

Grain Market Outlook Information - KSU Agricultural Today Radio Program

Daniel O'Brien, Extension Agricultural Economist, Kansas State University

Friday, January 20th, 2012

I. Mixed “Signals” / “Headlines” in Grain Markets over Last Week (Articles at end of document)

• Future Grain Market Direction

- US Crop Report Triggers Price Falls (January 12th – Post Report Market Perspectives)
- Agricultural Commodities To "Muddle Through" 1Q 2012 – Morgan Stanley Agricultural Analysts (January 18th article)

• Corn Market Direction

- Rain Brings Some Relief To Argentina's Parched Fields (January 11th article)
- Argentina Exchange Says Corn Planting Slows Due To Dry Weather (January 13th article)
- Rain (In South America) Falls on Corn's Parade (January 13th article)
- IGC Raises World 11-12 Corn Output View 7.7M Tons To 860.8M Tons (January 19th article)
- Southern Brazil Rains Renew Hopes For Corn, Soybean Crops (January 19 article)
- South Korea Buys 230,000 Tons Corn As Prices Fall (January 19 article)

• Soybean Export Demand from China

- China To Raise Self-Sufficiency In Edible Oil, Pursue Overseas Resources (January 13th article)
- China's economy grows at slowest rate in more than two years (January 17th article)

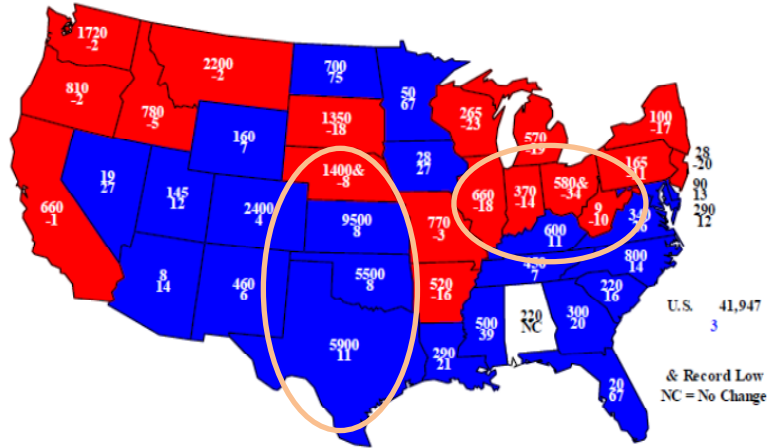
• Wheat Market Direction

- Drought damages 33 pct of Ukraine winter grain crops (January 17th article)
- WHEAT STOCKS RISE - IGC 2012 wheat prod est. (January 19th article)

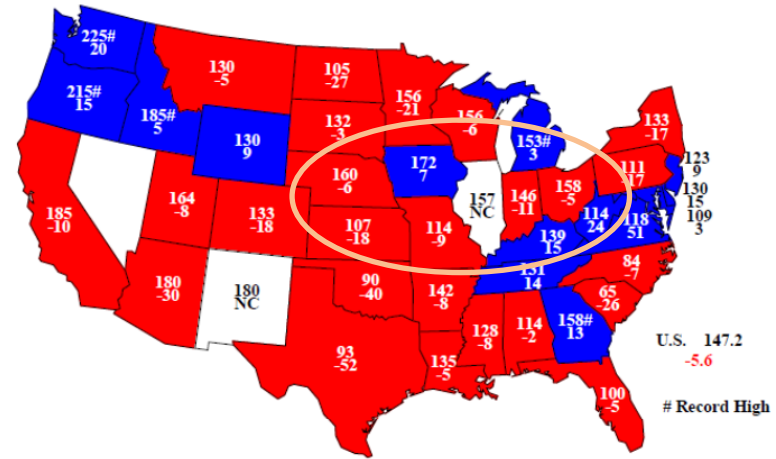
II. Followup on January 12th USDA Reports:

U.S. 2012 U.S. Winter Wheat Acres, 2011 Crop Yields-Hay Stocks & World Crop Production

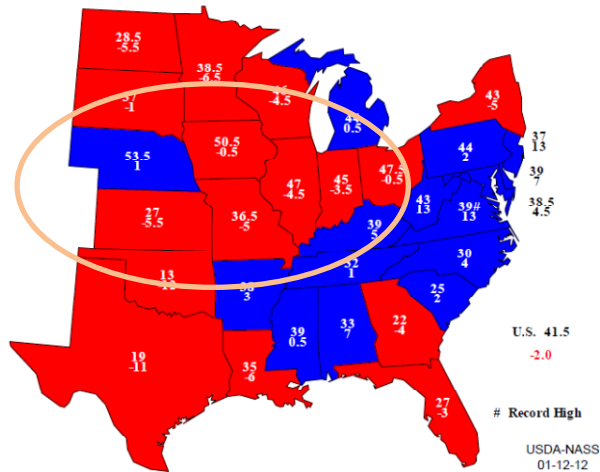
Winter Wheat Planted, 2012
Acres(000) and Percent Change From Previous Year



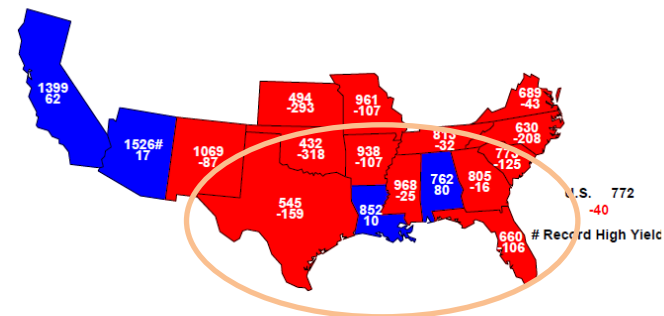
Corn for Grain Yields, 2011
Bushels and Change From Previous Year



