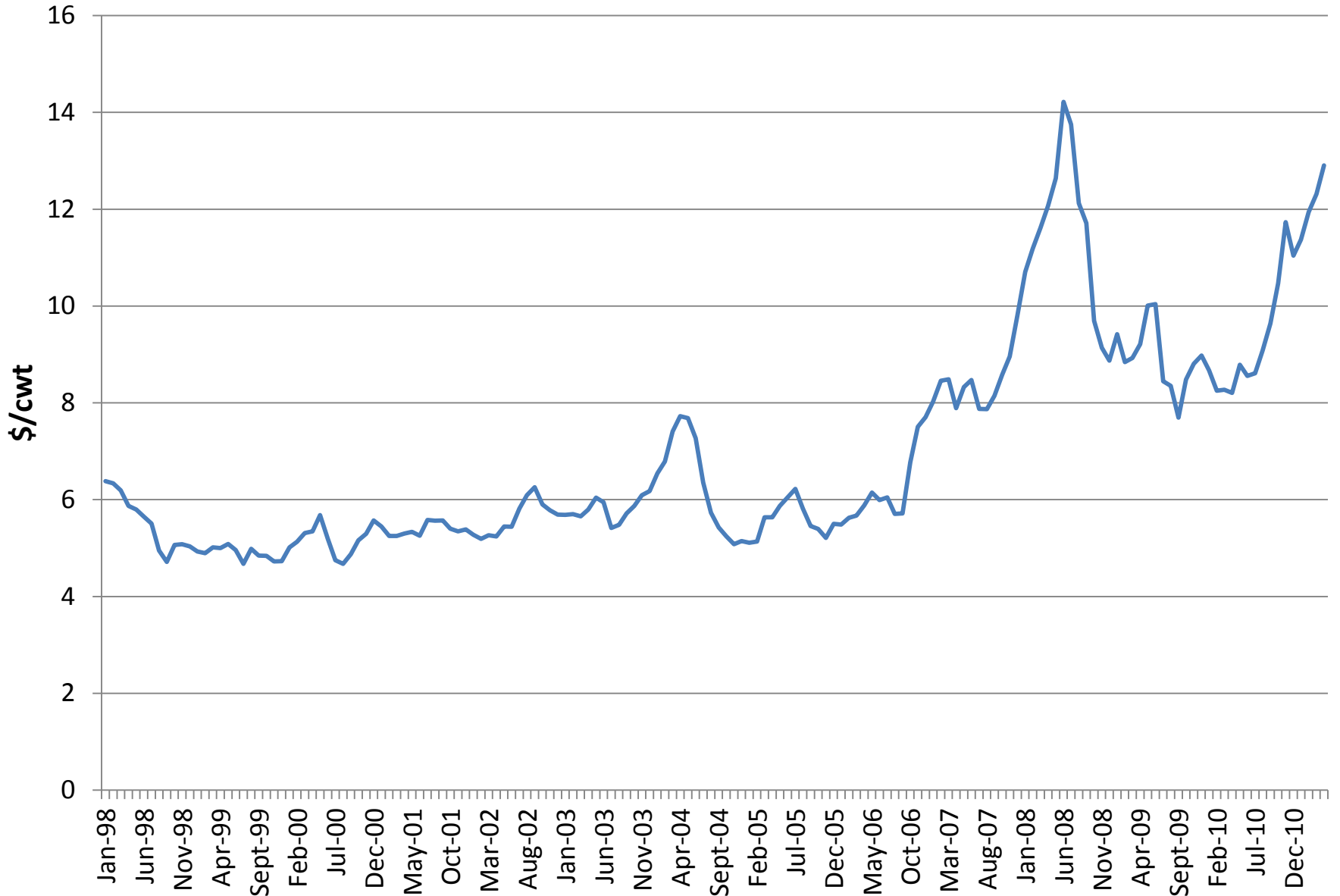
Monthly Corn Prices Since 1998



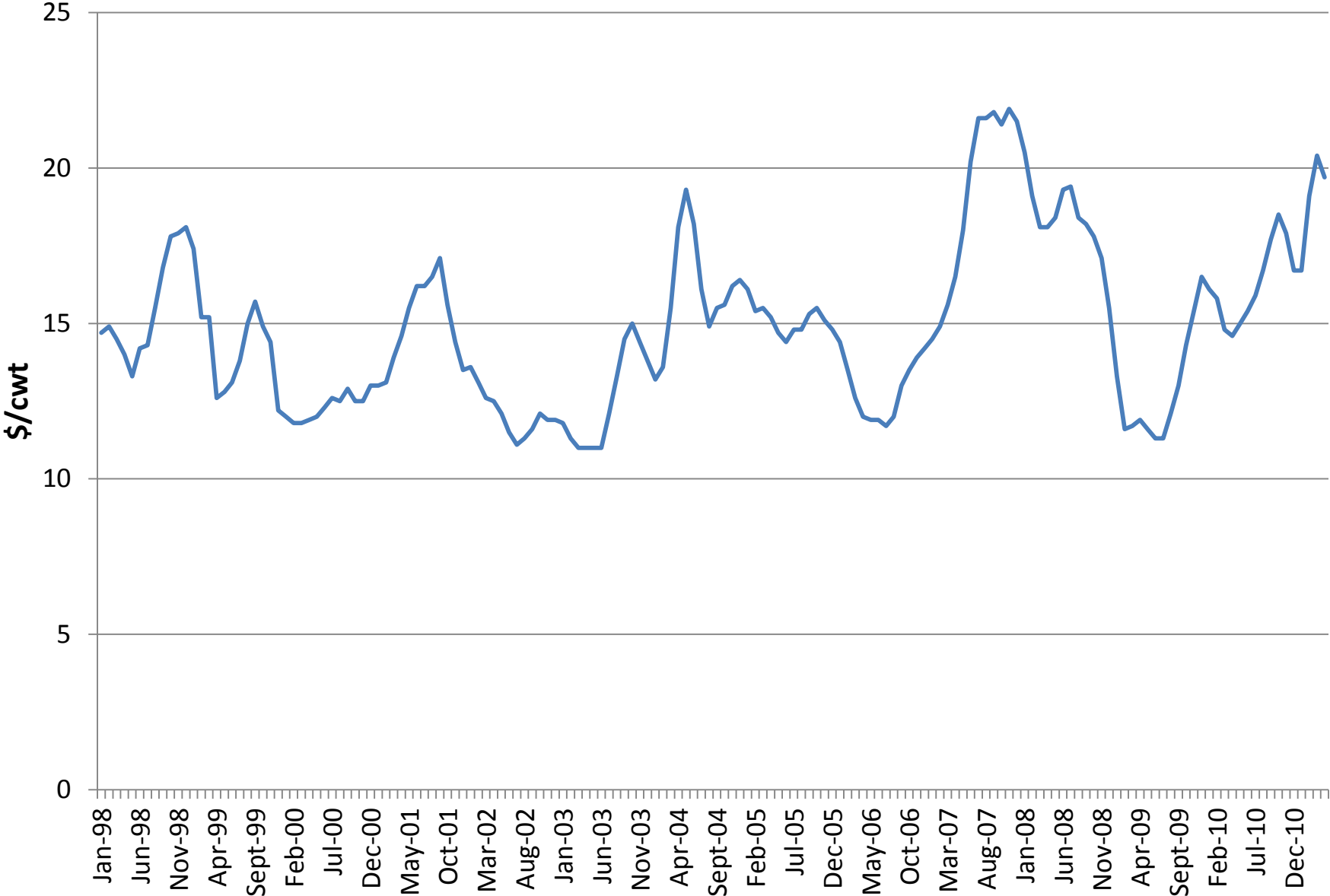
