



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

### “A few surprises muddy the water”

- The USDA's May 2010 WASDE and Crop Production reports were released a few hours ago. These the first real glimpse of the 2010/11 season. Here is our immediate reaction.
- The USDA's latest WASDE report contained a few surprises for both old crop and new crop projections across the grains, oilseed and cotton markets. The immediate impact on prices is not expected to be immense. On balance we feel that the report is supportive for new crop cotton prices. But it is slightly negative for new crop grain prices.

### Summary

The market was anticipating a rather bearish report for both US and world wheat prices. And while we don't think the report was bullish, we feel that the wheat bears may have been a little disappointed. Old crop world wheat stocks were unexpectedly trimmed; but they still remain burdensome. And while world stocks are forecast to expand in 2010/11, stronger consumption figures have resulted in the important stock to use ratio remaining unchanged.

Those in the corn pit were quietly optimistic leading into the crop reports. We feel they'll be less optimistic now. Admittedly, US old season corn stock forecasts were trimmed by more than most had expected, however this was more than offset by a large increase in foreign old crop stock forecasts. And consumption forecasts in 2010/11 look like they'll be hampered by a sluggish recovery in livestock herd rebuilding. Global corn stocks are forecast to increase 154.2mt. They're still reasonably tight, just not as tight as some may have envisaged.

The soybean/oilseed numbers were expected to show a big increase in stocks in 2010/11 from the current low levels. And US ending stocks did come in above expectations. However, forecast declines in global soybean production in 2010/11, coupled with strong consumption growth, may provide an element of support. Particularly considering the USDA has forecast Chinese soybean imports to grow another 6.5% next season. Nonetheless, we still feel that oilseed prices are likely to wane over the coming 12 months because of an increase in US supplies.

To ensure the murky picture was complete, the USDA muddied the waters with respect to old crop cotton prices. Old crop prices had previously been supported on thoughts that US stock estimates for 2009/10 would be trimmed. However a revision to the beginning stock estimate and a reduction to US domestic consumption resulted in the ending stock forecast rising. In 2010/11 the USDA has recognised that the firm prices of the past few months will induce a significant production response by farmers throughout the world, but they have also factored in a significant expansion in world consumption. The result is the global cotton stock to use ratio falling down to 42%. This is below the 45% mark that has historically been associated with firm prices.

- These reports will be dissected thoroughly in the coming days and weeks.
- Details below.



## The details...

### Wheat

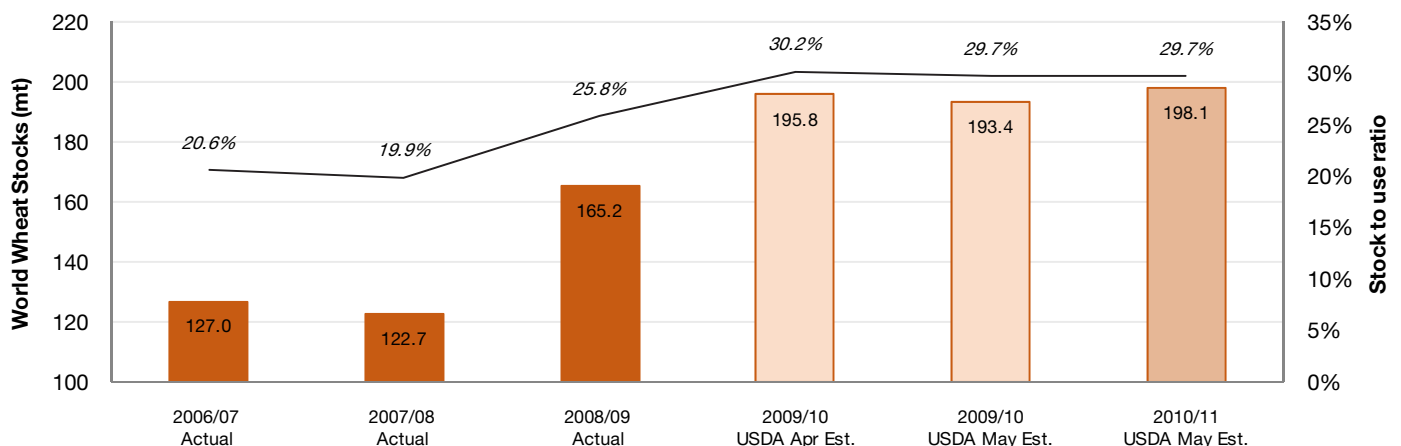
#### US Wheat

- US old crop wheat ending stock estimates were left unchanged from the April forecast of 950m bushels. Market guesses centred on a slight increase to 960m bushels. This compares to 2008/09 ending stocks of 657m bushels. Old crop domestic US consumption and exports were left unchanged.
- US wheat production for 2010/11 has been forecast at 2,043m bushels vs. 2,216m bushels in the previous season. HRW wheat production has been forecast at 960m bushels vs. 919m in 2009/10, and SRW wheat production at 283m vs. 404m last year. The trade had estimated the HRW wheat crop at 920m bushels and the SRW wheat crop at 303m.
- US wheat stocks in 2010/11 have been pegged at 997m bushels vs. average trade estimates of 972m bushels. The US stock to disposal ratio is forecast at 47.3% in 2010/11 vs. 46.6% in 2009/10, 29% in 2008/09 and 13% in 2007/08.

