

February 9, 2010

Better News?

The February 9, 2010 USDA World Agricultural Supply and Demand Estimates (WASDE) report offered somewhat better news for corn and soybeans than last month's bearish surprises.

Corn 2009-10 estimated ending stocks were lowered from 1.764 billion bushels to 1.719 billion bushels. This was within the range of pre-report trade estimates, but somewhat below the average trade expectation of 1.748 billion bushels. Projected ethanol use was increased 100 million bushels. Corn sweetener use was reduced five million bushels and exports were lowered 50 million bushels. These use changes accounted for the 45 million bushels reduction in domestic ending stocks. Argentine forecast corn production was increased 2.2 mmt, but this was more than offset by production reductions in Europe and increased global use. Estimated world corn ending stocks declined from last month's 136.19 mmt to 134.04 mmt. This carryover projection is also down from the 2008-09 world corn ending stocks of 145.88 mmt. The USDA forecast 2009-10 price range was narrowed by five cents and now expected to range from \$3.45 to \$3.95.

Strong soybean demand continues to chew into the record crop. Expected domestic crush was increased 10 million bushels and the export estimate was increased 25 million bushels. These changes reduced expected 2009-10 US soybean ending stocks to 210 million bushels. This was somewhat below the average pre-report trade expected carryover of 219 million bushels. Good crops are on the way in South America. Expected Brazilian production was increased from 65 mmt to 66 mmt, but Argentine production was left unchanged at 53 mmt. However, expected world soybean carryover is slightly lower than the January estimate of 59.80 mmt at 59.73 mmt. The USDA's forecasted price range is lowered by twenty-cents and now forecast to range from \$8.70 to \$10.20.

Wheat ending stocks projections continue to grow. The only change to domestic supply/use estimates was an increase in wheat exports of five million bushels. This was based on expectations of imports of European and South American wheat in the southeastern US feed market. This increased expected 2009-10 wheat ending stocks from 976 million bushels to 981 million bushels. Few changes were made to world supply/use estimates and expected world ending stocks are nearly unchanged at 195.86 mmt. The USDA forecast wheat price range was narrowed by five cents and is now expected to range from \$4.75 to \$4.95.

The report information appears friendly to corn and soybeans with strong use and somewhat lower ending stocks projections. The initial reaction to the estimates is expected to be positive with higher futures prices. Corn and soybean futures prices opened higher, as expected. But prices backed off some in early trading following the market opening. Market fundamental factors remain negative for prices. Wheat ending stocks remain burdensome. Although soybean carryover is tightening, corn carryover remains more than adequate. The Argentine corn crop is expected to be larger and large South American soybean production will lead to increased world soybean supplies. With reduced winter wheat seedings and expiring CRP contracts more acres will be available for 2010 US corn and soybean production. Economic conditions remain uncertain, weakness in oil prices and strength in the dollar continue to be negative to grain prices as well. These and other factors will likely continue to contribute to market uncertainty and price volatility.