Soybean Yields, 2011
Bushels and Change From Previous Year

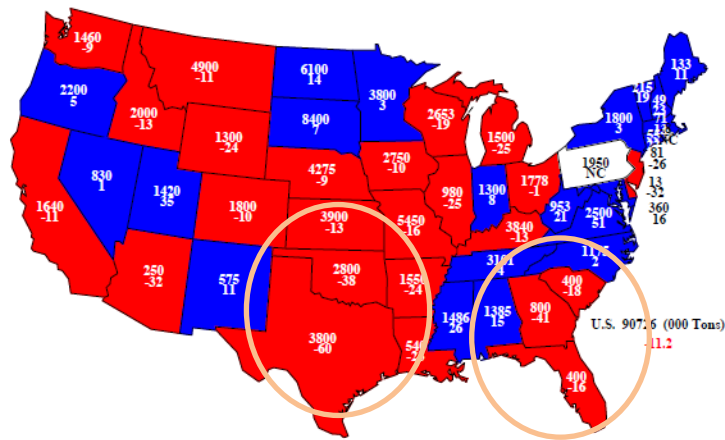


All Cotton Yield, 2011
Pounds and Change From Previous Year



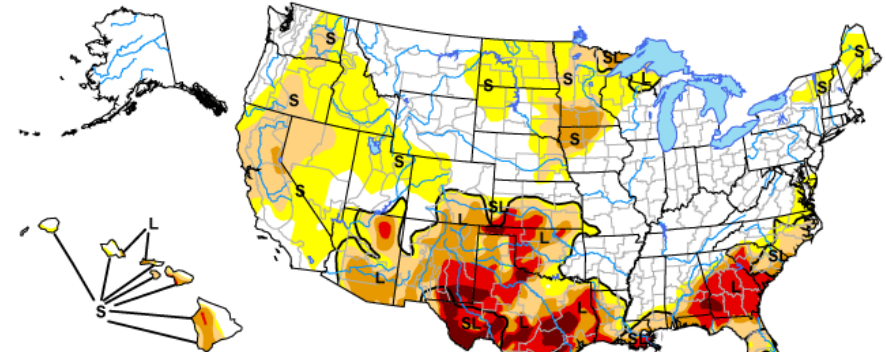
2011 All Hay Stocks

Stocks (000) and Percent Change From Previous Year



U.S. Drought Monitor

January 17, 2012
Valid 7 a.m. EST



Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:

- ~ Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



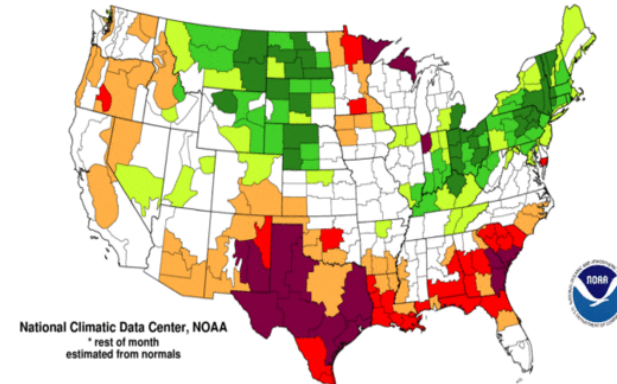
Released Thursday, January 19, 2012

<http://droughtmonitor.unl.edu/>

Author: Laura Edwards, WRCC, South Dakota State University

Palmer Hydrological Drought Index Long-Term (Hydrological) Conditions

January 2012: through January 14, 2012*



National Climatic Data Center, NOAA
* rest of month estimated from normals



World Wheat Production

Country or Region	2010/11 estimate	2011/12 forecast	Change from previous month	Change from 2010/11
	<i>Million Tons</i>		<i>Percent</i>	<i>Percent</i>
World	651.7	691.5	0.4	6.1
United States	60.1	54.4	0.0	-9.4
Foreign	591.6	637.1	0.4	7.7
Argentina	16.1	14.5	0.0	-9.9
Canada	23.2	25.3	0.0	9.0
Australia	27.9	28.3	0.0	1.5
European Union	135.7	137.5	0.0	1.3
Russian Federation	41.5	56.2	0.4	35.5
Ukraine	16.8	22.0	0.0	30.6
Kazakhstan	9.7	22.5	7.1	132.0
China	115.2	117.9	0.0	2.4
India	80.8	85.9	0.0	6.3

World Corn Production

Country or Region	2010/11 estimate	2011/12 forecast	Change from previous month	Change from 2010/11
	<i>Million Tons</i>		<i>Percent</i>	<i>Percent</i>
World	827.4	868.1	0.1	4.9
United States	316.2	313.9	0.4	-0.7
Foreign	511.2	554.1	-0.1	8.4
Argentina	22.5	26.0	-10.3	15.6
Brazil	57.5	61.0	0.0	6.1
Mexico	21.1	20.5	0.0	-3.0
Canada	11.7	10.7	0.0	-8.7
European Union	55.8	64.3	0.7	15.3
FSU-12	18.3	33.3	6.0	81.8
Ukraine	11.9	22.5	7.1	88.8
South Africa	10.9	12.5	0.0	14.4
China	177.2	191.8	0.0	8.2

World Soybean Production

Country or Region	2010/11 estimate	2011/12 forecast	Change from previous month	Change from 2010/11
	<i>Million Tons</i>		<i>Percent</i>	<i>Percent</i>
World	264.2	257.0	-0.9	-2.7
United States	90.6	83.2	0.3	-8.2
Foreign	173.6	173.8	-1.4	0.1
Argentina	49.0	50.5	-2.9	3.1
Brazil	75.5	74.0	-1.3	-2.0
Paraguay	8.3	7.6	0.0	-8.4
India	9.8	11.0	0.0	12.2
China	15.1	13.5	0.0	-10.6

