

# Small Crop Inventories Point To The Need For Large Crops In 2008



## grain outlook

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The USDA's February report of U.S. and world crop supply and consumption prospects confirmed prospects for larger exports and smaller year-ending stocks of U.S. soybeans and wheat. Projections of use and stocks of U.S. corn during the current marketing year were unchanged. The new projections underscore the need for large crops in 2008.

Exports of U.S. wheat during the current marketing year are projected at a 12-year high of 1.2 billion bushels, 25 million larger than the January projection. Expected feed use was reduced by five million bushels, resulting in projected year-ending stocks of 272 million bushels, the smallest inventory in 33 years.

Exports of soybeans during the current marketing year are projected at 1.005 billion bushels, 10 million above the January forecast and only 113 million less than the record exports of last year. Exports for the year are expected to be down 10 percent, but shipments during the first five months of the marketing year are running only about 7 percent behind those of a year ago. In addition, unshipped sales as of January 31, 2008 were 48 million bushels (19 percent) larger than unshipped sales of a year ago. The projection of the domestic soybean crush was increased by five million bushels to a total of 1.835 billion, 1.6 percent larger than last year's record crush. Crush during the first four months of the year was 2.2 percent larger than during the same period last year. Year-ending stocks of U.S. soybeans are projected at only 160 million bushels, or 5.3 percent of projected consumption. As a percentage of use, projected stocks are at the second lowest level in 35 years.

The USDA made no changes in the projections of use of U.S. corn during the current marketing year. Many had expected an increase in the projection of exports and a resulting reduction in the level of year-ending stocks. As expected, the projected size of the current Argentine crop and subsequent exports was lowered by about 40 million bushels, but the projection of South African production and exports were increased by a similar amount. Still, the pace of U.S. exports is large. The USDA projects a 15 percent

year-over-year increase in exports. Shipments during the first five months of the marketing year were up about 15 percent (inspections up nearly 18 percent). Like soybeans, however, unshipped export sales as of January 31 were very large. Sales of 779.5 million bushels were 69 percent larger than those of a year ago.

Corn and soybean prices continue at high levels. The average settlement price of December 2008 corn futures during the first six business days of February was \$5.27. Unless that contract average less than \$4.69 for the rest of the month, the average "spring price" for revenue insurance products will be above \$5.00. For soybeans, the average of November 2008 futures during the same six days was \$12.805. If that contract averages above \$11.655 for the rest of the month, the "spring price" for revenue insurance products will be above \$12.00. As a result, revenue insurance products will offer excellent "put option" protection on insured bushels. Producers are faced with managing the risk of uninsured bushels and then making pricing decision if prices move above the spring average.

The low level of year ending stocks has important implications for production requirements in 2008. If use of U.S. soybeans during the 2008-09 marketing year is slightly less than the three billion bushels projected for this year and year ending stocks are held at 160 million bushels, the 2008 crop needs to reach 2.9 billion bushels. With a U.S. average yield of 42.5 bushels, a crop of that size would require harvested acreage of 68.2 million and planted acreage of about 69 million. That is 5.4 million more than planted in 2007.

For corn, use during the 2008-09 marketing year could exceed projections for this year by 300 million bushels, resulting from increased ethanol production and reduced exports and domestic feeding. Use of 13.255 billion bushels and year ending stocks of 1.2 billion imply the need for a 13 billion bushel corn crop in 2008. An average yield of 152.5 bushels implies the need for harvested acreage of 85.25 million and planted acreage of about 92.4 million. That is only 1.2 million less than planted in 2007.

U.S. wheat exports are likely to decline in 2008-09 as world production rebounds. To maintain stocks at the projected very low level of this year, the 2008 harvest needs to be near 2.2 billion bushels. An average yield of 41 bushels implies the need for 53.7 million harvested acres and planted acres of about 63 million. That is 2.6 million more than planted last year. Winter wheat seedings are up about 1.6 million, implying the need for an additional one million acres of spring wheat.

The USDA's Prospective Plantings report to be released on March 31 will have important price implications. Δ