February USDA Report Signals Adjustments in Feedgrain & Oilseed Demand

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The United States Department of Agriculture made a number of adjustments to its projections of U.S. feedgrain and oilseed domestic usage and exports for the 2009/10 marketing year in reports released on February 9th, 2010. Taken together, the demand-side adjustments in the most recent World Agricultural Supply and Demand Estimates (WASDE) cause moderate-to-small reductions in 2009/10 ending stocks and ending-stocks-to-use projections for U.S. corn, grain sorghum, and soybeans. Only minor changes were made in U.S. wheat supply-demand balance sheets. In broader World supply-demand balances, increases occurred in both total supplies and total usage for World wheat, coarse grains and oilseed supply-demand balances. These changes had small impacts on projected world wheat, coarse grain and oilseed ending stocks, and are not expected to significantly impact current short term price trends in world grain and oilseed markets.

Although a number of demand-related issues were addressed in the February 9th USDA WASDE report, important supply-related questions pertaining to the final size and quality of the U.S. 2009 corn crop were not yet addressed in this report. Important questions pertaining to a) the possible demand-usage impacts of low corn test weights, b) deterioration of the quality of some corn supplies currently in storage from the 2009 corn harvest, c) the potential for production losses on the 500-650 million bushels of 2009 crop corn that are estimated to still be unharvested, and/or d) possible corn crop abandonment in Spring 2010 due to wet soils and the need for farmers to begin planting the 2010 corn crop, are all not likely to be addressed until the USDA releases its grain stocks reports on March 31st and/or June 30th. Given winter conditions since late December in combination with high soil moisture levels in the central, northern and northwestern Corn Belt states, it is unlikely that much corn harvest progress will have occurred in time to be reported in the March 31st stock report (based on surveys taken in February). Consequently, 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 price volatility in the U.S. corn market in the Spring and Summer months of 2010.

Corn and Grain Sorghum Supply-Demand Situation

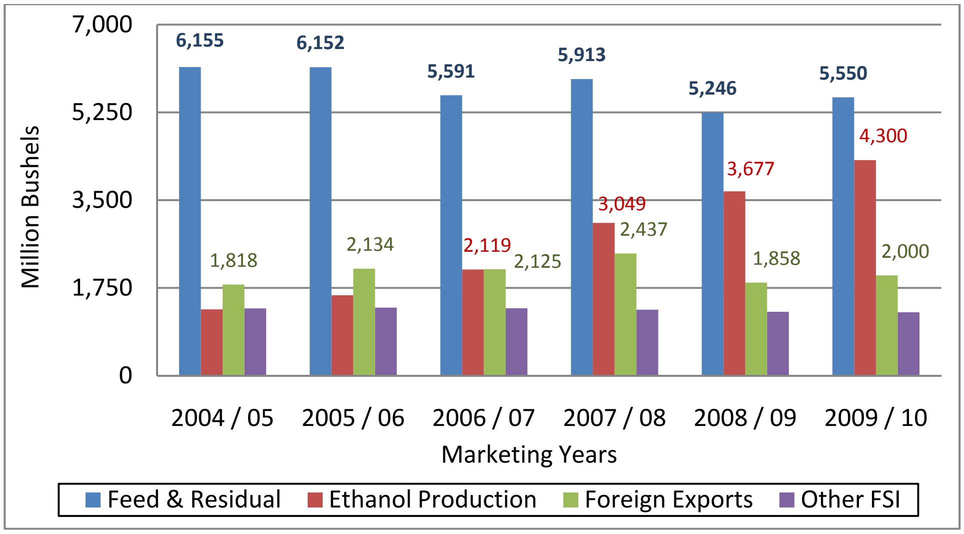
Changes in the U.S. Corn Balance Sheet for 2009/10: Usage of U.S. corn for ethanol production was raised by 100 million bushels to 4.3 billion for the 2009/10 corn marketing year (September 1st, 2009 to August 31st, 2010). A combination of lower feedgrain input costs and supportive ethanol and distillers grains prices have helped to improve profitability in the U.S. grain ethanol industry in the 2009/10 marketing year – leading to higher corn usage for ethanol production (see Table 1). Non-ethanol food, seed and industrial usage of corn in 2009/10 was projected to decline by 5 million bushels to 1.265 billion. The USDA also lowered its 2009/10 corn export projection by 50 million bushels to 2.0 billion, based on a slower pace of 2009/10 U.S. corn exports than had been expected earlier. Because of these changes in demand factors, projected 2009/10 U.S. corn ending stocks declined by 45 million bushels to 1.179 billion. When considered together with projected total use of 13.115 billion bushels in 2009/10, these ending stocks levels equal 13.1% ending stocks-to-use, down from 13.5% in the January 12th USDA WASDE report. The USDA narrowed the projected range of U.S. average corn prices for the 2009/10 marketing year by $0.05 on each end, to $3.45 to $3.95 per bushel.