#### Global Wheat

- World wheat stocks for 2009/10 have been revised down from the April forecast of 195.8mt to 193.4mt. The market was expecting an upward revision to 197.7mt.
- In 2010/11 the USDA forecast that ending stocks will grow to 198mt. China accounts for the greatest increase. Excluding China, global wheat stocks are tipped to decline next season.
- Global wheat production in 2010/11 is forecast at 672.2mt, down 1% from 2009/10. But it's still the 3rd largest crop in history. Increases are forecast in the EU, South America and Middle East.
- Global wheat consumption in 2010/11 has been forecast at 667.5mt, up 2.5% from 2009/10. Increased wheat feeding in the FSU region is an important driver of this forecast.
- The global wheat stock to use ratio for 2010/11 is forecast at 29.7%. This is unchanged from 2009/10 levels, but up from 26% in 2008/09 and 20% in 2007/08.
- In our opinion the USDA forecast is neutral to slightly bearish for wheat prices.

Figure 1: Global wheat stocks remain elevated 2010/11



Source: USDA and CBA.



## Corn and Coarse Grains

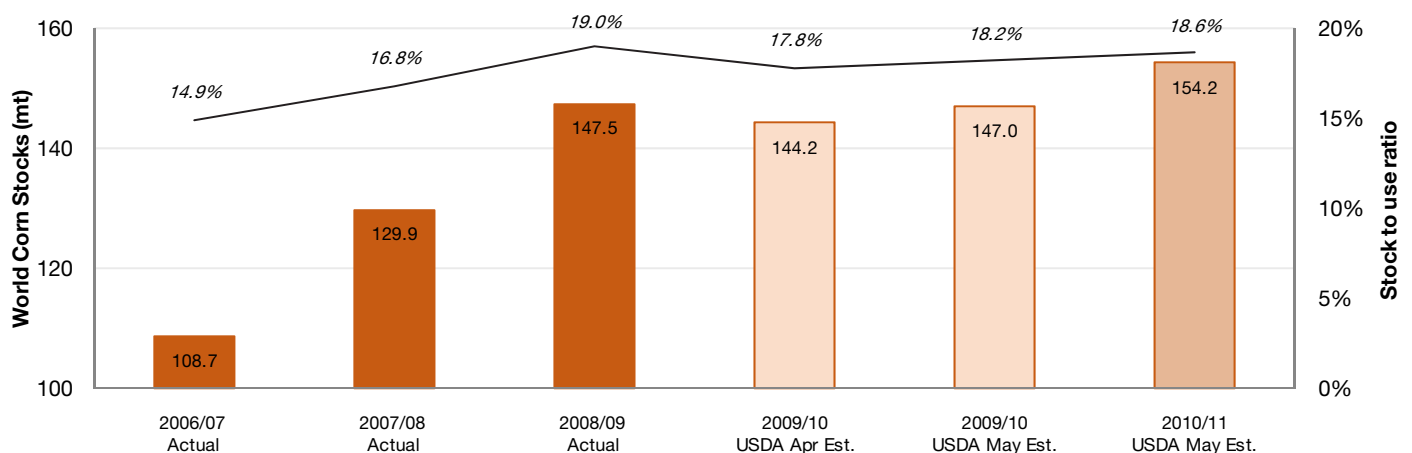
### US Corn

- US corn stocks for 2009/10 were revised lower to 1.74bn bushels this month from 1.899bn bushels forecast in April. The market was expecting stocks to come in at 1.865bn bushels. Ending stocks in 2008/09 were 1.673bn bushels.
- Old crop domestic US corn consumption was revised higher, reflecting higher FSI (ethanol) demand. Old crop US corn exports were also raised.
- US 2010/11 corn production has been forecast at 13.37bn bushels vs. 2009/10 production of 13.11bn bushels. Yields have been pegged at 163.5bpa which is down a touch from last season but still very strong by historic standards. US corn consumption in 2010/11 is forecast to grow by 1.8%, mainly driven by stronger corn based ethanol production. Livestock demand is forecast to be sluggish owing to slow herd rebuilding.
- US corn stocks in 2010/11 have been pegged at 1.82bn bushels, up 4.6% yoy. The US stock to disposal ratio is forecast at 13.7% in 2010/11 vs. 13.3% in 2009/10, 14% in 2008/09 and 13% in 2007/08. This is still a reasonably tight stock to use ratio.

