



WEEKLY OUTLOOK



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CORN INVENTORY ESTIMATE EXCEEDS EXPECTATIONS

The USDA's September *Grain Stocks* report indicates that the corn that went missing in June was found in September. The USDA's June 1, 2010 corn stocks estimate released on June 30 showed a surprisingly small inventory of corn. That estimate helped ignite a three-month rally in corn prices.

At the time of its release, the June corn inventory estimate created a lot of discussion about what happened to the 250 million bushels of corn that had gone missing. The small stocks estimate resulted in a very large estimate of feed and residual use of corn during the third quarter (March-May, 2010) of the 2009-10 marketing year. That large estimate resulted in the USDA increasing the projection of feed and residual use for the entire marketing year by 175 million bushels, to a total of 5.525 billion bushels. That projection appeared to be unrealistically large but was maintained in the balance sheet through September due to the lack of survey data to confirm or refute the projection. The projection of large feed and residual use resulted in a projection of 2009-10 marketing year ending stocks of 1.386 billion bushels. Such a small projection underscored the need for a large 2010 crop and provided support for prices during September as expectations about the size of the 2010 crop were reduced.

On September 30, the USDA released the estimate of September 1 corn stocks. That estimate of 1.708 billion bushels exceeded the USDA's earlier projection by 322 million bushels and was regarded as bearish even though the market was anticipating stocks to be larger than had been projected. Some observers tried to explain the large stocks estimate by speculating that some of the newly harvested crop was included in the estimate of "old crop" inventories. However, the USDA explicitly asked survey respondents to include only stocks of corn harvested before 2010 in their estimates. To the extent that respondents mistakenly included 2010 crop in their estimates, the misreporting should not have been a larger issue than in the past. Corn harvest progress was minimal on September 1 and was only marginally higher than the average pace at the end of the survey period.

The September 1 stocks estimate implies a very small feed and residual disappearance of corn in the final quarter of the marketing year. The small estimate for the quarter, however, offsets the large estimate for the third quarter, resulting in a reasonable estimate of about 5.2 billion bushels for the 2009-10 marketing year. That magnitude of disappearance is about equal to both the disappearance in the 2008-09 marketing year and the projection of use during the current marketing year.

The large estimate of September 1 stocks has important implications for the balance sheet for the 2010-11 marketing year. Without changes in the forecast size of the 2010 crop or changes in projected use during the year, the projection of ending stocks would be increased by 322 million bushels, to a total of 1.438 billion bushels. To maintain the projection of year ending stocks at 1.116 billion bushels, some combination of a lower production forecast or a larger consumption forecast totaling 322 million bushels will have to occur. If all of the change came in crop size, without a change in the estimate of harvested acreage, the U.S. average yield forecast would have to be lowered from the current 162.5 bushels to 158.5 bushels. Prior to the release of the September stocks estimate there was some expectation that the yield forecast would be lowered enough to require corn consumption to be less than projected. Such rationing of consumption would likely have required even higher prices. The September stocks estimate reduces the likelihood of such a rationing scenario, tends to lower price expectations, and increases the chances that prices have peaked.

There is still some expectation that the USDA will lower the 2010 average yield forecast next week, but there is uncertainty about the acreage estimate and the resulting production forecast. Following the release of the September stocks estimate corn prices declined to the early September lows, suggesting there is less concern about corn supplies and an understanding that the September stocks estimate did not include new crop inventories. The USDA confirmed that inclusion of such stocks is very unlikely.

The USDA's new production forecast and updated forecast of marketing year consumption to be released in separate reports on October 8 will provide a clearer picture of whether supplies are adequate or rationing will be required.

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