Monthly Soymeal Prices Since 1998



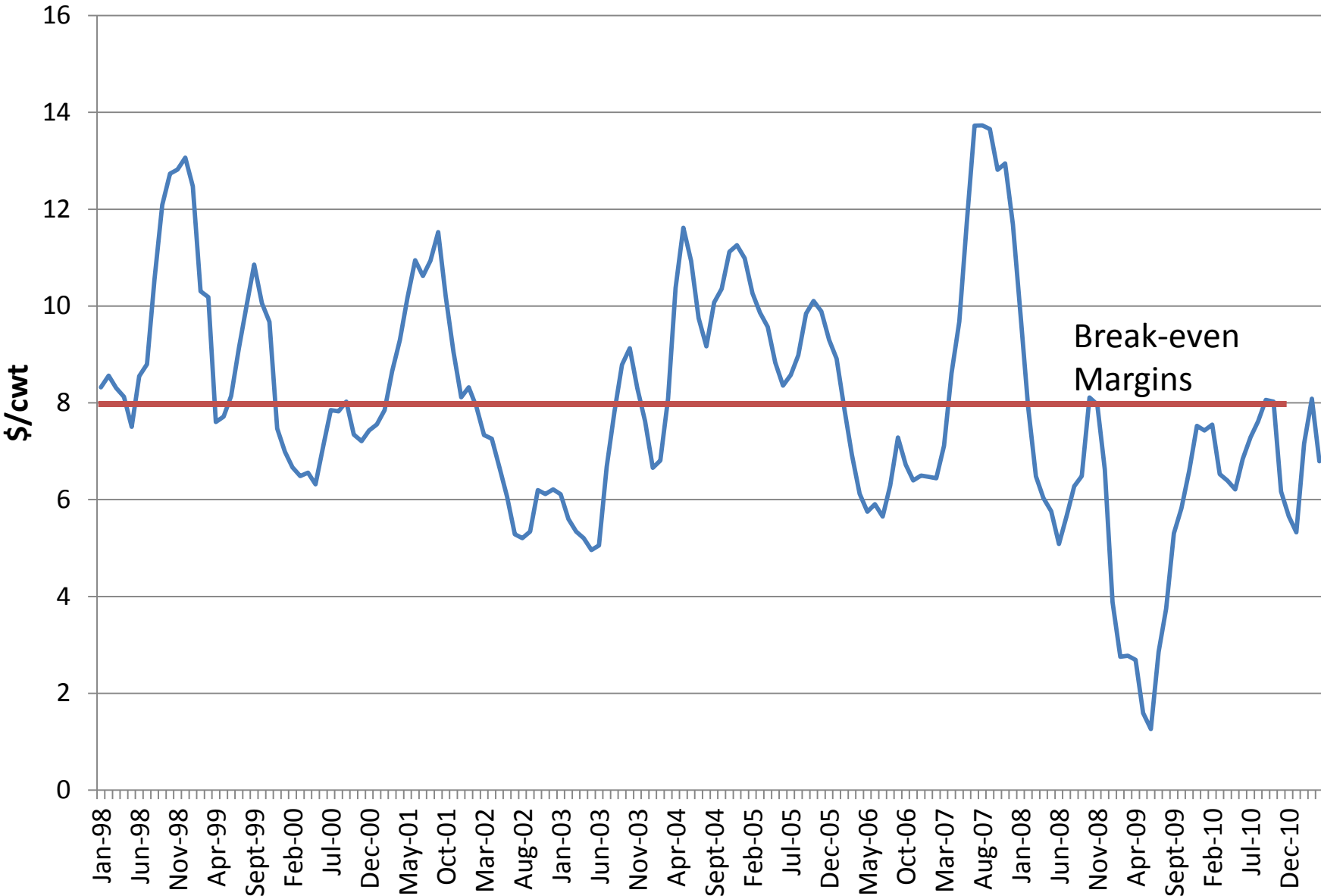
Dairy Feed Costs (\$/cwt)



