



WELLS
FARGO

What you know that ain't so ...

Michael Swanson Ph.D.
Wells Fargo Economics

October 2008

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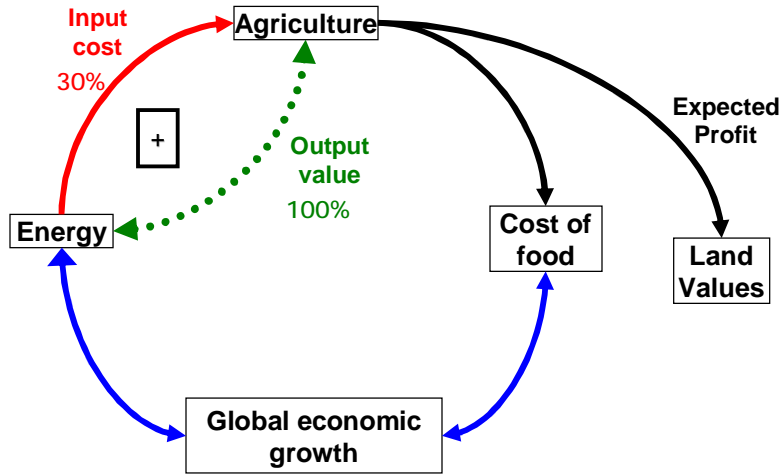
WELLS
FARGO

**All models are wrong.
Some models are useful.**

Edward
Deming

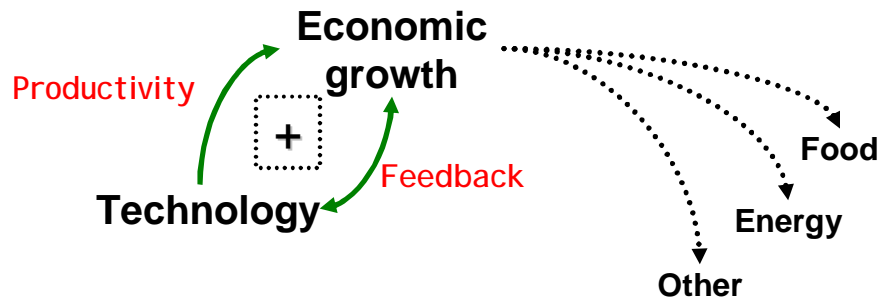
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(Un?)intended Consequence



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Accelerating global demand

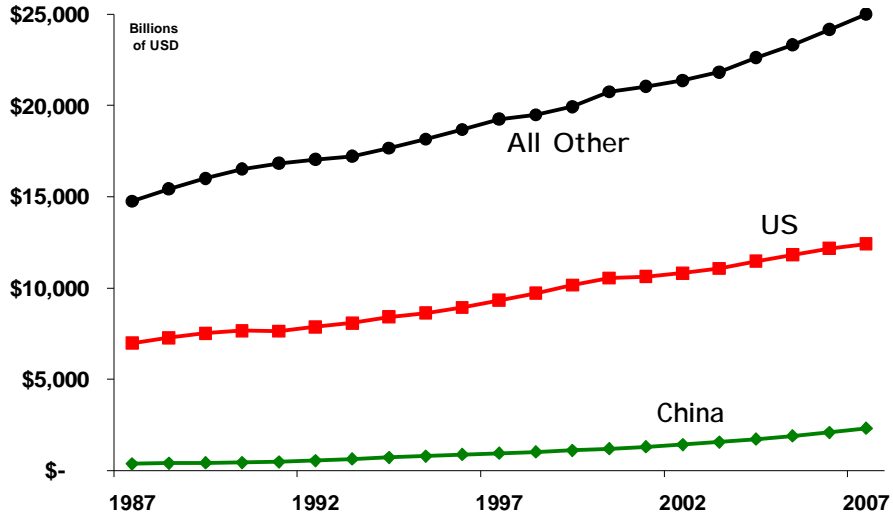


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Climbing up Maslow's hierarchy