II. March 2012 Corn Futures (CBOT) (January 18, 2011 to January 19, 2012)



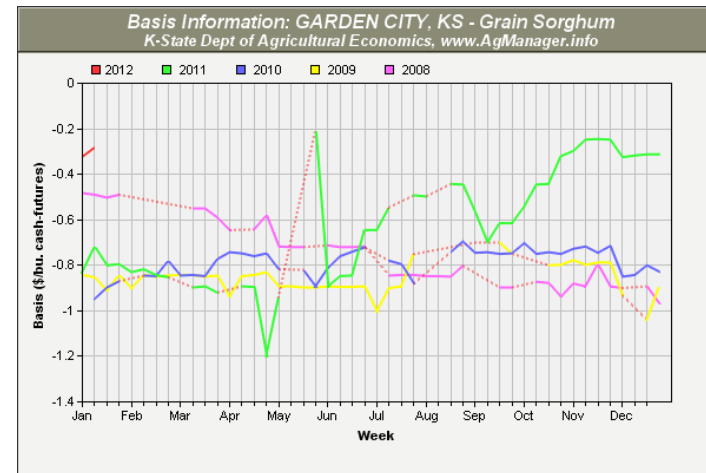
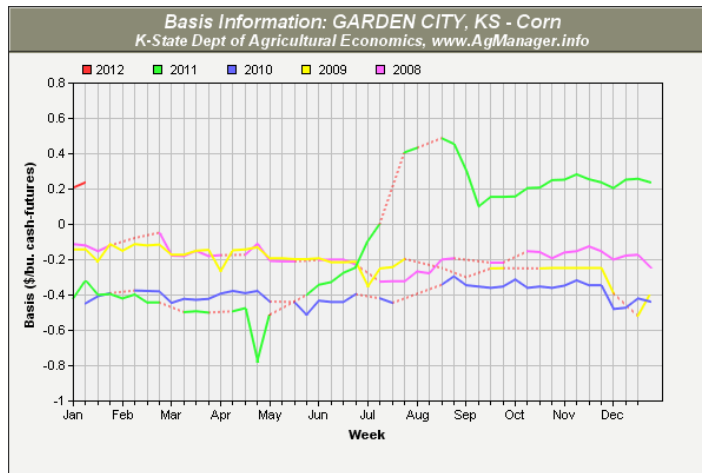
Key Corn Supply-Demand Issues:

❖ Current focus

- Carryover impact of USDA January 12th report (Neutral to negative)
 - Moderation of U.S. corn ethanol demand in MY 2011/12
- Potential US Corn Exports: China? Elsewhere? Possible + U.S. export sales response to 2012 South American crop production problems

❖ Market Attention eventually to turn to 2012 U.S. Corn Crop Prospects

- Corn versus soybean competition for 2012 U.S. crop acreage in March-May 2012
 - CBOT NOV12 Soybean / DEC12 Corn \$Ratio = $\$11.94 / \$5.57 = 2.14$
 - Favoring soybeans now more than during last few months
- Prospects for record high corn planted acreage (> 93.5 mln ac.), a return to trend line yields (155-160 bu/ac), increased production (13.5+ bb production), increased use & ending stocks (1.0 bb plus ending stocks for MY 2012/13), & pressure on corn \$s in fall of 2012.



March 2012 eHRW Wheat Futures (KCBT) (January 18, 2011 to January 19, 2012)



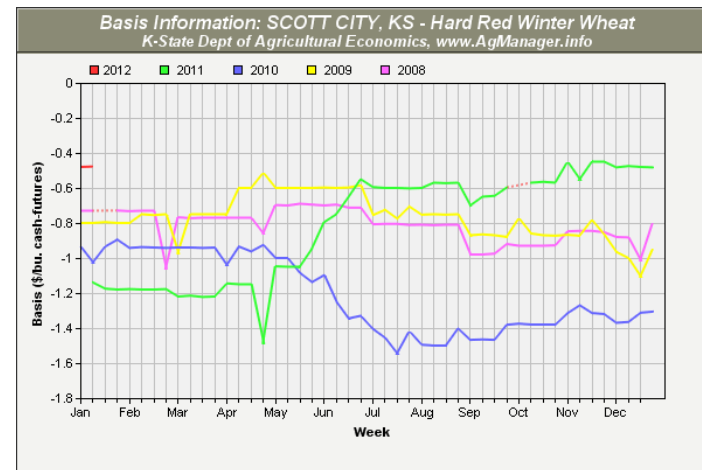
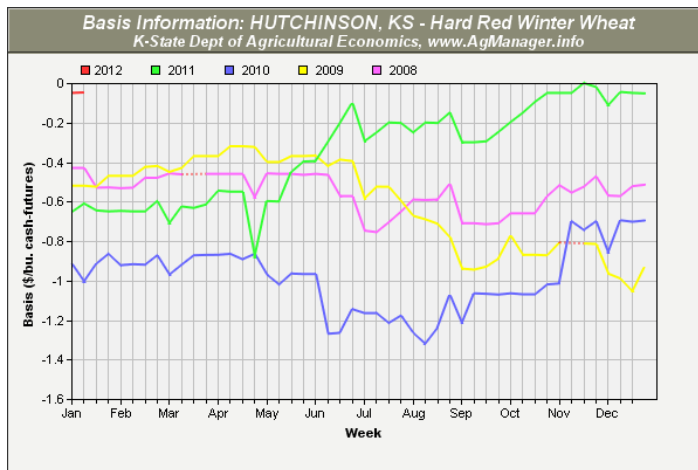
Key Wheat Supply-Demand Issues:

❖ Current focus

- Carryover impact of USDA January 12th report (negative)
 - Limited U.S. wheat export demand in MY 2011/12 (strong competition)
- Growing world wheat stocks, Limited major crop problems at this time (possibly in U.S. HRW & Ukraine)
 - **BUT**, remembering 2010, market prospects can change quickly with drought, etc.

