



## USDA World Ag Supply & Demand Estimates – June 2010

**“Grain prices finally get some positive news. Cotton still looks good.”**

- Last night the USDA released their June 2010 World Agriculture Supply and Demand Estimates report overnight.
- The report confirmed a supportive environment for cotton prices. It was also bullish corn and coarse grains, mildly supportive for wheat prices, and slightly bearish for soybean prices.

### Summary

At first glance the USDA's numbers finally gave some heart to the recently lacklustre wheat market, with a downward revision to US and world wheat supplies in both 2009/10 and 2010/11. The demand profile for wheat has recently improved. But although global wheat stock estimates were trimmed, they still remain large by historic standards. Our feeling is that this report may be enough to halt the slide that has recently occurred in Chicago wheat futures, but a significant rally in the medium term still appears unlikely.

The corn bulls finally have something to smile about after taking a beating over the past month. The USDA revised lower its estimate of US 2009/10 and 2010/11 corn stocks on the back of improved domestic consumption and favourable revisions to historic data. The USDA now believes that US corn stock will drop to 1.57bn bushels which, if realised, will be the lowest level 2006/07. Corn prices surged in that year. Global coarse grain and corn stocks are now tipped to fall to their lowest level since 2007/08. No longer does the USDA believe stocks in the coming season will swell to the highest level in a decade. What a difference a month can make! Over the coming few months the market will pay close attention to US corn yield prospects. The USDA has forecast a record large corn crop in 2010/11, based largely on extremely strong yields. It is certainly possible that these high yields can be achieved, but the balance of risks is to the downside.

The global soybean market is looking increasingly wobbly in our opinion, particularly for new crop supplies. The USDA revised higher their estimate of world soybean production for 2009/10 and stocks were raised to a record 65.5mt. Stocks in 2010/11 were also raised, but this was the result of higher carry-in supplies. Total oilseed production for 2010/11 was raised slightly this month, but canola production prospects were lowered. Within the oilseed complex, we favour canola.

The USDA's latest report confirmed that current high world cotton prices are warranted, and we would not be surprised if further gains were made. The USDA lowered its 2009/10 US cotton stock estimate due to higher exports. The 2010/11 US cotton stock estimate was also cut from 3m bales last month to an extremely tight 2.8m. The USDA forecasts were tighter than the trade had anticipated. Global cotton use in both 2009/10 and 2010/11 were revised higher, resulting in a downward revision to ending stocks for both years. The world cotton stock to use ratio in 10/11 is forecast below 42%. This should continue to support prices.

### Chicago wheat prices, Jul 10 contract (USc/bu)





## Wheat

- The July WASDE report provided a welcome bout of positive news for US and world wheat prices, something that has not happened for some time.