### Global Corn

- World corn stocks for 2009/10 have been revised up from the April forecast of 144.2mt to 147mt. This is a material increase, particularly considering the market was expecting stocks to be trimmed.
- For 2010/11 the USDA has forecast that ending stocks will grow to 154.2mt. This is the highest stock level since 2001/01. Chinese stocks are forecast to grow nearly 7mt, with other countries changes mostly offsetting.
- Global corn production in 2010/11 has been forecast at 835mt, up 3.3% from 2009/10.
- Global corn consumption in 2010/11 has been forecast at 829mt, up 2.4% from 2009/10. Most of the increases are forecast outside the US.
- The global corn stock to use ratio for 2010/11 is forecast at 18.6% vs. 18.2% in 2009/10, 19% in 2008/09 and 17% in 2007/08. The total coarse grain stocks to use ratio is forecast at 18% in 2010/11 which is unchanged from 2009/10.
- The USDA estimate is slightly unsupportive for coarse grain prices.

Figure 2: Global corn stocks build.



Source: USDA and CBA.



## Soybeans and Oilseeds

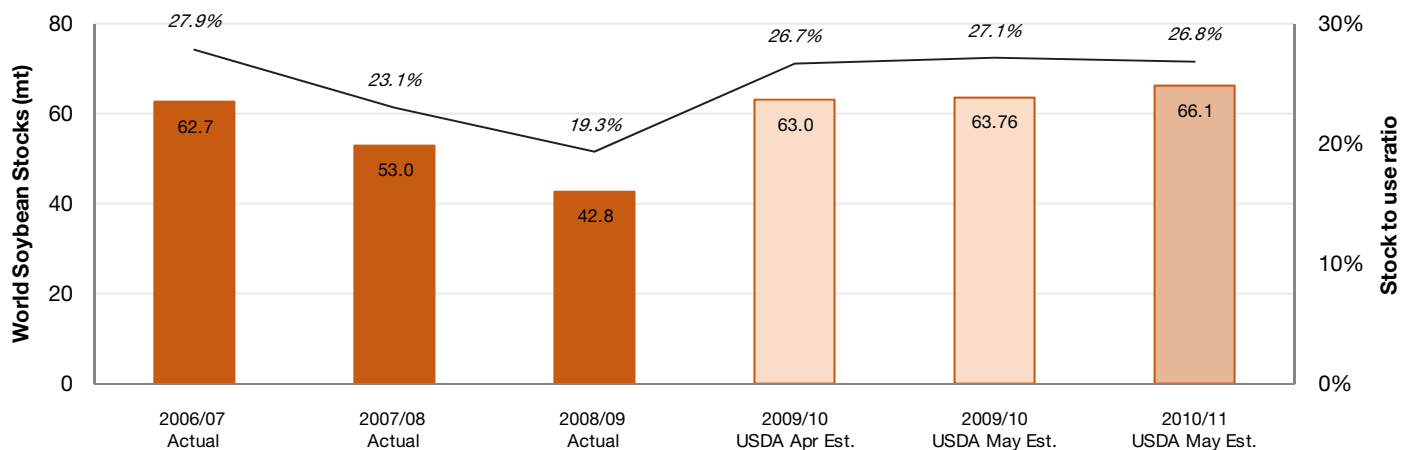
### US Soybeans

- US old crop soybean ending stocks were left unchanged this month at 190 million bushels. The market was expecting 2009/10 stocks to be cut to 181 million bushels. Old crop US soybean exports were left unchanged at 1.455bn bushels.
- US new crop soybean production (2010/11) has been forecast at 3.31bn bushels, down 1.5% from 2009/10. Yields have been forecast at 42.9bpa in 2010/11 vs. 44bpa last year, while area planted is higher.
- US soybean ending stocks in 2010/11 have been forecast at 365m bushels. The US stock to disposal ratio is forecast to jump to 12% in 2010/11 vs. 5.8% in 2009/10, 4.4% in 2008/09 and 6.7% in 2007/08.

### Global Soybeans

- World soybean stocks for 2009/10 have been revised up from the April forecast of 63mt to 63.8mt this month. This is up almost 50% from the 2008/09 ending stock figure of 42.8mt. But the result this was below market estimates of 67mt.
- In 2010/11 the USDA has forecast world soybean stocks to grow by 3.7% to 66.1mt.
- Global soybean production in 2010/11 has been forecast at 250.1mt, down 3% from 2009/10 but still the second largest on record. Brazilian and Argentinean soybean crops are expected to shrink next season. Sunflowerseed and canola production is tipped to increase in 2010/11.
- Global soybean consumption (total) in 2010/11 has been forecast at 246.4mt, up nearly 5% from 2009/10. Chinese soybean imports are forecast to grow another 6.5% in 2010/11.
- The global soybean stock to use ratio for 2010/11 is forecast at 26.8% vs. 27.1% in 2009/10, 19% in 2008/09 and 23% in 2007/08.
- Soybean oil stocks are expected to tighten in 2010/11 while meal ending stocks are forecast to expand.