Monthly Milk Prices Since 1998



Dairy Margins Over Feed Costs (\$/cwt)



Initial Observations

- Margins determine profitability, not feed costs alone
- Milk prices tend to follow feed costs with some time lag

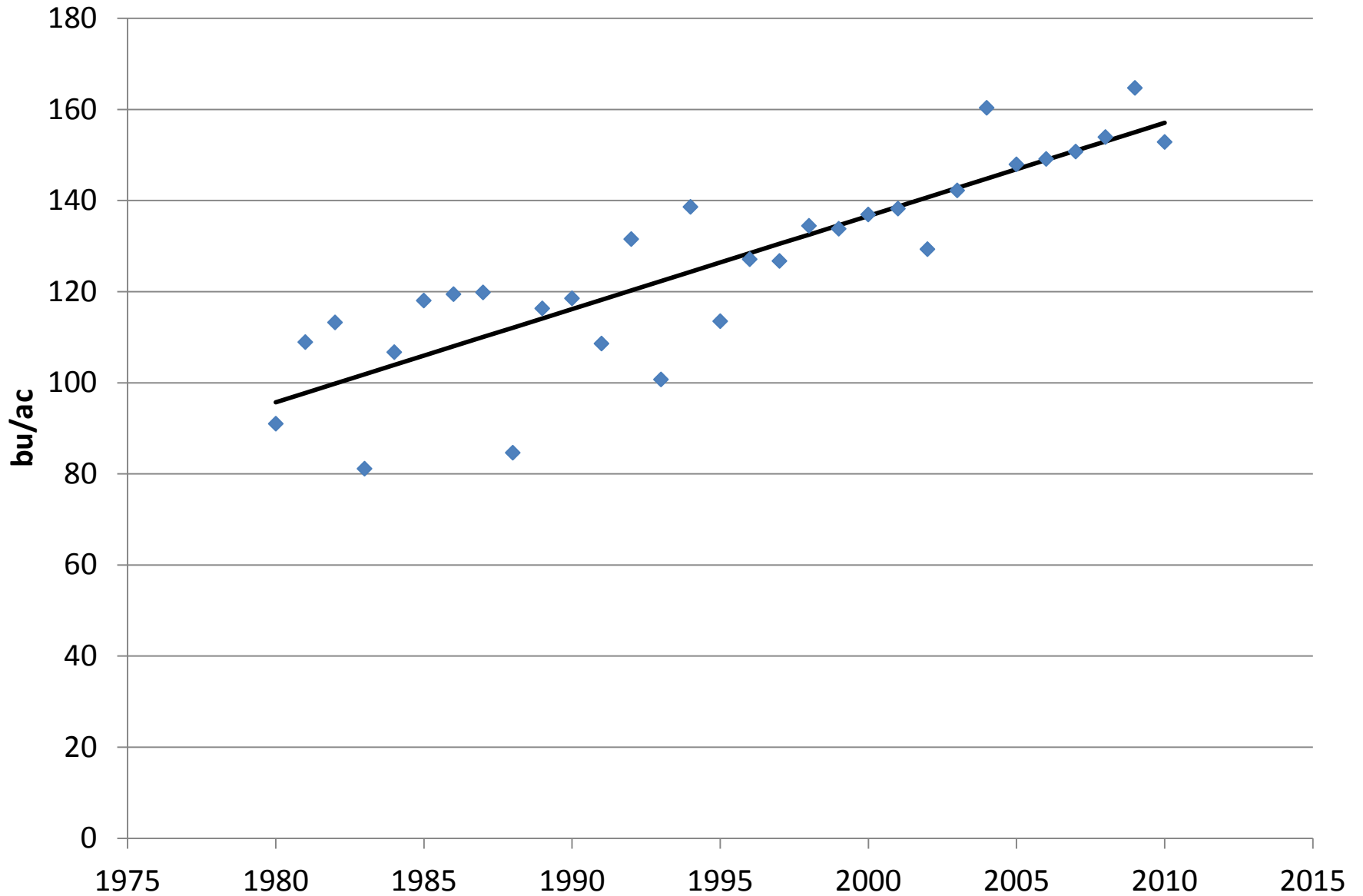
What will happen to feed costs?

- Carry-out corn stocks estimated at only 730 million bushels (5% stocks to use ratio)
- Corn price will depend primarily on size of U.S. crop and gasoline prices
- Ethanol policy will also play a role