Table 1. U.S. Corn Supply-Demand Balance Sheet: 2007/08 - 2009/10 Marketing Years
(February 9, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10
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	165.2
		million bushels	
Beginning Stocks	1,304	1,624	1,673
Production	13,038	12,092	13,151
Imports	20	14	10
Total Supply	14,362	13,729	14,834
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	2,000
Feed & Residual	5,913	5,246	5,550
Total Use	12,737	12,056	13,115
Ending Stocks	1,624	1,673	1,719
% Ending Stocks-to-Total Use	12.8%	13.9%	13.1%
U.S. Average Farm Price ($/bushel)	$4.20	$4.06	$3.45-$3.95

U.S. Corn Use 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 1). Some substitution of distillers grains for corn is occurring in livestock feed rations. It is a “given” that the market for distillers grains “clears”, i.e., that the amount of distillers grains produced moves into market channels for use in a relatively limited period of time. To better understand how usage of distillers grain from ethanol plants by livestock feeders impacts U.S. feedgrain feed and residual usage, more analysis needed. To qualify the impact of distillers grains in U.S. feed markets, analysts need to do a better job of identifying the livestock enterprise destinations and the amount of distillers grains used for feed, as well as the physical factors defining how distillers grains can be substituted for corn and/or soybean meal in livestock feeding rations.

Figure 1. Trends in U.S. Corn Use: 2004/05 - 2009/10 Marketing Years
(February 9, 2010 USDA WASDE Report)



Potential Impact of Reduced 2009 U.S. Corn Production: As discussed in the January 27th K-State Extension Grain Market Situation and Outlook newsletter posted on the Agmanager website, if in the March or June 2010 USDA 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 some combination of 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 the projected size of the 2009 U.S. corn crop, then the 2009/10 U.S. corn ending stocks figure would likely be lowered from 1.719 billion to 1.519 billion bushels, and ending stocks-to-use projections would be lowered to 11.6%. Similarly, a 400 million bushel reduction would lower 2009/10 ending stocks to 1.319 billion bushels and 10.0% stocks-to-use. A 600 million bushel reduction would lower 2009/10 ending stocks to 1.119 billion bushels and 8.5% stocks-to-use.

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 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.