Global GDP



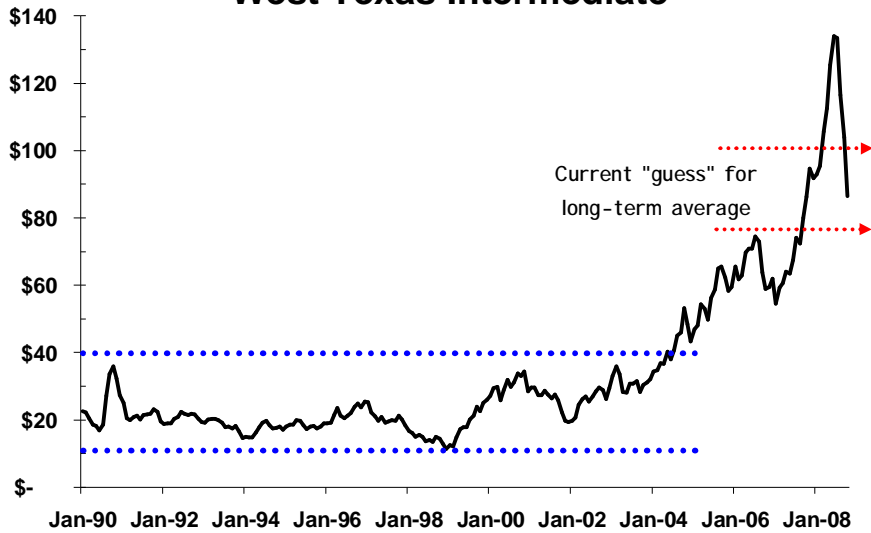
Source: USDA ERS, Wells Fargo Economics

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The commodity market driver



West Texas Intermediate



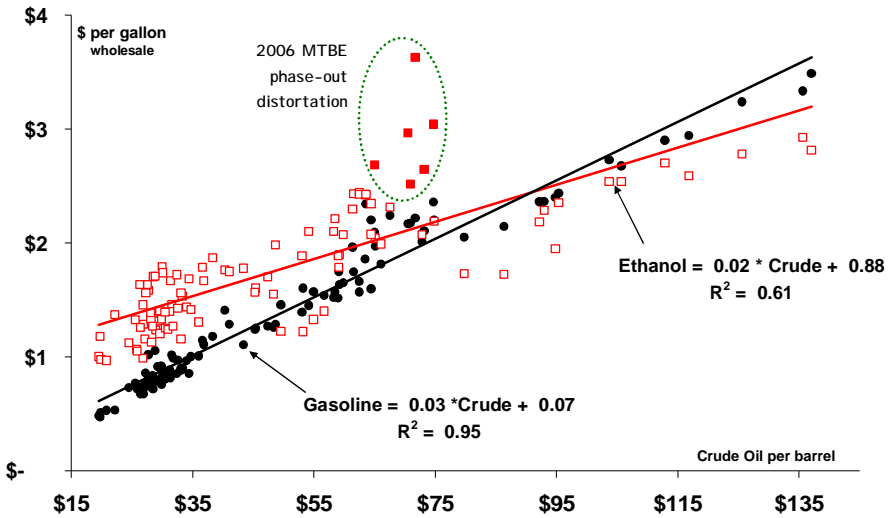
Source: FRED, Wells Fargo Ag Economics

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Both substitutes and complements



Ethanol/Gas v Crude Oil



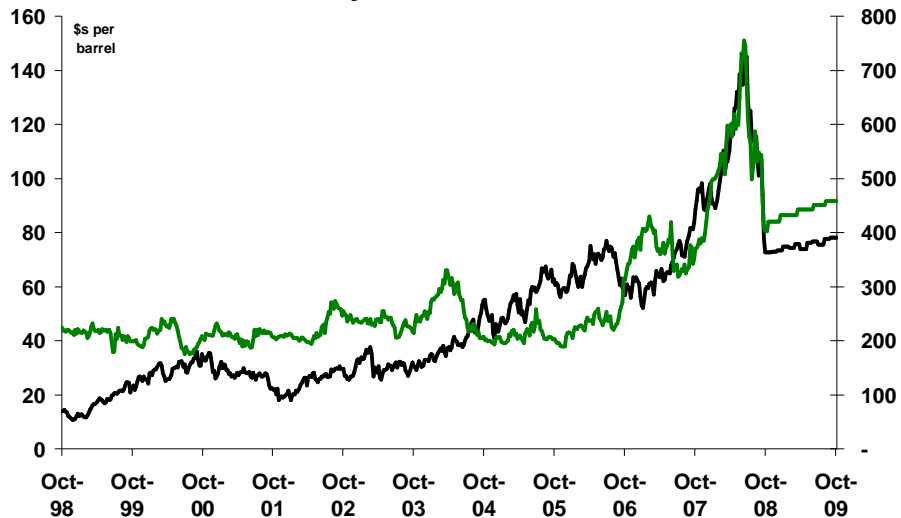
Source: Wells Fargo Ag Economics

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A new sensation – will it last?



