



Weekly Outlook: USDA Reports Provide Some Price Direction

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On January 11, the USDA released a series of reports that provide important fundamental information for the crop markets. The information included the final estimate of the size of the 2012 U.S. corn and soybean crops, estimates of December 1 crop inventories, a winter wheat seedings estimate, and updated U.S. and world supply and consumption forecasts for the current marketing year.

For corn, the 2012 U.S. crop is estimated at 10.78 billion bushels, 55 million larger than the November forecast. The estimate of planted acreage of corn for all purposes was increased by 209,000 acres, the estimate of acreage harvested for grain was reduced by 346,000 acres, and the yield estimate was increased by 1.1 bushels per acre. The production estimate was larger than the pre-report average trade guess of just over 10.6 billion bushels, but the estimate of December 1, 2012 stocks of corn was actually much smaller than the average guess. Stocks were estimated at a 9-year low of 8.03 billion bushels, compared to the average guess of about 8.2 billion. The stocks estimate implies that feed and residual use of corn has not slowed as a result of the small crop and high prices that began in June of last year. Because of the harvest of a large quantity of corn before the marketing year began on September 1, 2012, feed and residual use should be evaluated over the six month period from June through November 2012. For that period, feed and residual use of corn totaled about 2.39 billion bushels, about 110 million more than use during the period from June through November 2011. Such an increase is a little surprising, but only because feed and residual use of wheat during that period was 125 million bushels larger than use in the previous year. As we have pointed out before, total grain feeding has been supported by only a very modest cut in livestock numbers and a sharp decline in the production of distillers' grain.

Unlike other years of small production and high corn prices, feed use of corn has remained large. Such a high rate of use has been possible because corn used for ethanol production has declined about 10 percent year-over-year and because exports have been almost non-existent. Exports during the first quarter of the 2012-13 marketing year were at a 41-year low of 220 million bushels. For the year, the USDA now projects exports at a 43-year low of 950 million bushels. Year-ending stocks of corn are projected at a 17-year low of 602 million bushels and the marketing year average farm price is expected to be record high, in a range of \$6.80 to \$8.00 per bushel. Based on the average price received to date, it appears that the average for the year will be near the low end of that range.

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The 2012 U.S. soybean crop is now estimated at 3.015 billion bushels, 44 million larger than the November forecast, reflecting an average yield of 39.6 bushels per acre, 0.3 bushel above the November forecast. Stocks of soybeans on December 1, 2012 were estimated at a 9-year low of 1.966 billion bushels, implying a larger than average "residual" disappearance during the first quarter of the marketing year. The projection of marketing year exports was unchanged at 1.345 billion bushels, reflecting the continuing expectations of a record South American crop in 2013, a larger domestic crush needed to meet export demand for meal and oil, and limited supplies of U.S. soybeans. Year-ending stocks are projected at 135 million bushels, up only 5 million from last month's projection, and the marketing year average farm price is projected in a range of \$13.50 to \$15.00. Based on the average selling price to date, the average for the year will likely be in the lower half of that range.

The December 1, 2012 inventory of U.S. wheat was reported at 1.66 billion bushels, slightly smaller than the average guess. Feed and residual use of wheat during the first half of the marketing year was about 220 million bushels larger than use during the same period last year, prompting the USDA to raise the forecast for the year by 35 million bushels and to lower the projection of year-ending stocks by a similar amount. The projection of the marketing year average farm price was lowered by \$0.05 per bushel, in recognition that much of the 2012 crop has already been sold.

Winter wheat seeded for harvest in 2013 is estimated at 41.82 million acres, 496,000 more than seeded for harvest in 2012. The increase was smaller than expected, with area seeded to soft red wheat up 16 percent and area seeded to hard red and white wheat down about two percent.

Taken together, the information in last Friday's reports may provide some short term support for old crop corn prices and for wheat prices. With such large crop prospects in South America, and the likelihood of a large rebound in U.S. corn and soybean production in 2013, new crop corn and soybean prices may remain under pressure.