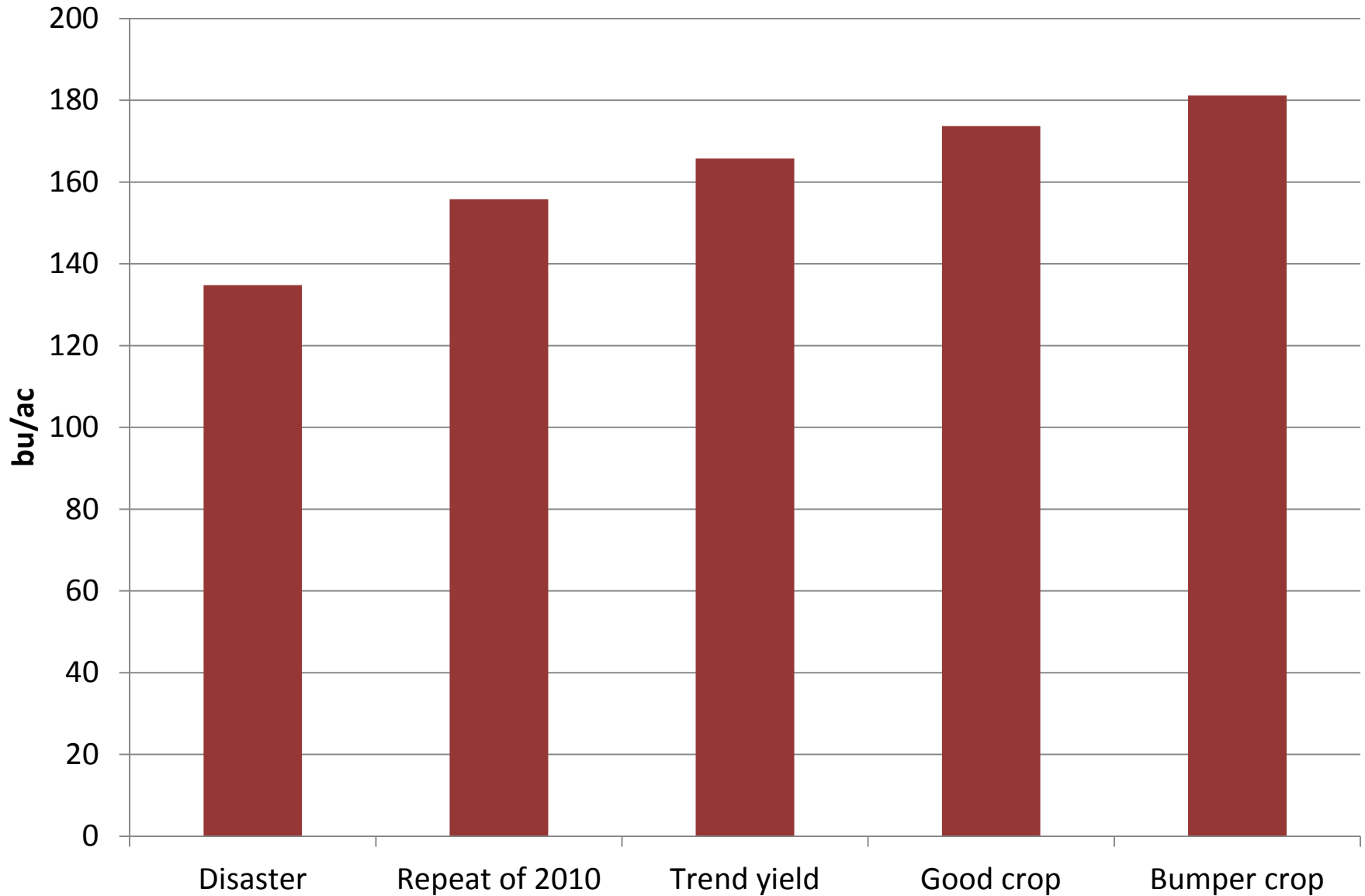
What if ?

- We get a bumper crop?
- Drought from southwest moves into Corn Belt?
- Gasoline prices fall dramatically?
- Ethanol policy changes?