❖ Focus on World/U.S. 2012 Wheat Crop & S-D Prospects in Spring

- 2012 U.S. Wheat Supply-Demand Prospects: Uncertainty about production prospects in all classes (HRW, SRW, HRS, Durum, etc.).
 - US drought in southern & central plains, La Nina continuing, etc
 - Moisture received in the U.S. central & southern plains has ease concerns through spring 2012, but will need moisture in spring & summer 2012 in drought damaged areas.

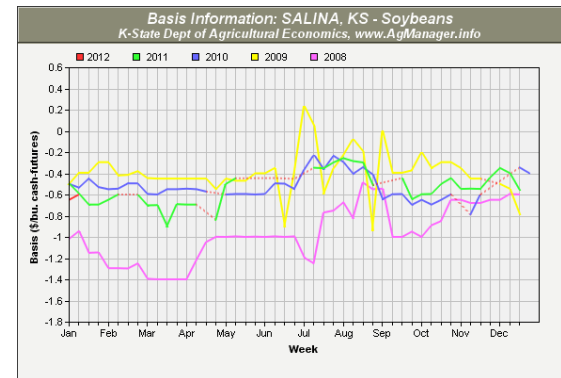
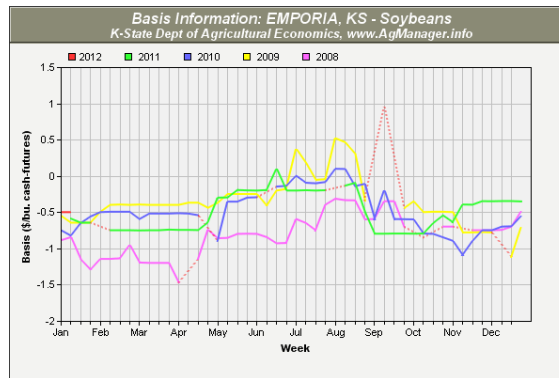


March 2012 eSoybean Futures (CBOT) (January 18, 2011 to January 19, 2012)



Key Soybean Supply-Demand Issues:

- ❖ **“Bullish” U.S. Soybean Export Shipments** BUT uncertain prospects (Concerns over dry 2012 crop conditions Argentina & Brazil)
- ❖ **Unanswered Questions about 2012 World & U.S. Soybean & Soy Product Export Demand** – Involving Chinese import strength, South American production (La Nina & planted area, etc.)
 - Dry growing conditions in South America (Argentina & Brazil) affecting soybean plantings & establishment.
- ❖ **Attention turning to 2012 U.S. & So. American Soybean Prospects**
 - Corn versus soybean competition for 2012 U.S. crop acreage in March-May 2012
 - CBOT NOV12 Soybean / DEC12 Corn \$Ratio = \$11.94/\$5.57 = 2.14
 - Favoring soybeans now more than during last few months



Drought damages 33 pct of Ukraine winter grain crops 1-17-2012 03:09

KIEV, Jan 17 (Reuters) - About a third of Ukraine's winter grain crops are in poor condition as of mid-January due to a severe drought that hit the country during sowing, analyst UkrAgroConsult said on Tuesday. Some 83.3 percent of the sown area had sprouted, the consultancy said in a report. That is down from more than 90 percent at the same date a year earlier.

UkrAgroConsult said 67 percent of the sprouted crops were in good or satisfactory condition while 33 percent were in a poor state. The share of poor crops totalled 7 percent in January, 2011. "No sprouts have come up on an area of 1.402 million hectares and, specialists believe, this area is subject to reseeding, because all viable seeds germinated in the soil and sprouted during the warm December period," the consultancy said.

Ukraine's Farm Ministry last month said at least 2.0 million hectares of damaged winter crops would be reseeded this spring mostly with barley and maize. The ministry said it would persuade farmers to increase the area sown for spring barley in 2012 by 260,000 hectares to 2.85 million, maize by 672,000 hectares to 4.3 million, and other cereals by 141,000 hectares to 951,000. Ukraine harvested a record 56.7 million tonnes of grain in clean weight in 2011 against 39.2 million in 2010. The harvest included 22.4 million tonnes of wheat, 22.3 million tonnes of maize and 9.1 million tonnes of barley.

(Reporting by Pavel Polityuk; editing by Jason Neely) ((pavel.polityuk@thomsonreuters.com)(+380 44 2449150))

Agricultural Commodities To "Muddle Through" 1Q 2012 – Morgan Stanley Agricultural Analysts (January 18th article)

Agricultural commodities will at best "muddle through" the first quarter 2012 as the global economic outlook remains very weak, Morgan Stanley said. The bank said the sector will suffer from headwinds to growth being caused by the ongoing European debt crisis, upcoming fiscal tightening in the U.S. and worldwide deleveraging that has led to tighter emerging market credit. However, Morgan Stanley said it remains bullish on grains, as food demand remains comparatively inelastic and constrained supply across many of the world's major exporters is likely to keep prices strong through the first half of the year.

Perspectives on the December 9th 2011 USDA WASDE Report for Soybeans

- The December 9th USDA reports projected a marginal decrease in U.S. soybean crush and exports, and a decline in U.S. soybean price prospects for the remainder of the 2011/12 marketing year (down \$0.90/bu to \$10.70-12.70 /bu).
 - Prospects for record tight ending stocks and % stocks-to-use of U.S. soybeans for MY 2011/12 have moderated since the summer months, although the projected range of U.S. soybean prices are still at or near record highs.
 - Strong export competition from South America is impacting U.S. soybean export prospects and projected supply-demand balances for MY 2011/12. Developing dry conditions in Brazil and Argentina may impact 2012 South American soybean crops & price prospects
 - These reports also indicate a co-dependence of soybean market prospects between the United States, Brazil and Argentina, with any weather threats to soybean production in these countries likely having a marked impact on World soybean prices.

half 2012, Morgan Stanley said, after a year of robust auctions from the strategic reserve in an effort to fight domestic inflation.