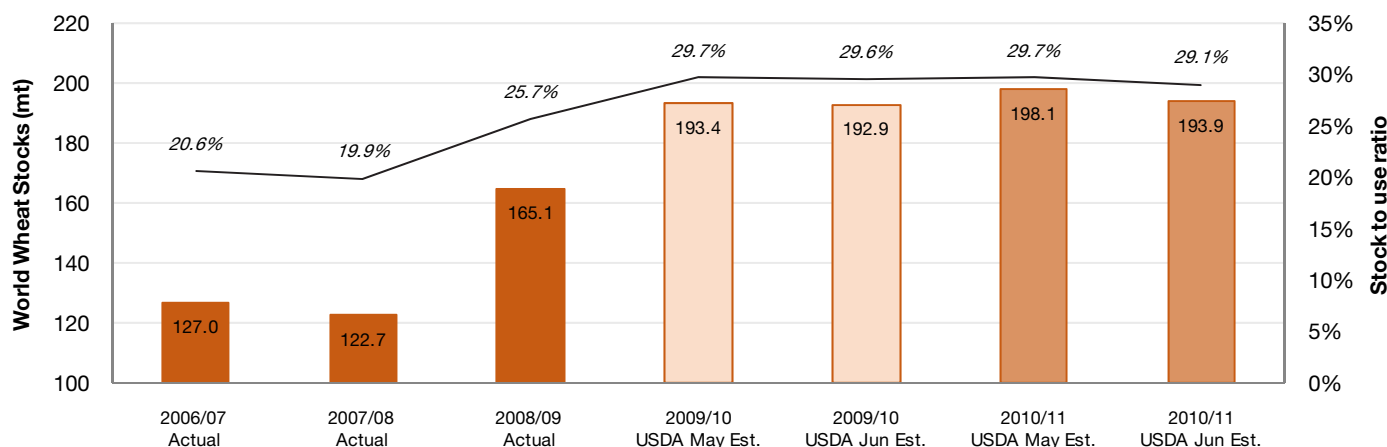
### US Wheat

- US old crop wheat ending stocks estimates (2009/10) were trimmed to 930 million bushels by the USDA this month from their May estimate of 950mbu. This reflected an increase in old crop US wheat exports and slightly firmer US domestic consumption. The upward revision in exports is consistent with the recent improvement observed in weekly export inspections data. Market surveys had pointed to 2009/10 ending stocks of 946mbu.
- The USDA has forecast the upcoming (2010/11) wheat crop at 2.067bn bushels, up slightly from their May forecast of 2.043bn, but still considerably smaller than the crops of the past two seasons. The month on month revision mainly reflects higher HRW wheat production.
- The increase in production has been more than offset by lower carry-in supplies, and the upward revision to US wheat consumption for the coming year. This has resulted in a significant downward revision to US wheat ending stocks in 2010/11 to 991mbu. This compares to the May estimate of 997mbu and average trade forecasts of 976mbu. It is also a reduction from the 2009/10 ending stocks.
- The US stock-to-disposal ratio is now forecast at 32% in 2010/11 (prev f/c was 47%) vs. 45% in 2009/10, 29% in 2008/09 and 13% in 2007/08.

### Global Wheat

- World wheat stocks for 2009/10 have been revised lower by ½ million tonnes this month to 193mt on the back of an upward revision to global consumption estimates. There was no change to production estimates.
- Furthermore, global stocks in 2010/11 have been revised sharply lower. In May the USDA predicted stocks would exceed 198mt, however this month the forecast has been pulled back to 194mt. This reflects both lower carry-in stocks and lower production.
- World wheat production has been forecast at 668½mt in 2010/11, down from the May estimate of 672mt. Unfavourable weather in parts of the EU27 (flooding in the east and dryness in the west), winter kill in Russia and disease outbreaks in Syria and Turkey account for most of the downgrades. Year-on-year, production in 2010/11 is nearly 12mt lower than 2009/10, and 15mt smaller than the 2008/09 crop. The USDA has raised their world trade forecasts for 2010/11 with increased import requirements in Syria, Turkey and Afghanistan. Export competition from the FSU is expected to increase compared to earlier forecasts.
- The global wheat stock-to-use ratio for 2010/11 is forecast at 29.1% compared to the May forecast of 29.7%. This compares to 29½% in 2009/10, but up from 26% in 2008/09 and 20% in 2007/08.

Figure 1: Global wheat stocks forecasts are trimmed



Source: USDA and CBA.



## Corn and Coarse Grains

- The USDA's latest projections are supportive for US and world coarse grain prices because of a re-tightening in US and global supplies.