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



Source: USDA and CBA.



Cotton

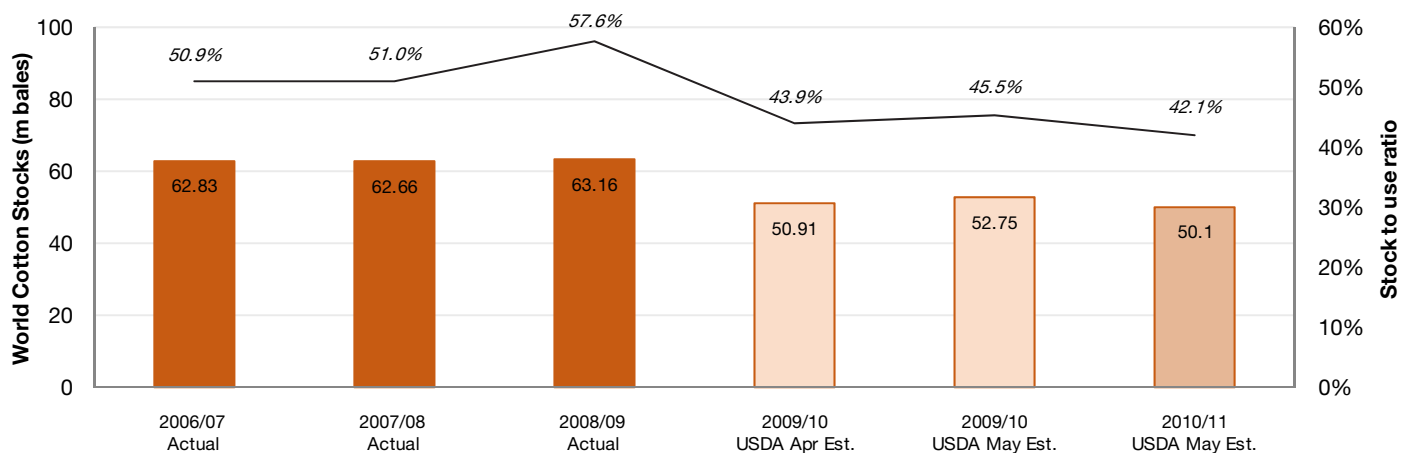
US Cotton

- US old crop cotton stocks (2009/10) were revised up from 3 million bales forecast in April to 3.1m this month. This disappointed the market which was expecting US stocks for 2009/10 to be revised down to 2.94 m bales. Nonetheless the latest USDA estimate still represents very tight carryout stocks for 2009/10.
- The old crop US domestic cotton consumption was revised slightly lower this month while exports were left unchanged. The market had factored in an increase to both US consumption and exports.
- US new crop cotton production (2010/11) is forecast at 16.7m bales, up 37% from 2009/10 production of 12.19 million bales. The increase in production reflects higher area and yield estimates. The US cotton export estimate for 2010/11 is 13.5m bales, up significantly from the 12m forecast in 2009/10 and significantly higher than trade estimates.
- US cotton ending stocks in 2010/11 have been forecast at 3m bales. Trade estimates were for a comparatively high 3.4m bale carryover estimate. The big export projection accounts for most of the discrepancy. The US stock to disposal ratio is forecast at 18% in 2010/11 vs. 20% in 2009/10, 37.6% in 2008/09 and 55% in 2007/08.

Global Cotton

- World cotton stocks for 2009/10 have been revised higher to 52.75m bales from the April forecast of 50.9m bales. The increase reflects an upward revision to the beginning stocks.
- For 2010/11 the USDA has forecast that world cotton stock will shrink further to 50.1m bales. This is a tight carryout projection. This is despite an 11% forecast increase in global production because of higher plantings.
- Global cotton consumption in 2010/11 is forecast at 119m bales, up 2.8% from 2009/10. The USDA has assumed a continuation in the global economic recovery. China’s consumption is assumed to grow 3% in 2010/11, and they will become increasingly reliant on imports to satisfy this demand.
- The global cotton stock to use ratio for 2010/11 is forecast at 42% vs. 45.5% in 2009/10, 58% in 2008/09 and 51% in 2007/08. Importantly, the global cotton stock to use ratio is tipped to be below the 45% threshold that has traditionally been associated with strong prices.
- In our opinion the USDA forecast is supportive for new-crop cotton prices.

Figure 4: Global cotton stocks to fall further in 2010/11.



Source: USDA and CBA.



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