

Acreage And Biofuels Influence Prices



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Grain outlook

Corn and soybean prices over the next several months will be influenced by several factors. Important among those factors will be the 2009 acreage decisions of U.S. producers and the strength of the biofuels markets.

Expectations about planted acreage of corn and soybeans in the U.S. are in a wide range and actual planting decisions may remain uncertain for some time. Uncertainty centers around at least three factors. First, the prices of 2009 crop corn and soybeans continue to fluctuate, giving mixed signals to producers about the likely relative profitability of corn and soybeans in the 2009-10 marketing year. Second, there is considerable uncertainty about the relative cost of producing corn and soybeans in 2009. Fertilizer prices were very high in the fall of the year, but have recently declined, at least for some ingredients in some markets. The cost of producing corn in 2009 could vary substantially among producers. The distribution of producers who have paid high input prices and those who may pay lower prices could influence planted acreage, but that distribution is not known. Third, the sharp decline in winter wheat seedings and expected decline in cotton acreage in 2009 will result in additional acreage for other spring planted crops. The magnitude of that acreage is not known with certainty because some acreage could return to non-row crop production or be idled due to expectations of tighter margins for row crop production. In addition, the large decline in seedings of soft red winter wheat may result in fewer acres double cropped to soybeans.

On the issue of how many acres of corn and soybeans are needed in 2009, the size of the biofuels market will be one of the more important factors, particularly for corn. The majority of biofuels production continues to be corn-based ethanol production. That will continue to be the case for the next few years. However, the

USDA acknowledged in the February 10 report of domestic supply and consumption prospects that sorghum is increasing in use as a feedstock in some ethanol plants in the Southern and Central Plains.

Under current conditions of relatively low energy prices and tight margins for ethanol producers, it is believed that the Renewable Fuels Standards (RFS) will determine the level of biofuels production and, therefore, the demand for corn for ethanol. Those standards call for 10.5 billion gallons of renewable biofuels use in 2009 and 12.0 billion gallons in 2010. The standards increase to 15 billion gallons by 2015. Assuming those standards remain in place, how much corn will be used for ethanol production in the 2008-09 and 2009-10 marketing years? The answer is not straightforward. First, mandated use is for calendar years, which do not match corn marketing years. Second, there is some uncertainty about the mix of feed stocks that will be used to meet the mandated level of use. Third, within certain rules, blenders can use surplus biofuels (in excess of the RFS) in 2008 to meet the 2009 requirements and can borrow some of next year's requirements to meet this year's standards.

In spite of the uncertainty surrounding biofuels production, it is clear that if the Renewable Fuels Standards are maintained, there will be large increases in the use of corn for ethanol production over the next two years and beyond. The USDA projects use during the current marketing year at 3.6 billion bushels. We would expect use to exceed four billion bushels in 2009-10 and to exceed five billion bushels by 2015-16.

The likely increase in corn use for ethanol, along with a rebound in U.S. corn exports, during the 2009-10 marketing year, suggest that planted acreage of corn in the U.S. in 2009 needs to be maintained at least at the level of 2008. For soybeans, an increase in planted acreage is not needed in 2009 if the U.S. average yield is near trend value of 42.5 bushels and use during the 2009-10 marketing year increases by less than 250 million bushels (8.4 percent).

The USDA will release the results of the Prospective Plantings survey on March 31. With the large decline in winter wheat seedings, it is possible that this report will reveal intentions to plant too much of one or more crops in 2009. Based on anecdotal evidence, intentions for a surplus of soybean acreage may be revealed in that report. Δ



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