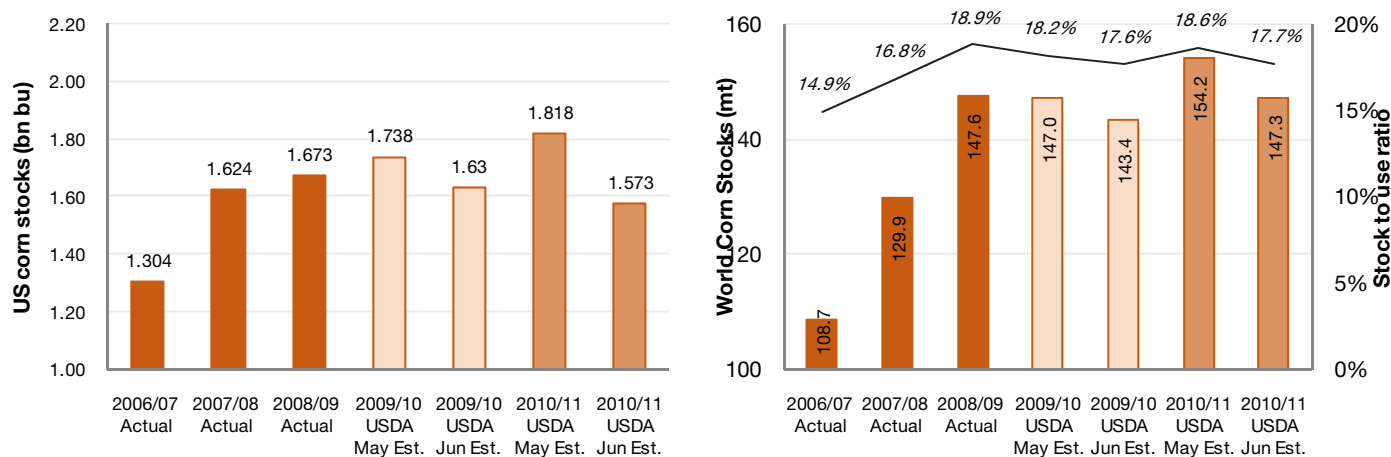
### US Corn

- US corn stocks for 2009/10 were revised considerably lower in June. At 1.63bn bushels, US stocks in 2009/10 are 100m bushels tighter than forecast in May. This is far tighter than analysts had expected. The downward revision is the result of stronger US consumption, as higher FSI use (food, seed, industrial) outweighs softer livestock feeding demand, and a downward revision to beginning stocks.
- US corn production forecasts for 2010/11 were left unchanged at a record 13.37bn bushels. No changes were made to either yield or area. Corn yields are pegged at 163.5bpa, not far from last year's record of 164.7pba, and well above the prior 5yr avg of 153bpa. US corn consumption estimates for 2010/11 were raised on the back of stronger FSI demand.
- Higher demand, combined with a reduction with carry-in stocks, has resulted in a sharp downward revision to US corn stocks in 2010/11 to 1.57bn bushels. This compares to the May estimate of 1.82bn bushels and average trade estimates of 1.81bn. If realised US corn stocks in 2010/11 will be at their tightest level since 2006/07.
- The US stock-to-disposal ratio is forecast at 11.7% in 2010/11 (prev f/c was 13.7%) vs. 12.4% in 2009/10, 13.3% in 2008/09 and 12.8% in 2007/08. This is a tight stock to use ratio.

### Global corn and coarse grain

- World corn stocks for 2009/10 have been revised to 143.4mt from the May forecast of 147mt, reversing the upward revision of the prior month. This is a material change.
- The USDA has revised lower their 2010/11 world corn stock estimate from 154.2mt to 147.3mt. This reflects lower carry-in stocks and upward revision to consumption. Again, this is a material change as it means global corn stocks are no longer expected to swell to the highest stock level since 2001/01 (as predicted last month). The largest month-on-month reductions are for USA, followed by the EU and China.
- The global corn stock-to-use ratio for 2010/11 is forecast at 17.7% (May f/c 18.6%) vs. 17.6% in 2009/10 (May f/c 18.2%), 19% in 2008/09 and 17% in 2007/08.
- Total coarse grain production for 2010/11 has been lowered from last month's projections. This is a result of lower barley, oat and rye production in the EU27 outweighing higher corn production in Argentina. World coarse grain consumption has been revised higher in both 2009/10 and 2010/11.
- The USDA left Chinese corn production estimates for 2009/10 at 155mt (recall that Chinese authorities have recently revised this estimate to 164mt). But the USDA did raise their estimate of Chinese corn imports to 1mt in 2009/10 from their prior forecast of 300kt, reflecting recent purchases and future intentions. However the 2010/11 Chinese import estimate was left unchanged at only 100kt.

