

March USDA Report Signals Large World Supplies

As U.S. Farmers Approach Spring Fieldwork

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An important message to take from the USDA World Agricultural Supply and Demand Estimates released on March 10, 2010 is that World supplies and ending stocks of coarse grains, wheat and oilseeds are all projected to increase by more than had been expected in earlier USDA WASDE reports. Since it is too early quite yet in 2010 for potential spring and summer crop production problems in the U.S. to merit market's full attention, short term price prospects for U.S. soybeans and corn for the 2009/10 marketing year continue to be neutral-to-moderately negative, while prospects for wheat prices in 2009/10 continue to erode. As a result of accumulating stocks of grain and oilseeds in the World market, U.S. prices are expected to remain under pressure at least until the spring and summer months in the United States when the possibility of weather-related crop production risk and uncertainty may provide more support.

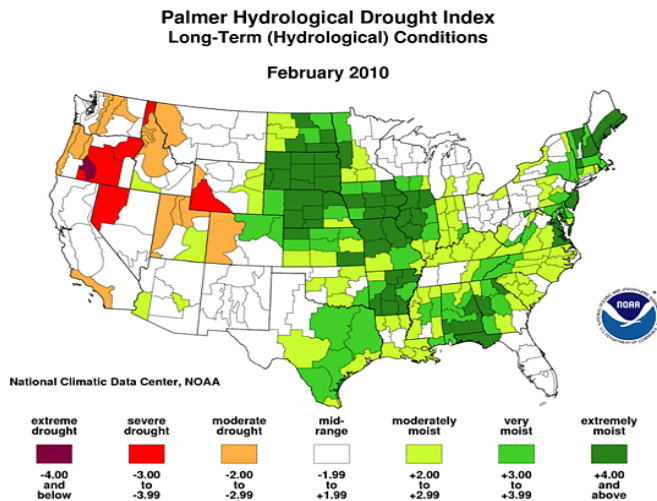
In the midst of mostly negative World grain market supply-demand information, there was some positive news for soybeans in this report, and also some supportive factors for both corn and wheat when weather and excessive soil moisture conditions in the U.S. are taken into consideration. Strong export demand for U.S. soybeans and soybean products to date in the 2009/10 marketing year has led to a reduction in U.S. soybean ending stocks – which is supportive for soybean prices. Although export demand for U.S. corn has been slower than previously expected, uncertainty about unharvested 2009 corn production and worries about potentially wet spring field conditions may provide support for corn prices in coming months. A number of important supply-related questions pertaining to the final size and quality of the U.S. 2009 corn crop were not addressed in the March 10th WASDE report. These questions pertain the impact of a) possible quality deterioration of some 2009 corn supplies that are now in storage or are still unharvested, b) potential production losses on as much as 500-650 million bushels of the 2009 U.S. crop corn that are still unharvested in the central, western and northern Corn Belt, and c) the still remote possibility of abandonment of unharvested 2009 crop corn acres in Spring 2010 due to wet soils and the subsequent need for farmers to begin planting the 2010 corn crop.

Palmer Hydrological Drought Index readings for February 2010 continue to indicate that large sections of the Corn Belt, including all of Iowa and South Dakota, and large areas in Illinois, Nebraska and North Dakota are still rated to be “very moist” to “extremely moist” (Figure 1).

Absent other efforts “beyond the ordinary” by the USDA to conduct additional field surveys to determine the impact of these weather and soil condition-related factors, it continues to seem that questions about the size of the 2009 corn crop will not be fully addressed by the USDA until it releases its grain stocks reports on March 31st and/or June 30th. If wet conditions in February-early March prove to eventually hinder old-crop corn harvesting progress, it is likely that the March 31st grain stocks report (based on surveys taken in February) still will not fully address this issue. As a result, it continues to appear that questions about U.S. feedgrain production for the 2009/10

marketing year are likely to persist until the June 30th U.S. grain stocks report, and could contribute to higher levels of U.S. corn market volatility in the Spring and Summer months of 2010.

Figure 1. Palmer Hydrological Drought Index – Long Term Hydrological Conditions (Source: NOAA)



Note: The Palmer Hydrological Drought Index maps show hydrological long term cumulative drought and wet conditions as of February 2010. Red shading denotes dry conditions while the green shading indicates wet conditions. <http://lwf.ncdc.noaa.gov/oa/climate/research/prelim/drought/palmer.html>

Even with the U.S. wheat market in the midst of a burdensome oversupply situation, there is some reason to not become completely negative on 2010 wheat price prospects. If current wet conditions in North Dakota, South Dakota and parts of Minnesota persist into the spring months, seeding of hard red spring wheat could be delayed – having a positive impact on U.S. wheat market prices (with the offsetting negative impact of making it more difficult for northern plains wheat producers to seed their 2010 crop). Also, U.S. wheat prices have been strongly influenced by both corn and soybean markets as well as U.S. currency fluctuations and the activity of non-commercial traders in commodity futures markets. Any combination of these factors could work together to make profitable wheat marketing opportunities available to Kansas wheat farmers in 2010.

