



WEEKLY OUTLOOK



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CHANGING SUPPLY AND CONSUMPTION EXPECTATIONS

The USDA's July report of *World Agricultural Supply and Demand Estimates* contained a number of changes from the June report. Some of those changes were driven by information in the USDA's June 30 *Acreage* and *Grain Stocks* reports and some were driven by changing U.S. and world production prospects.

For corn, the USDA lowered the projection of domestic stocks on September 1, 2010 by 125 million bushels, reflecting the smaller than expected June 1 inventory reported earlier. The change was accommodated by a 175 million bushel increase in the projection of feed and residual use and a 50 million bushel reduction in the projection of ethanol use of corn. For the 2010-11 marketing year, the projection of production was reduced by 125 million bushels, expectations for exports were reduced by 50 million bushels, and the projection of ending stocks was reduced by 200 million bushels. Those ending stocks are projected at a four year low of 1.373 billion bushels. That projection represents 10.3 percent of projected use, the lowest in seven years. The projection of coarse grain production in Russia was reduced by 11 percent from the June projection. World coarse grain production in 2010-11 is still expected to be record large. World stocks are expected to decline modestly during the year ahead and are projected at a three year low.

For wheat, the estimate of use during the 2009-10 marketing year that ended on May 31 was reduced by 44 million bushels to accommodate the larger than expected June 1 inventory estimate released on June 30. About half of the reduction was in exports and half in the feed and residual category. For the 2010-11 marketing year, the forecast of domestic production was increased by 149 million bushels, reflecting a larger winter wheat forecast and the first forecast of spring wheat production. The 2010 wheat crop is now expected to equal the 2009 crop even though seeded acreage declined by 4.8 million acres. The large crop forecast reflects fewer unharvested acres than last year and a record U.S. average yield of 45.9 bushels per acre.

The 2010-11 marketing year projection of U.S. wheat exports was increased by 100 million bushels to a total of one billion bushels. That projection is 135 million above the last year's exports and reflects a large reduction in production prospects outside the U.S. Foreign wheat production in 2010-11 is projected at 22.074 billion bushels, 422 million smaller than the June projection and 690 million bushels smaller than last year's crop. Large year-over-year declines are expected in Canada (220 million), Russia (320 million) and Kazakhstan (110 million). The U.S. share of the world export market is projected at 20.7 percent, up from 18.3 percent last year.

Year ending domestic stocks of wheat are projected at a 23 year high of 1.093 billion bushels. Only the stocks of soft red winter wheat are expected to decline. That decline reflects a 34 percent year-over-year reduction in production. World wheat stocks are expected to decline modestly from the very large level of a year ago.

For soybeans, the projections of both the domestic crush and exports during the current marketing year were increased by 5 million bushels and the projection of year ending stocks was reduced by 10 million bushels, to a total of 175 million. The projection of 2010 production was increased by 35 million bushels, reflecting the larger acreage estimate released on June 30. The projection of 2010-11 year ending stocks was unchanged at 360 million bushels as a result of a 5 million bushel increase in the projection of crush and a 20 million bushel increase in projected exports.

Changes for soybeans in the rest of the world were minor, with an 18 million bushel increase in the estimated size of the 2010 Argentine crop. Stocks in the rest of the world are expected to decline modestly during the upcoming marketing year, but to remain at very large levels.

From the lows on June 29 to the post-report highs, December 2010 corn futures increased by \$.55, November 2010 soybean futures increased by \$.51, and September 2010 wheat futures increased by \$.935. As of the close on July 9, prices were off those highs, with the largest decline coming in wheat prices. Winter wheat producers likely benefited the most from the price rally since a large portion of the crop is typically sold in the immediate post-harvest period.

Taken together, the USDA reports appear to be most constructive for corn prices. The market will now anxiously anticipate the corn and soybean production forecasts to be released on August 12. There are very mixed ideas about the effect of an extremely wet June and very mixed July weather conditions on the potential size of the crop.

Issued by Darrel Good
Agricultural Economist
University of Illinois