Figure 2: US and global corn stocks revised lower



Source: USDA and CBA.



### Soybeans and Oilseeds

- Global oilseed supplies are forecast higher this month, this should pressure prices. Within the oilseed complex, canola should remain relatively well supported.

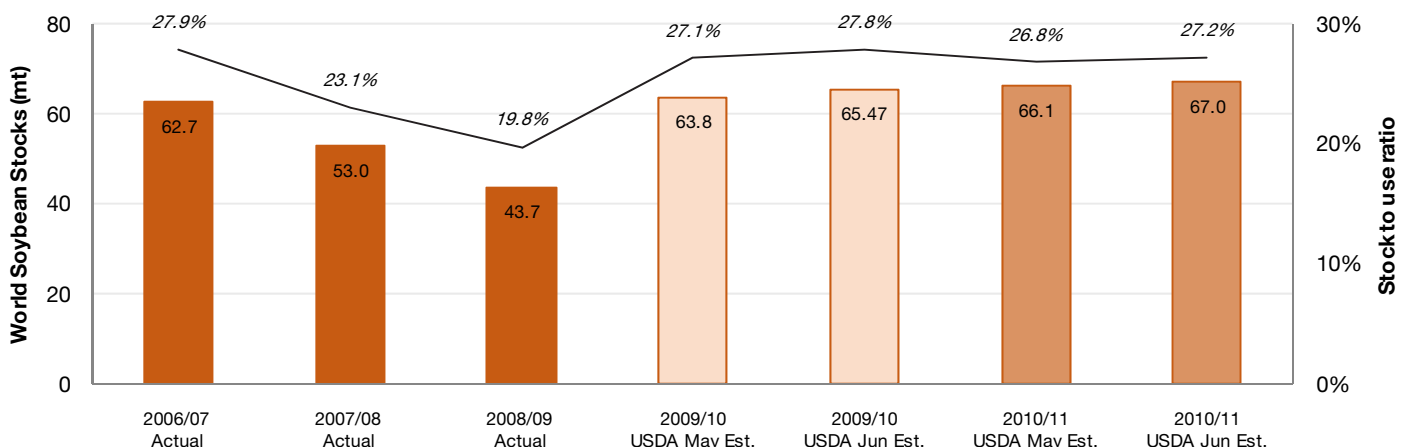
#### US Soybeans

- US old crop soybean ending stocks were reduced by 5 million bushels this month to 185mbu. However the market was expecting old crop stocks to be cut to 180mbu. The downward revision reflected an increase in the US domestic crush. Old crop exports and production estimates were left unchanged.
- US new crop soybean production (2010/11) has been left unchanged at 3.31bn bushels this month, with no change to area or yield estimates. There were also no changes to US domestic use or export projections. The US soybean crush in 2010/11 is expected to be 100mbu less than in 2009/10, while exports are forecast to fall 105mbu yoy.
- US soybean ending stocks are forecast slightly lower this month at 360mbu (vs 365mbu last month), with reduced carry-in supplies accounting for all of the decrease. The market was expecting stocks to be trimmed to 354mbu.
- The US stock-to-disposal ratio is f/c at 11.7% in 2010/11 vs. 5.6% in 2009/10, 4.4% in 2008/09 and 6.7% in 2007/08.

