



REFLECTIONS AND CONTENT: OCTOBER USDA GRAIN REPORTS

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Immediate Reaction: The key new information was a reduction in ending U.S. soybean stocks for the current 2010/11 crop year to 185 million bushels, from 265 and 350 million bushels in the October and September WASDE reports, respectively. U.S. yield was dropped 0.5 bushel per acre, while the trade expected soybean yield to increase. Also, soybean exports were increased by 50 million bushels. Soybean futures for the 2010 crop year finished up 50+¢/bushel. The reports for corn and wheat were basically neutral relative to market expectations. Nearby corn (wheat) futures finished down 9¢ (14.5¢) per bushel, 29¢ (39¢) off the high. I think forecasts for rain in the southern U.S. plains and southern South America was part of the reason for the wide trading range and close near the low in corn and wheat. But, I also think other factors that I cannot determine had impacts.

Ohio Production and (Yield)		
Corn	million bu.	(bu./acre)
► Nov. 2010	541	(165)
► Oct. 2010	548	(167)
► 2009	546	(174)
Soybeans		
► Nov. 2010	225	(48)
► Oct. 2010	225	(48)
► 2009	220	(49)

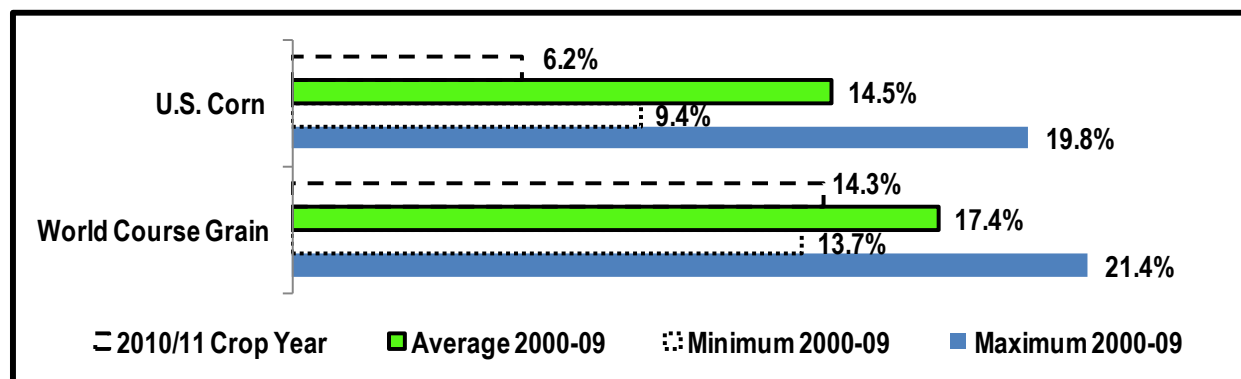
2010 Crop Year Perspective: While the market has focused on declining U.S. production over the last few months, U.S. corn and soybean yields are basically at trend line. Hence, the U.S. did not produce short crops of corn and soybeans. This observation implies that current markets are largely demand driven. However, going into the November reports, the markets were increasingly concerned that high prices were curtailing demand for wheat and especially corn. USDA did not adjust total U.S. wheat use, but did reduce U.S. corn feeding and exports by 100 and 50 million bushels, respectively. However, USDA increased corn ethanol use by 100 million bushels. In its WASDE commentary, USDA noted “Although small relative to domestic usage, higher ethanol exports and lower imports are also expected to add to corn use for ethanol with high sugar prices limiting the availability of ethanol from Brazil.” Last, USDA raised total U.S. production of meat during 2011 by 0.4%. In short, the November WASDE demand picture for corn and wheat is best described as mixed, thus suggesting that high prices are beginning to at least slow demand.

Observations and Implications:

- I expect the market to remain sensitive to the impact of high prices on demand, especially for corn and wheat. The market is well aware that demand changes often are not visible until after they occur. Thus, it is important to monitor the weekly reports listed on page 4.
- Demand concerns were reinforced on November 10 when China raised the reserve requirement for major banks in an attempt to control the flow of new money it expects to result from the U.S. Federal Reserve's latest easing of monetary policy. China accounts for 60% of world soybean trade and 87% of the growth in world soybean trade over the last two years. If China's economy slows appreciably, U.S. farmers will be impacted.
- U.S. ending stock-to-use ratio is the lowest since 2000 for all U.S. grains (Figure 3), notably corn (Figure 1), and well below average for soybeans (Figure 4). However, world stock-to-use ratio is above the 10-year average for soybeans and mid-way between the low and average for coarse grains. The demand-supply picture is not as tight as the U.S. situation implies. With the U.S. harvest nearly complete, the market should focus more on the world situation.
- Further increases in price will require new information, such as more declines in the U.S. \$, new production problems, and larger growth in demand from developing countries. I am watching corn and soybeans in southern South America, winter wheat in the U.S. plains, and palm oil. Current conditions warrant attention but not concern. Each area had production problems during at least one recent La Nina weather event. La Nina is now occurring. If new bullish information does not emerge, I expect high prices to cause prices to decline.

