

Summary of August 12, 2010 USDA Crop Production and World Agricultural Supply-Demand Estimate Reports

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Executive Summary

In the August 12, 2010 Crop Production and World Agricultural Supply-Demand Estimates reports, the USDA projected increased production of major crops in the U.S. in 2010 while at the same time anticipating that ending stocks-to-use relationships for these same crops will be declining. Reductions in projected World production of coarse grains, oilseeds and wheat has lead to improved U.S. market prospects for these crops in their respective 2010-11 marketing years. Although U.S. soybean stocks are projected to increase, tighter World oilseed stocks and expectations of continued interest in imports of soybeans and soybean products by China and other countries provide support for soybean markets and other oilseed price prospects as well.

As a result of this general tightening of World and U.S. supply-demand balances, the USDA has projected that price prospects for U.S. wheat, corn, grain sorghum and soybeans have improved over the last month – especially so for wheat and soybeans. The USDA projected increases in U.S. average cash prices for wheat in MY 2010-11 of \$0.50 /bu, of \$0.40 /bu for soybeans, and of \$0.05 /bu for corn and grain sorghum.

August Crop Production Report by National Agricultural Statistical Service

U.S. Corn Production: In its survey of crop conditions as of August 1st, the USDA National Agricultural Statistical Service (NASS) forecast that 2010 U.S. corn yields would be 165.0 bushels per acre (bu/ac), up 1.5 bu/ac from the July 2010 World Agricultural Supply-Demand Estimates (WASDE) report, and up 0.3 bu/ac from previous record high yields of 164.7 bu/ac in 2009. Based on projected harvested acres of 81.005 million acres (ma), U.S. corn production in 2010 is projected to be a record high 13.365 billion bushels (bb), up 2% from the previous high set in 2009 of 13.110 bb, and up 10.5% from 12.092 bb in 2008.

U.S. Grain Sorghum Production: USDA NASS forecast that 2010 U.S. grain sorghum yields would be 74.1 bu/ac, up 6.5 bu/ac from the June WASDE report, and up 4.7 bu/ac from 2009. Based on projected harvested acres of 5.176 ma, U.S. grain sorghum production in 2010 is projected to be 383.4 million bushels (mb), compared to 383.0 mb in 2009 and 472.3 mb in 2008.

U.S. Soybean Production: Based on August 1st crop conditions, USDA NASS forecast that 2010 U.S. soybean yields would be a record high 44.0 bushels per acre (bu/ac), up 1.1 bu/ac from the July WASDEt, and equal to the previous record high yield in 2009. Based on projected harvested acres of 77.986 ma, U.S. soybean production in 2010 is projected to be a record high 3.433 bb, up 2.2% from the previous high set in 2009 of 3.359 bb, and up 16% from 2.967 bb in 2008.

U.S. All Wheat Production: The National Agricultural Statistical Service forecast that 2010 U.S. average wheat yields would be a record high 46.9 bu/ac, up 1.0 bu/ac from the July 2010 Crop Production report, and 2.5 bu/ac larger than in 2009. Based on projected wheat harvested acres of 48.263 ma, U.S. wheat production in 2010 is projected to be 2.265 bb, up 2.2% from 2.216 bb in 2009, but down 9.4% from 2.499 bb in 2008.

U.S. Winter Wheat Production: USDA NASS forecast that 2010 U.S. average winter wheat yields would be the 2nd highest on record at 47.5 bu/ac, up 0.6 bu/ac from the July 2010 Crop Production report, and up from 44.2 bu/ac in 2009. Based on projected winter wheat harvested acres of 32.085 ma, U.S. winter wheat production in 2010 is projected to be 1.529 bb, up slightly from 1.523 bb in 2009. Hard red winter wheat production is projected to be 1.029 bb in 2010, up from 919 mb in 2009, but below 1.035 bb in 2008. Soft red winter wheat production is projected to be 260 mb in 2010, down from 404 mb in 2009, and from 614 mb in 2008.

U.S. Other Spring Wheat Production: NASS forecast that 2010 U.S. average yields for other spring wheat would be record high at 46.6 bu/ac, up 2.0 bu/ac from the July 2010 Crop Production report, and larger than 45.1 bu/ac in 2009. Based on projected harvested acres of 13.590 ma, U.S. spring wheat production in 2010 is projected to be 633 mb, up 8.4% from 584 mb in 2009. This amount of other spring wheat would be the second or third highest on record, trailing 1992 (707 mb) and essentially equal with 1996 (631 mb).

