

Steady Outlook with a Few Surprises



Coffee & Grain
April 2023

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Highlights

- Steady Outlook in the US
- Argentina Drought Continues
- Brazil's Harvest Affecting US Export progress
- New Crop: Is Planted Area Overestimated?

Summary of Coffee & Grain Markets

The USDA's World Agricultural Supply and Demand Estimates (WASDE) report for April reveals a consistent picture of the old crop. Southern Latin American countries, such as Argentina and Uruguay, continue to suffer from drought damage, whilst other South American countries, such as Brazil and Paraguay, have a strong harvest outlook, which will likely lead to an increase in overall crop supply from South America compared to last year.

1 The Apr WASDE report was released on April 11. What is the snapshot of the market? //

Speaking of the US side first, there were some adjustments here and there. But as the report is focusing on old crop, its impact was moot and the market has not reacted much. In my opinion, as the market was already aware of some bearishness due to the large harvest in Brazil, this WASDE report just fulfilled market's expectations (see **Table 1**).

The main focus of the April report was the update in foreign countries. First, both Ukraine and Russia have their exports up in both corn and wheat. For instance, the net change from March in corn export of the two countries is 2.8 million tons increase, which is about 110 million bushels (their wheat export was ticked up by 2.5 million tons as well). On March 18th, Ukraine and Russia agreed to extend the grain deal, which will make the Black sea ports operational as usual at least 60 additional days. Although uncertainty in Black Sea region is still large,

the current recovery in Ukraine and Russia's export will possibly lead to lower US crop exports.

The most critical update might be South America production. Brazil harvesting is progressing well, and USDA has increased its production forecast by a million tons (about 39 million bushels) from last month. In contrast, Argentina (and Uruguay) suffered from drought, causing an additional decrease in their crop production. Argentina's soybean production forecast is now at a 23-year low, and its corn production is also a five-year low, which will undoubtedly tighten global supply. But if Brazil can fill most of the loss caused by Argentina's decreased production, the US will not experience a big boost in export sales. This is already indicated by a slow progress in US exports following Brazil's harvest (**Figure 1**). In summary, the significant supply reduction in Argentina (and Uruguay) occurred, but Brazil (and Paraguay)'s successful harvest likely offset most of it (Colussi et al., 2023).



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Table 1 April WASDE summary for corn, soybean and wheat

	Corn			Soybean			Wheat		
	2022 /23F	ΔMar 23	Δ2022 /23	2022 /23F	ΔMar 23	Δ2022 /23	2022 /23F	ΔMar 23	Δ2022 /23
Marketing Year (Corn, Soybean: Sep-Aug / Wheat: Jul-Jun)									
Yield (bu/acre)	173.3	--	-2%	49.5	--	-4%	46.5	--	5%
Production	13,730	--	-9%	4,276	--	-4%	1,650	--	0%
Total Supply	15,147	-10	-7%	4,566	--	-4%	2,473	--	-4%
Feed & Residual	5,275	--	-8%						
Ethanol	5,250	--	-1%						
Crush				2,220	--	1%			
Domestic Use	11,955	-10	-4%	2,340	**	1%	1,100	-25	1%
Exports	1,850	--	-25%	2,015	--	-7%	775	--	-3%
Total Use	13,805	-10	-8%	4,355	**	-2%	1,875	-25	-1%
Ending Stocks	1,342	--	-3%	210	**	-23%	598	30	-14%
Season Price (\$/bu)	6.6	--	10%	14.3	--	8%	8.9	-0.1	17%

Note: The default unit of all numbers is a million bushels.

