USDA Projections Point To Ample Crop Supplies

grain outlook

DR. DARREL GOOD
Extension Economist University of Illinois

The USDA released its monthly report of U.S. and world supply and demand projections for major crops on July 10. The projections contained a number of changes from those of a month ago, but generally point to abundant crop supplies for the year ahead.

For soybeans, the USDA increased the projection of both the domestic crush and exports during the current year by 10 million bushels. Those increases were offset by an increase in the projection of imports and a smaller projection of residual use of soybeans. Year ending stocks are still projected at 110 million bushels.

The projection of 2008-09 marketing year soybean exports of 1.26 billion bushels could be exceeded. USDA estimates place cumulative marketing year exports through July 2, 2009 at 1.145 billion bushels. Those estimates suggest that weekly shipments through August need to average 13.4 million bushels per week to reach the new projection of 1.26 billion bushels for the year. However, Census Bureau estimates through May 2009 exceed USDA estimates by 35 million bushels. If that margin persists, weekly shipments need to average only 9.3 million per week. If all of the bushels which were sold but not yet shipped as of July 2 actually get exported, exports for the year could be as high as 1.3 billion bushels. Exports at that level point to an unreasonably small year ending inventory of 70 million bushels. The recent drop in old crop soybean prices suggests that the market is not concerned about old crop supplies, even with a late maturing crop. It now appears, however, that some additional rationing of old crop soybean supplies is needed or that the 2008 crop was actually larger than estimated.

For the 2009-10 marketing year, updated USDA projections reflect the larger soybean planted acreage figure released on June 30. With a yield of 42.6 bushels per acre, the 2009 harvest is expected to total 3.26 billion bushels. Stocks on September 1, 2010 are projected at 250 million bushels. The yield projection is slightly higher than our trend calculation of 42.2 bushels. The yield projection based on weather conditions through June and summer weather conditions that reflect an equal chance of the actual weather conditions of each of the last 49 years is also 42.2 bushels. The difference of 0.4 bushels is equal to 30 million bushels. The USDA projects the 2009-10 marketing year average farm price in a range of $8.30 to $10.30. The futures market currently reflects an average cash price for the upcoming year of just under $9.00.

For corn, the USDA lowered the projected domestic use during the current marketing year by 220 million bushels. Feed use and ethanol use projections each declined by 100 million bushels. The projection of 2008-09 marketing year corn exports was increased by 50 million bushels. Cumulative Census Bureau export estimates through May 2009 exceeded USDA projections by about 60 million bushels. Still, the export pace will have to accelerate to reach the projected total. Year ending stocks are now projected at 1.77 billion bushels.

For the 2009-10 marketing year, the projection of corn production was increased by 355 million bushels, reflecting the larger planted acreage estimate released on June 30. Stocks of U.S. corn on September 1, 2010 are projected at 1.55 billion bushels, 468 million more than projected last month, but 220 million less than the projection of stocks at the beginning of the 2009-10 marketing year. The 2009-10 marketing year average farm price of corn is projected in a range of $3.35 to $4.15. The futures market currently reflects an average cash price near $3.25. The current price of corn likely reflects a higher average yield expectation than the 153.4 bushels projected by the USDA. Weather conditions through June and summer weather conditions that reflect equal chances of actual conditions in each of the last 49 years would point to an average yield near 155 bushels. Based on current weather forecasts and crop condition ratings, the market is likely trading an even higher yield expectation.

Changes in the projections for wheat point to larger year ending stocks. The U.S. average yield projection was increased by 0.7 bushels. When applied to the larger acreage revealed on June 30, the yield forecast points to a crop of 2.112 billion bushels, 96 million larger than the June forecast. The marketing year export projection was increased by 25 million bushel and marketing year feed use was increased by 10 million. Still, year ending stocks are projected at an 8 year high of 706 million bushels.

If favorable crop weather continues, some further weakness in crop prices might be expected. The low price of wheat, along with a weak basis and large carry in the futures market, however, suggest retaining some ownership of the newly harvested soft red winter wheat crop. December 2009 corn futures are well below the price guarantee for crop revenue products which discourages additional new crop sales. November 2009 soybean futures are about $.30 above the crop revenue insurance price guarantee. Δ

DR. DARREL GOOD: Extension Economist University of Illinois