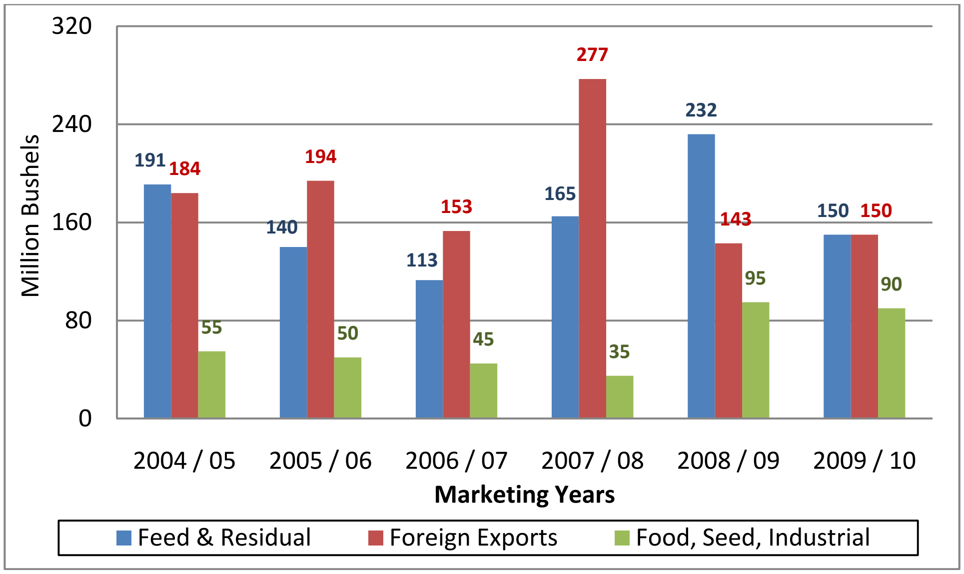
Changes in the U.S. Grain Sorghum Balance Sheet for 2009/10: The USDA raised its 2009/10 grain sorghum export projection by 10 million bushels to 150 million, based on the favorable pace of 2009/10 U.S. grain sorghum exports to date (see Table 2). Because of these changes, projected 2009/10 U.S. grain sorghum ending stocks declined by 10 million bushels to 48 million. Comparing this ending stocks figure to projected total use of 390 million bushels for 2009/10 leads to a 12.3% ending stocks-to-use projection, down from 15.3% ending stocks-to-use in the January 12th USDA WASDE report. The USDA narrowed the projected range of U.S. average grain sorghum prices for the 2009/10 marketing year by $0.05 on each end of the range, down to $3.10 to $3.50 per bushel.

Table 2. U.S. Grain Sorghum Supply-Demand Balance Sheet: 2007/08 - 2009/10 Marketing Years
(February 9, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10
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	$3.10-$3.50

U.S. Grain Sorghum Use Trends During the 2004/05 – 2009/10 Period: Over the last six (6) marketing years for U.S. grain sorghum, annual feed and residual use has been somewhat inconsistent. While averaging 165 million bushels per year, grain sorghum feed and residual use has varied from 113 to 232 million bushels over the 2004/05 – 2005 period (see Figure 2). Foreign exports of U.S. grain sorghum have averaged 184 million bushels over this same period, and have also displayed wide variability. For example, during the last four (4) marketing years, grain sorghum exports have been 153, 277, 144 and 150 million bushels, respectively. Food, seed and industrial usage of U.S. grain sorghum (including use for ethanol production) was estimated to be 95 million bushels during 2008/09, and is projected to be 90 million bushels in the 2009/10 marketing year. This is a departure from the downward trend from 55 million to 35 million bushels of food, seed and industrial use during the 2004/05 – 2007/08 marketing year period, and likely indicates that usage of grain sorghum for ethanol production has increased markedly during the last two (2) marketing years.

Figure 2. Trends in U.S. Grain Sorghum Use Over the 2004/05 - 2009/10 Marketing Years
(February 9, 2010 USDA WASDE Report)



World Coarse Grain Market Trends: The broad category of "coarse grains" as defined by the USDA includes corn, grain sorghum, barley, oats, rye, millet and mixed grains. Total supplies of World coarse grains are projected to be 1,285 million metric tons in the 2009/10 marketing year, an increase of 1.8% from 2008/09 and of 5.6% from the 2007/08 marketing year. Total use of coarse grains is projected to increase to 1,105.8 mmt. in 2009/10, an increase of 3.1% over 2008/09 and of 4.7% over the 2007/08 marketing years. World coarse grain trade in 2009/10 is projected be 110.6 mmt., a 1.3% decrease from 2008/09 and a 13% decrease from the 2007/08 marketing year. More abundant World supplies of coarse grains since 2007/08 have decreased demand for World export trade for coarse grains. World ending stocks of 179.3 mmt in 2009/10 are down 5.4% from 2008/09, but are up 11.7% from the 2007/08 marketing year. World ending stocks-to-use of coarse grains is projected to be 16.2% in 2009/10, down from 17.7% in 2008/09, but up from 15.2% in the 2007/08 marketing year.