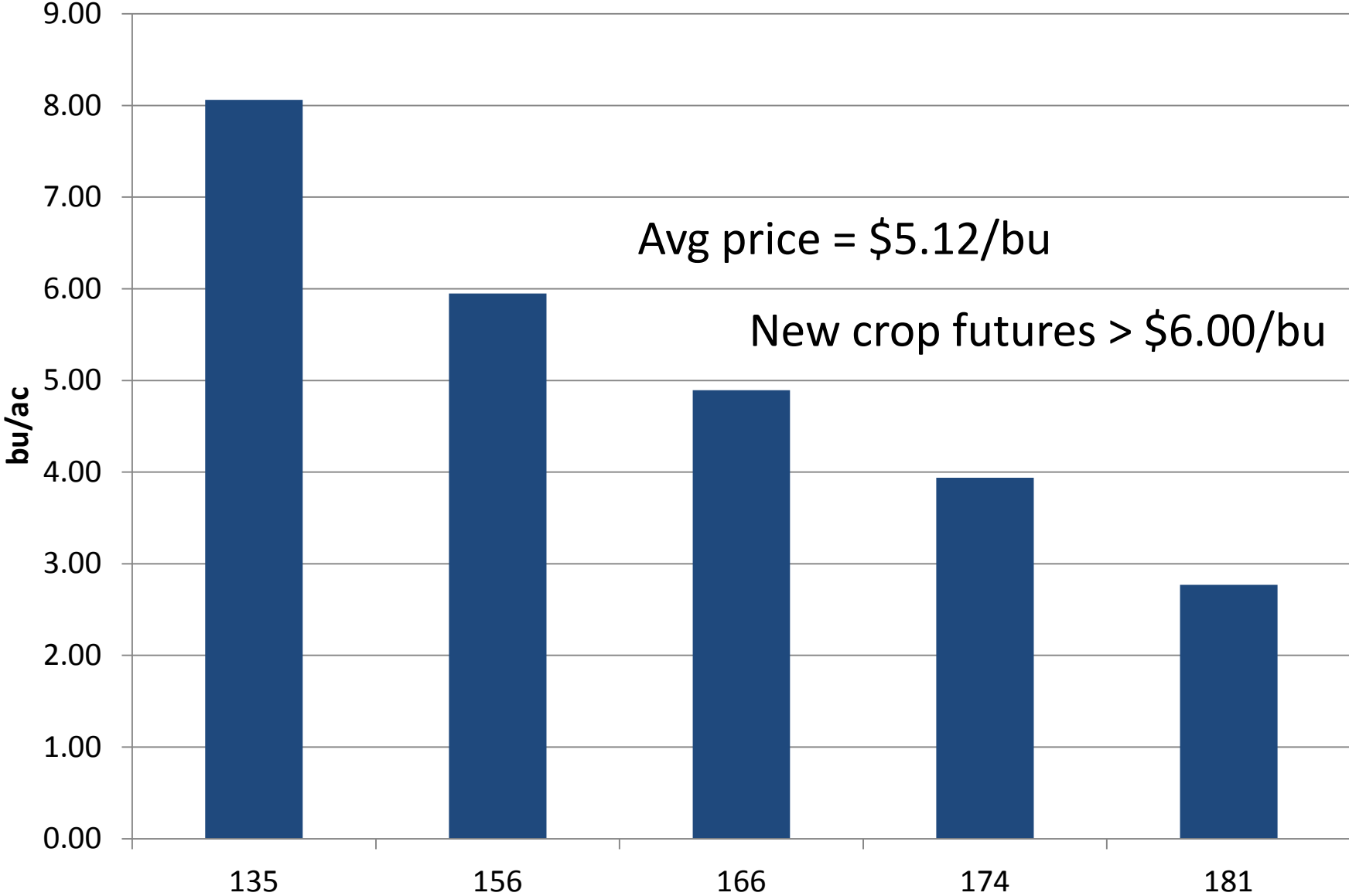
U.S. Corn Yields since 1980



Equally Likely 2011 U.S. Corn Yields



Impact of Yield on Average 2011 Corn Price



Predicting Corn Prices Using Prices of Ethanol and Natural Gas

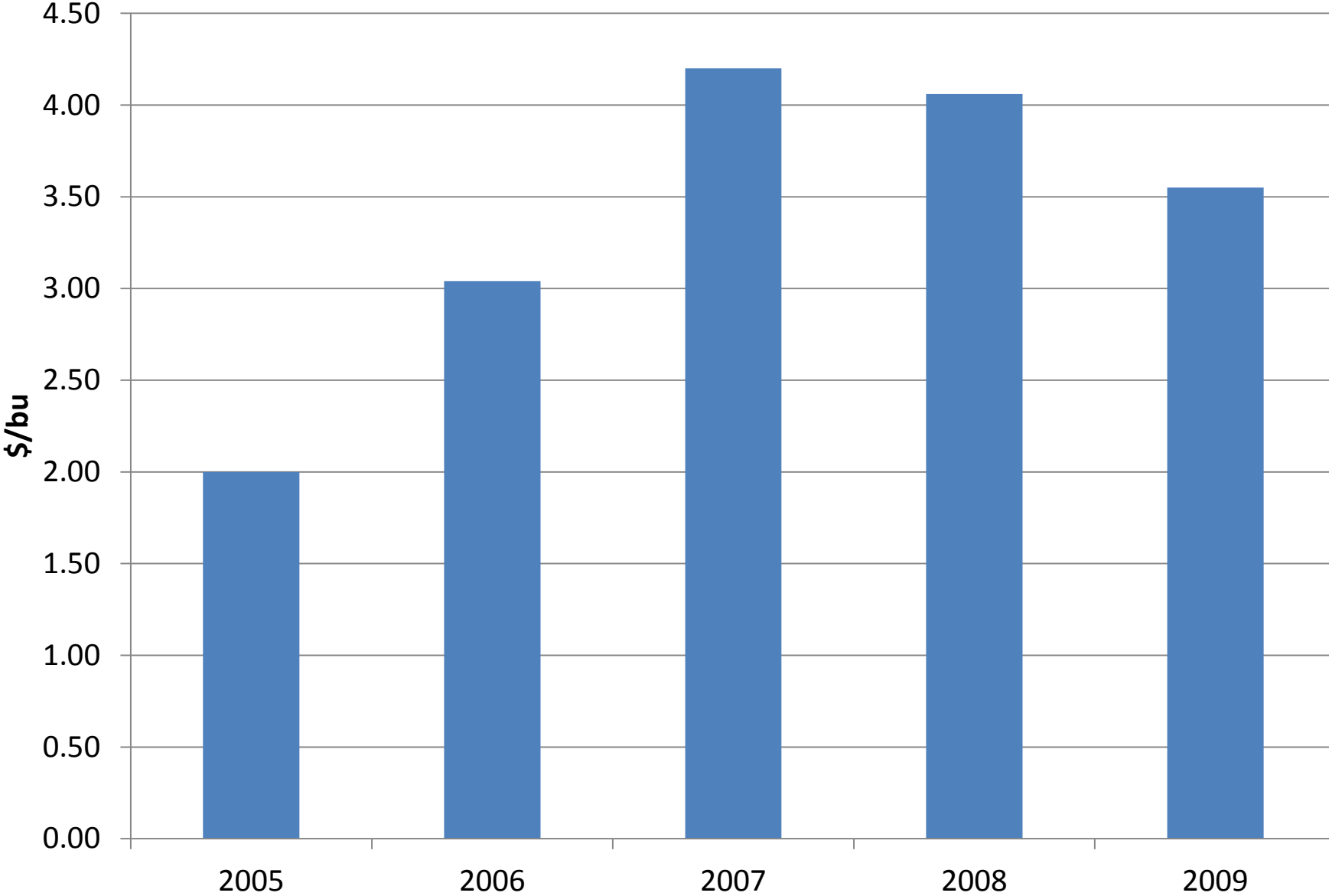


How Much of the Corn Price Increase is due to Ethanol?