Trends in World Ending Stocks and U.S. Grain Prices

Trends in World ending stocks of coarse grains, wheat and oilseeds over the last four marketing years have been a “driving force” in determining U.S. grain prices (Figures 2 and 3).

World Coarse Grain Stocks and U.S. Corn Prices: With the 2004/05 marketing year as the starting point of reference, combined World ending stocks for coarse grains such as corn, barley and grain sorghum had been trending lower into the 2006/07 marketing year (down to 134 million metric tons or mmt). Over the two year period from the 2005/06 to the 2007/08 marketing years, U.S. corn average farm cash prices increased markedly, from \$2.00 to \$3.04 to \$4.20 per bushel. As World corn, barley and grain sorghum ending stocks have become more abundant in the 2008/09 (182 mmt) and 2009/10 (178 mmt) marketing years, average U.S. cash corn prices have moved sideways to lower, averaging \$4.06 and \$3.60 per bushel (projected), respectively.

World Wheat Stocks and U.S. Wheat Prices: World wheat ending stocks also declined from 152 mmt in 2004/06 to 123 mmt in the 2007/08 marketing year, but then sharply increased over the next two marketing years to a projected level of 197 mmt for 2009/10. Over the same time period, average U.S. cash wheat prices increased sharply from the \$3.40 - \$3.42 range in 2004/05 – 2005/06, to \$4.26 in 2006/07, up to the \$6.40 - \$6.78 range in 2007/08 – 2008/09, and then down to a projected price of \$4.90 in 2009/10.

World Soybean Stocks and U.S. Soybean Prices: World soybean ending stocks have been relatively stable or “flat” from the 2004/05 through the 2009/10 marketing years, ranging from 42 mmt in 2008/09 up to 63 mmt in 2006/07 (with 61 mmt projected for 2009/10). Although some variation around the relatively flat trend in World soybean ending stocks has occurred, there is little or no indication of the same pattern of proportional decline followed by increases in soybean ending stocks that occurred in the World corn-barley-grain sorghum and wheat markets over the same period. While remaining somewhat level during the 2004/05 (\$5.74) and 2005/06 (\$5.66) marketing years, average U.S. cash soybean prices increased moderately in 2006/07 (to \$6.43), but then moved sharply higher in 2007/08 (\$10.10), with moderate declines in prices since then (down to \$9.97 in 2008/09 and \$9.45 in 2009/10). Just as for U.S. corn prices, U.S. average cash soybean prices have trended moderately lower since their highs in 2007/08.

Figure 2. World Ending Stocks of Feedgrains*, Wheat and Soybeans: 2004/05 through 2009/10 Marketing Years (March 10, 2010 USDA WASDE Report)

