

USDA Expects Strong Demand For 2010 Crops



grain outlook

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The USDA's August 12 reports of world and U.S. crop production, consumption, and price prospects paint a picture of potentially strong demand for U.S. crops. Demand is expected to be strongest for U.S. wheat and weakest for U.S. soybeans.

The U.S. wheat crop is now forecast at 2.265 billion bushels, reflecting a record yield of 46.9 bushels. The crop is 49 million bushels larger than the 2009 crop even though planted acreage was down 4.8 million acres from that of 2009. Planted acreage was the smallest since 1971 and harvested acreage was the smallest since 2002. At 3.838 billion bushels, total U.S. wheat supplies at the beginning of the 2010-11 marketing year were the largest since 1999-2000.

Production of wheat outside of the U.S. is projected at 23.7 billion bushels, 5.8 percent smaller than last year's production and the smallest in four years. Large year-over-year declines are reported for Russia, Ukraine, Kazakhstan, and Canada. As a result, U.S. wheat exports are projected at a three year high of 1.2 billion bushels, 319 million bushels larger than last year's exports. A small decline in U.S. inventories is projected for the marketing year, but those year-ending stocks are still expected to be the second largest in 9 years. The midpoint of the USDA's projected range for the 2010-11 marketing year average farm price is \$5.10, \$.23 above the average for the 2009-10 marketing year. Larger consumption and higher prices reflect the expected strength of demand for U.S. wheat.

For corn, the USDA forecasts a record U.S. crop of 13.365 billion bushels, reflecting a record large average yield of 165 bushels. The production forecast is 255 million bushels larger than the 2009 crop. With smaller stocks of old crop corn, the supply of corn for the 2010-11 marketing year is expected to be only 11 million bushels larger than last year's supply. Corn production in the rest of the world is projected at 19.373 billion bushels, 3.5 percent larger than last year's output. Production is expected to decline in South American and South Africa, but larger crops are expected elsewhere. The largest year-over-year increase is expected in China. That crop is forecast at 6.535 billion

bushels, 433 million larger than the 2009 harvest. Foreign production of coarse grains other than corn is expected to be down 17.8 million tons, or 6.4 percent, from that of last year. Much of that decline is in Russia.

Consumption of U.S. corn during the 2010-11 marketing year is forecast at a record 13.49 billion bushels, led by a 200 million bushel increase in corn used for ethanol production and a 75 million bushel increase in exports. Feed and residual use of corn is expected to decline by 175 million bushels. Year ending corn inventories for the 2010-11 marketing year are projected at a four year low of 1.312 billion bushels, 114 million less than the projection of stocks at the start of the year. Projected year ending stocks represent 9.7 percent of projected consumption, the lowest in 7 years. The midpoint of the USDA's projected range of the 2010-11 marketing year average farm price is \$3.80, \$.25 above the midpoint of the projected range for the year just ending. Like the wheat situation, the projection of increased consumption at higher prices reflects strong demand.

For soybeans, the USDA forecasts the 2010 crop at a record 3.433 billion bushels, 74 million larger than the 2009 crop. The U.S. average yield is expected to equal last year's record of 44 bushels. Total marketing year supplies are projected at 3.603 billion bushels, 91 million larger than the supply for the 2009-10 marketing year.

Consumption of U.S. soybeans during the year ahead is projected at 3.243 billion bushels, 110 million below the forecast for the current year. As a result, stocks are expected to grow from 160 million bushels at the start of the year to 360 million by the end of the year. While soybean exports are expected to decline by only 35 million bushels (2.4 percent) the domestic crush is expected to decline by 100 million bushels (5.7 percent) reflecting projections of a 35 percent decline in soybean oil exports and a 23 percent decline in soybean meal exports. The domestic use of soybean oil for production of methyl esters is projected to increase by 1.1 billion pounds, or 61 percent. The midpoint of the USDA's projection of the 2010-11 marketing year average soybean price is \$9.25, \$.35 below the average of the year just ended. The expectation of a weaker demand for U.S. soybeans and soybean products reflects expectations for larger exports from South America.

The expected strong demand for U.S. wheat was reflected in the price rally during July. The corn market quickly reflected strong demand expectations following the August 12 USDA reports. Soybean prices also moved higher, although fundamental support seems to be lacking. Near term price direction for corn and soybeans will be influenced by any expected changes in the U.S. production forecasts. Δ

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