USDA World Ag Supply & Demand Estimates – February 2011

- The USDA released their February 2010 World Agriculture Supply and Demand Estimates report overnight.
- Outside of the corn numbers, this was a dull report. US wheat supply, demand and ending stock estimates for 2010/11 were left unchanged – but the market didn't really care, it's too busy thinking about the 2011/12 crop. Oilseed estimates were little changed, particularly at the US level. And the potential excitement created by lower Argentine soybean production was negated by the larger Brazilian crop. What about cotton? Boring. But corn's numbers made getting up in the middle of the Australian night worth the effort. A very bullish report with lower production, higher consumption and the lowest ending stock estimate since 1995/96.
- Corn prices traded sharply higher last night, supported by the positive USDA report. The other markets followed.

Wheat

- The USDA produced a dull set of wheat numbers overnight, leaving US wheat supply, use, and ending stocks projections for 2010/11 unchanged for the month. US ending stocks remain forecast at 818 million bushels, slightly disappointing market expectations of a slight reduction in stocks (to 810 million bushels).
- The USDA retained its US export estimate at 1,300 million bushels. While the environment for US wheat exports has improved over the past three months, we believe time will run out before 2010/11 US exports can meet the USDA's target. As such, we expect 2010/11 US export estimates to be cut in future WASDE reports. But US exports at the start of the 2011/12 marketing year will exceed the pace of past seasons because of carry-over demand.
- There were minor adjustments made to the global wheat balance sheet for 2010/11, but none were material. Global supplies are reduced slightly this month reflecting a small downward revision to Ukraine production. The USDA retained its Australian wheat production forecast at 25 million tonnes. Global wheat trade is reduced slightly while global consumption was roughly unchanged. Higher food wheat use in countries such as Argentina offset lower feed wheat use in Canada and Iraq. Global ending stocks are projected 0.2 million tonnes lower at 177.8 million tonnes with reduced stocks in Argentina, Pakistan, and Syria mostly offset by larger stocks in EU-27, Ukraine, and Kazakhstan.
- Existing wheat supplies, of any quality, are not critically tight. The USDA's 2010/11 wheat ending stock estimate, 177.8 million tonnes, is 53 million (42%) higher than the 2007/08 result. As a result, we believe that the calls for a repeat of the 2007/08 wheat price spike are premature. However the market's focus has moved beyond the 2010/11 marketing year. Worries about the dormant northern hemisphere winter wheat crop, which shows up in the 2011/12 balance sheet, is currently the primary influence on price. The market is worried about the US HRW wheat crop which is suffering from low moisture and possible freeze damage. And the northern Chinese winter wheat crop is suffering through a winter drought. And portions of the FSU winter crop are poorly rated. Current prices already account, on a risk-weighted basis, for significant crop losses in 2011/12. But in reality, we won't get a true indication of production prospects until the crop emerges from dormancy in spring. That is when the real fireworks will begin.

Figure 1: US wheat ending stock estimates

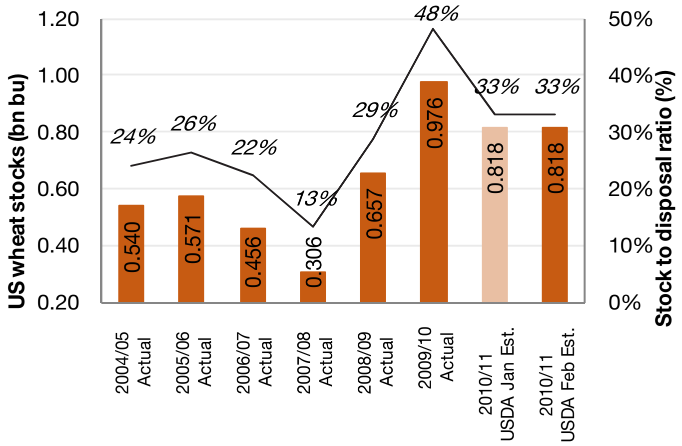
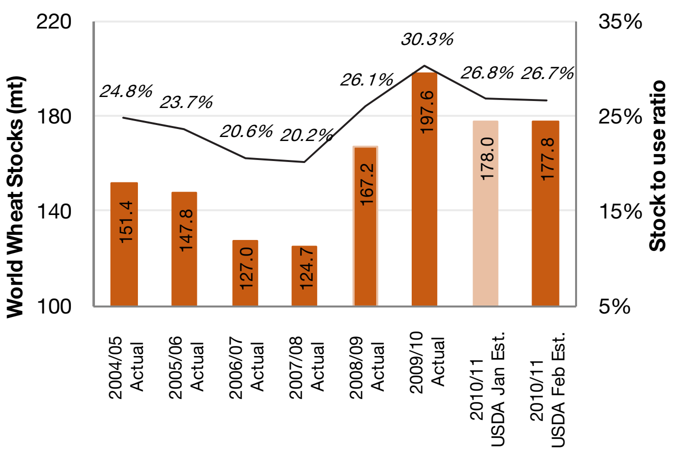