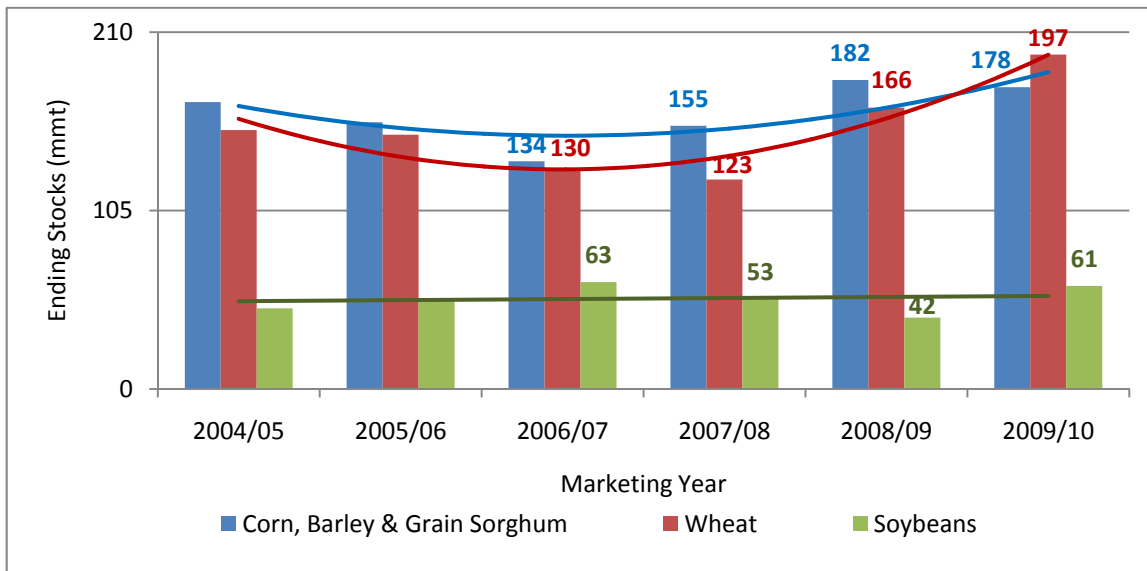
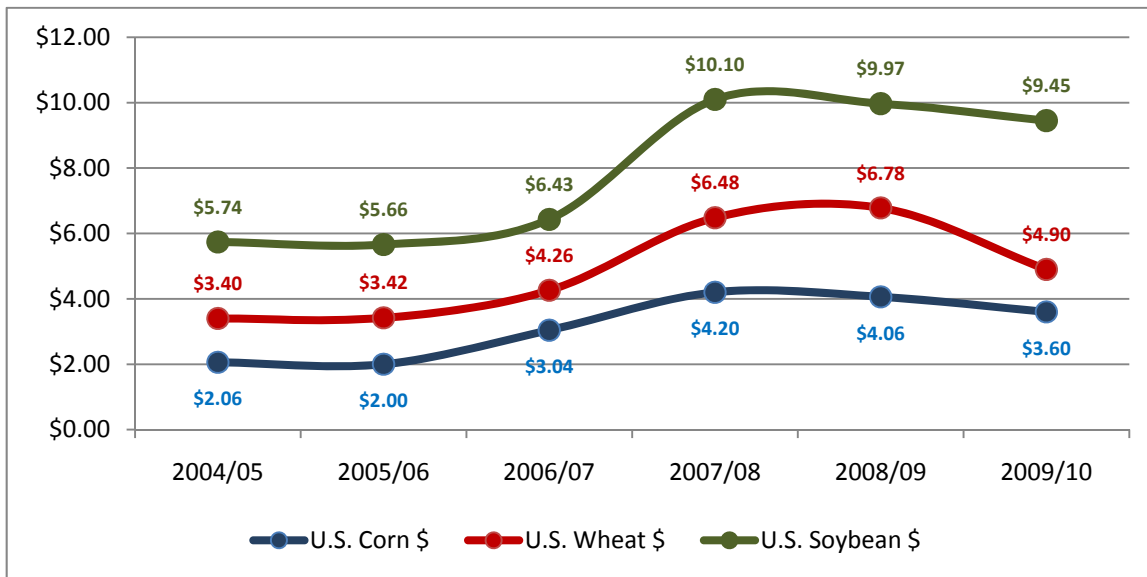


Figure 2. U.S. Average Cash Prices of Corn, Wheat and Soybeans: 2004/05 through 2009/10 Marketing Years (March 10, 2010 USDA WASDE Report)



After moving higher in a jointly parallel pattern during the 2005/06 through 2007/08 marketing years, U.S. corn, wheat and soybean prices have each trended first sideways and then lower into 2009/10. Wheat, with the weakest supply-demand and ending stocks situation in 2009/10, appears to have suffered greater proportional price declines than either soybeans or corn. Over this six year time period, the ratio of U.S. cash soybean to corn prices has been 2.79, 2.83, 2.12, 2.40, 2.46 and 2.63. Considering that corn prices in 2004/05 and 2005/06 were at or below local marketing loan rates and prior to the impact of ethanol production expansion, it seems that the ratio of soybean to corn prices has been incrementally increasing since the 2006/07 marketing year, increasingly favoring soybean prices and profitability.

Corn and Grain Sorghum Supply-Demand Situation

Changes in the U.S. Corn Balance Sheet for 2009/10: Average 2009/10 marketing year corn yields were revised downward 0.3 bushels to 164.9 bushels per acre, based on updated yield estimates for Illinois and Minnesota, and a harvested acreage adjustment for Michigan (Table 1). Projected 2009 U.S. corn production was lowered 20 million bushels (mb) to 13.131 billion bushels (bb), with a decrease in total 2009/10 U.S. corn supplies by the same amount, down to 14.814 bb. Projected 2009/10 U.S. corn exports were decreased 100 mb to 1.9 bb, based on increased competition for world exports from Argentina and South Africa. Total use of U.S. corn in 2009/10 was also decreased by 100 mb, down to 13.015 bb. Ending stocks projections for 2009/10 were increased by 80 mb to 1.799 mb, with 2009/10 ending stocks-to-use increasing 0.7% to 13.8%. The average U.S. farm price for corn was projected to be in the range of \$3.45 to \$3.75 per bushel, a decrease of \$0.20 per bushel on the top end of the price range. The midpoint of the projected 2009/10 average price range (\$3.60 per bushel) declined \$0.10 per bushel.