Argentina Exchange Says Corn Planting Slows Due To Dry Weather (January 13th article)

The Buenos Aires Cereals Exchange said Thursday that corn planting has slowed due to a drought that has already damaged a portion of the developing crop. Argentina is the world's second-leading corn exporter behind the U.S. and ranks third in soybean exports. Export taxes on grains and oilseeds are an important source of government revenue.

In its weekly crop report, the exchange said that farmers have planted about 84.8% of the 3.74 million hectares they are expected to sow with corn in the 2011-12 season. Planting stood at 83.5% in last week's report. The exchange said it is still too early to say whether rains earlier this week across a wide swath of the farm belt will allow corn farmers to resume planting. "There are scant days left to finish planting in a large part of the farm belt and only the northern provinces can extend that period further," it said.

Earlier Thursday, the U.S. Department of Agriculture cut its forecast for Argentina's 2011-12 corn harvest to 26 million metric tons from 29 million a month ago because "extended dryness since late November and periods of extreme heat in late December and early January have sharply reduced yield prospects." The exchange said rains provided some relief for the soybean crop in a large part of Argentina's most productive farming provinces. The exchange said planting has finished on 85.6% of the 18.85 million hectares it expects farmers to sow with soybeans this season. Planting is expected to resume shortly, it said.

The USDA also reduced its forecast for Argentina's 2011-12 soybean crop to 50.5 million tons from 52 million tons. Cool winds from the south-southwest during the next week are expected to lift the heat wave that has baked fields in recent weeks, according to the exchange. But the eventual return of warmer winds from the north will blanket the country's agricultural hinterland in hot weather.

The exchange said the recently completed wheat harvest stood at 14 million tons.

For the sunseed harvest, the exchange maintained its forecast of 3.5 million tons.

China To Raise Self-Sufficiency In Edible Oil, Pursue Overseas Resources (January 13th article)

China aims to increase domestic oil output to 24.4 million tons by 2015 from 20.1 million in 2010. China will encourage domestic companies to develop overseas oilseed resources and establish overseas oil processing facilities, part of its efforts to ensure increasing domestic demand for edible oils.

Meanwhile, the government is aiming to increase domestic output of oils from rapeseed, peanuts, cotton (for cottonseed oil) and sunflowers as well as to promote the development of oil production from corn, rice bran and other plants to reduce its dependence on imports, according to a government development plan.

China is the world's largest soybean importer, accounting for about 60% of the global soybean trade. Meanwhile, the nation's edible oil self-sufficiency rate is lower than a government-set threshold of 40%. China is aiming to produce 24.4 million metric tons of edible oils by 2015, 12.6 million tons of which, or about 52% of the target output, is to be made from locally produced oilseeds, according to the development plan jointly issued Thursday by the National Development and Reform Commission and the Ministry of Industry and Information Technology. The country produced 20.1 million tons of edible oils in 2010, the NDRC said.

The government will limit annual oilseed processing capacity at 180 million tons by 2015, with soybean crushing capacity to be kept below 95 million tons, according to the development plan. Soybean crushing is facing serious overcapacity problems in China. Its capacity is expected to rise to 125 million tons by the end of 2012, an increase of about 10 million tons compared with end-2011, according to incomplete statistics from the state-backed China National Grain & Oils Information Center. China will strictly control new soybean crushing capacity and shut down outdated facilities, according to the development plan.

Yihai Kerry Investment Co., the Chinese subsidiary of Singapore-based Wilmar International Ltd. (WLMIIY), is the top oilseed crusher in the country, with its market share of the retail edible oil market exceeding 50%. Other major crushers include Cofco Group, Cargill and Bunge.

In 2011, China consumed about 27.5 million tons of edible oils, with only 40% made from local oilseeds, the CNGOIC said.

Rain Falls on Corn's Parade (January 13th article)

Corn bulls are getting drenched. Prices plunged 6.1% Thursday, as the U.S. government startled traders with a higher estimate of the domestic harvest. That came after recent downpours in Argentina eased fears of heat damage to the world's second-largest exporter. The sharp, 40-cents-a-bushel drop -- the daily limit allowed by the Chicago Board of Trade -- put an abrupt end to a rally that had sent corn up 12.5% in less than a month, driven largely by the threat of dry weather in South America and expectations of tighter U.S. supplies.

Other basic agricultural products fell, too, with wheat futures declining 5.6% and soybeans dropping 1.6%. Corn settled at \$6.115 a bushel, a 22% drop from the record hit in June, while wheat and soybeans are down 32% and 19% from their 2011 highs, respectively. Falling prices could temper concerns about food inflation, which spiked in mid-2010 as crop values shot up. The U.N. Food and Agriculture Organization said Thursday its world food price index fell 2% in December, and now stands 11% below its Feb. 2011 peak.

But corn supplies remain tight by historical standards, leaving the market vulnerable if Southern Hemisphere weather woes persist or the 2012 U.S. crop runs into any problems. Corn customers also could view the declines as a buying opportunity. "I wouldn't be surprised to see China come in and import more corn in the coming days," said Hussein Allidina, a commodities analyst at Morgan Stanley.

