



USDA Jolts the Markets

Scott Irwin and Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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The USDA's World Agricultural Outlook Board (WAOB) released the monthly WASDE report this morning. Several changes were made in supply and consumption projections for corn and soybeans. By far the most important changes were the drops in yield projections. Following is a brief summary and implications of the report.

Corn

In a major surprise the projection of U.S. corn yield for 2012 was reduced 20 bushels, from 166 to 146 bushels per acre. For some perspective on the size of the decline, the largest June to July drop in non-survey projections before this year was three bushels (in 2005). Total projected production declined from 14.79 billion bushels to 12.97 billion, a drop of 12.3%. This large decline in production naturally led to a sharp decline in projected use for 2012/13. Beginning stocks for the marketing year were increased 52 million bushels, reflecting a softening of exports late in the current marketing year, but this had a very small impact relative to the drop in production. Total available supplies for the 2012/13 marketing year were forecast at 13.903 billion bushels compared to 15.656 billion just one month ago. The main adjustment in use was to lower feed and residual use 650 million bushels to 4.8 billion. Exports were dropped 300 million bushels to 1.6 billion and ethanol use was dropped 100 million bushels to 4.9 billion. Total use was projected at 12.720 billion leaving 1.183 billion in ending stocks. Not surprisingly, the mid-point of the projected range of prices for the marketing year was boosted from \$4.60 to \$5.90.

One important point regarding the changes to corn usage for the upcoming marketing year pertains to feed and residual use. The 650 million bushel drop (12%) in feed and residual use would seem to imply a very large liquidation in U.S. livestock herds. However, one should keep in the mind that the June estimate of 2012/13 feed and residual use, 5.450 billion bushels, was very large relative to the estimate for the current marketing year, 4.550 billion bushels, and also large relative to livestock numbers. A "pre-drought" starting point for 2012/13 feed and residual use closer to 5 billion bushels is more reasonable and implies a much smaller decline in feed use and animal numbers.

Another point of debate is the 300 million drop in the forecast of exports for 2012/13. This is mainly due to a projected decline in Chinese imports. Since the domestic corn production estimate for China did not change the decline in exports appears to be a reaction to higher prices. Whether these declines actually materialize will be an important development to monitor as we proceed through the upcoming marketing

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year.

Soybeans

Like corn, the major surprise in soybeans was the reduced yield projection. The USDA lowered its projection from 43.9 bushels to 40.5 bushels. The largest previous drop in June to July non-survey projections was one bushel in 1993. Total production for 2012 is now forecast at 3.050 billion bushels, down from 3.205 billion in June. The decline in production caused domestic crush to be adjusted downward by 35 million bushels and exports to drop by 115 million bushels. The net effect of the changes was to drop ending stocks by 10 million bushels to 130 million. This is very near the minimum "pipeline" level of ending stocks and any further declines in U.S. production will necessitate further reductions in use. The mid-point of the season average price range for 2012/13 was increased from \$13 to \$14.

Implications

Major uncertainty still surrounds both the supply and demand sides of the 2012/13 corn and soybean balance sheets. The drought conditions currently afflicting much of the Corn Belt may result in further reductions in the U.S. corn and soybean yield. A turn in the weather to cooler temperatures and more precipitation would be especially beneficial to soybeans, which have more capacity than corn to recover from the recent damaging weather conditions. The dramatic turn in production prospects the last few weeks may also prompt adjustments in U.S. policies, such as a partial waiver of the Renewable Fuels Standard (RFS) for convention biofuels in 2013.