#### Global soybeans and oilseeds

- World soybean production for 2009/10 was revised higher this month and stocks were raised to a record 65.5mt. The increase in production forecast reflected larger than expected crops in Brazil.
- Global soybean stocks in 2010/11 were also raised, but this was the result of higher carry-in supplies. Stocks are forecast at a record 67mt, up 1mt from the May estimate and up from the tight 2008/09 stock level of 44mt. Meal and oil ending stock estimates were tightened fractionally.
- The global soybean stock-to-use ratio is f/c at 27% in 2010/11 vs. 28% in 2009/10, 20% in 2008/09 and 23% in 07/08.
- Total oilseed production in 2010/11 was raised by ¼ million tonnes this month to 440.2mt. This reflected an increase in Chinese peanut production which was partly offset a reduction in EU canola production. The USDA forecast that world canola production in 2010/11 will 59.9mt, down from the 60.4mt forecast last month and 2009/10 production of 59.9mt.
- Global oilseed stocks are forecast at a record 77.5mt in 2010/1, up from 77.3mt forecast last month and 2009/10 stocks of 76.6mt.

Figure 3: Global soybean stock-to-use elevated in 2010/11.



Source: USDA and CBA.



**Cotton**

- The USDA has further tightened global cotton balance sheets, both in 2009/10 and 2010/11. This should keep prices elevated over the next 12 months.

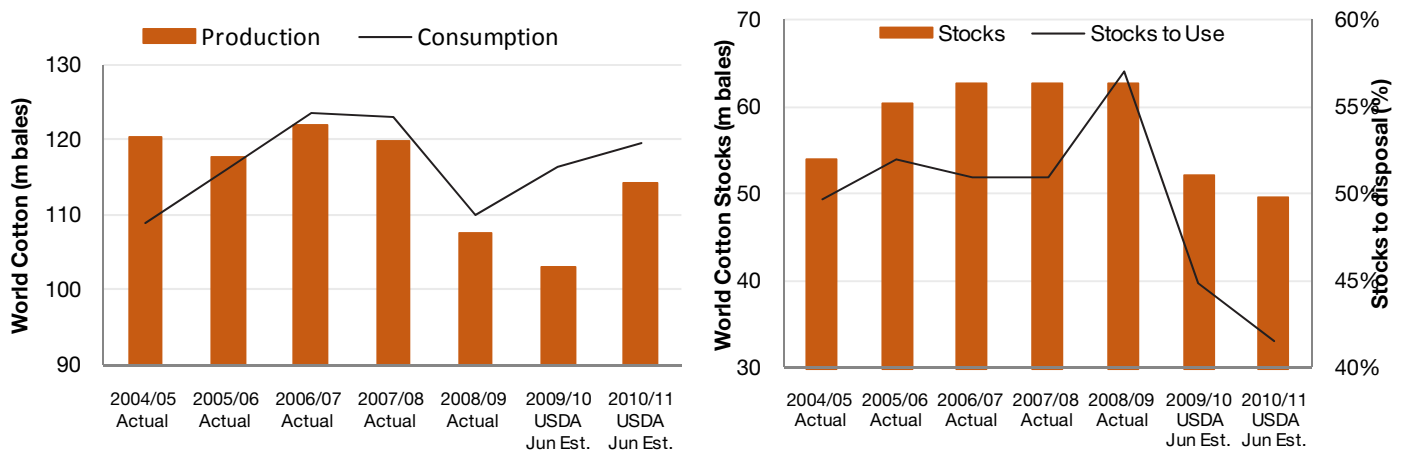
**US Cotton**

- US old crop cotton exports were raised from 12m bales last month to 12.25m bales this month. This exceeded private analyst forecasts which centred on 12.1m bales.
- As a result, US cotton ending stocks were tightened from 3.1m to 2.9m bales. This was tighter than the market had expected. This is significantly less than the 6.3m bale stockpile of 2008/09 and the 10m bale stockpile of 2007/08.
- New crop (2010/11) production forecasts were left unchanged at 16.7m bales. Reflecting the downward revision to carry-in supplies, the 2010/11 ending stock estimate was cut to an extremely tight 2.8m bales.
- The US stock to disposal ratio is now forecast at 16.7% in 2010/11 vs. 18.5% in 2009/10, 37.6% in 2008/09 and 55% in 2007/08.