In its monthly crop report, the U.S. Department of Agriculture boosted its estimate of total 2011 production by 48 million bushels. That is a relatively small portion of a crop now estimated at 12.4 billion bushels, but some analysts expected a decline. The USDA also said corn stockpiles as of Dec. 1 stood at 9.6 billion bushels, more than many analysts thought. Periodic government reports about the corn crop have varied widely and stunned markets a number of times in recent years, sparking skepticism among farmers and analysts as to their reliability.

While the USDA also reduced its estimate of current Argentine production by more than 10%, to 26 million metric tons, due to the earlier dry, hot weather, some believe the damage is even greater. Gustavo Lopez, who monitors crops for the Agritrend consultancy in Buenos Aires, said he is estimating a corn crop of about 25 million metric tons, above last year's production though not as much as Argentina had hoped for at the start of the planting season. "I think the rains have been adequate to avert the worst scenario," said Mr. Lopez.

Troubles could still lie ahead for South American growers. The fertile area of Chacabuco, home to Argentina's National Corn Festival, got about 30 millimeters, or an inch, of rain this week -- but that is about the same amount that fell in December, said Sergio Pinteno, president of the Rural Society of Chacabuco. It is a case of too little, too late for many farmers, he said. "There has already been irreversible damage done to a lot of fields," Mr. Pinteno says. Marcelo Rey, who heads a team of agronomists for Argentina's Grupo Los Grobo, a big farming company, added, "We're seeing zones where potential yields are going to be 30% or 40% below what was anticipated."

In Brazil, another key exporter, a blistering drought has racked the southern state of Rio Grande do Sul. State authorities estimate corn production in Rio Grande do Sul could decline by 40% from last year.

US Crop Report Triggers Price Falls (January 12th – Post Report Market Perspectives)

Higher global grain supplies could signal more downward pressure on food prices after an influential U.S. government report pointed to larger-than-expected domestic stocks and lifted harvest estimates for Europe and Asia. A raft of monthly and quarterly reports released Thursday by the U.S. Department of Agriculture eased concerns about the impact of drought on crops in South America, sending ripples through the agribusiness sector as grain futures fell sharply. The reports came as a United Nations agency said that its global index of food commodity prices hit a record high last year, though it fell 2.4% in December because of bumper crops, slowing demand and the stronger U.S. dollar.

The U.S. government's outlook for corn supplies caught most traders by surprise as the USDA said farmers harvested 12.36 billion bushels in 2011, up slightly from its December estimate. Traders were widely expecting a decrease that would further reflect last year's volatile weather across the Midwest, which included unusually severe spring flooding and then a July heat wave.

Stock prices for fertilizer and farm equipment suppliers slipped Thursday because investors fear that falling grain prices will take some steam out of the red-hot U.S. farm economy. The prospect of cheaper livestock feed costs, however, lifted the stocks of meat companies even though grain prices remain far higher than historical levels.

The grain markets will remain volatile because the carryout is still very tight," said Mike Cockrell, chief financial officer of Laurel, Miss., chicken company Sanderson Farms Inc. (SAFM), whose shares rose more than 7% in the wake of the USDA reports.

The USDA reports show that global grain inventories still remain tight by historical standards, which is why some analysts continue to expect U.S. grain farmers will generate record high revenue from their 2011 crops.

The agency projected world corn supplies by the end of the U.S. summer at 128.1 million metric tons, up nearly one million tons from its December estimate, despite analyst forecasts that it would drop by at least 4 million tons. While the USDA projected a smaller Argentina corn crop due to drought, those losses are offset by larger supplies in China and the Ukraine, the USDA said.

Most of the USDA's changes to its grain forecasts were relatively small, but still triggered big price moves in part because tight corn supplies have traders and food executives on edge. Corn prices fell to their daily limit, with the March delivery contract at the Chicago Board of Trade down 40 cents at \$6.11 1/2 per bushel. "The price reaction says more about the psychology of the markets than any fundamental change in supply and demand," said Michael Swanson, an economist at Wells Fargo & Co. (WFC). However, the response could have "a major impact" this spring if they discourage farmers from planting as much corn as expected, said Joe Vaclavik, analyst with Straits Financial in Chicago.

CBOT wheat futures closed down 36 cents, or 5.6%, to \$6.05 a bushel, while CBOT soybeans closed down 20 1/2 cents to \$11.82 1/2 a bushel. Futures prices remain well above historical levels due to worries about the South American crop and tight U.S. supplies. But with profits sinking at many corn-to-fuel ethanol plants, and many livestock producers operating at a loss, prices are going to have to drop to avoid a supply glut, Vaclavik said.

"That demand, if we stay at these prices, is going to get choked off to an extent that we're going to have more corn than we know what to do with," he said. The U.S. government's estimates were also considered negative for wheat and soybean prices. The USDA increased its projected world wheat stockpile estimate due to higher production in Kazakhstan, Brazil and Russia. It also estimated U.S. winter wheat plantings at 41.9 million acres, up from 40.7 million a year ago despite concerns about severe drought in the southern Plains and wet weather in the eastern Midwest that kept farmers out of their fields this fall. The government also raised U.S. export projections for wheat and corn.

Market analysts were generally not expecting USDA to make any changes to domestic soybean supply estimates, but government forecasters said production was stronger than previously expected. The USDA raised its soybean production estimate slightly, adding that exports and the annual soybean crush would be weaker than expected, pushing projected stockpiles this year up to 275 million bushels. The December forecast was for 230 million bushels.

Rain Brings Some Relief To Argentina's Parched Fields (January 11th article)

Argentina's farmers breathed a sigh of relief on Wednesday after rain fell overnight across some of the most productive regions of the South American nation's drought-stricken farm belt. Argentina is the world's second-leading corn exporter behind the U.S. and ranks third in soybean exports. "Rainfall was decent in parts of Buenos Aires, Cordoba and Santa Fe provinces," said Pablo Mercuri, director of the federal government's national water and climate office. However, in other areas it appeared that precipitation may not have been sufficient to reverse drought damage, he said. "We're evaluating the situation and preparing a report later today that will review the results," Mercuri said.