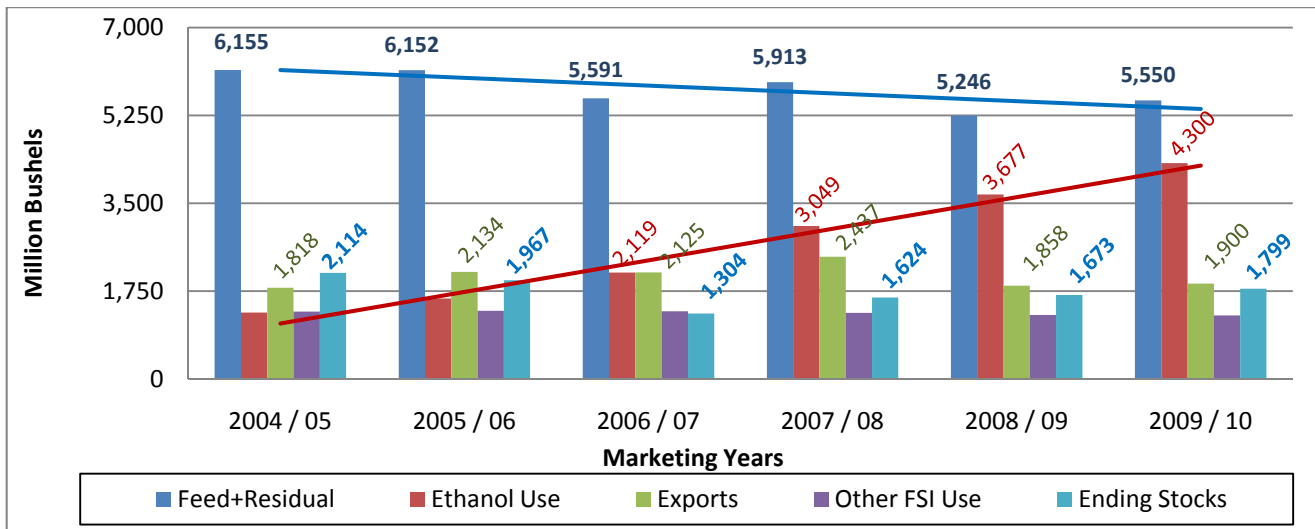
Table 1. U.S. Corn Supply-Demand Balance Sheet: 2007/08 - 2009/10 Marketing Years
(March 10, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	Δ in 2009/10 from Feb. 2010 WASDE
Planted Area (million acres)	93.5	86.0	86.5	--
Harvested Area (million acres)	86.5	78.6	79.6	--
Yield per harvested acre (bushels/acre)	150.7	153.9	164.9	- 0.3 bu/ac
	million bushels			
Beginning Stocks	1,304	1,624	1,673	--
Production	13,038	12,092	13,131	- 20 mb.
Imports	20	14	10	--
Total Supply	14,362	13,729	14,814	- 20 mb.
Ethanol for fuel	3,049	3,677	4,300	--
Non-ethanol Food, Seed & Industrial	1,338	1,276	1,265	--
Exports	2,437	1,858	1,900	- 100 mb.
Feed & Residual	5,913	5,246	5,550	--
Total Use	12,737	12,056	13,015	- 100 mb.
Ending Stocks	1,624	1,673	1,799	+ 80 mb.
% Ending Stocks-to-Total Use	12.8%	13.9%	13.8%	+ 0.7%
U.S. Average Farm Price (\$/bushel)	\$4.20	\$4.06	\$3.45-\$3.75 <i>Midpoint = \$3.60</i>	<i>Midpoint</i> - \$0.10 /bu.

U.S. Export Competitors & World Import Buyers for Corn: The United States remains the top World exporter of coarse grains (including corn, grain sorghum, barley and oats) with a projection of 52 mmt in 2009/10 (47% of World coarse grain exports), followed by Argentina (13.61 mmt), Ukraine (11.02 mmt), Brazil (8.11 mmt), Australia (4.96 mmt), and Canada (3.63 mmt). Major coarse grain importers in 2009/10 are projected to be Japan (19.46 mmt), North Africa/Middle East (19.16 mmt), Mexico (12.4 mmt), Saudi Arabia (9.81 mmt), South Korea (7.57 mmt), and Southeast Asia (4.73 mmt).

U.S. Corn Use and Ending Stocks Trends During the 2004/05 – 2009/10 Period: Over the last six (6) marketing years, U.S. feed and residual use of corn has generally declined, while use of corn for ethanol production has increased over the same period (see Figure 3). Ending stocks of U.S. corn have remained relatively stable over this time period, ranging from 1.344 bb to 2.114 bb, with 1.799 bb projected for 2009/10.

