More Pressure On The 2009 Growing Season

grain outlook

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The USDA's March 31 Prospective Plantings report revealed producer intentions to reduce corn acreage and to marginally increase soybean acreage in 2009. That report pointed to the potential of tighter supplies during the 2009-10 marketing year and prices strengthened modestly following the release of the report.

On April 9, the USDA released the monthly update of projections of corn and soybean use during the current marketing year and the projection of stocks at the end of the year. For soybeans, the projection of the marketing year crush was reduced by 5 million bushels and the projection of marketing year exports was increased by 25 million bushels. Year-ending stocks are now projected at a 5 year low of 165 million bushels. That projection represents 5.5 percent of projected use during the current marketing year. The lowest stocks-to-use ratio in modern history was 4.5 percent in 2003-04.

For corn, the projection of domestic processing use of corn during the current year was reduced by 10 million bushels and the projection of feed and residual use was increased by 50 million bushels due to the larger than expected use during the second quarter of the marketing year. Year ending stocks are now projected at 1.7 billion bushels, or 14.1 percent of projected use during the year. Projected stocks are at a three year high and the projected year ending stocks-to-use ratio is well above the recent low of 9.4 percent in 2003-04.

The USDA will release its first projections of 2009-10 marketing year supply and use on May 12. Corn use during the 2009-10 marketing year may exceed the 12.04 billion bushels projected for the current year. The increase will be led by use for ethanol. Exports may also expand as world grain production recedes from the record level of 2008. The current corn harvest in Brazil and Argentina, for example, is now estimated at 2.52 billion bushels, 650 million bushels less than the 2008 harvest. Domestic feed use of corn will likely continue to decline during the year ahead as a result of the current reduction in livestock numbers and the increased competition from distillers grain. Still, total use next year could approach 12.5 billion bushels.

Soybean consumption may increase modestly next year. Some reduction in domestic and export consumption of meal will likely keep the domestic crush relatively small, but export demand should be strong. The 2009 South American soybean harvest is now estimated at 3.743 billion bushels, 515 million smaller than the 2008 harvest. For both corn and soybeans, the timing and extent of U.S. and world economic recovery will be important in determining the strength of demand and the level of consumption.

Prospects for small year ending stocks of soybeans and declining inventories of corn during the 2009-10 marketing year means that a generally favorable 2009 growing season will be needed to avoid rationing of use next year. Not much is known about growing season weather prospects at this point. The current LaNina is receding and neutral LaNina/ElNino conditions are expected for the summer months, but the correlation between those conditions and U.S. growing season weather is very low. The cool, wet start to April in some producing areas threatens to delay the start of corn planting. However, a more favorable weather pattern is expected to develop after this week and summer weather will dominate any influence of a modest delay in corn planting. Prices for the 2009 crop have not responded much to current weather conditions, likely due to the experience of a year ago when extensive delays in corn planting were followed by an above trend U.S. yield for corn. December 2009 corn futures briefly traded to about $4.37, but have retreated to the $4.15 to $4.20 area. Similarly, November 2009 futures traded to $9.34, but have leveled off even as prices for the 2008 crop have strengthened. New crop corn and soybean basis levels, however, have strengthened modestly since early March.

Prices for the 2009 corn and soybean crops are above the spring price guarantees for crop revenue insurance products so even insured producers face some downside price risk. That risk is about $.15 for corn and near $.45 for soybeans. With so much riding on the size of the 2009 crops, prices could well trade in a wide range over the next few months. Opportunities to price a portion of those crops at prices above those currently offered will likely be available. Δ