Farmers have voiced serious concerns about what they say could be the worst drought in decades. The drought has already damaged part of the 2011-12 corn crop and threatens soybeans. Both crops are key revenue generators for farmers and the government, which collects billions of dollars each year through export taxes on agricultural goods. In November, when analysts still expected December and January rain to alleviate the dry spell, the 2011-12 corn crop was on track to produce a record 24 million to 25 million metric tons, according to Ernesto Crinigan, president of the Buenos Aires Cereals Exchange. That forecast included only commercial corn, not corn grown for animal feed and used at the same farm where it was grown. But the lack of rain could cause losses totaling millions of metric tons of corn, according to Argentina's Agrarian Federation and the Argentine Rural Society.

Farm leaders have called on the government to lower or suspend those taxes to help farmers handle the financial fallout from the drought. So far, government officials have demurred, saying the situation may not be that critical.

The U.S. Department of Agriculture last month forecast that Argentina would produce 29 million tons of 2011-2012 corn, with 20 million tons of that for export. Agrarian Federation President Eduardo Buzzi said earlier this week that 10 million tons of corn had been lost to the drought.

The 2011-2012 soybean crop is considered to be in much better shape given that soybeans typically need less water than corn and it's still early enough in the season for soy to recover. The USDA last month put Argentina's 2011-2012 soybean output at 52 million tons, with 10.8 million tons for export. Most of the remainder is processed into soyoil and soymeal for export.

It could be days or weeks before accurate estimates can be made about the state of the crops, Mercuri said.

Brazil Slashes Corn Crop Outlook (January 10th article)

A drought in southern Brazil prompted the official crop agency Conab to slash its forecast for the country's summer corn production Tuesday, though the soybean crop is seen slightly bigger than previously estimated. Corn output per hectare is seen falling most in the southern state of Rio Grande do Sul, one of Brazil's top-four growers of the grain, due to a shortage of rainfall last month, Conab said in its fourth forecast for the 2011-12 grains and oilseeds crop year.

As a result, the country's current summer corn crop is now seen at 37.92 million metric tons, down from 39.03 million tons estimated in Conab's forecast published a month ago. Production of summer corn is still expected to rise 5.6% from last year, after high prices encouraged a sharp increase in planted acreage, Conab said. Elsewhere, weather has remained largely favorable for crops in central-western states like Mato Grosso and Goias, and southeastern provinces such as Minas Gerais and Sao Paulo, Conab said.

As a result, Conab raised its forecast for Brazil's 2011-12 soybean crop to 71.75 million tons from 71.29 million tons expected in December. But the estimate represents a 4.7% drop from the 2010-11 soybean crop, as nationwide productivity is expected to fall short of last year's exceptionally high levels amid losses in Rio Grande do Sul and No. 2 soybean state Parana, also in the drought-stricken south. Conab said rainfall in that region is expected to remain below average and poorly dispersed for the next three months.

Brazil is the world's second-largest grower of soybeans and the No. 3 producer of corn. While the South American country dominates global trade in the former crop, alongside No. 1 producer the U.S., Brazil keeps most of its corn at home to be used as animal feed.

Subject:

WHEAT STOCKS RISE - IGC 2012 wheat prod est. (January 19th article)

Higher world wheat stocks were anticipated. "World stocks at the end of 2011/12 are revised higher and are now seen reaching 204 million tonnes, only slightly below the record of 206 million in 1999/2000," the IGC said. World wheat area for the 2012 harvest would expand by 1.7 percent to 225 million hectares, the largest since 1998, the IGC projected. "Most of the increase is expected in North America and the CIS (former Soviet Union) boosted by attractive domestic and international prices," the IGC said.

The IGC said that assuming average yields, world production in 2012/13 was projected at 685 million tonnes, down from the current season's record crop but well above the five-year average of 663 million.

China's economy grows at slowest rate in more than two years By David Pierson (LA Times) 4:49 AM PST, January 17, 2012

In the final quarter of 2011, China's economy grew at its slowest pace in 2½ years because of shrinking exports, tighter bank lending and a cooling real estate market. Compared with the same period a year earlier, the country's gross domestic product grew by 8.9% in the fourth quarter of 2011, down from 9.1% in the previous quarter, China's National Bureau of Statistics said Tuesday. For the year, the world's second-largest economy expanded by 9.2%, off from 10.4% in 2010. Though blazingly high by international standards, China's economic growth is likely slipping uncomfortably fast for the country's leadership.

Quarter-on-quarter growth slowed to 8.2% between the third and fourth quarters compared with 9.5% between the second and third quarters. Many analysts expect conditions to worsen as Europe, China's biggest export market, shows no signs of stabilizing. Consensus is growing that China's growth could falter further, to around 7.5%, in the first quarter of this year. That would mark a significant decline because China's communist government has traditionally eyed 8% as the rate necessary to maintain social stability.

Fears of widespread unrest abounded after China's economic growth slumped to 6.8% during the depths of the 2008 financial crisis and an estimated 20 million migrant workers were out of jobs. Beijing responded to that crisis by introducing an unprecedentedly large stimulus package that ultimately fueled the property bubble and high rates of inflation that bind policymakers today. Inflation grew at a 15-month low in December, but still remains above the government's target.

With little room for more aggressive stimulus, the central government will likely target policy with greater efficiency to blunt the effects of any serious global economic slump, experts say. That may include lowering taxes, boosting loans to the private sector and investing more in social services such as healthcare -- in short, anything to wean China off investment as a major engine of growth and to rebalance toward consumption.