Soybean Supply-Demand Situation

Changes in the U.S. Soybean Balance Sheet for 2009/10: The USDA raised its 2009/10 projection of U.S. soybean exports by 25 million bushels to 1.4 billion, based on the strong pace of 2009/10 U.S. soybean exports to date (see Table 3). Projected domestic crushings of U.S. soybeans were also raised by 20 million bushels to 1.72 billion for the 2009/10 soybean marketing year (September 1st, 2009 to August 31st, 2010). Because of these changes, 2009/10 projections of U.S. soybean ending stocks declined by 35 million bushels to 210 million. When compared to projected total use of 3,297 million bushels for 2009/10, the ending stocks projection equals 6.4% ending stocks-to-use, down from 7.5% in the January 12th USDA WASDE report. The USDA lowered the projected range of U.S. average soybean prices for the 2009/10 marketing year by $0.20 on each end, down to $8.70 to $10.20 per bushel.

Table 3. U.S. Soybean Supply-Demand Balance Sheet: 2007/08 through 2009/10 Marketing Years
(February 9, 2010 USDA WASDE Report)

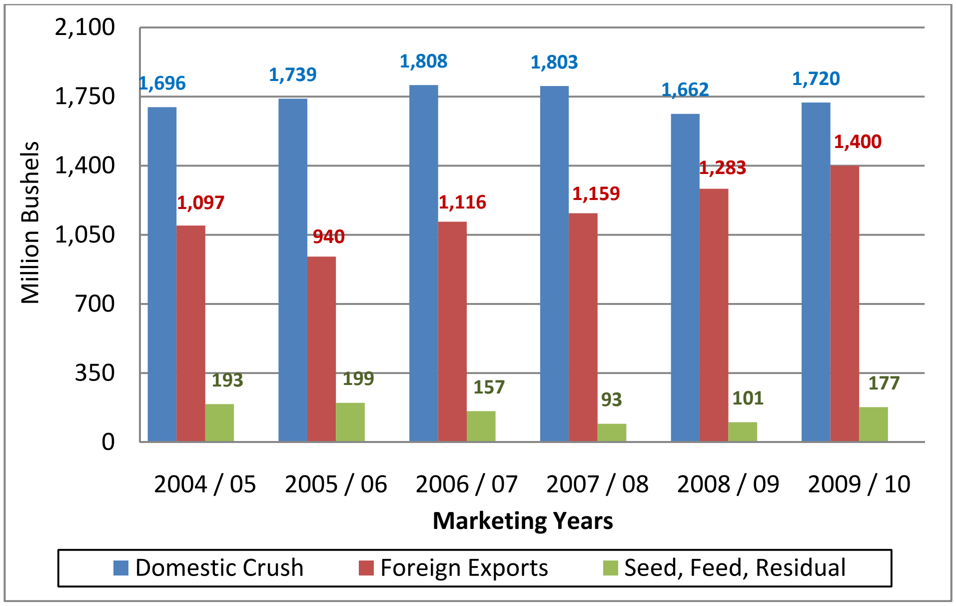
Item	2007/08	2008/09	2009/10
Planted Area (million acres)	64.7	75.7	77.5
Harvested Area (million acres)	64.1	74.7	76.4
Yield per harvested acre (bushels/acre)	41.7	39.7	44.0
	million bushels		
Beginning Stocks	574	205	138
Production	2,677	2,967	3,361
Total Supply	3,261	3,185	3,507
Domestic Crushings	1,803	1,662	1,720
Exports	1,159	1,283	1,400
Seed	93	95	94
Residual	0	6	83
Total Use	3,056	3,047	3,297
Ending Stocks	205	138	210
% Ending Stocks-to-Total Use	6.7%	4.5%	6.4%
U.S. Average Farm Price ($/bushel)	$10.10	$9.97	$8.70-$10.20