Figure 3. Trends in U.S. Corn Use and Ending Stocks: 2004/05 - 2009/10 Marketing Years
(March 10, 2010 USDA WASDE Report)



Potential Impact of Reduced 2009 U.S. Corn Production: As discussed in previous issues of the K-State Extension Grain Market Situation and Outlook newsletter posted on the Agmanager website, if in the March or June 2010 U.S. grain stocks reports it is found that the size of the 2009 U.S. corn crop is reduced by 200, 400 or 600 million bushels due to late harvest, in-field crop losses or abandonment, or storage quality problems, then it can be assumed that U.S. corn ending stocks projections for the 2009/10 marketing year would be reduced by similar amounts. If there is otherwise no reduction in total U.S. corn usage, a 200 million bushel reduction in projected 2009 corn production would lower the 2009/10 U.S. corn ending stocks figure from 1.799 billion to 1.599 billion bushels, and lower ending stocks-to-use projections to 12.3%. Similarly, a 400 million bushel reduction would lower 2009/10 ending stocks to 1.399 billion bushels and 10.7% stocks-to-use level. A 600 million bushel reduction would lower 2009/10 ending stocks to 1.199 billion bushels and 9.2% stocks-to-use level.

As has also been stated in previous newsletters, in the event of such sizable reductions in 2009/10 U.S. corn supplies and stocks, it is likely that new crop CBOT December 2010 corn futures prices would be positively affected in the late Spring – Summer months, and that the U.S. feedgrain market would be all that much more sensitive and volatile in response to either a) wet soil-induced delayed planting conditions in the spring months, or b) weather threats to 2010 feedgrain crop production in the summer months.

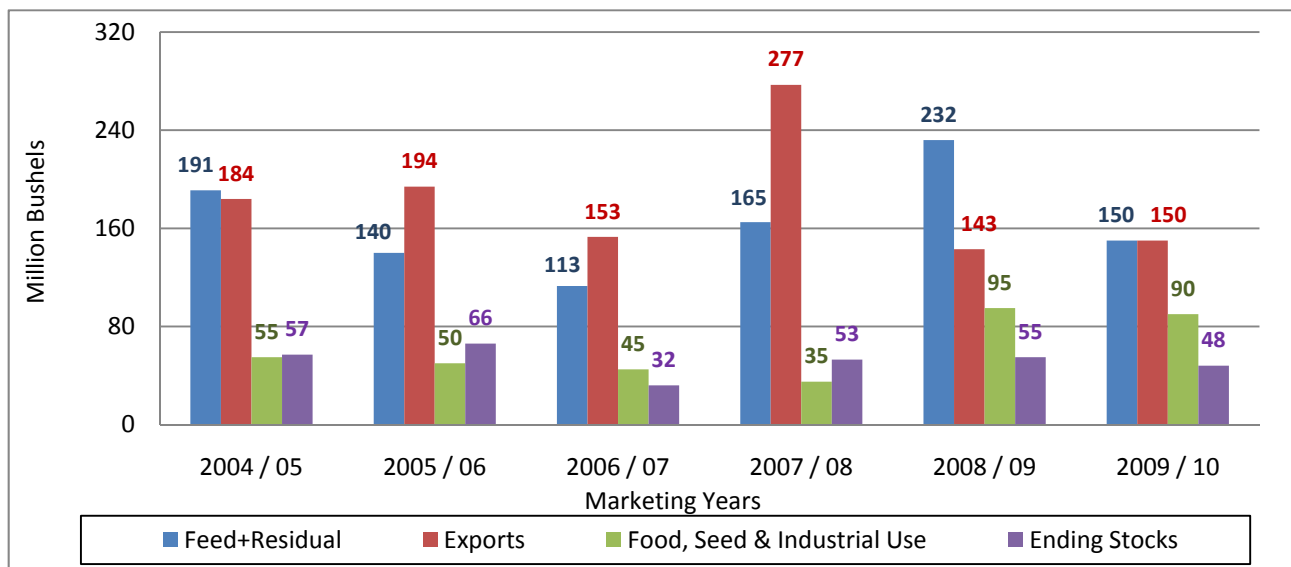
Changes in the U.S. Grain Sorghum Balance Sheet for 2009/10: The USDA made no changes in its U.S. Grain Sorghum supply-demand balance sheet except for lowering its 2009/10 price projection (Table 2). The USDA projected range of U.S. average grain sorghum prices for the 2009/10 marketing year is \$3.05 to \$3.35 per bushel, down \$0.05 on the lower end of the range, and down \$0.15 on the upper end of the range. The midpoint of the 2009/10 average price range (\$3.20 per bushel) declined \$0.20 per bushel.

