

October 9, 2009

Big Crops Continue to Get Bigger

The USDA's October 9, 2009 World Agricultural Supply and Demand Estimates (WASDE) and Crop Production Reports forecast record corn yields and record total soybean production. Increasing yield expectations more than offset small reductions to planted and harvested acres for corn and soybeans. Small reductions in wheat acreage are also more than offset by higher yields, which leads to increasing wheat supplies.

A record projected corn yield of 164.2 bpa results in the second largest corn crop at 13.018 billion bushels and only 20 million bushels less than the record 2007 crop of 13.038 billion bushels. This production estimate is also higher than the average pre-report trade estimate of 12.993 billion bushels. Corn feed and residual use is increased by 50 million bushels. This increase is more than offset by lower feed use of wheat and other feed grains. Expected corn exports were lowered 50 million bushels and food and industrial use was increased 5 million bushels. The net result of these use adjustments is expected total 2009-10 corn use of 13.030 billion bushels. Corn forecast 2009-10 ending stocks of 1.672 billion bushels is essentially unchanged from the beginning stocks of 1.674 billion bushels indicated by the September 2009 grain stocks report. Reductions in Chinese corn production more than offset increases in US and European production contributing to a decrease in expected World corn ending stocks from 139.12 mmt to 136.25 mmt. However, World wheat feed use is expected to contribute to the decrease in expected US corn exports. The USDA's 2009-10 price forecast is unchanged and still expected to range from \$3.05 to \$3.65.

Projected average soybean yield of 42.4 bpa results in record soybean production of 3.250 billion bushels. However, this is below the average pre-report trade expectation of 3.291 billion bushels. Strong export demand leads to a 25 million bushels increase in soybean export projections and a like increase in expected total use, now at 3.169 billion bushels. Projected 2009-10 soybean ending stocks are now at 230 million bushels. This is an increase of 10 million bushels over the previous ending stocks estimate, but below the average pre-report trade estimate of 257 million bushels. Increases in beginning soybean stocks, along with increased US production and an increase in expected Argentine production, contributed to increased World ending soybean stocks from 50.53 mmt to 54.79 mmt. The USDA's 2009-10 soybean price forecast is lowered by ten cents and now expected to range from \$8.00 to \$10.00.

Although wheat acreage was reduced slightly, increased yield estimates (44.4 bpa) resulted in increased 2009 wheat production of 2.220 billion bushels and contributes to total wheat supplies of 2.987 billion bushels. Reductions in expected feed and residual use along with lower exports lowered total expected use (2.123 billion bushels). The net result of these adjustments is an expected increase to 2009-10 wheat carryover from last month's 743 million bushels to 864 million bushels. This is near the top end of the range of pre-report trade estimates. World 2009-10 wheat carryover remains nearly unchanged at 186.73 mmt as increases in World wheat use offset the reductions in US use and increased US and World wheat production. The USDA's 2009-10 wheat price forecast range was lowered by 35 cents on the top end of the range and 15 cents on the lower end. Prices are now expected to range from \$4.55 to \$5.15.

In general, the reports were within the ranges of trade expectations with few surprises. Most analysts called for mixed futures price reactions to the reports. In early trading corn futures prices

were lower, soybeans higher and wheat showed double digit losses, but corn prices soon turned higher and soybeans moved to double digit gains. Outside market factors (energy prices etc.) and the slow harvest progress of a late maturing crop and unfavorable harvest weather concerns will likely continue to be the focus of market action in the coming weeks.

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