

# Decisive Marketing

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## Market Plan Adjustments From USDA's New Crop Estimates

The USDA's May 12, 2009 supply/demand estimates offered the first monthly look at their expectations for the 2009-10 crops. These estimates will, of course, change as the growing season progresses. However, they do provide information for reviewing and updating marketing plans for 2009 production.

***The corn production estimates assumes producers will still plant the 85.0 million acres that they had planned on March 1<sup>st</sup>.*** Adjustments to trend yields for planting delays result in an expected average yield of 155.4 bpa and 12.090 billion bushels from a projected 77.8 million harvested acres. Wet conditions and further planting delays into mid-May causes many analysts to believe that further downward adjustments to the USDA's acreage and production prospects will occur in upcoming reports. But, for now anyway, 2009 corn production is expected to be about the same as last year.

US corn demand will remain strong in spite of some decrease in feed use. Increases in ethanol use and export projections contribute to expected total use of 12.560 billion bushels. Since use is expected to exceed production, ending stocks will decline from 1.600 billion bushels (current year) to 1.145 billion bushels. While this carryover is still above one billion bushels, the resulting stocks to use ratio of 9.1 would be the lowest since 1995-96.

World coarse grain use is also expected to exceed world production and reduce ending stocks. However, the lower forecast world carryover of corn and other coarse grains is tempered by large wheat supplies that provide feed use competition. Economic recovery in the US and world economies, energy prices and foreign grain/oilseed production will also play a major role in the corn market. But strong world grain demand is expected to help support corn prices.

***The USDA forecasts that 2009-10 corn prices will range from \$3.70 to \$4.50.*** Although these price projections are likely to change as the marketing year progresses, they can be used to update marketing objectives. Pre-harvest marketing objectives should include strategies to capture prices that are at least in the upper one-half of the projected range. New crop prices at or above the upper end of the forecast price range should always be considered pricing opportunities and sold more aggressively. While this sounds simple, it is not necessarily an easy task. Markets can change direction quickly and there is always the risk of selling too quickly or waiting too long. But selling at prices in the upper one-half of the USDA's projected price range increases the odds of capturing above average prices.

Depending upon location, new crop corn bids in Missouri are near the mid-point of the USDA's price range. December 2009 corn futures prices have trended upward since late April as planting delays continue. Continued delays increases the potential for fewer acres of corn and lower yields that could add to price strength. One possible upside price objective is to target prices in December futures near the \$4.70 high that occurred in January. Continued planting delays might provide the chance to increase price targets if prices continue to move higher. However, improving weather could allow planting to catch up quickly. If that occurs and the price trend falters, December futures prices breaking below the uptrend or chart support near \$4.40 would be a negative signal. Making sales or protecting prices near at that level might at least protect some profit and avoid potential price lows.

***Will increased soybean production rebuild supplies?*** Strong export demand and reduced South American production have contributed to strong US exports and lower world soybean carryover. The

USDA projects very tight US old crop soybean ending stocks of only 130 million bushels. In recent years, only 2003-04's 112 million bushels ending stocks have been lower.

For 2009, the USDA uses the March intentions of 76.0 million soybean planted acres. Assuming harvested acreage of 75.0 million acres and an average yield of 42.6 bpa, new crop soybean production would be a near record 3.195 billion bushels. However, wet weather also adds uncertainty for soybean production. Will corn planting delays lead to more acres planted to soybeans and more soybean production? Or will continued planting delays also result in lower soybean yields and production?

Soybean domestic and export uses are expected to be slightly higher at 3.107 billion bushels for the year ahead. This would allow 2009-10 ending soybean stocks to increase somewhat to 230 million bushels. South American production is also expected to rebound next year and contribute to recovery in world soybean carryover.

***The USDA's projected 2009-10 soybean price range is from \$8.45 to \$10.45.*** New crop cash bids at eastern Missouri locations are near the mid-point of the projected price range. Western Missouri new crop soybean bids are somewhat lower reflecting a weaker basis. The early January high near \$10.45 in November 2009 futures contracts offers one possible upside price objective. If the uptrend from the early March price low continues, following the trend higher with "trailing stops" is another alternative. However, if prices falter, current new crop bids offer profitable prices within the projected price range and the potential to avoid lower prices.

***The USDA's wheat estimates are not encouraging for soft red winter (SRW) wheat producers.*** Although US wheat production is expected to decline in 2009, ending stocks of all wheat are expected to remain above the 20-year average at 637 million bushels. World wheat carryover is expected to increase as well.

The USDA's supply/demand estimates result in a forecast wheat price range from \$4.70 to \$5.70 for 2009-10. For hard red winter (HRW) producers, cash wheat bids at some Kansas locations offer prices at or above the projected price range. However, large SRW wheat carryover and weak cash demand produces Missouri SRW wheat bids that are below the bottom of USDA's projected price range. July SRW wheat futures prices have moved higher in May. If futures prices retrace to near the highs set in January that could push SRW wheat cash bids into the lower end of USDA's projected all-wheat price range. Prices at that level might offer a selling opportunity in spite of disappointing profitability with returns that may not recover all production costs.

***Seasonal price patterns suggest that the best pre-harvest marketing opportunities are likely to occur in the next couple of months.*** Spring prices often move higher on planting worries and uncertain production prospects. Soils remain saturated and planting delays continue, but a changing weather forecast may be all it takes to turn prices around. Once the crop is planted, without further production concerns, prices often decline as the growing season progresses. This suggests being prepared to sell if the current upward price moves begin to falter. These seasonal trends, along with the USDA's early supply/demand projections and price forecasts provide information for setting profitable price objectives, especially for grain that is expected to be delivered at harvest time.