

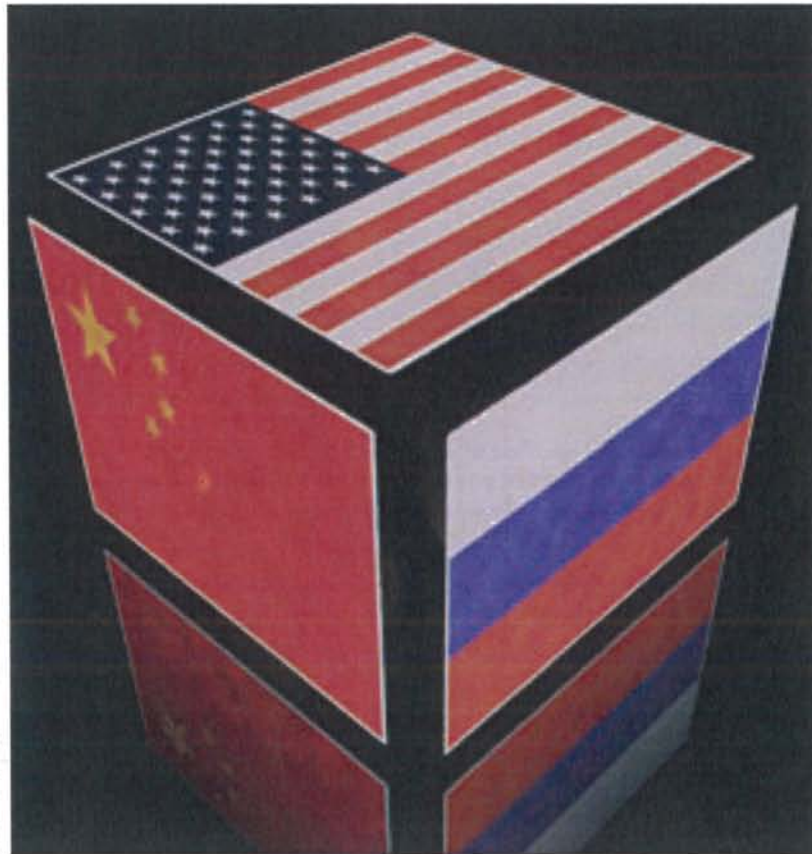
**Twenty-five years ago China and Russia shaped both headlines and U.S. strategic defense policy.**

In 2011 they'll shape planting decisions made on U.S. farms.

The cold war is long over, but these two world powers still wield mighty influence in shaping global trade, especially now that the end of those tensions has allowed them to focus on developing their economies. The massive emerging middle class in China and surrounding areas of Southeast Asia are dynamically changing global demand trends, while the development of Russia's agricultural industry alters global trade patterns. These changes take place at a time when the European and U.S. economies suffer malaise, leading money managers to focus on less economically sensitive asset classes. That's driving massive quantities of money into food-based commodities, increasing both opportunities and heartburn on the farm.

## **C**hina fuels demand

Global corn stocks have trended lower



# From cold war to food war

*CHANGING GLOBAL DYNAMICS IMPACT YOUR 2011 PLANTING INTENTIONS*

for the past 25 years due to insufficient resources being devoted to production overseas. U.S. corn crops regularly set new records, but the rest of the world isn't keeping up. Global corn prices simply have not been high enough long enough to stimulate increased production capacity overseas, allowing world stocks to reach their third-tightest level of the past 35 years.

Meanwhile, China expects to grow

150% over the past 10 years as a result.

Several feed grains are utilized for carbohydrates, but converting them into corn equivalents provides some perspective. An increase of 1.6 billion bushels of corn equivalents has been required to meet the increase in per capita meat consumption in the aforementioned region, not counting growth in actual population.

China will import nearly 2 billion

its economy at a 10.4% pace this year. China has 1.33 billion people, of which 525 million are small-scale "peasant" farmers. It moved 130 million migrant workers to town to build its nonfarm infrastructure. These and others who have seen a sharp increase in their incomes increased meat in their diet, with similar trends across much of Southeast Asia. Per capita meat consumption in China, Hong Kong, India, Japan, South Korea and Taiwan should exceed 68 pounds this year, up 1.6 pounds on the year and up 5.8 pounds over the past five years. Compare that to the 243 pounds of per capita meat consumption in the United States.