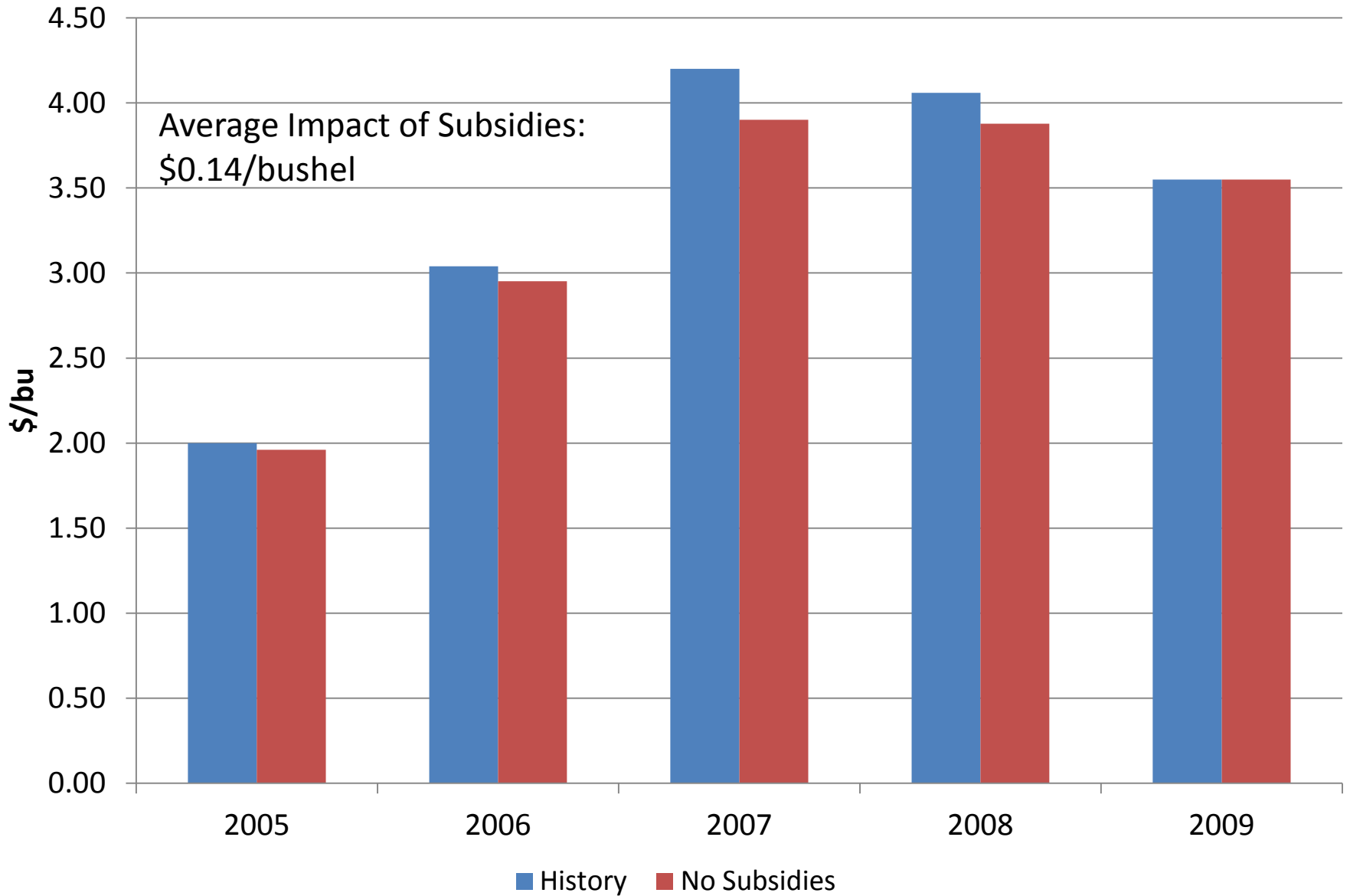
- Study estimated what corn prices would have been from 2006 to 2009 if
 - Ethanol subsidies eliminated Dec 31, 2004
 - Ethanol production capped at 2004 levels

Babcock and Fabiosa: “The Impact of Ethanol and Ethanol Subsidies on Corn Prices: Revisiting History” CARD Policy Brief 11-PB 5. April, 2011.