U.S. Durum Wheat Production: NASS forecast 2010 U.S. average durum wheat yields at 42.0 bu/ac, up 2.0 bu/ac from the July 2010 Crop Production report, but less than the record high of 44.9 bu/ac in 2009. Based on projected harvested acres of 2.588 ma, U.S. durum wheat production in 2010 is projected to be 108.8 mb, slightly less than 109.0 mb in 2009.

Feedgrain Supply-Demand Estimates

U.S. Corn

In the August WASDE report, the USDA projected U.S. corn total supplies at a record high 14.802 bb in MY 2010-11, up 120 mb from the July WASDE report and slightly larger than the previous high of 14.791 bb in MY 2009-10. Total use was projected at 13.490 bb in MY 2010-11, up 130 mb from the July WASDE report and larger than the previous high of 13.365 bb in MY 2009-10. Increased projections of export use (2.05 bb) and non-ethanol FSI use (1.39 bb) accounted for the increase.

Projections for MY 2010-11 U.S. corn ending stocks at 1.312 bb were 61 mb lower than the July WASDE and less than 1.426 bb in MY 2009-10. The MY 2009-10 ending stocks number itself was lowered by 52 mb from the July WASDE due to stronger than expected exports (1.975 bb) and non-ethanol FSI use (1.365 bb) in the current marketing year. Projected U.S. corn ending stocks-to-use was 9.7% in MY 2010-11, lowered from 10.3% in the July WASDE, and below 10.7% in MY 2009-10 and 13.9% in MY 2008-09. The range of projected U.S. average corn prices for MY 2010-11 was raised \$0.05 on both ends of the range from a low of \$3.50 to a high of \$4.10 per bushel (mid-point equaling \$3.80). This compares to a range of \$3.50-\$3.60 for MY 2009-10, and an average price of \$4.06 in MY 2008-09.

U.S. Grain Sorghum

In the August WASDE report, the USDA projected U.S. grain sorghum total supplies at 411 mb in MY 2010-11, up 33 mb from the July WASDE but below 438 mb in MY 2009-10 and 525 mb in

MY 2008-09. Total use was projected at 370 mb in MY 2010-11, up 25 mb from the July WASDE but less than 410 mb in MY 2009-10 and 471 mb in MY 2008-10. Increased projections of export use (150 mb) and feed and residual use (120 mb) accounted for the increase.

Projections of U.S. grain sorghum ending stocks at 41 mb in MY 2010-11 were 8 mb higher than the July WASDE, larger than 28 mb in MY 2009-10, but less than 55 mb in MY 2008-09.

Projected U.S. grain sorghum ending stocks-to-use was 11.1% in MY 2010-11, up from 9.6% in the July WASDE and 6.8% in MY 2009-10, but below 11.7% in MY 2008-09. The range of projected U.S. average grain sorghum prices for MY 2010-11 was raised \$0.05 on both ends of the range from a low of \$3.20 to a high of \$3.80 per bushel (mid-point equaling \$3.50). This compares to a range of \$3.10-\$3.20 for MY 2009-10, and an average price of \$3.20 in MY 2008-09.

World Coarse Grains

Due to crop production problems for barley and other coarse grains in other parts of the World, projected foreign coarse grain production was lowered 1.8% to 753 million metric tons (mmt) for MY 2010-11 in the July WASDE, down from 754 mmt in MY 2009-10 and from 784 mmt in MY 2008-09. Foreign coarse grain ending stocks for MY 2010-11 were projected at 134.8 mmt, down 6.82 mmt from the July WASDE and below 147.2 mmt in MY 2009-10 and 146.8 mmt in MY 2008-09. Combined World coarse grain ending stocks were projected to be 172 mmt (15.3% S/U), down 8 mmt from the July WASDE, and below 187.9 mmt (16.9% S/U) in MY 2009-10 and 193.8 mmt (18.0% S/U) in MY 2008-09. These numbers indicate a definite “tightening” of world coarse grain ending stocks has occurred other the last 3 marketing years.

