

# Waiting For USDA Reports



**DR. DARREL GOOD**

Extension Economist University of Illinois

## outlook

**O**n January 12, the USDA will release a number of reports that will contain important information for the corn, soybean, and wheat markets. These reports, along with crop development in the southern hemisphere, will set the tone for the markets into the spring.

The Crop Production report will contain final estimates of the size of the 2010 corn and soybean crops. Changes, if any, from the November forecasts are expected to be small. Changes would most likely be in the yield estimates since administrative data has already been incorporated in the acreage forecasts. However, since the December producer survey is much larger than earlier surveys, acreage changes cannot be ruled out. In the previous 10 years, the change in the corn yield estimate in January has ranged from 0.1 bushel to 2.4 bushels and averaged 1.1 bushels. For soybeans, the change has ranged from 0.1 to 0.7 bushel and averaged 0.3 bushel.

The Grain Stocks report will contain estimates of the December 1, 2010 domestic inventory of all the major crops. The most interest will be in the estimate of the corn inventory. This is always the case since the report provides the first indication of the feed and residual use of corn during the first quarter of the marketing year. The report takes on added significance this year since the previous two quarterly stocks reports (June and September, 2010) provided surprises. The September estimate was larger than expected following a smaller than expected estimate in June. The September surprise set off a discussion about whether inventories of the newly harvested crop were inappropriately included and/or whether some of the 2010 harvest was fed in August. The USDA indicated that some new crop may have been fed in August and as a result has forecast 2010-11 marketing year feed and residual use of corn at 5.3 billion bushels, 2.7 percent more than used in the previous year. Our analysis would suggest that the September 1 stocks estimate was very logical and that the USDA forecast of feed and residual use for 2010-11 may be too high. Additionally, the 16 percent increase in ethanol production during the first quarter of the 2010-11 marketing year and the resulting increase in production and feeding of distillers' grain may

have substituted for an additional 40 to 50 million bushels of corn feeding. There is some risk, then, that the December 1 corn stocks estimate may reveal a slower pace of feed and residual use than currently forecast by the USDA. The magnitude of stocks will reflect any change in the production estimate and the large ethanol use of corn, as well as actual feed and residual use.

The monthly report of World Agricultural Supply and Demand Estimates will be closely observed for any changes in southern hemisphere production estimates and implications for the export demand for U.S. crops. The estimates of production of corn and soybeans in Argentina will be most closely watched due to dry conditions that have prevailed since mid-October. The corn crop appears to have been most negatively impacted. Any changes in these forecasts, along with the December 1 stocks estimates will be reflected in changes in the projection of year ending stocks of corn and soybeans.

For soybeans, the USDA's projection of the domestic use of soybean oil for production of methyl ester will be important. Previous reports have forecast a year-over-year increase of 1.219 billion pounds (72.5 percent). The reinstatement of the biodiesel blender tax credit should support use moving forward, but use during the first two months of the marketing year (October and November 2010) was very small. Use in those two months totaled only 173 million pounds, compared to 485 million in October and November of 2009. To reach the current USDA projection, use during the 10 months from December 2010 through September 2011 will need to average 273 million pounds per month, 126 percent more than the average of a year earlier. The forecast of soybean oil exports may also be influenced by the rapid increase in palm oil prices and the resulting improvement in the competitive position of soybean oil in the export market.

The Winter Wheat Seedings report is expected to show a large increase in winter wheat acreage following the sharp decline in 2009. The magnitude and location of those increases will have implications for the availability of acreage for spring planted crops, including double cropped soybeans. Beyond the acreage numbers, the condition of the winter wheat crop will have implications for yield and for the potential of replanting some wheat acreage to other crops this spring.

There is added price risk when so much information is released at one time. New estimates and forecasts may provide a consistently positive or negative scenario or they may provide mixed signals that the market will have to sort out. Given the recent history of USDA reports, an important surprise cannot be ruled out.  $\Delta$

*DR. DARREL GOOD: Extension Economist, University of Illinois*



Link Directly To: **PIONEER**