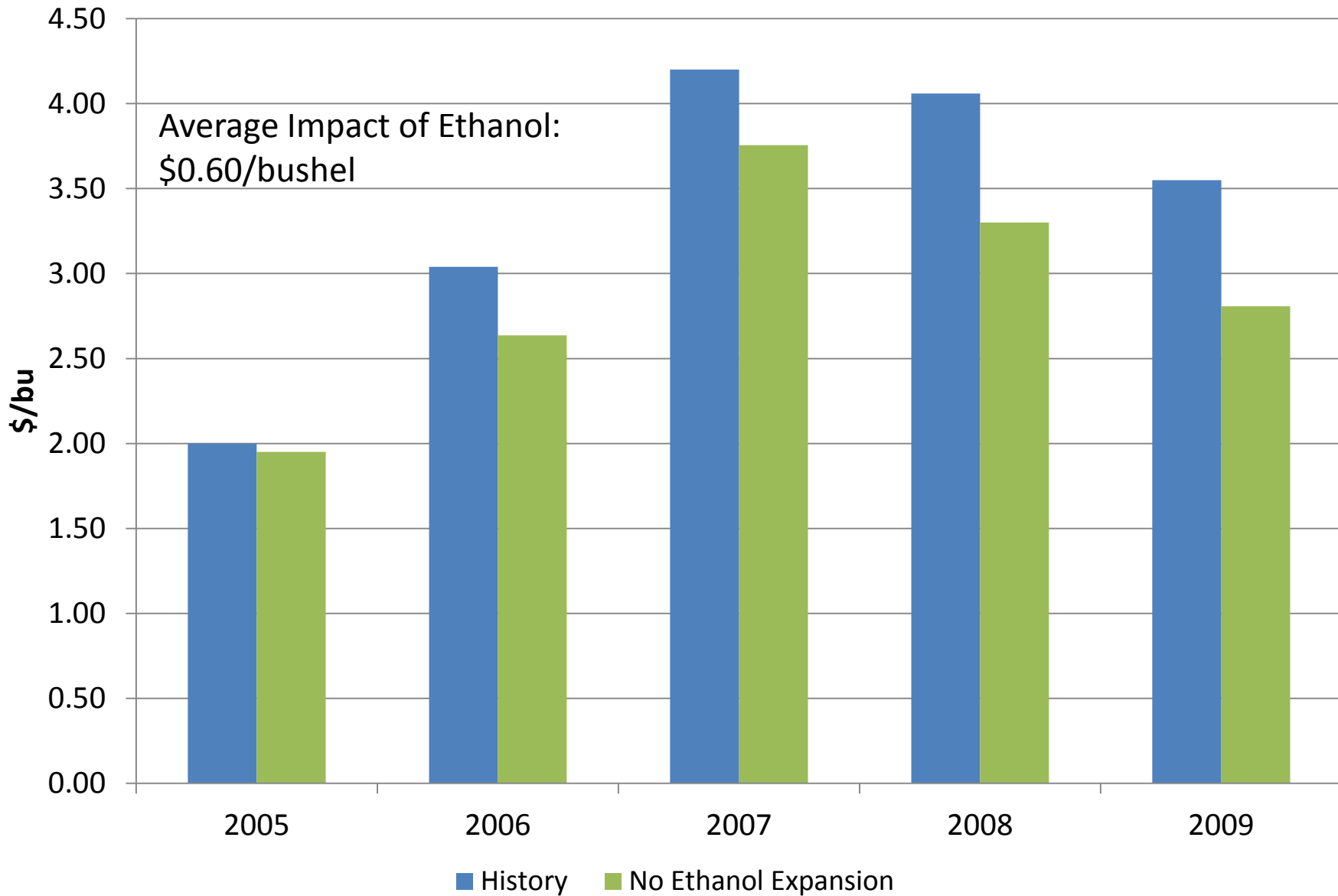
Historical Corn Prices



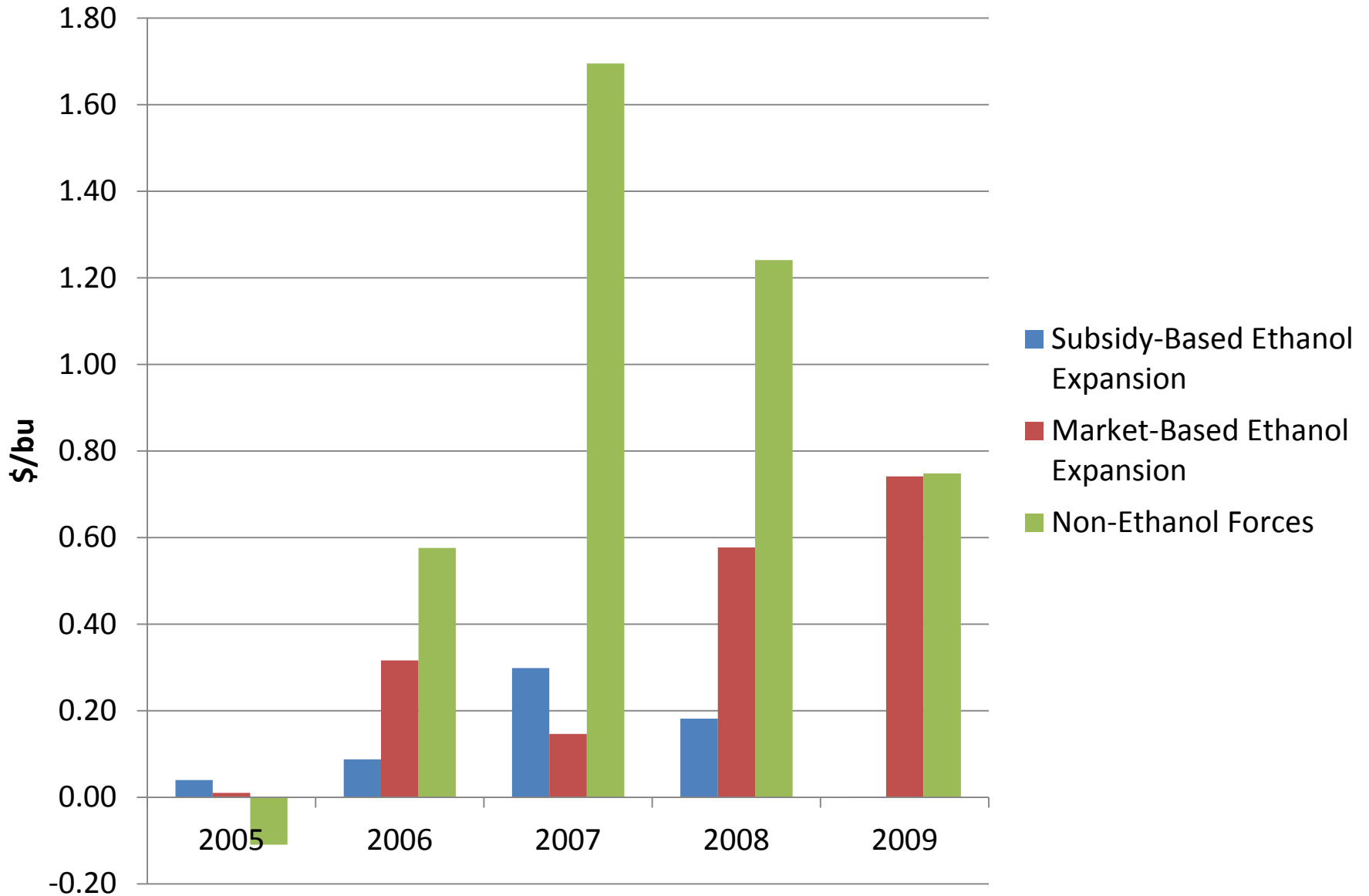
Comparing Actual Prices to "No-Subsidy" Prices