That necessitates a significant investment in the meat industry. In fact, China will produce 49% of the world's pork this year, requiring increased feed carbohydrates and protein. China's demand for soybean protein is up



## Fencerow to fencerow

(in millions of acres)

	August intentions	2010 acreage
Corn	89.5	87.9
Soybeans	79.6	78.9
All wheat	58.3	54.3
Winter wheat	41.7	37.7
Hard red winter	30.9	27.8
Soft red winter	8.0	5.9
White winter	2.8	3.3
Other Spring	13.9	13.9
Durum	2.7	2.2

bushels of soybeans this year to meet the need. Meanwhile, it opened the door for U.S. corn this spring after being a major export competitor a few years ago. In fact, local analysts project that China's corn imports could reach 200 million bushels over the next year and reach 400 million bushels annually by 2015.

## Russia's rise to prominence

But corn isn't the only feed grain being fed to the world's livestock. Feed wheat displaces U.S. corn in many major global markets each year, with the source of that feed wheat increasingly being the Former Soviet Union, or FSU. Russia produces the bulk of the wheat moving through Black Sea ports after making significant investments in recent years in infrastructure and agricultural development, with Ukraine and Kazakhstan contributing as well. Wheat production has doubled over the past 10 years in the region as a result of that investment. FSU exports reached 1.3 billion bushels ahead of this year's drought, up from just 160 million 10 years ago. In fact, exports are expected to rise by another 50% over the next nine years.

As a result, U.S. global market share for wheat trade is expected to slide from a leading 24% over the past decade to just 16% over the next decade, while the FSU moves to a 33% global market share.

Yet, the region has obstacles to overcome. Its sometimes harsh climate and yet insufficiently developed agriculture leads to periods of significant shortfalls that result from highly variable yields. This year's drought illustrates how production can vary by a third from year to year, making it an undependable source on the global market. World buyers then turn to U.S. supplies to fill the gap, but those supplies may not always be there if cheap wheat from the FSU continues to undercut the market, while global

demand for corn and soybeans makes those more attractive alternatives.

## Shaping 2011

Changing global trends have increasingly pushed U.S. producers into a forward-thinking mentality, considering planting intentions for the following year before they've harvested the current crop. *Farm*

*Futures'* exclusive August producer surveys continue to reveal changing trends long before they are apparent to the industry.

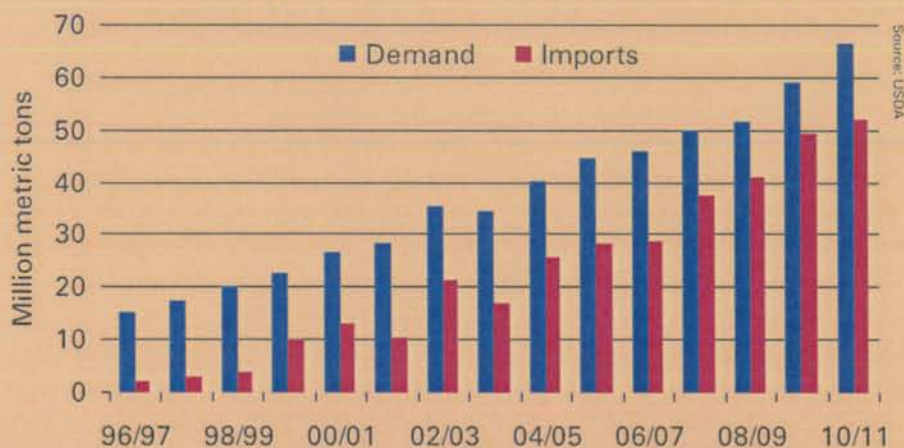
This year's survey was no exception, showing that producers are responding to the above global trends as they shape their plans for 2011. A lot of factors will still play a role in adjusting those intentions over the next six months, but they provide insight into changing dynamics for the year ahead.

In the end, the survey reflects intentions to increase acreage for corn, soybeans and wheat for 2011, utilizing expiring conservation contracts, returning unplanted acres to production and increasing double-cropping in the South. Strong global demand for corn and soybeans should lead to record soybean acreage in 2011, while corn acreage will be the second highest on record.

This year's meteoric rise in wheat prices stimulated farmers in the winter wheat belt to plant as many acres as possible this fall, including double-cropping behind soybeans after pulling back from the practice a year ago. Producers in the Southern Plains will plant fencerow to fencerow where moisture is sufficient, but then decide next spring whether to keep it for grain or graze it out.

Yet, the aforementioned dynamics suggest that feed grain and oilseed crops will again pull at those U.S. wheat acres in 2012, as the FSU returns as a dominant export competitor. **ii**

## Chinese soybean demand continues to grow



## Global production of corn and wheat combined struggles to keep up with strong demand growth