Oilseed Supply-Demand Estimates

U.S. Soybeans

In the August WASDE report, the USDA projected U.S. soybean total supplies at the 2nd largest amount on record, equaling 3.433 bb in MY 2010-11, up 88 mb from the July WASDE report. This compares to 3.359 bb in MY 2009-10 and the record high of 3.655 bb in MY 2006-07. Total use was projected at 3.243 bb in MY 2010-11, up 73 mb from the July WASDE report but less than the record high of 3.353 bb from MY 2009-10. Increased projections of export use (1.435 bb - the second highest on record behind 1.470 bb last year) and crushings use (1.65 bb) accounted for the increase.

Projections of U.S. soybean ending stocks at 360 mb in MY 2010-11 were unchanged from the July WASDE but greater than 160 mb in MY 2009-10 and 138 mb in MY 2008-09. The MY 2009-10 ending stocks number itself was lowered by 15 mb from the July WASDE due to stronger than expected exports (1.470 bb) and crushings (1.750 bb) in the current marketing year. Projected U.S. soybean ending stocks-to-use was 11.1% in MY 2010-11, lowered from 11.3% in the July WASDE, but greater than 4.8% in MY 2009-10 and 4.5% in MY 2008-09. The range of projected U.S. average soybean prices for MY 2010-11 was raised \$0.40 on both ends of the range from a low of \$8.50 to a high of \$10.00 per bushel (mid-point equaling \$9.25). This compares to a range of \$8.10-\$9.60 (midpoint \$8.85) for MY 2009-10, and an average price of \$9.97 in MY 2008-09.

World Oilseeds

Projected foreign oilseed production was lowered 1.0% to 336 mmt for MY 2010-11 in the July WASDE, down from 342 mmt in MY 2009-10, but up from 307 mmt in MY 2008-09. Foreign oilseed ending stocks for MY 2010-11 were projected at 62.52 mmt, down 3.48 mmt from the July WASDE, below 68.46 mmt in MY 2009-10, but greater than 50.7 mmt in MY 2008-09. Combined

World oilseed ending stocks were projected to be 73.83 mmt (19.8% S/U), down 3.9 mmt from the July WASDE, below 74.3 mmt (20.9% S/U) in MY 2009-10, but greater than 56.3 mmt (16.7% S/U) in MY 2008-09. World oilseed stocks are now markedly higher than they were during MY 2008-09 when oilseed supplies were extremely tight.

Wheat Supply-Demand Estimates

U.S. Wheat

In the August WASDE report, the USDA projected U.S. wheat total supplies to be 3.338 bb in MY 2010-11, up 49 mb from the July WASDE report. This compares to 2.991 bb in MY 2009-10, and is the largest amount since 3.336-3.376 bb in the MY 1998-99 through MY 1999-00 period. Total use was projected at 2.386 bb in MY 2010-11, up 190 mb from the July WASDE report and larger than 2.018 bb from MY 2009-10 and 2.275 mb in MY 2008-09. Increased projections of export use (1.200 bb, up 200 mb from July) and decreased feed and residual use (170 mb) accounted for the change.

Projections of U.S. wheat ending stocks at 952 mb in MY 2010-11 were down 141 mb from the July WASDE, were less than 973 mb in MY 2009-10, but were larger than 657 mb in MY 2008-09. Projected U.S. wheat ending stocks-to-use was 39.9% in MY 2010-11, lowered significantly from 49.8% in the July WASDE, less than 48.2% in MY 2009-10, but greater than 28.9% in MY 2008-09. The range of projected U.S. average wheat prices for MY 2010-11 was raised \$0.40 on both ends of the range from a low of \$5.10 to a high of \$5.50 per bushel (mid-point equaling \$5.10). This compares to \$4.87 for MY 2009-10 and an average price of \$6.78 in MY 2008-09.

Projected increases in U.S. hard red winter wheat supply (up 18 mb), higher exports (up 120 mb to 545 mb) and domestic use reductions (down 5 mb) lead to a 97 mb decrease in ending stocks to 379 mb for MY 2010-11. For U.S. soft red winter wheat, projected decreases in supply (down 8 mb), lower exports (down 20 mb to 100 mb) and domestic use reductions (down 5 mb) lead to a 17 mb increase in ending stocks to 179 mb for MY 2010-11. For U.S. hard red spring wheat, projected increases in supply (up 26 mb to 862 mb) and higher exports (up 100 mb to 340 mb) lead to a 74 mb decrease in ending stocks, down to 259 mb for MY 2010-11. Minor increases in projected MY 2010-11 ending stocks for U.S. white winter wheat (96 mb) and U.S. durum wheat (39 mb) also were made in the August WASDE.