**Global Cotton**

- World cotton stocks for 2009/10 have been revised lower by ½m bales this month to 52.2m bales. This reflects stronger consumption and slightly lower production. Cotton trade in 2009/10 were also raised.
- For 2010/11 the USDA has forecast that world cotton consumption will grow to 119½m bales, up by nearly ½ m bales from the May forecast. Consumption in 2009/10 was 116½m and 110m bales in 2008/09.
- Global cotton production for 2010/11 was also revised higher. But stronger demand and lower carry-in supplies means the 2010/11 ending stock estimate has been reduced to 49½m bales.
- The global cotton stock to use ratio for 2010/11 is now forecast under 42% vs. 45% in 2009/10, 57% in 2008/09 and 51% in 2007/08. If realised, this would be the smallest stock to use ratio since 1994/95. Importantly, the global cotton stock to use ratio is tipped to be well below the 45% threshold that has traditionally been associated with strong prices.

Figure 4: Tight global supplies should maintain firm prices



Source: USDA and CBA.



## Wheat statistics

US WHEAT		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
		Actual	Actual	Actual	Actual	Actual	USDA May Est.	Avg Trade Est.	USDA Jun Est.	USDA May Est.	Avg Trade Est.	USDA Jun Est.
Yield	(bpa)	43.20	42.00	38.70	40.20	44.90	44.40	~	44.40	43.400	~	43.900
Area Planted	(m ac)	59.70	57.20	57.30	60.50	63.20	59.10	~	59.10	53.800	~	53.800
Area Harvested (Implied)	(m ac)	50.00	50.10	46.80	51.00	55.70	49.90	~	49.90	47.100	~	47.100
Production	(bn bu)	2.158	2.105	1.812	2.051	2.499	2.216	~	2.22	2.043	~	2.067
Consumption	(bn bu)	1.169	1.152	1.140	1.051	1.260	1.173	~	1.17	1.206	~	2.216
Exports	(bn bu)	1.066	1.003	0.908	1.263	1.015	0.865	~	0.89	0.900	~	0.900
Ending Stocks	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.950	0.946	0.93	0.997	0.976	0.991
Ending Stocks to Disposal	(%)	24.2%	26.5%	22.3%	13.2%	28.9%	46.6%	~	45.2%	47.3%	~	31.8%

WORLD WHEAT		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
		Actual	Actual	Actual	Actual	Actual	USDA May Est.	Avg Trade Est.	USDA Jun Est.	USDA May Est.	Avg Trade Est.	USDA Jun Est.
Production	(mt)	628.8	621.7	596.3	611.0	683.2	680.0	~	680.0	672.2	~	668.5
Consumption	(mt)	610.1	624.4	616.9	617.3	642.5	651.7	~	652.2	667.5	~	667.5
Exports	(mt)	111.2	116.2	111.2	117.2	143.4	127.0	~	128.9	129.2	~	131.4
Stocks	(mt)	151.4	147.8	127.0	122.7	165.1	193.4	~	192.9	198.1	~	193.9
Stocks to Use	(%)	24.8%	23.7%	20.6%	19.9%	25.7%	29.7%	~	29.6%	29.7%	~	29.1%

## Corn and coarse grain statistics

US CORN		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
		Actual	Actual	Actual	Actual	Actual	USDA May Est.	Avg Trade Est.	USDA Jun Est.	USDA May Est.	Avg Trade Est.	USDA Jun Est.
Yield	(bpa)	160.40	148.00	149.10	150.70	153.90	164.70	~	164.70	163.50	~	163.500
Area Planted	(m ac)	80.90	81.80	78.30	93.50	86.00	86.90	~	86.50	88.80	~	88.800
Area Harvested (Implied)	(m ac)	73.60	75.10	70.60	86.50	78.57	79.60	~	79.60	81.10	~	81.800
Production	(bn bu)	11.807	11.114	10.535	13.038	12.092	13.110	~	13.11	13.370	~	13.370
Consumption	(bn bu)	8.844	9.136	9.085	10.300	10.198	11.105	~	11.24	11.300	~	11.410
Exports	(bn bu)	1.818	2.134	2.125	2.437	1.858	1.950	~	1.95	2.000	~	2.000
Ending Stocks	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.738	1.714	1.63	1.818	1.806	1.573
Ending Stocks to Disposal	(%)	19.8%	17.5%	11.6%	12.8%	13.9%	13.3%	~	12.4%	13.7%	~	11.7%