Comparing Actual Prices to "Ethanol-Capped" Prices



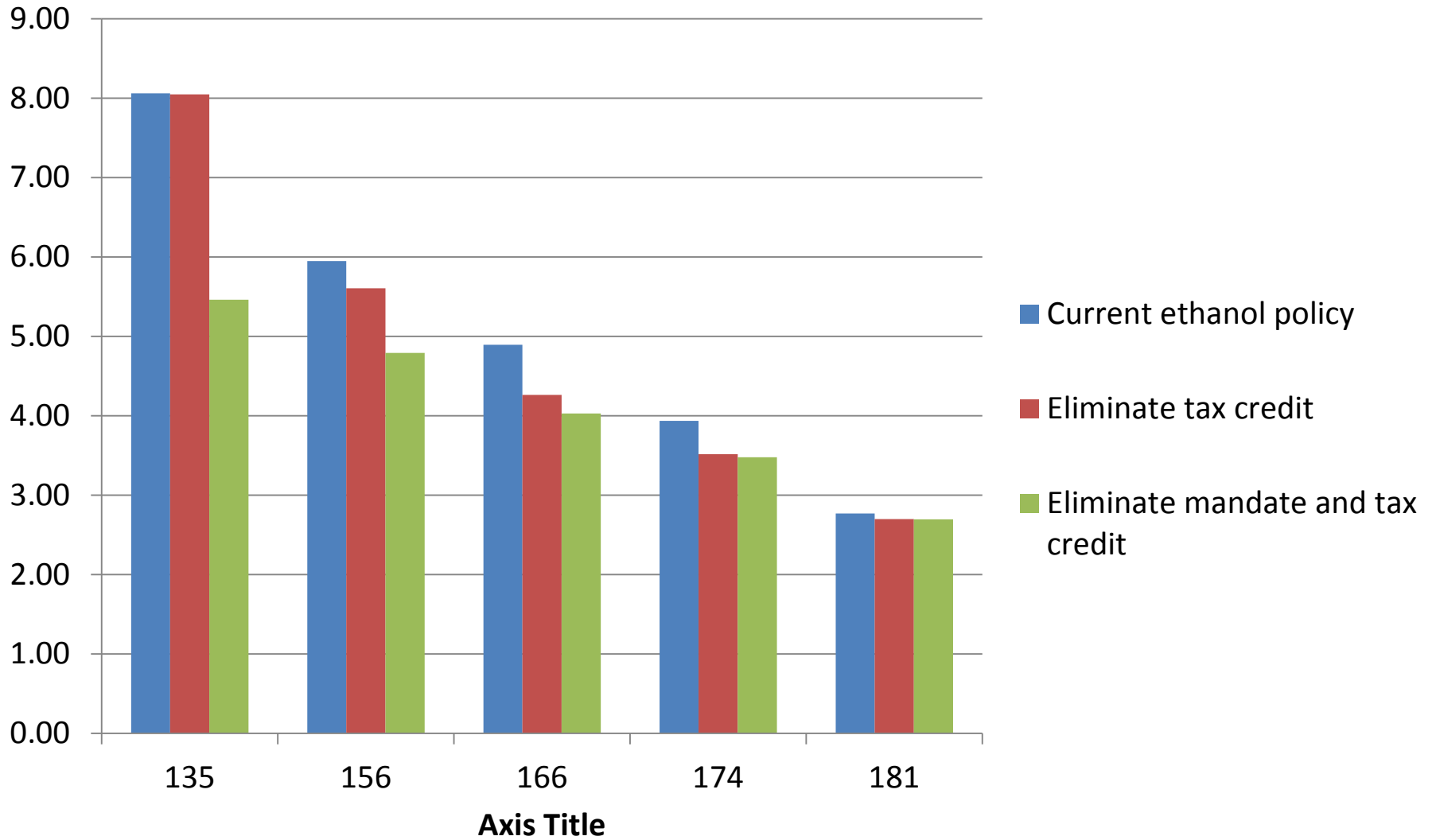
Causes of Higher Corn Prices Since 2004



Impact of Ethanol Policy on Future Corn Prices

- Simulated corn prices for the 2011/12 marketing year under different policy alternatives
 - Eliminate tax credit
 - Eliminate tax credit and mandate

Impact of Corn Yields and Ethanol Policy on 2011/12 Corn Prices



Wrap-Up

- Corn price volatility seems here to stay
- Ethanol policy's biggest impact is when corn is in short supply
 - Exacerbates impacts of poor yields
- Corn prices likely to remain high so long as they are tied to gasoline prices
 - Could cap ethanol production to remove tie