

USDA World Ag Supply & Demand Estimates – May 2011

“The USDA keeps the commodity bulls chained-up... for now.”

- The USDA's May 2011 WASDE report was released overnight, providing the first full preview for the 2011/12 season.
- The report was relatively bearish for old-crop corn, wheat, soybean and cotton prices, but somewhat bullish for new-crop cotton and soybean prices. Prices across the agricultural complex were sharply lower following the data release; although the bearish ag price action was aided by wider investor risk aversion (USD up 0.9% and crude oil down 5.5%).
- Despite the initial bearish response by the market, the key message is that inventories for many key agricultural commodities are extremely tight, leaving little room for production losses over the next year. In our view, prices should retain a significant weather premium until production prospects are assured. This won't be until mid-Q3.
- These reports will be dissected thoroughly in the coming days and weeks. Here is our immediate reaction.

Key results

US STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Wheat	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.839	0.845	0.839	-	0.650	0.702
Corn	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.675	0.661	0.730	-	0.808	0.900
Soybeans	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.140	0.153	0.170	-	0.167	0.160

WORLD STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Wheat	(mt)	151.4	147.8	127.0	124.7	166.2	196.2	182.8	182.3	182.200	-	181.8	181.260
Corn	(mt)	131.3	123.0	108.7	129.9	149.2	145.4	122.4	122.8	122.190	-	124.8	129.140
Soybeans	(mt)	48.2	52.8	62.7	51.4	42.6	59.2	60.9	61.6	63.810	-	61.3	61.850

Wheat

- The USDA kept their old-crop (2010/11) US wheat projections unchanged this month, despite most analysts expecting a slight upward revision to inventories because of a presumed reduction in export demand. US 2010/11 wheat inventories remain pegged at 839 million bushels, down slightly year-on-year, but still comfortable from a historical perspective.
- The forecasts for new-crop (2011/12) US wheat production and use make for more interesting reading. US wheat production for the upcoming season is forecast at 2.04 billion bushels, down 7% year-on-year, but still slightly ahead of trade estimates. Winter wheat production is down 4%, with drought in the Great Plains expected to reduce HRW wheat production to 762 million bushels, down 25% year-on-year. Partly offsetting are strong production forecasts for SRW wheat production, which the USDA pegs at 427 million bushels, up 80% for the year. The USDA SRW wheat forecast exceeded average trade estimates (395mbu) by more than 7%. It remains to be seen whether the current flooding in the US Midwest will force the USDA to trim its SRW wheat forecast in the coming months.
- US wheat exports in 2011/12 are expected to decline 18% to 1.05 billion bushels, partly reflecting lower US production and partly reflecting increased competition from larger FSU crops in 2011. US wheat ending stocks are expected to continue their decline from the recent 2009/10 highs, but still, the USDA's stock forecast of 702 million bushels (down 16% yoy) easily exceeded trade estimates of 650 million bushels. Additionally, the resulting ending stock-to-use forecast of 30.7% comfortably exceeds the record tight 2007/08 result of 13.2%. Based on relative production potentials, HRW wheat supplies will be tight but SRW supplies comfortable.
- World wheat production for 2011/12 is forecast to rebound 21.4 million tonnes (3.3%) to 669.5 million tonnes from an (upwardly revised) 2010/11 crop of 648 million tonnes. A sharp rebound in FSU wheat production (+25%, 20mt), combined with larger crops in Canada (+3mt), India, North Africa and the EU offset the smaller US crop.
- World wheat consumption is expected to lift by 1.3% to 670.5 million tonnes, resulting in a small production deficit of roughly 1 million tonnes. As a result, world wheat stocks are forecast to fall from 182.2 million tonnes in 2010/11 to 181.3 million tonnes which is within the range of trade estimates. The stock-to use ratio is calculated at 27%, down slightly year-on-year but still comfortably above the 2006/07 and 2007/08 results which were between 20.0-20.5%.