Figure 1. Ending Stock-to-Use Ratio, U.S. Corn & World Course Grains, 2000-2010 Crops

SOURCE: *World Agricultural Supply & Demand Estimates*, November 9, 2010, U.S. Department of Agriculture



Ending Stock-to-Use Ratio, October 2010 WASDE: U.S. Corn – 6.7%; World Course Grains – 14.5%

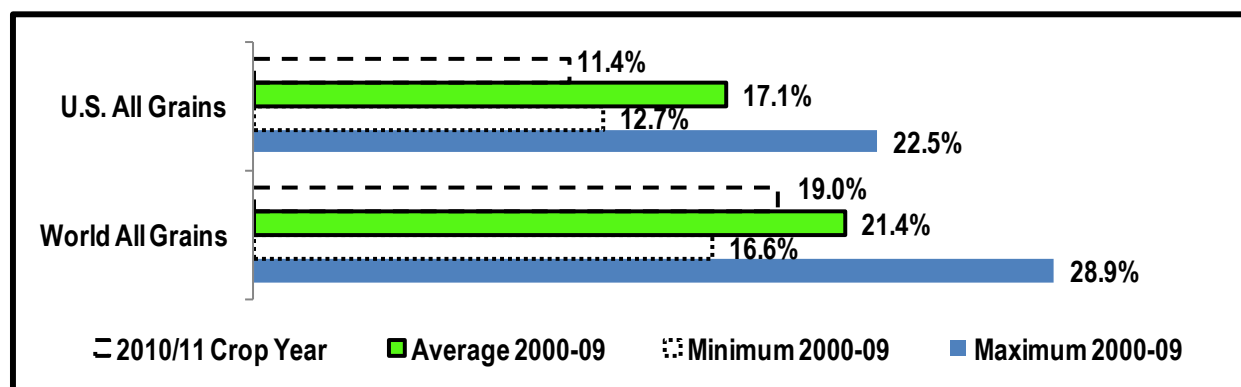
Figure 2. Closing Prices, Nearby Chicago Corn Futures Contract, Last Year

SOURCE: Chicago Mercantile Exchange, accessed November 9, 2010.



Figure 3. Ending Stock-to-Use Ratio, U.S. & World All Grains, 2000-2010 Crops

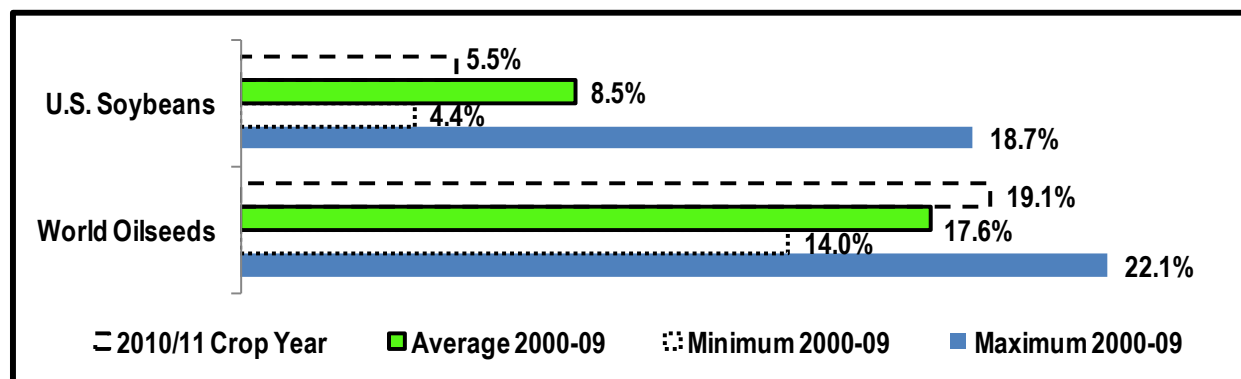
SOURCE: *World Agricultural Supply & Demand Estimates*, November 9, 2010, U.S. Department of Agriculture