"At this juncture, the challenge for policymakers is to implement measures that boost domestic demand without setting back progress made in curbing inflation," said Jing Ulrich, chairman of Global Markets for JP Morgan. Such reform will require an acceptance of slower growth in a country that still considers itself in the early stages of development. At \$7.4 trillion, China's economy is still half the size of the United States'.

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IGC Raises World 11-12 Corn Output View 7.7M Tons To 860.8M Tons (January 19th article)

World corn production is expected to rise 4.2% from last season's 826.4 million metric tons in 2011-12, the International Grains Council said, increasing its previous estimate by 7.7 million tons.

"Despite a smaller U.S. crop and a worsening outlook for South America, total maize (corn) production in 2011-12 is forecast to increase by 4%, to a record 861 million tons," the IGC said. "Harvests in China and Ukraine were especially large and, although forecasts have been reduced this month, Argentina and Brazil are still expected to produce record crops," the IGC said in its monthly report.

The U.S. is expected to produce 313.9 million tons of corn--0.9 million tons more than predicted in November--while crops in South American producers Brazil and Argentina are seen at 59 million tons and 23 million tons, respectively.

European corn output is pegged at an unprecedented 65 million tons--0.3 million tons more than predicted in November, the London-based body said.

World 2011-12 wheat output was also revised higher by 6.6 million tons to a record 689.8 million, the IGC said, citing better-than-expected results in the southern hemisphere, especially in Argentina and Australia but also sizeable upwards revisions to estimates for China and Kazakhstan, the IGC said.

"Approximately half of the increase in the global supply figure is absorbed by greater feed use, as competitive prices relative to maize continue to capture additional demand," said the IGC. But world wheat stocks at the end of the current crop year are revised higher to 204 million tons, just below the record of 2.6 million tons in 1999-2000, said the IGC.

"Major exporters' stocks are projected to rise significantly in Kazakhstan and Ukraine, but those in the EU and U.S. are to stay broadly unchanged," added the IGC.

In the Commonwealth of Independent States, Kazakhstan's wheat output for the 2011-12 crop year is forecast to hit 20 million tons, more than 2 million tons higher on the IGC's November estimate while Russia's output is pegged at 56.2 million tons. Ukraine's wheat output for the current crop year was also revised higher to 22.4 million tons, up from 21.5 million tons estimated in November.

Southern Brazil Rains Renew Hopes For Corn, Soybean Crops (January 19 article)

Rainfall in recent days over southern Brazil has quenched much of the drought-stricken grains belt, fueling hopes that the 2011-12 soybean and corn crops may prove better than the latest, most pessimistic, forecasts.

High temperatures and scarce, irregular rain since mid-November has prompted analysts to temper the optimistic initial forecasts they had made when farmers were planting their soybean and summer corn near the end of last year. Drought concerns in Brazil--the world's No. 2 producer of soybeans and the No. 3 corn grower--and neighboring Argentina underpinned a roughly three-week rally in corn and soybean futures traded in Chicago.

The crop most damaged by the weather was corn in Rio Grande do Sul, Brazil's southernmost state and the country's No. 5 grower. Corn output there is expected to top out at 3.31 million metric tons, down 38% from initial estimates, according to state agriculture agency Emater.

"Corn is definitive," said Dulpe Pinheiro Machado Neto, technical manager at Emater, noting that the crop's development stage is already too advanced for rainfall now to make a difference. "We have serious problems that are irreversible."

A wave of heavy rainfall beginning last weekend reached some parts of Rio Grande do Sul and most of the nearby states of Parana and Santa Catarina. As a result, Machado said he is more optimistic about Rio Grande do Sul's soybean crop, the third-largest in the country.

"Depending on how things go in the next month, it could improve a lot," he said.

Celso Oliveira, of Sao Paulo's Somar Meteorologia, said the driest parts of southern and west ern Rio Grande do Sul aren't likely to see rain before next ! week. Rain is expected to continue in abundance in Parana and Santa Catarina.

Felipe Netto, a corn analyst at Parana's Safras & Mercado consultancy, said the drought relief in Brazil and Argentina, as well as a promising start to the Parana corn harvest, has pressured the market.

Prices for soybean and corn futures in Chicago have been falling since around Jan. 10. Since then, soybeans for March delivery are down 4% at \$11.83 per bushel, while corn is off 9% at \$5.93 bushel.

South Korea Buys 230,000 Tons Corn As Prices Fall (January 19 article)

South Korean feedmillers have stepped up purchases of feed grains, buying four cargoes totaling 230,000 metric tons of corn, mostly of U.S. origin, trading executives said.

South Korea, one of the world's largest importers of feed grains, has purchased nearly 800,000 tons since Jan. 6, including 338,000 tons of corn, taking advantage of the latest slump in prices. On a delivered basis at South Korean ports, U.S. corn is now around \$20 cheaper than a week ago.

The March corn futures contract on the Chicago Board of Trade has fallen below key psychological support at \$6 a bushel. It fell 1.7% Wednesday to settle at a one-month low of \$5.9350 a bushel.

Each of South Korea's four major feed grain importers bought a cargo of corn this week: Nonghyup Feed Inc., or Nofi, the co untry's largest feedmill, bought a 55,000-ton cargo of U.S. origin at a premium of 196.16 cents over the CBOT May futures contract for arrival by April 25; the Busan branch of the Korea Feed Association bought another U.S.-origin 55,000-ton corn cargo at \$305.90/ton, cost and freight, for arrival by April 15 (Nofi had bought a cargo on Jan. 10 at \$325.58/ton); Major Feedmill Group bought 70,000 tons of U.S. corn at \$307.99/ton, C&F, for arrival by April 20; and the Seoul-based Korea Feed Association bought 50,000 tons of optional-origin corn at \$299.90/ton, C&F.