Table 2. U.S. Grain Sorghum Supply-Demand Balance Sheet: 2007/08 - 2009/10 Marketing Years
(March 10, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	Δ in 2009/10 from Feb. 2010 WASDE
Planted Area (million acres)	7.7	8.3	6.6	--
Harvested Area (million acres)	6.8	7.3	5.5	--
Yield per harvested acre (bushels/acre)	73.2	65.0	69.4	--
	million bushels			
Beginning Stocks	32	53	55	--
Production	497	472	383	--
Total Supply	530	525	438	--
Food, Seed & Industrial	35	95	90	--
Exports	277	143	150	--
Feed & Residual	165	232	150	--
Total Use	477	471	390	--
Ending Stocks	53	55	48	--
% Ending Stocks-to-Total Use	11.1%	11.6%	12.3%	--
U.S. Average Farm Price (\$/bushel)	\$4.08	\$3.20	\$3.05-\$3.35 <i>Midpoint = \$3.20</i>	<i>Midpoint - \$0.20/bu</i>

U.S. Grain Sorghum Use and Ending Stocks Trends During the 2004/05 – 2009/10 Period: Year to year levels of U.S. grain sorghum use and ending stocks are shown in Figure 4. Ending stocks for U.S. grain sorghum have remained in the range of 32 to 66 million bushels during the 2004/05 to 2009/10 period, with 48 mb of ending stocks (12.3% stocks to use) projected for 2009/10. A more detailed discussion of U.S. grain sorghum usage trends was provided in the February 10th K-State Grain Market Outlook newsletter.

Figure 4. Trends in U.S. Grain Sorghum Use and Ending Stocks Over the 2004/05 - 2009/10 Marketing Years (March 10, 2010 USDA WASDE Report)



Wheat Supply-Demand Situation

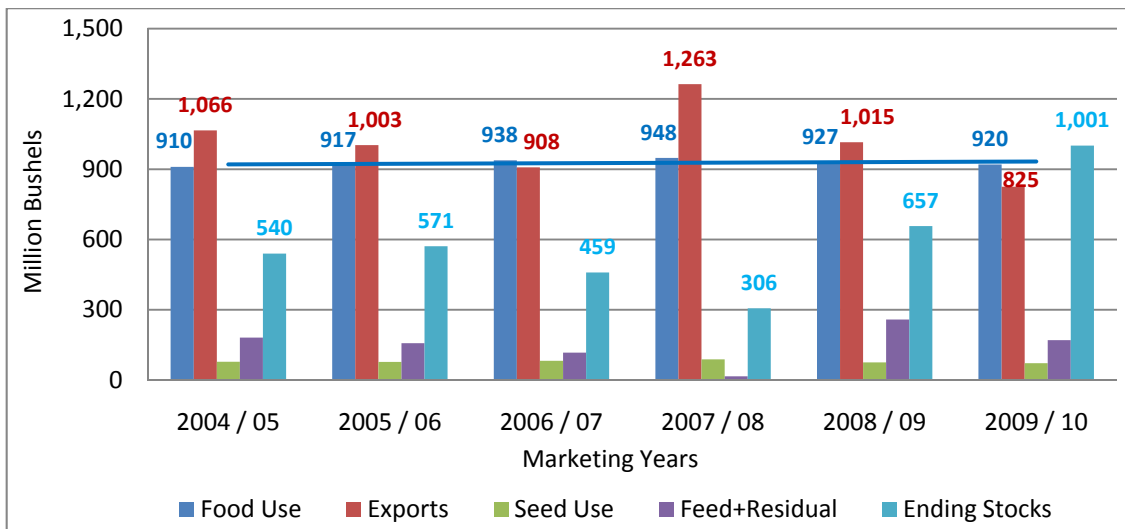
Changes in the U.S. Wheat Sheet for 2009/10: The USDA made no U.S. wheat production or supply changes in its projections for the 2009/10 marketing year, but did make minor adjustments in domestic food use, total use, and ending stocks (Table 3). Domestic use of U.S. wheat for food was dropped by 20 mb to 920 mb for the 2009/10 marketing year, based on high wheat flour extraction rates and declines in U.S. per capita wheat consumption. Although 2009/10 wheat exports were unchanged at 825 mb, U.S. hard red winter wheat exports were increased by 10 mb, with an offsetting decrease in U.S. white wheat exports. Projections of U.S. wheat ending stocks for the 2009/10 marketing year were raised by 20 mb to 1.001 bb. Ending stocks-to-use for U.S. wheat in 2009/10 equals 50.4%, an increase of 1.5% from the February 2010 USDA WASDE report. The USDA projected 2009/10 marketing year average U.S. farm prices for wheat to be in the range of \$4.80 to \$5.00 per bushel, an increase of \$0.05 on each side of the range.