Figure 2: Global wheat ending stock estimates



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Coarse grains and corn

- The corn market provided a fresh injection of bullish news last night, with the USDA aggressively tightening, US and global balance sheet once again. US corn ending stocks for 2010/11 were cut by another 70 million bushels because of higher expected food, seed, and industrial use. Corn used for ethanol was raised by another 50 million bushels to 4.950 billion bushels. High fructose corn syrup (HFCS) demand was raised, in part, because of high sugar prices.
- The USDA now has US corn ending stocks at only 675 million bushels, 7% lower than average trade guesses leading into the report. In 2009/10, US corn ending stocks were more than a billion bushels higher at 1.708 billion. The US corn stocks-to-use ratio to has dropped to just 5%, the same as in 1995/96. High US corn prices are required to ration demand and increase production.
- The global supply and demand outlook is also supportive for continuing high prices, and possibly record high prices. Global 2010/11 coarse grain ending stocks have been reduced by 4.7 million tonnes this month because of smaller beginning stocks, lower production and increased consumption. The annual production deficit is nearly 42 million tonnes, the largest on record. Coarse grain ending stocks are now forecast at just 154 million tonnes, with the stock-to-use ratio estimated at 13.7% which is inline with the 2006/07,13.6%, record low.
- 2010/11 global corn production has been cut by 1.8 million tonnes with reductions for Argentina and Mexico. Argentina production is lowered 1.5 million tonnes – to 22 million tonnes – because of dryness during early January. The USDA reduced corn, barley, and rye production for Ukraine. Global corn consumption was increased slightly, mostly reflecting the increase in food, seed, and industrial use in the US. Corn feeding is raised for EU-27, but lowered for Canada and South Korea. South Korean demand has been influenced by recent foot and mouth disease outbreaks.
- Global corn ending stocks for 2010/11 are forecast at 122.5 million tonnes, down 4.5 million tonnes from last month, with most of the decrease in Brazil and the United States. According to a Reuter's survey, average trade guesses were for a 125.1 million tonne corn carryover. The world corn stock-to-use ratio is forecast at 14.6%, a tighter level than observed in 2006/07.

Fig 3: The ethanol industry is squeezing livestock demand.

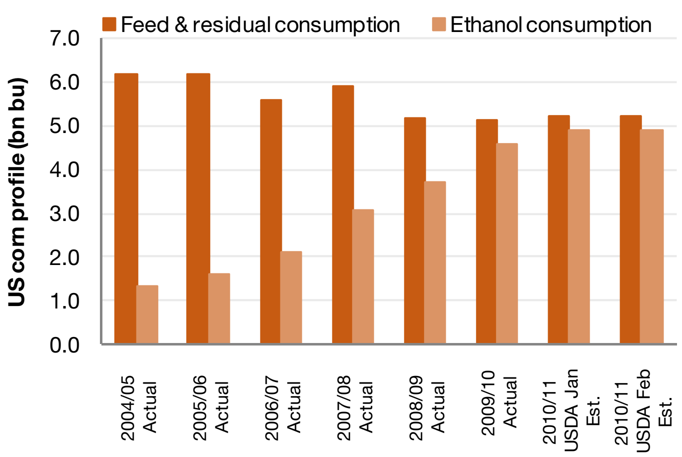
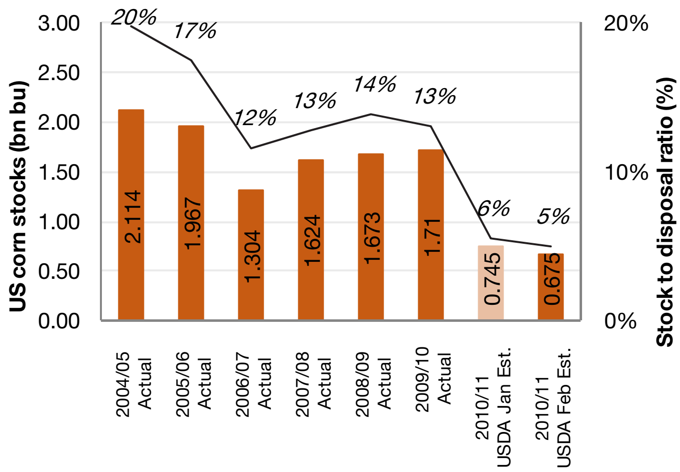


