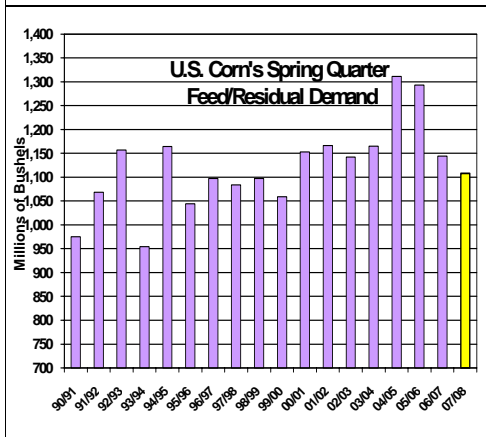
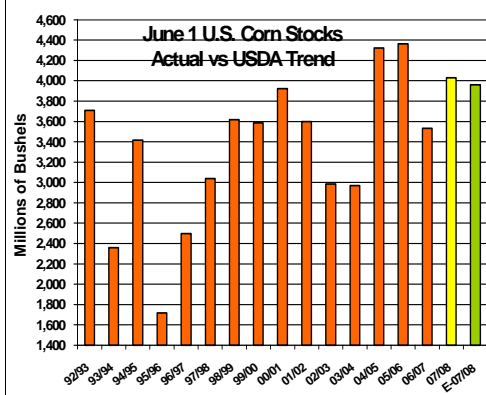
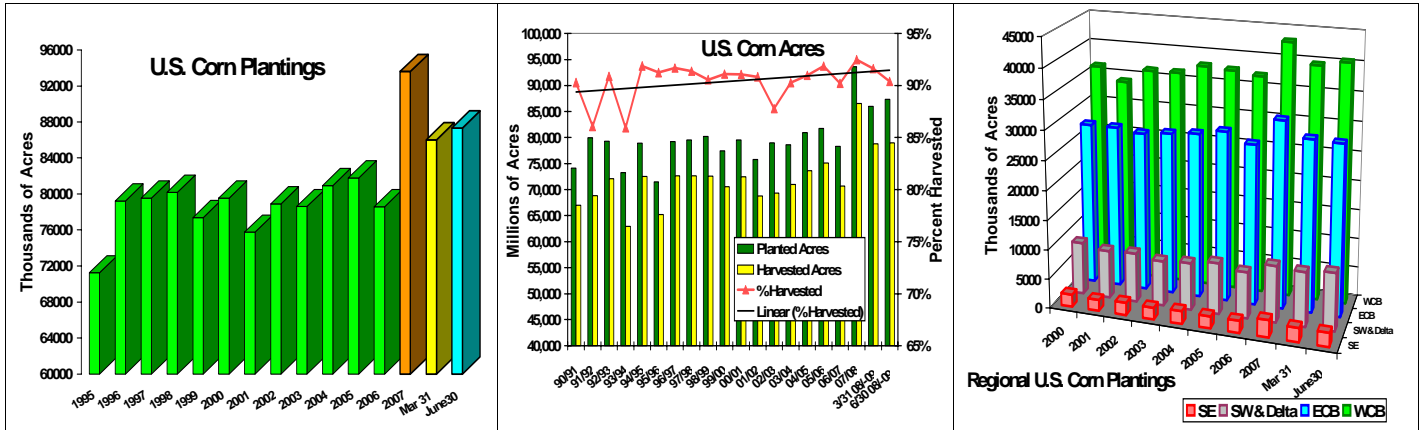


Higher Plantings & Stocks, But Corn Pollination Ahead

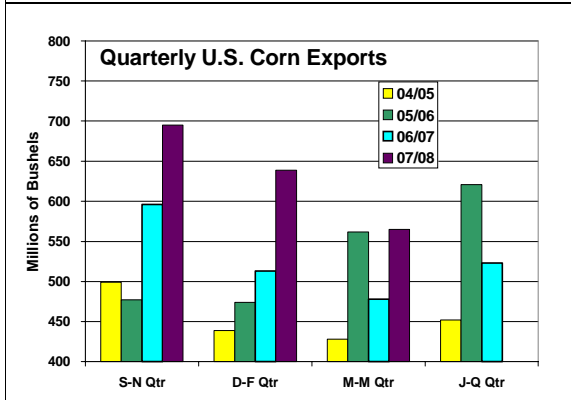
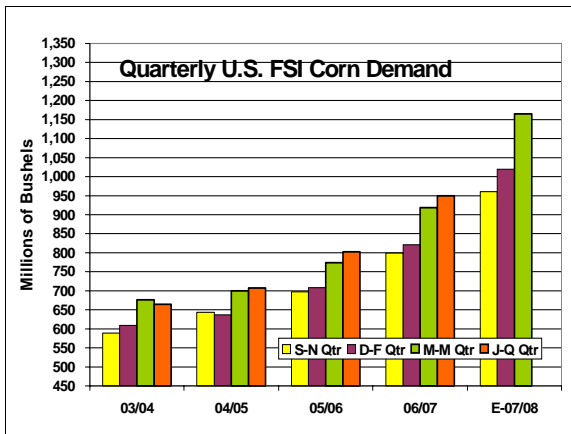


The latest USDA acreage and stocks reports provided some curves for the corn market when higher-than-expected acreage and quarterly stocks levels were reported. These numbers have calmed some of the emotions resulting from last month's flooding in the Midwest, but the U.S. corn crop is about to enter its crucial pollination period under less-than-ideal conditions, so the next three to four weeks of U.S. growing conditions will likely determine corn's supplies and price range for the balance of 2008.