Table 3. U.S. Wheat Supply-Demand Balance Sheet: 2007/08 - 2009/10 Marketing Years
(March 10, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	Δ in 2009/10 from Feb. 2010 WASDE
Planted Area (million acres)	60.5	63.2	59.1	--
Harvested Area (million acres)	51.0	55.7	49.9	--
Yield per harvested acre (bushels/acre)	40.2	44.9	44.4	--
	million bushels			
Beginning Stocks	456	306	657	--
Production	2,051	2,499	2,216	--
Imports	113	127	115	--
Total Supply	2,620	2,932	2,988	--
Food Use	948	927	920	- 20 mb.
Seed Use	88	75	72	--
Exports	1,263	1,015	825	--
Feed & Residual	16	258	170	--
Total Use	2,314	2,275	1,987	- 20 mb.
Ending Stocks	306	657	1,001	+ 20 mb.
% Ending Stocks-to-Total Use	13.2%	28.9%	50.4%	+ 1.5%
U.S. Average Farm Price (\$/bushel)	\$6.48	\$6.78	\$4.75-\$4.95 <i>Midpoint = \$4.85</i>	<i>Midpoint + \$0.05 /bu.</i>

U.S. Wheat Use and Ending Stocks Trends During the 2004/05 – 2009/10 Period: Over the last six (6) marketing years, U.S. food use of wheat has been nearly level, ranging from 910 mb to 948 mb (Figure 5). Exports of U.S. wheat have declined from 1.263 bb to 1.105 bb to 825 mb from 2007/08 to the 2009/10 marketing years, while U.S. wheat ending stocks have increased from 306 mb to 657 mb to 1.001 bb over the same period (Figure 5).

Figure 5. Trends in U.S. Wheat Use and Ending Stocks: 2004/05 - 2009/10 Marketing Years
 (March 10, 2010 USDA WASDE Report)



U.S. Export Competitors & World Import Buyers for Wheat: The United States remains the largest individual country in the World in terms of wheat exports with a projection 22.45 mmt in 2009/10 (18% of World wheat exports), followed by the EU-27 (19.0 mmt), Canada (18.5 mmt), Russia (18.0 mmt), Australia (15.0 mmt), Ukraine (9.0 mmt), Kazakhstan (7.5 mmt) and Argentina (4.0 mmt). Major World wheat importers in 2009/10 are projected to be North Africa (19.05 mmt), selected Middle East countries (17.65 mmt), Southeast Asia (12.25 mmt), Brazil (6.5 mmt), the EU-27 (6.5 mmt), and sections of the 12 countries making up the Former Soviet Union (5.5 mmt).

Soybean Supply-Demand Situation

Changes in the U.S. Soybean Balance Sheet for 2009/10: The USDA made slight adjustments in projections of U.S. soybean supplies for 2009/10 - lowering 2009 production by 2 mb to 3.359 bb; raising soybean imports by 7 mb to 15 mb; and increasing total U.S. soybean supplies by 5 bb to 3.512 bb (Table 4). On the demand side, the USDA raised U.S. domestic crush by 10 mb to 1.73 bb; raised U.S. soybean exports by 20 mb to 1.42 bb; decreased seed use by 5 mb to 89 mb; and increased total U.S. soybean use by 25 mb to 3.322 bb for the 2009/10 marketing year. As a result of these changes, projected U.S. soybean ending stocks were decreased by 20 mb to 190 mb, equaling a 5.7% ending stocks-to-use projection for 2009/10 U.S. soybeans. This ending stocks-to-use projection amounted to a decrease of 0.7% from the February 2010 USDA WASDE report. The USDA projected U.S. average farm prices for soybeans to be in the range \$8.95 to \$9.95 per bushel, a narrowing of \$0.25 per bushel on both ends of the price range from the February 2010 USDA WASDE report.

Following the trend set in the February 2010 WASDE report, the intertwined actions of lowering U.S. soybean ending stocks and tightening of supplies for the 2009/10 marketing year are likely to provide some support for new crop CBOT November 2010 soybean futures entering the spring planting season U.S. corn and soybeans. Market expectations continue to be that the pace of U.S. soybean exports will eventually decline during the late March-April period once the bulk of Brazilian and