WORLD CORN		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
		Actual	Actual	Actual	Actual	Actual	USDA May Est.	Avg Trade Est.	USDA Jun Est.	USDA May Est.	Avg Trade Est.	USDA Jun Est.
Production	(mt)	712.8	696.4	712.4	792.4	798.0	808.6	~	808.8	835.0	~	835.8
Consumption	(mt)	685.0	704.0	728.5	772.0	781.8	808.9	~	813.0	827.9	~	831.9
Exports	(mt)	78.2	80.9	93.8	95.6	84.7	86.0	~	87.1	88.5	~	89.9
Stocks	(mt)	131.3	123.0	108.7	129.9	147.6	147.0	~	143.4	154.2	~	147.3
Stocks to Use	(%)	19.2%	17.5%	14.9%	16.8%	18.9%	18.2%	~	17.6%	18.6%	~	17.7%

WORLD COARSE GRAIN		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
		Actual	Actual	Actual	Actual	Actual	USDA May Est.	Avg Trade Est.	USDA Jun Est.	USDA May Est.	Avg Trade Est.	USDA Jun Est.
Production	(mt)	1014.6	977.5	989.1	1078.7	1109.7	1102.3	~	1103.7	1129.8	~	1128.4
Consumption	(mt)	975.7	991.6	1016.1	1056.5	1079.6	1099.2	~	1104.7	1125.0	~	1129.3
Exports	(mt)	101.6	107.1	117.4	127.1	113.2	110.7	~	111.98	112.8	~	114.2
Stocks	(mt)	178.8	163.7	138.4	161.7	193.9	196.7	~	192.86	201.5	~	191.9
Stocks to Use	(%)	18.3%	16.5%	13.6%	15.3%	18.0%	17.9%	~	17.5%	17.9%	~	17.0%



## Oilseed statistics

US SOYBEAN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 USDA May Est.	2009/10 Avg Trade Est.	2009/10 USDA Jun Est.	2010/11 USDA May Est.	2010/11 Avg Trade Est.	2010/11 USDA Jun Est.
Yield	(bpa)	42.20	43.00	42.70	41.70	39.70	44.00	-	44.00	42.900	-	42.900
Area Planted	(m ac)	75.20	72.00	75.50	64.70	75.70	77.50	-	77.50	78.100	-	78.100
Area Harvested (Implied)	(m ac)	74.00	71.30	74.60	64.10	74.70	76.40	-	76.40	77.100	-	77.100
Production	(bn bu)	3.124	3.063	3.188	2.677	2.967	3.359	-	3.36	3.310	-	3.310
Crush	(bn bu)	1.097	1.739	1.808	1.803	1.757	1.735	-	1.74	1.640	-	1.640
Seed use	(bn bu)	0.088	0.093	0.080	0.093	0.095	0.091	-	0.09	0.088	-	0.088
Exports	(bn bu)	1.097	0.940	1.116	1.159	1.283	1.455	-	1.46	1.350	-	1.350
Ending Stocks	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.190	0.180	0.19	0.365	0.354	0.360
Ending Stocks to Disposal	(%)	11.2%	16.2%	19.1%	6.7%	4.4%	5.8%	-	5.6%	11.9%	-	11.7%