Coarse grain and corn

- US corn ending stocks for 2010/11 were revised higher to 730 million bushels from the April forecast of 675 million bushels, despite most analysts expecting a reduction in US corn inventories. Lower exports account for the USDA's reduction in ending stocks.
- New-crop (2011/12) US corn production is forecast at a record 13.505 billion bushels, up 8.5% year-on-year, because of a 4 million (4.5%) lift in area planted and a 4% lift in yield boost expected output. Despite the assumed lift in corn yields to 158.7bpa, the USDA indicates that this is 3bpa below trend reflecting to slow pace of plantings through May. The USDA has not accounted for any potential lost corn area planted which will likely have resulted from the widespread flooding, therefore a reduction in US corn acres is likely in the coming months¹. Soybean area may be subsequently revised higher as producers switch from corn to soybeans.
- US corn use for 2011/12 is forecast flat year-on-year as a presumed 50 million bushel increase in ethanol consumption (to 5.05mbu) offsets a 50 million bushel fall in feed and residual use (to 51mbu). US corn exports are expected to fall by 100 million bushels as a result of increased supplies in other countries. Subsequently, the USDA forecast US corn ending stocks at 900 million bushels, up 23% year-on-year and 11% higher than average trade estimates. Still, this US ending stock estimate remains historically very tight.
- World coarse grain production is expected to lift 6% (62mt) to a record 1146.8 million tonnes in 2011/12, largely driven by a 52 million tonne increase in world corn production. Large corn production increases are expected in Argentina, China, Mexico and the FSU. An increase in Russian supplies largely explains the lift in 'other' coarse grain production.
- World coarse grain consumption is forecast to lift 1.8% to 1142.8 million tonnes, resulting in a 4 million tonne production surplus and an assumed increase in global coarse grain stocks to 162.4 million tonnes. Still, coarse grain supplies are well below the recent 2009/10 peak of 196.8 million tonnes. Global corn production is expected to exceed consumption by 7 million tonnes in 2011/12, resulting in a lift in corn inventories to 129 million tonnes. Although this is still an extremely tight carry-out figure, it exceeded average trade estimates (124.8mt) by 3.5%. Interestingly, the USDA expects China to only import ½ million tonnes of corn in 2011/12, down from 1.5 million tonnes in 2010/11.

Oilseeds

- US soybean inventories for 2010/11 have been revised 300 thousand bushels higher to 170 million bushels this month because of recent weakness in US soybean exports. The trade was expecting soybean stocks of 153 million bushels.
- But the lift in US soybean inventories is expected to be temporary, largely because of expected smaller crops in 2011/12. US oilseed production is forecast to fall 1% to 99 million tonnes in 2011/12, with soybean production forecast 1.3% lower for the year at 3.285 million bushels. The decline in US soybean production mainly reflects forecasts lower soybean area, however it is important to note that the USDA has not yet accounted for Midwest flooding and the probable switch out of corn acres into soybeans as the floodwaters recede.
- US soybean consumption is forecast to increase slightly in 2011/12, however soybean oil demand is set to increase by 7% reflecting a higher biodiesel use mandate. Total US soybean ending stocks in 2011/12 are forecast back at 160 million bushels, below trade estimates of 167 million bushels.
- Global soybean inventories have been revised higher for 2010/11 by 3 million tonnes (63.8mt vs. f/c 61.6mt) because of bigger than expected crops and a recent pullback in consumption. For 2011/12, global soybean production is forecast to increase by 1.3 million tonnes to 263.3 million tonnes – largely reflecting bigger South American crops – while demand is expected to surge 8.3 million tonnes to 262.7 million tonnes. Global soybean ending stocks are forecast at 61.9 million tonnes vs. estimates of 61.3 million tonnes.
- China's soybean demand is expected to surge 8% to 72.5 million tonnes with their import requirements forecast to lift another 6.4% to 58 million tonnes. Continued strong Chinese import demand would provide a solid footing under world prices.

Cotton

- Old-crop cotton supplies in the US have been revised higher this month because of a sharp, 25 thousand bale, downward revision to exports. However, at 1.75 million bales (f/c 1.7m bales), the resulting 2010/11 end stock estimate is still tremendously tight.
- The US cotton projections for 2011/12 include lower supplies and exports relative to last season, resulting in higher

¹ The USDA corn area is based off the 31st March Prospective Plantings Report.



ending stocks. Projected production is based on planted area from the March Prospective Plantings, combined with above-average abandonment and slightly below-average yields due to severe drought conditions in the Southwest. Production is forecast at 18 million bales, down from 18.1 million last year and trade estimates of 19.8 million bales.

- US mill use is projected at 3.8 million bales, the same as 2010/11, while exports are reduced due to lower US supplies and increased foreign production. Ending stocks are projected at 2.5 million bales, 43% above 2010/11, but still the second-lowest level since 1990/91 and well below trade estimates of 3.4 million bales.
- The USDA’s world cotton forecasts for 2011/12 show a sharp increase in production (8%) to a record 124.7 million bales. India, China, and Pakistan account for 70%of the increase. Consumption is forecast to rise 3 million bales to 119.5 million bales. This is above the three preceding years but below the peak levels of 2006/07 and 2007/08. World trade is projected at 40 million bales, mainly reflecting higher import demand by China (+2.5m bales).
- World cotton ending stocks are projected to rise to nearly 48 million bales, up 13% yoy. Still, the stocks-to-use ratio of 40% remains relatively tight.