Figure 1 Soybean and corn export progress

Fig 1-A Soybean export progress

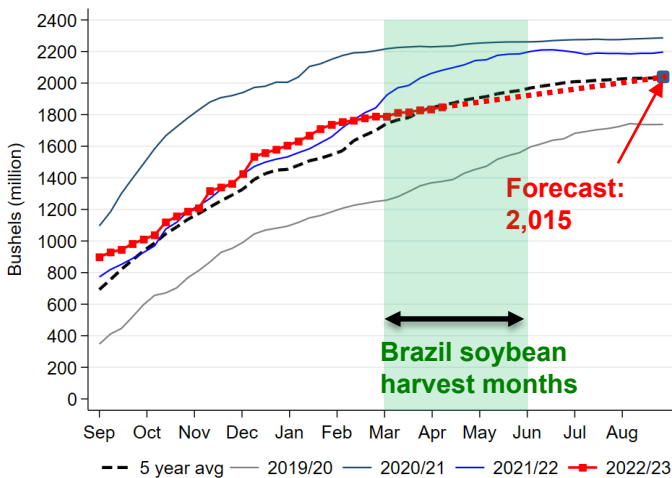
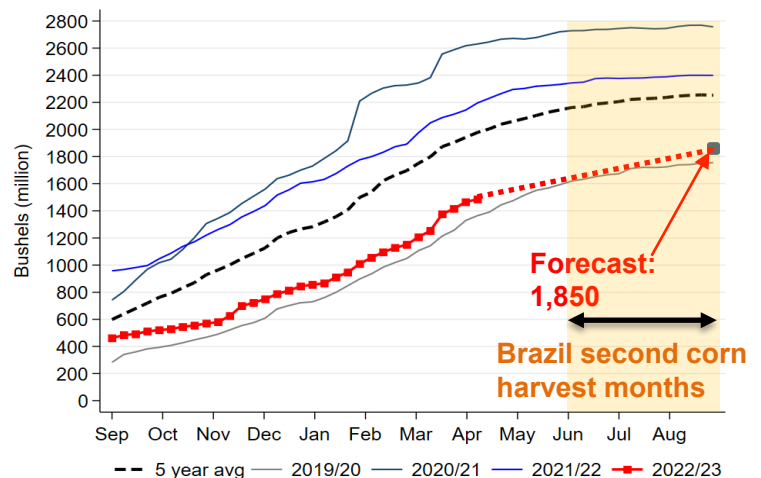


Fig 1-B Corn export progress

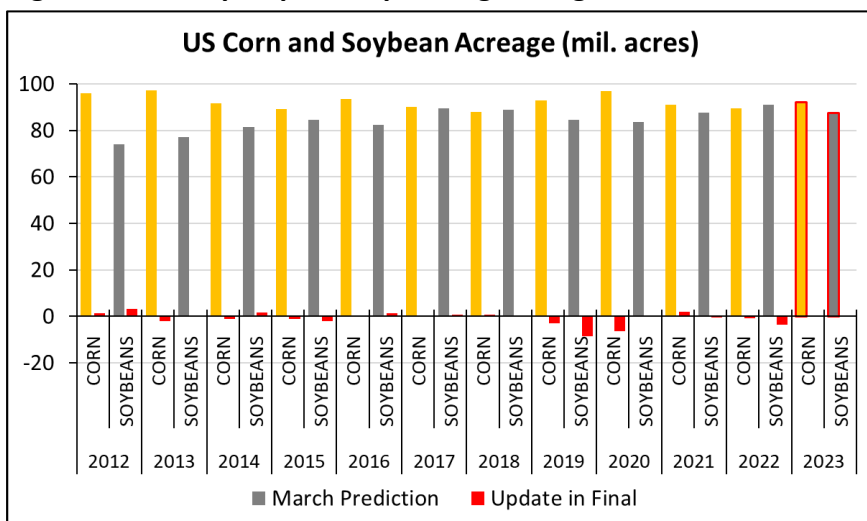


2. Prospective Planting report were released last month. What are your thoughts on it? //

The most significant aspect, to me, was the increase in corn acreage. The report predicted a 4% increase in corn acreage. In fact, all top-20 corn-producing states, except for Nebraska and Texas, are projected to plant more corn than last year. This rebound is likely due to lower corn planting last year as a result of high fertilizer costs.

Soybean acreage was also predicted up a little but not much. Ohio follows the national trend. We will likely see about 100,000 acres increase in corn, while soybean acreage remains unchanged. When looking at the historical trend, the March Prospective Planting report tends to slightly overestimate the acreage (Figure 2). Thus, I consider these predictions as an upper bound of the planted area and anticipate some adjustments in the June Acreage report.