Ending Stock-to-Use Ratio, October 2010 WASDE: U.S. All Grains – 11.8%; World All Grains – 19.3%

Figure 4. Ending Stock-to-Use Ratio, U.S. Soybeans & World Oilseeds, 2000-2010 Crops

SOURCE: *World Agricultural Supply & Demand Estimates*, November 9, 2010, U.S. Department of Agriculture



Ending Stock-to-Use Ratio, October 2010 WASDE: U.S. Soybeans –8.0%; World Oilseeds – 19.1%

Figure 5. Closing Prices, Nearby Chicago Soybean Futures Contract, Last Year

SOURCE: Chicago Mercantile Exchange, accessed November 9, 2010.

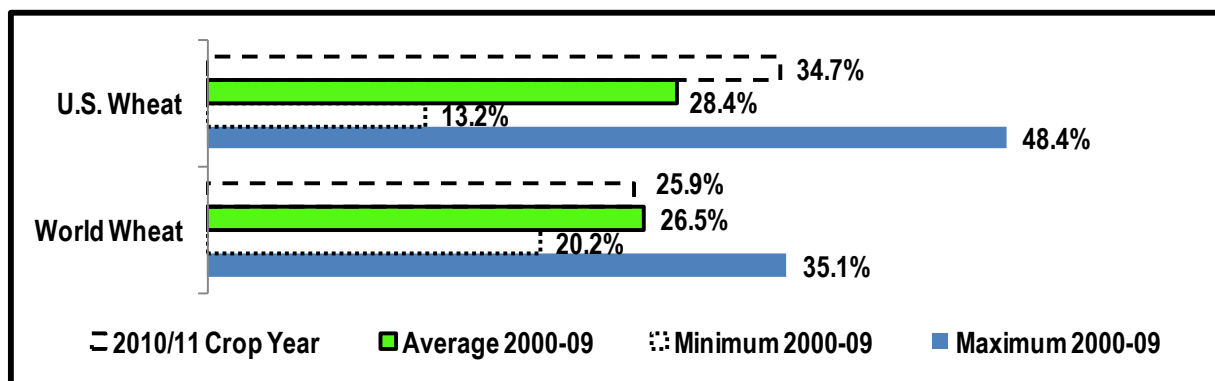


Table 1. Price of Selected Economic Assets SOURCE: CNN.com, accessed November 9, 2010.

Economic Asset	Close, 11/9/2010	Low, Last Year	High, Last Year
Australia, Australian \$ per U.S. \$	1.00	0.98	1.21
Brazil, Real per U.S. \$	1.69	1.64	1.92
Canada, Canadian \$ per U.S. \$	1.01	0.99	1.09
China, Renminbi (Yuan) per U.S. \$	6.66	6.64	6.83
Europe, Euro per U.S. \$	0.73	0.66	0.83
India, Rupees per U.S. \$	44.45	43.81	47.07
Copper, \$ per pound	\$4.04	\$2.89	\$4.04
Gold, \$ per troy ounce	\$1,410	\$1,081	\$1,421
Oil, \$ per barrel	\$86.72	\$73.55	\$93.55
Natural Gas, \$ per million BTU	\$4.21	\$3.64	\$6.81

Figure 6. Ending Stock-to-Use Ratio, U.S. & World Wheat, 2000-2010 Crop

SOURCE: World Agricultural Supply & Demand Estimates, November 9, 2010, U.S. Department of Agriculture



Ending Stock-to-Use Ratio, November 2010 WASDE: U.S. Wheat – 34.9%; World Wheat – 26.3%

Figure 7. Closing Prices, Nearby Chicago Wheat Futures Contract, Last Year

SOURCE: Chicago Mercantile Exchange, accessed November 9, 2010.



Change in Livestock Production 2011 vs. 2010

■ Beef	-1.6%
■ Broilers	+1.5%
■ Pork	+1.5%
■ Turkeys	-0.5%
■ Total Meat	+0.4%
■ Table Eggs	+0.0%
■ Milk	+1.4%

Selected Upcoming Reports

► Export Inspections	Monday
► Ethanol Production	Wednesday
► Broiler Hatchery	Wed., 3 pm
► Export Sales	Thurs., 8:30 pm
► Dairy Product Prices	Fri., 8:30 pm
► Commitment of Traders	Fri., 3:30 pm
► Cattle on Feed	11/19/10, 3 pm
► Livestock Slaughter	11/26/10, 8:30 pm
► Crop Production	12/10/10, 8:30 pm
► WASDE	12/10/10, 8:30 pm