WORLD SOYBEANS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 USDA May Est.	2009/10 Avg Trade Est.	2009/10 USDA Jun Est.	2010/11 USDA May Est.	2010/11 Avg Trade Est.	2010/11 USDA Jun Est.
Production	(mt)	216.0	220.4	236.6	221.2	212.0	258.0	-	259.2	250.1	-	249.9
Consumption (total)	(mt)	205.4	215.2	224.5	229.7	221.0	235.1	-	235.2	246.4	-	246.6
Exports	(mt)	64.5	64.0	71.5	79.6	77.3	85.4	-	86.35	87.9	-	88.2
Stocks	(mt)	48.2	52.8	62.7	53.0	43.7	63.8	-	65.47	66.1	-	67.0
Stocks to Use	(%)	23.5%	24.5%	27.9%	23.1%	19.8%	27.1%	-	27.8%	26.8%	-	27.2%

WORLD OILSEEDS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 USDA May Est.	2009/10 Avg Trade Est.	2009/10 USDA Jun Est.	2010/11 USDA May Est.	2010/11 Avg Trade Est.	2010/11 USDA Jun Est.
Production	(mt)	381.29	391.65	403.33	392.22	397.20	437.79	-	440.88	440.0	-	440.22
Consumption (crush only)	(mt)	302.09	318.27	328.36	339.09	338.76	352.59	-	353.33	369.6	-	369.74
Exports	(mt)	74.56	76.04	83.73	92.67	94.66	100.60	-	101.91	104.4	-	104.36
Stocks	(mt)	56.38	64.31	72.54	61.68	56.53	75.47	-	76.56	77.3	-	77.5
Stocks to Use	(%)	18.7%	20.2%	22.1%	18.2%	16.7%	21.4%	-	21.7%	20.9%	-	21.0%

## Cotton statistics

US COTTON DATA		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 USDA May Est.	2009/10 Avg Trade Est.	2009/10 USDA Jun Est.	2010/11 USDA May Est.	2010/11 Avg Trade Est.	2010/11 USDA Jun Est.
Yield	(lb/ac)	855	831	814	879	813	777	-	777.00	815	-	815.000
Area Planted	(m ac)	13.66	14.25	15.27	10.83	9.47	9.15	-	9.15	10.51	-	10.510
Area Harvested	(m ac)	13.06	13.80	12.73	10.49	7.57	7.53	-	7.53	9.83	-	9.830
Production	(m bale)	23.25	23.89	21.59	19.21	12.82	12.19	12.19	12.19	16.70	16.90	16.700
Domestic Use	(m bale)	6.69	5.87	4.94	4.59	3.59	3.40	-	3.40	3.30	-	3.300
Exports	(m bale)	14.44	17.55	13.01	13.65	13.28	12.00	12.10	12.25	13.50	13.50	13.500
Ending Stocks	(m bale)	5.50	6.05	9.48	10.04	6.34	3.10	3.00	2.90	3.00	3.10	2.800
Ending Stocks to Disposal	(%)	26.0%	25.8%	52.8%	55.0%	37.6%	20.1%	-	18.5%	17.9%	-	16.7%

WORLD COTTON		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 USDA May Est.	2009/10 Avg Trade Est.	2009/10 USDA Jun Est.	2010/11 USDA May Est.	2010/11 Avg Trade Est.	2010/11 USDA Jun Est.
Production	(m bale)	120.39	117.69	121.99	119.91	107.48	102.91	-	102.89	113.9	114.00	114.23
Consumption	(m bale)	108.82	116.11	123.47	122.97	109.94	115.89	-	116.43	119.1	119.05	119.49
Exports	(m bale)	35.02	44.53	37.12	38.47	30.16	34.59	-	35.26	35.7	-	36.14
Stocks	(m bale)	54.07	60.38	62.83	62.66	62.70	52.75	-	52.21	50.1	50.07	49.6
Stocks to Use	(%)	49.7%	52.0%	50.9%	51.0%	57.0%	45.5%	-	44.8%	42.1%	42.1%	41.5%



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