

Crop Report Commentary

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Summary of USDA Crop Reports and Market Reactions

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Bearish News

The USDA's January 12, 2009 World Agricultural Supply and Demand Estimates (WASDE), along with Crop Production 2008 Summary, Grain Stocks and Winter Wheat Seedings reports, provided a few surprises. Increased corn and soybean production with softer corn demand leads to increased ending stocks. However, 2009 winter wheat acreages are down sharply, especially for soft red winter wheat.

The USDA increased 2008 corn yields 0.1 bpa to an average yield of 153.9 bpa and increased harvested acres to 78.6 million acres. This resulted in total production of 12.101 billion bushels, which is 81 million bushels higher than the previous estimate. This is also above the range of pre-report trade estimates that were expecting a small reduction in production. Corn used for ethanol production was cut 100 million bushels to 3.600 billion bushels. Corn export projections were reduced due to the slow export pace and expected feed use was lowered to reflect lower animal numbers. The net result was 235 million bushels reductions in expected 2008-09 corn use. Increased production and reduced use leads to 316 million bushels increased 2008-09 corn carryover, now estimated at 1.790 billion bushels. This is an increase over last year and well above trade expectations. Increases in Chinese, Mexican, European and Former Soviet Union corn production, along with the US increase, resulted in an increase in forecast 2008-09 world corn ending stocks from 123.83 mmt to 136.03 mmt. The USDA's 2008-09 corn price forecast was lowered ten cents and is now expected to range from \$3.55 to \$4.25.

The trade was also expecting a decrease in soybean production, but instead average yield was increased from 39.3 bpa to 39.6 bpa and harvested acres were increased 200,000 acres. This resulted in total 2008 soybean production of 2.959 billion bushels. Domestic crush projections were lowered 30 million bushels. However, strong exports lead to increased export projections of 50 million bushels. In spite of the net increase in expected use, increased production resulted in 2008-09 soybean ending stocks rising from the previous estimate of 205 million bushels to 225 million bushels. Although US ending stocks increased, lower expected production in Argentina contributed to a small decline in expected 2008-09 world ending stocks from 54.19 mmt to 53.94 mmt. The forecast 2008-09 soybean price ranges was narrowed twenty-five cents and is now expected to range from \$8.50 to \$9.50.

The late fall harvest of row crops was blamed for a nine percent decrease in winter wheat seedings. The largest percentage cut of 26 percent occurred in soft red winter wheat plantings of 8.29 million acres. Planted area decreases of 350,000 acres or more occurred in

Arkansas, Illinois and Missouri. Hard red winter wheat acreage is down four percent at 30.2 million acres. Changes to 2008-09 wheat supply and use estimates included reductions in wheat feeding and seed use, resulting in an increase in 2008-09 wheat ending stocks to 655 million bushels. This estimate was also higher than pre-report trade estimates. The forecast 2008-09 wheat prices range was narrowed 10 cents and is now expected to range from \$6.50 to \$6.90.

The bearish news was expected to result in lower futures prices. Prices for corn, soybean and wheat were lower with double-digit losses in early trading following the reports. The losses became limit down price moves for corn at mid-day trading and losses of more than fifty-cents per bushels for some soybean futures contracts. For many analysts, the impact of the negative report news was hard to judge. Disappointing demand and increasing ending stocks are negative news in a poor economy. But dry weather concerns in South America and other factors may offer some support. Other than the surprisingly low winter wheat plantings, most of the surprises in today's reports are negative price news.

Next update following the February 10, 2009 USDA WASDE report.

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