Figure 4: US corn ending stock position



Oilseeds and soybeans

- This was a relatively boring report from an oilseeds perspective. US soybean supply and use projections for 2010/11 are unchanged this month, leaving the USDA's ending stocks forecast at 140 million bushels. Whilst this remains extremely tight, the analyst community was expecting US soybean stocks to be trimmed to 136 million bushels.
- The USDA retained its estimate of US soybean exports at 1.59 billion bushels, against the 2009/10 record pace of 1.50 billion bushels. Many analysts believed that the 2010/11 target is too high, however the USDA noted "*although soybean export shipments are only modestly ahead of last year's pace, record sales through the first 5 months of the marketing year are expected to result in stronger gains in the second half of the marketing year*".
- Global oilseed production for 2010/11 is forecast 441.8 million tons, up 1.4 million tonnes from last month, influenced by a ½ million tonne increase in global soybean production, higher sunflowerseed production for Ukraine, and increased peanut production for China. Palm production is raised for Indonesia and lowered for Malaysia. Argentina's soybean production has been lowered by 1 million tonnes to 49.5 million tonnes, but this has been offset by a 1 million tonne increase in Brazilian soybean production to a record 68.5 million tonnes.
- The global soybean ending stock estimate was largely unchanged at 58.2 million tonnes, slightly above average trade estimates of 57.9 million tonnes. The 2010/11 estimate is only 2 million tonnes below the 2009/10 inventory position, but 14 million tonnes above the 2008/09 result. The key difference this year is that Chinese soybean stocks are much larger, but supplies in the US are critically low. The global ending stock estimate for all oilseeds is 67.9 million tonnes, down 650 thousand tonnes from last month, down 3.79 million tonnes from last year, but 11.4 million above 2008/09.

Figure 5: US soybean supplies

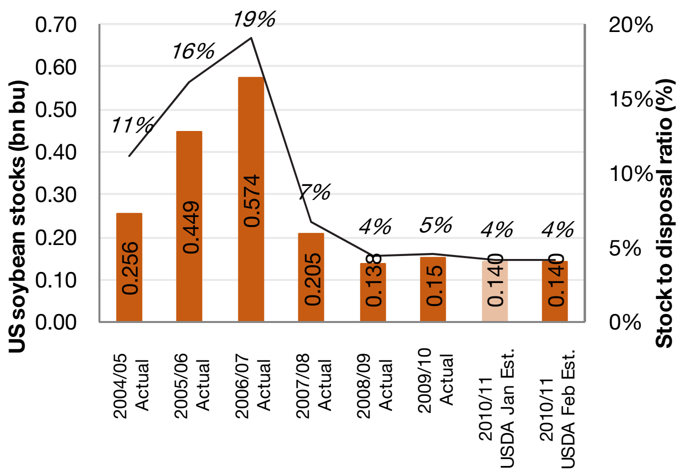
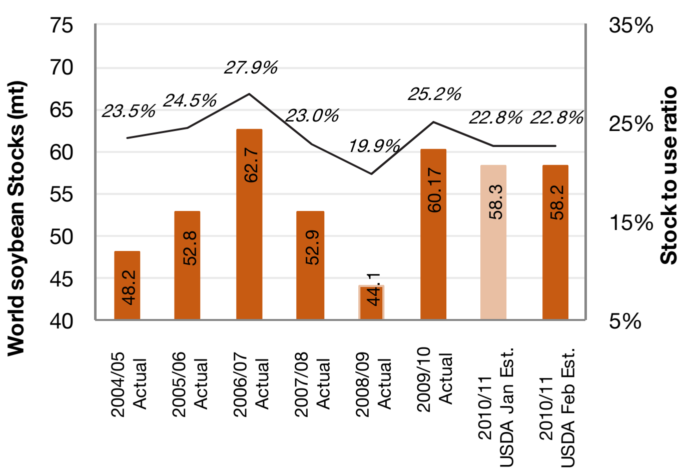


