



WEEKLY OUTLOOK



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A DIFFERENT VIEW OF RECENT USDA REPORTS

The USDA's estimates of March 1 stocks of soybeans and corn were generally larger than expected. At 1.27 billion bushels, soybean inventories were as much as 70 million larger than expected. At 7.7 billion bushels, corn stocks were about 200 million above expectations.

However, the relevant issue is not really the size of stocks versus expectations. The real issue is whether or not stocks were larger than they should have been based on known and expected consumption levels. That is, do the March 1 stocks estimates change expectations about the level of stocks at the end of the marketing year? The answer for soybeans is NO and the answer for corn is MAYBE.

March 1 stocks of soybeans exceeded expectations primarily due to an unexpected negative disappearance in the feed, seed, and residual category during the second quarter of the marketing year. Such an occurrence is rare, last experienced in 1989. The size of the negative disappearance depends on the Census Bureau estimate of February exports due to be released in a few days. We calculate use in that category at -44.5 million bushels. However, that just offsets the generally overlooked very large disappearance in that category during the first quarter of the year. Calculated disappearance in that category during the first half of the year is well within the range experienced over the past 15 years. Expectations for March 1 stocks were misguided.

The March 1 soybean stocks estimate implies that the 2009 crop was correctly estimated and that consumption is occurring at the rate projected by the USDA. In fact, the current pace of exports and export sales is larger than needed to reach the USDA projection for the year. Ironically, year ending stocks could be smaller than the current USDA projection of 190 million bushels, not substantially larger as implied by the market reaction to the March 1 stocks estimate.

The March 1 inventory of corn implied that 3.23 billion bushels of U.S. corn were consumed during the second quarter of the 2009-10 marketing year. Exports were likely near 420 million bushels, so that domestic use was near 2.81 billion. The use of corn for processing purposes may have been near 1.33 billion, implying that 1.48 billion bushels of corn were used in the feed and residual category. If these calculations are close, feed and residual use during the first half of the year totaled 3.56 billion bushels,

about equal to the 3.57 billion used last year. For the year, the USDA has projected use in that category at 5.55 billion bushels, 304 million more than used last year. On the surface, the level of use during the first half of the year implies that USDA will have to lower the projection for the year and substantially increase the projection of year ending stocks.

As we pointed out in this newsletter three weeks ago, the seasonal pattern of feed and residual use this year may or may not be following the same pattern as last year. Last year, 68.1 percent of feed and residual use occurred in the first half of the year. In 2007-08, 70.2 percent occurred in the first half. In the 10 years before 2007-08, however, an average of 64.3 percent of use occurred in the first half of the year. Why the change in pattern the past two years? And, what pattern is being followed this year? The answers are not clear, but the implications are significant. If feed and residual use of corn is following the same seasonal pattern as the last two years, use to date points to a total for the year of only 5.15 billion bushels. If use is following the pattern prior to 2007-08, use to date points to a total for the year of 5.54 billion bushels. The seasonal pattern may become clearer with the June 1 stocks estimate.

The USDA survey of planting intentions revealed that producers intend to plant 88.8 million acres of corn in 2010, 2.3 million more than planted last year. The increase is less than expected. In addition, intended acres of other feed grains are 607,000 acres less than planted last year, making the corn acreage number look even smaller. For soybeans, planting intentions at 78.1 million are 647,000 more than planted last year. The increase is less than expected, but acreage of other oilseeds is expected to increase by 740,000 acres, suggesting a potentially large increase in oilseed production in 2010.

The USDA's April update of projected use and ending stocks of U.S. corn and soybeans typically has modest implications. This year could be different, depending on how those analysts interpret the March 1 stocks figures.

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