Lowering of 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 as the Spring planting season for corn and soybeans approaches. Market expectations have been that the pace of U.S. soybean exports would eventually decline during the March-April period once the bulk of Brazilian and Argentine soybeans are harvested and available export buyers. In spite of this, the pace of weekly U.S. soybean export shipments has continued at a steady pace since early January. While U.S. soybean exports is still expected to eventually decline as exportable South American soybean supplies become available, the degree of price declines will depend on a) the continued strength 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.

<u>U.S. Soybean Use Trends During the 2004/05 – 2009/10 Period</u>: Over the last six (6) marketing years, U.S. soybean domestic crushings have averaged 1,728 million bushels per marketing year (See Figure 3), ranging from a low of 1,662 million bushels in 2008/09 to a high of 1,808 million bushels in the 2006/07 marketing year (September 1st, 2006 through August 31st, 2007). Strong domestic crush in 2009/10 has been partly driven by healthy export demand for U.S. soybean oil and soybean meal. Exports of U.S. soybean oil are projected to total 3,250 million pounds in 2009/10 (up 48% and 12% over the 2008/09 and 2007/08 marketing years, respectively). Exports of U.S. soybean meal are projected to total 10,000,000 short tons in 2009/10 (up 18% and 8% over the 2008/09 and 2007/08 marketing years, respectively). Marketing years for soybean oil and soybean meal begin on October 1st rather than September 1st as for soybeans. Exports of unprocessed U.S. soybeans have been increasing steadily over the last five (5) marketing years. From a low of 940 million bushels in 2005/06, U.S. soybean exports have steadily risen year by year to a projected level of 1,400 million bushels in the 2009/10 marketing year. Other feed, seed and residual usage of U.S. soybeans never rose above 199 million bushels on an annual basis during the six (6) most recent marketing years.

Figure 3. U.S. Soybean Use: 2004/05 through 2009/10 Marketing Years

(February 9, 2010 USDA WASDE Report)



World Oilseed Market Trends: The broad category of "oilseeds" includes soybeans, palm oil, canola, sunflowers, cottonseed, and various other vegetable oil producing crops. Total supplies of world oilseeds are projected to be 488 million metric tons in the 2009/10 marketing year, which is an increase of 6.8% over 2008/09 and an increase of 4.9% over the 2007/08 marketing year. Improved South American soybean production prospects account for most of this increase in World oilseed supplies. Total use of world oilseeds is projected to be 351 million metric tons in 2009/10, an increase of 3.2% from 2008/09 and of 3.5% from the 2007/08 marketing year. World oilseed trade in 2009/10 is projected be 96.3 mmt., an increase of 2.4% over 2008/09, and an increase of 4.1% over the 2007/08 marketing year. Increases in World oilseed trade have kept pace with growing World oilseed usage, especially in China. World oilseed ending stocks of 71.0 mmt in 2009/10 are up 30.8% from 2008/09, and up 15.0% from the 2007/08 marketing year. World oilseed ending stocks-to-use is projected to be 20.2% in 2009/10, which is up from 16.0% in 2008/09 and up from 18.2% in 2007/08.

Summary

The February 9th USDA WASDE report gave indications of important changes and trends taking place in the U.S. and World coarse grain and oilseed use during the 2009/10 marketing year. However, feedgrain supply information will be released during the March through June-July time period that will likely have a major impact on U.S. feedgrain and soybean supply-demand balances and prices during the coming year.