Figure 2 March prospective planting acreage

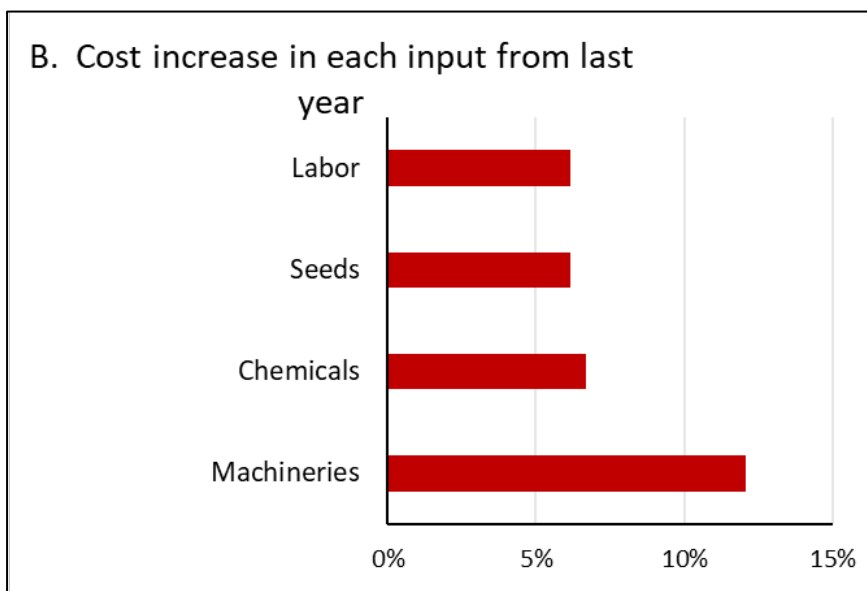
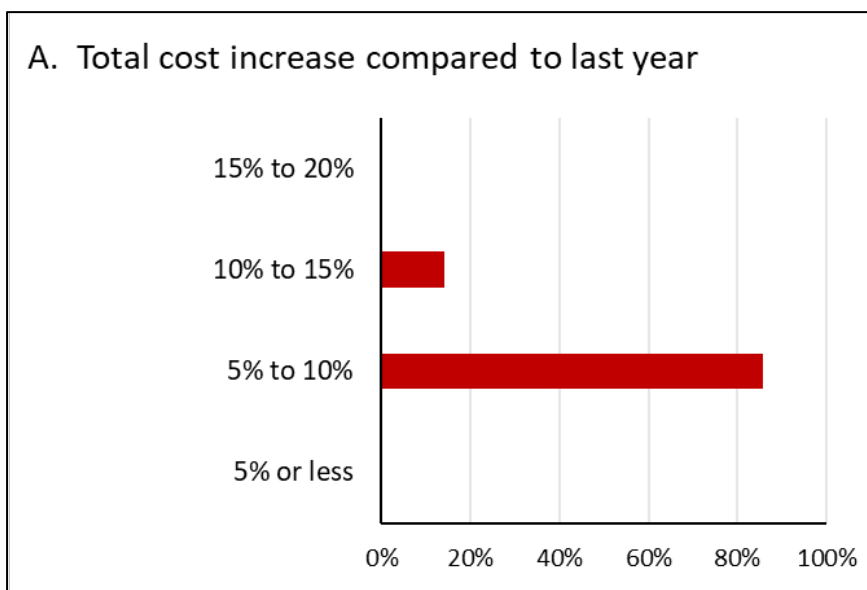


3. Brief discussion about the sentiment survey of Ohio farmers //

In the February sentiment survey, we found that increasing input costs are the most concerning factor for the 23/24 market. As a follow-up, two relevant questions were asked during this April webinar.

As depicted in **Figure 3**, over 80% of Ohio farmers responded that they experienced 5% to 10% cost increase this year. Interestingly, there was a significant heterogeneity in inflation rates across the major inputs. The panel B of Figure 2 shows that machinery cost was singled out as the item showing the highest inflation rate (12%) this year among the farm inputs.

Figure 3 Perception about farming cost increase



References

April 2023 World Agricultural Supply and Demand Report. WASDE Report. U.S. Department of Agriculture. April 11, 2023

Colussi, J., N. Paulson, G. Schmitkey and S. Cabrini. "Record in Brazil, Drop in Argentina: Contrasting Soybean Harvests in South America." *farmdoc daily* (13):59, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 31, 2023.