With concerns high about flooding impacting planting in numerous areas of IA, MO, WI and parts of IL and IN, expectations for the recent corn acreage report were for a 700,000-acre decline from this spring's planting intentions of 86 million acres. Instead, the USDA raised 2008 plantings to 87.33 million, which surprised the trade. But, given the survey was taken in early June, ahead of the major flooding at mid-month, these results follow earlier ideas that stronger profitability for corn vs. soybeans could raise corn seedings by 1-2 million acres over the March intentions. The USDA also did a special 1,200-person phone survey to follow up with producers in the flood-impacted states concerning their harvested area expectations as well as drowned and replanting acreage to augment its initial survey. Utilizing this information, the USDA cut harvested area for grain to 78.94 million acres, a drop of 8.39 million acres, which includes about 7 million for silage and the balance abandoned due to no crops. Interestingly, current harvested acres are up only 140,000 over last month. Regionally, the WCB (850,000) and the Southwestern Plains (500,000) were the areas this year's corn seedings expanded, while ECB (-210,000) and the SE (-20,000) saw some modest declines from previous intentions.

The USDA's June quarterly stocks report also contributed to the emotional reaction of the markets this week, which saw corn slip 50 cents per bu. after the report. Corn's June 1 stocks levels at 4.028 bil-

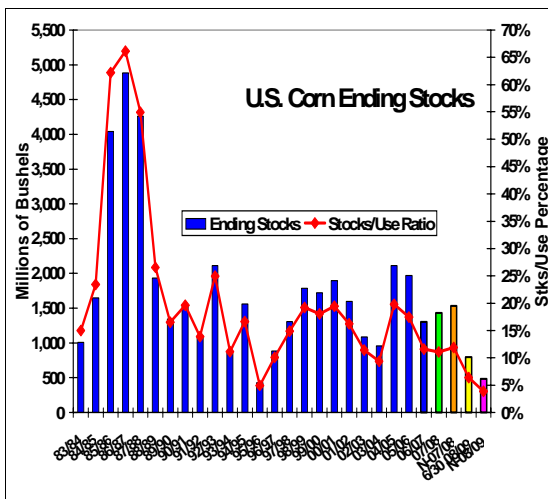
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lion bu. were up over 100 million bu. from the average expectations, suggesting the spring quarter's feed demand fell by 3%-4% to 1.1 billion bu. Conversely, ethanol/industrial demand was up 27% and exports were 18% over 2007 levels. Interestingly, the latest U.S. hogs and pigs inventory report out last Friday showed market hogs up 7% and kept-for-breeding animals down just 1%, so this spring's reduced feeding didn't come from U.S. swine. However, U.S. cattle-on-feed numbers have slid to 95.8% of last year over the last two months according to the June 1 survey. Rising availability of distillers' dry grains (DDGs) also reduced ruminant corn demand this spring as online capacity expanded to 9.5 billion gal. from 8.2 billion, but this last month's sharp rise in corn prices hurt processing margins. In addition, this summer's ethanol demand expansion may slow because of the Cedar Rapids, Iowa plants were idled because of flooding. The trade is also waiting for the EPA's response to two governors' request to reduce the current Renewable Fuels Standards for ethanol on July 25. However, the current strong profitability of blending ethanol into gasoline may limit the impact of reducing the U.S. ethanol mandates if this occurs.

Given the recent quarterly stocks report, the USDA likely will reduce corn's old-crop feed demand by 100 million bu. on its July 11 supply/demand update. Some concerns

about lower ethanol and export levels for corn are also around, but this summer's price level will determine if these two demands are shaved later. With crop conditions still shaky in the wetter areas of the Midwest and drought conditions resurfacing in the SE, the market's focus will be on the U.S. 2008/09 crop as corn's pollination picks up next week and continues into early August because of this year's planting delays and slow emergence. Even with higher beginning stocks and a slight rise in 2008/09 harvested acres, corn's new-crop supplies aren't excessive. If any sizable area of the U.S. Corn Belt comes under stress during pollination, this market remains vulnerable to further price rationing, with December corn advancing to the \$8.40 to \$8.70 area. Conversely, modest temperatures and regular rainfall in the Midwest would likely break December's recent support at \$7.35, opening downside pressure to \$6.90 to \$7.10, with longer-term harvest downside potential to new-crop's uptrend near \$6.00. Note: A USDA announcement concerning the opening of CRP acres to row crop seedings for 2009/10 is now expected near the upcoming July 11 crop update.



(Millions)	2007/08	2007/08	2008/09	2008/09	2008/09
	June USDA	July NARMS	June USDA	July NARMS	July NARMS
Planting Acres	93.60	93.60	86.01	87.33	87.33
Harvested Acres	86.54	86.54	78.80	78.94	78.94
Yield in Bu.	151.1	151.1	148.9	149.0	145.0
Initial Stocks	1,304	1,304	1,433	1,533	1,533
Production	13,074	13,074	11,735	11,762	11,446
Imports	15	15	15	15	15
Ttl Supply	14,393	14,393	13,183	13,310	12,994
Feed/Residual	6,150	6,050	5,150	5,150	5,150
Food/Seed	1,360	1,360	1,360	1,360	1,360
Ethanol	3,000	3,000	4,000	4,000	4,000
Ttl Domestic	10,510	10,410	10,510	10,510	10,510
Exports	2,450	2,450	2,000	2,000	2,000
Ttl Usage	12,960	12,860	12,510	12,510	12,510
Ending Stocks	1,433	1,533	673	800	484
Stocks/Use Ratio	11.1%	11.9%	5.4%	6.4%	3.9%

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