World Wheat

Projected foreign wheat production was lowered 2.8% to 584 mmt for MY 2010-11 in the July WASDE, down from 620 mmt in MY 2009-10 and from 615 mmt in MY 2008-09. Reductions in projected 2010 wheat production prospects in a number of major exporting countries were reflected in the August WASDE report. Foreign wheat ending stocks for MY 2010-11 were projected at 148.85 mmt, down 8.45 mmt from the July WASDE, below 167 mmt in MY 2009-10, but slightly greater than 147.64 mmt in MY 2008-09. Combined World wheat ending stocks were projected to be 174.8 mmt (26.8% S/U), down 12.3 mmt from the July WASDE. This figure was below 193.97 mmt (29.8% S/U) in MY 2009-10, but greater than 165.5 mmt (25.8% S/U) in MY 2008-09 and larger than 124.9 mmt (20.2% S/U) in MY 2006-07 when World wheat supplies were at extremely low levels.

Black Sea Region Wheat Production Problems: Projected 2010 wheat production in Russia declined by 8 mmt to 45 mmt, with exports also projected to decline, dropping to 3 mmt for MY 2010-11 (down from 15 mmt in the July WASDE). Projected 2010 wheat production in

Kazakhstan declined by 2.5 mmt to 11.5 mmt, with exports also projected to decline down to 6 mmt for MY 2010-11 (down from 8 mmt in the July WASDE). In the **Ukraine**, projected 2010 wheat production declined by 3 mmt to 17 mmt, with exports also projected to decline to 6 mmt for MY 2010-11 (down from 8 mmt in the July WASDE). Compared to MY 2009-10, wheat production in MY 2010-11 is projected to be down 27% in **Russia**, 32% in **Kazakhstan**, and 19% in the **Ukraine**.

Other Regions Wheat Production Problems: Projected 2010 wheat production in the **European Union** (i.e., EU-27) declined by 4.3 mmt from the July WASDE to 137.5 mmt. Compared to MY 2009-10, **EU-27** wheat production is projected to be down 0.5%. Projected 2010 wheat production in **Canada** was 20.5 mmt, unchanged from the July WASDE, but down 22.6% from MY 2009-10. **Canadian** wheat exports are projected to decline 3 mmt in MY 2010-11 to 15.5 mmt. In contrast, wheat production and exports in major wheat exporters **Argentina** and **Australia** are projected to increase in MY 2010-11 over the previous year.

Conclusion

These USDA reports signaled a tightening of World and U.S. ending stocks for wheat, corn and grain sorghum and improvement in market price prospects in MY 2010-11. Although U.S. soybean stocks are projected to increase, tighter World oilseed stocks and expectations of continued interest in imports of soybeans and soybean products by China and other countries provide support for soybean and other oilseed prices as well. These market sentiments are reflected in the changes made by the USDA in U.S. average cash prices for MY 2010-11, with wheat increasing by \$0.50 /bu to a mid-point projection of \$5.10, soybeans by \$0.40 /bu to \$9.25, and corn and grain sorghum increasing by \$0.05 /bu each to \$3.80 and \$3.50, respectively.

Risk Management Concerns in Volatile Grain Markets: Even with this generally positive information about grain and oilseed price prospects for the remainder of this marketing year, there is cause for concern in regards to the impact of the increasing price volatility that has been seen in recent years in financial and stock markets as well as in energy and agricultural commodities. If unforeseen major World crop production shortfalls, downward economic trends or sudden negative shocks occur that affect U.S. and/or foreign economic prospects, the impacts could be substantial on agricultural commodity markets in terms of price levels and increased volatility– with either higher or lower moves in grain prices possible depending on the situation.

In this volatile economic environment, there is merit in considering the use of forward pricing tools for grain, agricultural put and/or call options, or diversified, sequential grain marketing strategies over time to protect from extremely negative price outcomes. Although increased market volatility has raised the cost of purchasing agricultural options, there still may still be merit in considering how these marketing tools may protect agricultural producers and agribusinesses from catastrophic, extreme and unforeseen grain market moves.