Nearby Crude Oil v Corn



Source: NYMEX, Wells Fargo Economics

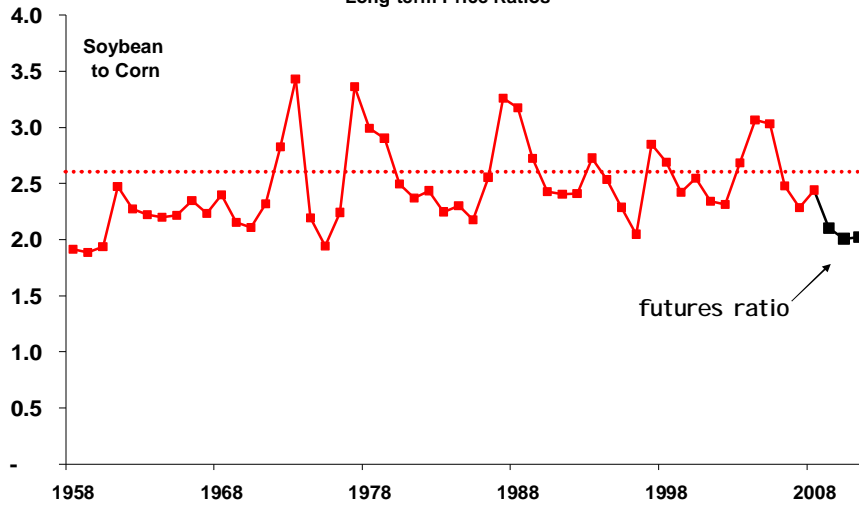
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They never make it easy



Soybeans to Corn

Long-term Price Ratios

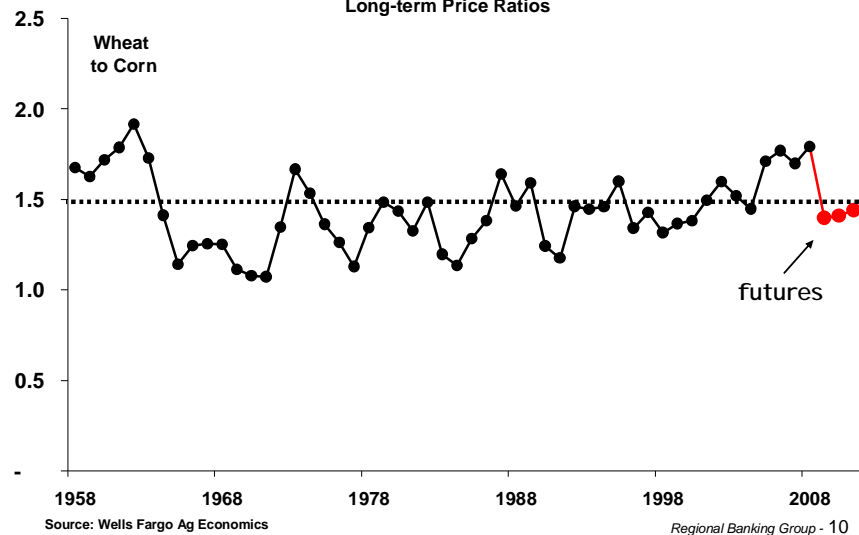


Right on the historical money



Wheat to Corn

Long-term Price Ratios



Livestock is in for a wild ride



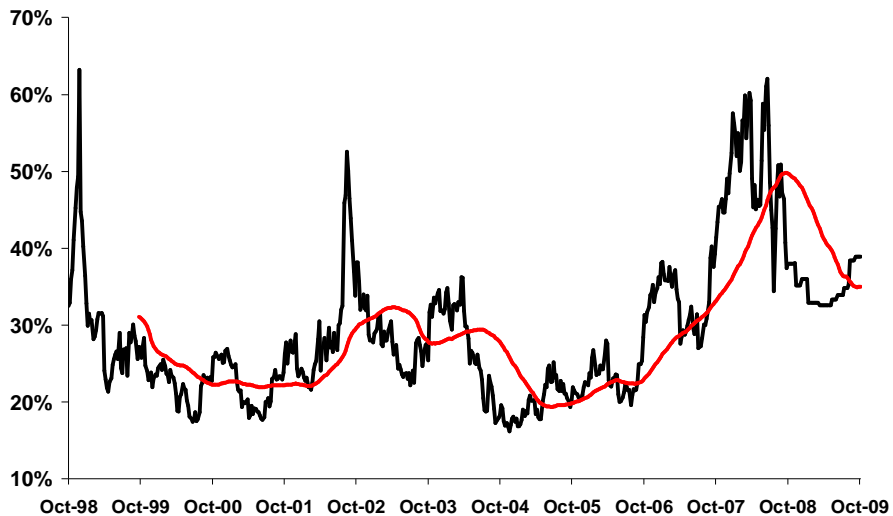
- § Feed costs still historically high
- § Record high consumer prices
- § Economic pressures
 - § Dollar strength
 - § Weak dollar limited imports – pushed exports
 - § Commodities depend a currency pairs
 - § Falling near-term personal income
 - § Private label versus branded

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One measure of feed cost pressure



Cost of Gain / Lean Hog Prices



Source: Wells Fargo Ag Economics

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What the market gives it can take



US Trade Weighted Dollar



Source: Federal Reserve, Wells Fargo Economics

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Who's at risk?



Exports as % of Demand		Exports as % of Demand	
Sugar	2%	Pork	21%
Corn	16%	Poultry	16%
Soybeans	34%	Beef	6%
Wheat	44%	Dairy	5%
Cotton	77%		

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