Figure 6: World soybean supplies



Cotton

- Move along, nothing to see here.
- The USDA kept 2010/11 US cotton supply and demand estimates are unchanged from last month. US cotton stocks remain tight at just 1.9 million bales.
- At a global level, the USDA tweaked production fractionally lower, but this was offset by a tiny reduction in demand. As a result, world cotton ending stocks remain unchanged at 42.8 million bales. This is the tightest stock position since 1993/94 and these very tight stocks will continue to support international cotton prices. But prices around USc170/lb more than adequately reflect the situation.
- In coming WASDE reports, the cotton market will be looking for continued resilience in demand and, most importantly, prospects for 2011/12 global production.

Figure 7: US cotton supplies

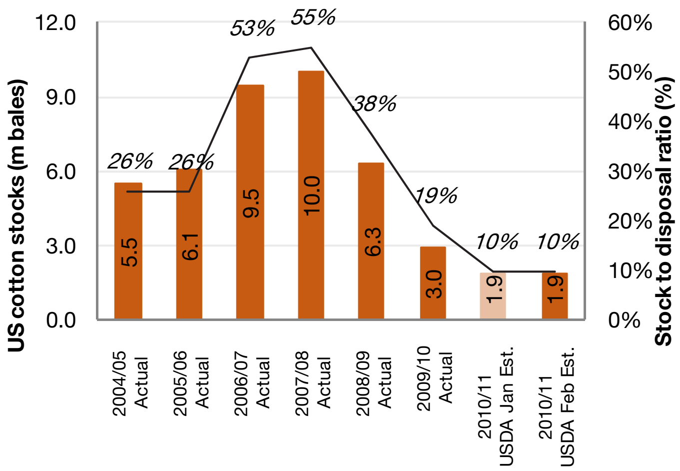
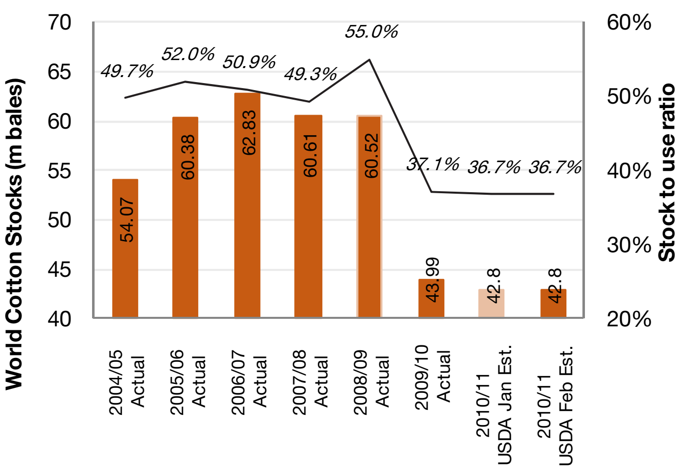


Figure 8: World cotton supplies



Data tables

US situation

US WHEAT		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Yield	(bpa)	43.20	42.00	38.70	40.20	44.90	44.500	*46.400*	~	46.400
Area Planted	(m ac)	59.70	57.20	57.30	60.50	63.20	59.200	*53.600*	~	53.600
Area Harvested (Implied)	(m ac)	50.00	50.10	46.80	51.00	55.70	49.900	*47.600*	~	47.600
Production	(bn bu)	2.158	2.105	1.812	2.051	2.499	2.218	*2.208*	~	2.208
Consumption	(bn bu)	1.169	1.152	1.140	1.051	1.260	1.137	*1.176*	~	1.176
Exports	(bn bu)	1.066	1.003	0.908	1.263	1.015	0.881	*1.300*	~	1.300
Ending Stocks	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	*0.818*	*0.810*	0.818
Ending Stocks to Disposal	(%)	24.2%	26.5%	22.3%	13.2%	28.9%	48.4%	*33.0%*	~	33.0%

US CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Yield	(bpa)	160.40	148.00	149.10	150.70	153.90	164.700	*152.80*	~	152.800
Area Planted	(m ac)	80.90	81.80	78.30	93.50	86.00	86.400	*88.20*	~	88.200
Area Harvested (Implied)	(m ac)	73.60	75.10	70.60	86.50	78.57	79.500	*81.40*	~	81.400
Production	(bn bu)	11.807	11.114	10.535	13.038	12.092	13.092	*12.447*	~	12.447
Consumption	(bn bu)	8.844	9.136	9.085	10.300	10.207	11.079	*11.480*	~	11.550
Feed & residual consumption	(bn bu)	6.158	6.155	5.595	5.913	5.182	5.140	*5.200*	~	5.200
Ethanol consumption	(bn bu)	1.323	1.603	2.119	3.049	3.709	4.568	*4.900*	~	4.900
Exports	(bn bu)	1.818	2.134	2.125	2.437	1.849	1.987	*1.950*	~	1.950
Ending Stocks	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	*0.745*	*0.728*	0.675
Ending Stocks to Disposal	(%)	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	*5.5%*	~	5.0%

US COTTON DATA		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Yield	(lb/ac)	855	831	814	879	813	777	*821*	~	821
Area Planted	(m ac)	13.66	14.25	15.27	10.83	9.47	9.150	*10.970*	~	10.970
Area Harvested	(m ac)	13.06	13.80	12.73	10.49	7.57	7.530	*10.710*	~	10.710
Production	(m bale)	23.25	23.89	21.59	19.21	12.82	12.190	*18.320*	~	18.320
Domestic Use	(m bale)	6.69	5.87	4.94	4.59	3.59	3.460	*3.600*	~	3.600
Exports	(m bale)	14.44	17.55	13.01	13.65	13.28	12.040	*15.750*	~	15.750
Ending Stocks	(m bale)	5.50	6.05	9.48	10.04	6.34	2.950	*1.900*	~	1.900
Ending Stocks to Disposal	(%)	26.0%	25.8%	52.8%	55.0%	37.6%	19.0%	*9.8%*	~	9.8%

US SOYBEAN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Yield	(bpa)	42.20	43.00	42.70	41.70	39.70	44.000	*43..5*	~	43..5
Area Planted	(m ac)	75.20	72.00	75.50	64.70	75.70	77.500	*77.400*	~	77.400
Area Harvested (Implied)	(m ac)	74.00	71.30	74.60	64.10	74.70	76.400	*76.600*	~	76.600
Production	(bn bu)	3.124	3.063	3.188	2.677	2.967	3.359	*3.329*	~	3.329
Crush	(bn bu)	1.097	1.739	1.808	1.803	1.757	1.752	*1.655*	~	1.655
Seed use	(bn bu)	0.088	0.093	0.080	0.093	0.095	0.090	*0.088*	~	0.088
Exports	(bn bu)	1.097	0.940	1.116	1.159	1.279	1.501	*1.590*	~	1.590
Ending Stocks	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	*0.140*	*0.136*	0.140
Ending Stocks to Disposal	(%)	11.2%	16.2%	19.1%	6.7%	4.4%	4.5%	*4.2%*	~	4.2%

US WHEAT STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Hard Winter	(bn bu)	0.193	0.215	0.165	0.138	0.254	0.385	*0.313*	~	0.131
Hard Spring	(bn bu)	0.159	0.132	0.117	0.068	0.142	0.234	*0.201*	~	0.211
Soft Red Winter	(bn bu)	0.088	0.106	0.109	0.055	0.171	0.242	*0.173*	~	0.173
White	(bn bu)	0.062	0.078	0.044	0.037	0.064	0.080	*0.083*	~	0.730
Durum	(bn bu)	0.038	0.040	0.022	0.008	0.025	0.035	*0.048*	~	0.048
All US Wheat	(bn bu)	**0.054**	**0.571**	**0.456**	**0.306**	**0.657**	**0.976**	*81.8%*	~	**0.818**