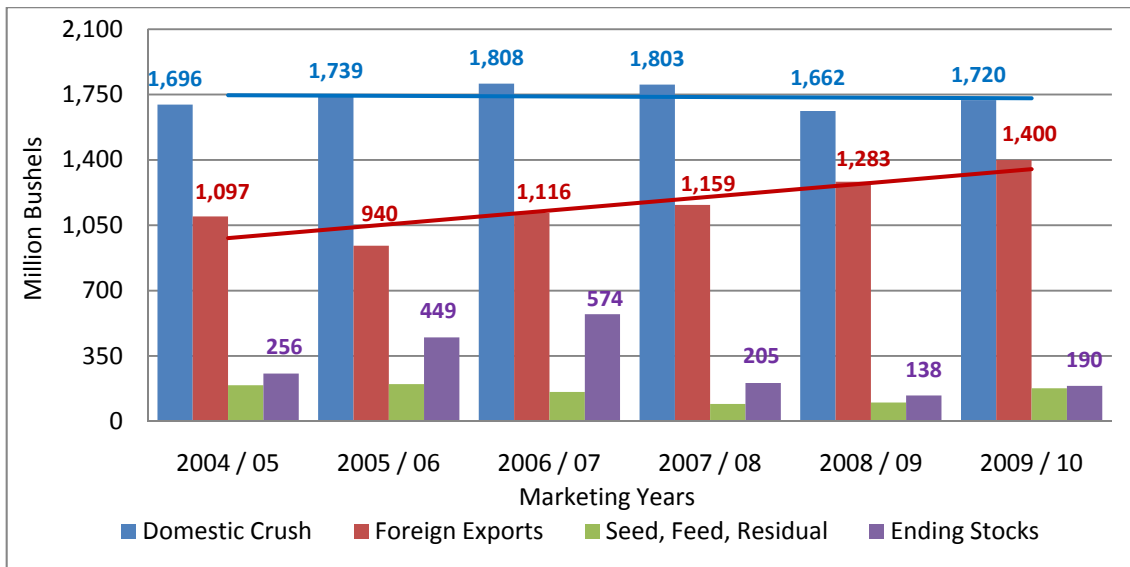
Argentine soybeans are harvested and available to export. The degree to which this price decline may occur will depend on a) the continued strength (or lack thereof) of soybean and soybean product export demand from China and other U.S. soybean export buyers, as well as b) trends in U.S. dollar-related currency exchange rates.

Table 4. U.S. Soybean Supply-Demand Balance Sheet: 2007/08 through 2009/10 Marketing Years
(March 10, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	Δ in 2009/10 from Feb. 2010 WASDE
Planted Area (million acres)	64.7	75.7	77.5	--
Harvested Area (million acres)	64.1	74.7	76.4	--
Yield per harvested acre (bushels/acre)	41.7	39.7	44.0	--
	million bushels			
Beginning Stocks	574	205	138	--
Production	2,677	2,967	3,359	- 2 mb.
Imports	10	13	15	+ 7 mb.
Total Supply	3,261	3,185	3,512	+ 5 mb.
Domestic Crushings	1,803	1,662	1,730	+ 10 mb.
Exports	1,159	1,283	1,420	+ 20 mb.
Seed	89	90	89	- 5 mb.
Residual	5	12	83	--
Total Use	3,056	3,047	3,322	+ 25 mb.
Ending Stocks	205	138	190	- 20 mb.
% Ending Stocks-to-Total Use	6.7%	4.5%	5.7%	- 0.7%
U.S. Average Farm Price (\$/bushel)	\$10.10	\$9.97	\$8.95-\$9.95 <i>Midpoint = \$9.45</i>	<i>Midpoint</i> No Change

U.S. Soybean Use and Ending Stocks Trends During the 2004/05 – 2009/10 Period: While the multi-marketing year level trend for U.S. domestic soybean crush and the increasing trend for U.S. soybean exports still hold true, it is worthwhile to note that U.S. soybean ending stocks for the 2008/09 and 2009/10 marketing years are lower than in any other U.S. soybean marketing years since 2004/05 (Figure 6). This trend is indicative of the impact of strong U.S. soybean and soybean product exports to China and elsewhere in the last several years, and of the reliance of the World market on China to continue to support soybean and other oilseed market prices.

Figure 6. U.S. Soybean Use and Ending Stocks: 2004/05 through 2009/10 Marketing Years
 (March 10, 2010 USDA WASDE Report)



U.S. Export Competitors & World Import Buyers for Soybeans: The United States remains the largest individual country in terms of soybean exports with a projection 38.65 mmt in 2009/10 (48% of World soybean exports), followed by Brazil (25.6 mmt) and Argentina (7.0 mmt). Major World soybean importers in 2009/10 are projected to be China (42.5 mmt), the EU-27 (13.0 mmt), Japan (3.95 mmt) and Mexico (3.5 mmt).

Summary

The March 10th USDA WASDE report shows growing levels of World supplies and ending stocks for wheat, coarse grains (including corn and grain sorghum) and soybeans, and signals that World and U.S. grain market prices are likely to remain under pressure at least for the short run (until the spring and summer of 2010). However, plans continue to be for important information to be made available on the quality and quantity of U.S. feedgrains during the March through June-July 2010 time period in future USDA stocks, production and WASDE reports. Likely beginning in mid-March 2010 and lasting on through the summer months, the U.S. and World grain market will begin to increasingly focus on weather and fieldwork conditions in the United States. Grain markets typically are concerned about how these factors might affect both late 2009 crop harvest progress and early field work conditions for U.S. 2010 summer crops. This will be particularly the case for U.S. corn, soybean and hard red spring wheat.