Global situation

WORLD WHEAT		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(mt)	628.8	621.7	596.3	611.0	684.2	682.7	*645.8*	~	645.4
Consumption	(mt)	610.1	624.4	616.9	617.3	641.7	652.3	*665.3*	~	665.2
Feed consumption	(mt)	106.7	111.3	106.3	96.3	117.9	116.6	*123.7*	~	123.1
Exports	(mt)	111.2	116.2	111.2	117.2	143.7	135.7	*125.6*	~	125.3
Stocks	(mt)	151.4	147.8	127.0	124.7	167.2	197.6	*178.0*	*177.3*	177.8
Stocks to Use	(%)	24.8%	23.7%	20.6%	20.2%	26.1%	30.3%	*26.8%*	~	26.7%

WORLD CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(mt)	712.8	696.4	712.4	792.4	798.4	812.3	*816.0*	~	814.3
Consumption	(mt)	685.0	704.0	728.5	772.0	782.0	815.0	*836.1*	~	836.9
Feed consumption	(mt)	471.1	476.3	478.1	496.6	479.1	482.4	*492.3*	~	492.4
Exports	(mt)	78.2	80.9	93.8	95.6	84.5	96.4	*91.4*	~	90.3
Stocks	(mt)	131.3	123.0	108.7	129.9	147.8	145.2	*127.0*	*125.1*	122.5
Stocks to Use	(%)	19.2%	17.5%	14.9%	16.8%	18.9%	17.8%	*15.2%*	~	14.6%

WORLD COARSE GRAIN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(mt)	1014.6	977.5	989.1	1078.7	1110.1	1107.6	*1083.5*	~	1081.5
Consumption	(mt)	975.7	991.6	1016.1	1056.5	1079.7	1106.0	*1122.9*	~	1123.2
Exports	(mt)	101.6	107.1	117.4	127.1	113.1	122.59	*116.5*	~	115.9
Stocks	(mt)	178.8	163.7	138.4	161.7	194.1	195.80	*158.8*	~	154.1
Stocks to Use	(%)	18.3%	16.5%	13.6%	15.3%	18.0%	17.7%	*14.1%*	~	13.7%

WORLD SOYBEANS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(mt)	216.0	220.4	236.6	221.2	212.0	260.0	*255.5*	~	256.1
Consumption (total)	(mt)	205.4	215.2	224.5	229.7	221.1	238.6	*255.5*	~	255.3
Exports	(mt)	64.5	64.0	71.5	79.6	76.9	92.78	*98.0*	~	98.7
Stocks	(mt)	48.2	52.8	62.7	52.9	44.1	60.17	*58.3*	*57.91*	58.2
Stocks to Use	(%)	23.5%	24.5%	27.9%	23.0%	19.9%	25.2%	*22.8%*	~	22.8%

WORLD OILSEEDS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(mt)	381.29	391.65	403.33	392.22	396.31	441.30	*440.4*	~	441.78
Consumption (crush only)	(mt)	302.09	318.27	328.36	339.09	338.43	357.64	*376.1*	~	376.42
Exports	(mt)	74.56	76.04	83.73	92.67	94.09	108.17	*112.1*	~	113.60
Stocks	(mt)	56.38	64.31	72.54	61.68	56.51	71.66	*68.3*	~	67.9
Stocks to Use	(%)	18.7%	20.2%	22.1%	18.2%	16.7%	20.0%	*18.1%*	~	18.0%

WORLD COTTON		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	*2010/11 USDA Jan Est.*	*2010/11 Avg Trade Est.*	2010/11 USDA Feb Est.
Production	(m bale)	120.39	117.69	121.99	119.91	107.10	101.54	*115.5*	~	115.25
Consumption	(m bale)	108.82	116.11	123.47	122.97	109.95	118.52	*116.6*	~	116.55
Exports	(m bale)	35.02	44.53	37.12	38.47	30.07	35.60	*38.4*	~	38.12
Stocks	(m bale)	54.07	60.38	62.83	60.61	60.52	43.99	*42.8*	~	42.8
Stocks to Use	(%)	49.7%	52.0%	50.9%	49.3%	55.0%	37.1%	*36.7%*	~	36.7%

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