Key charts

Figure 1: World wheat supplies

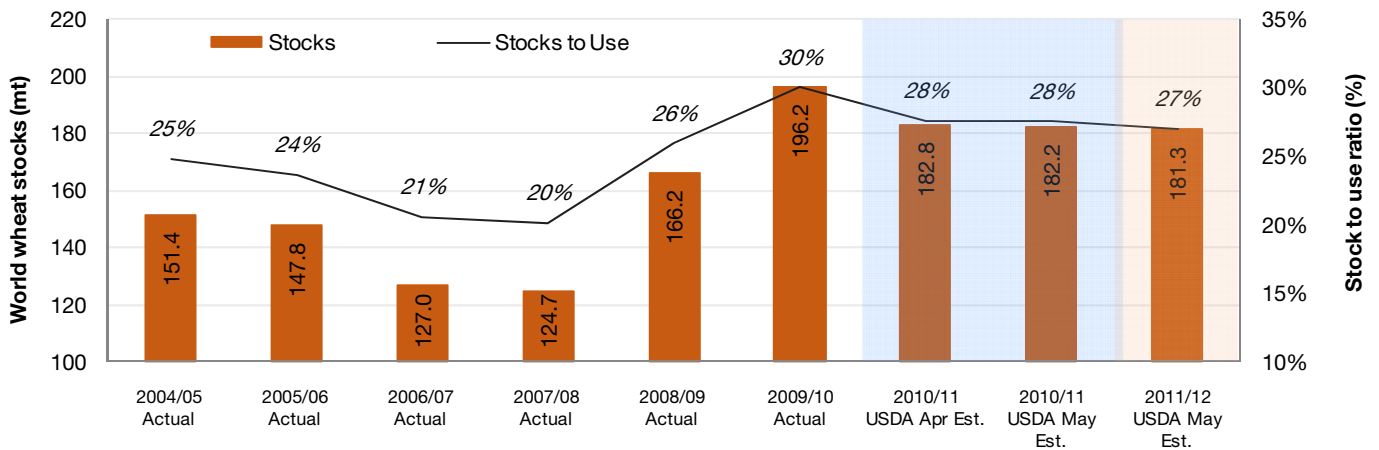


Figure 2: US wheat supplies

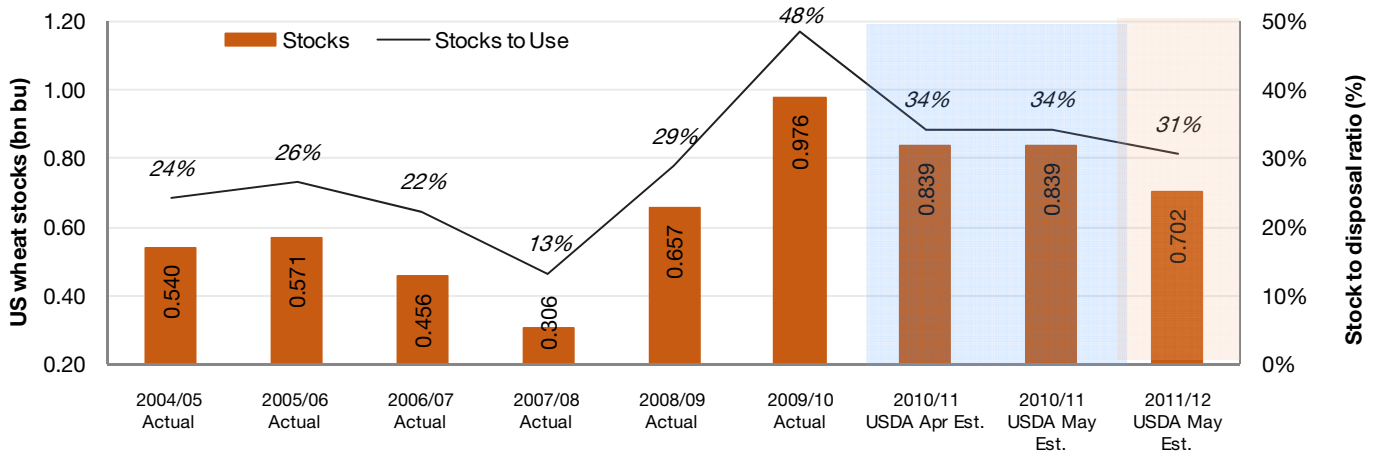




Figure 3: World corn supplies

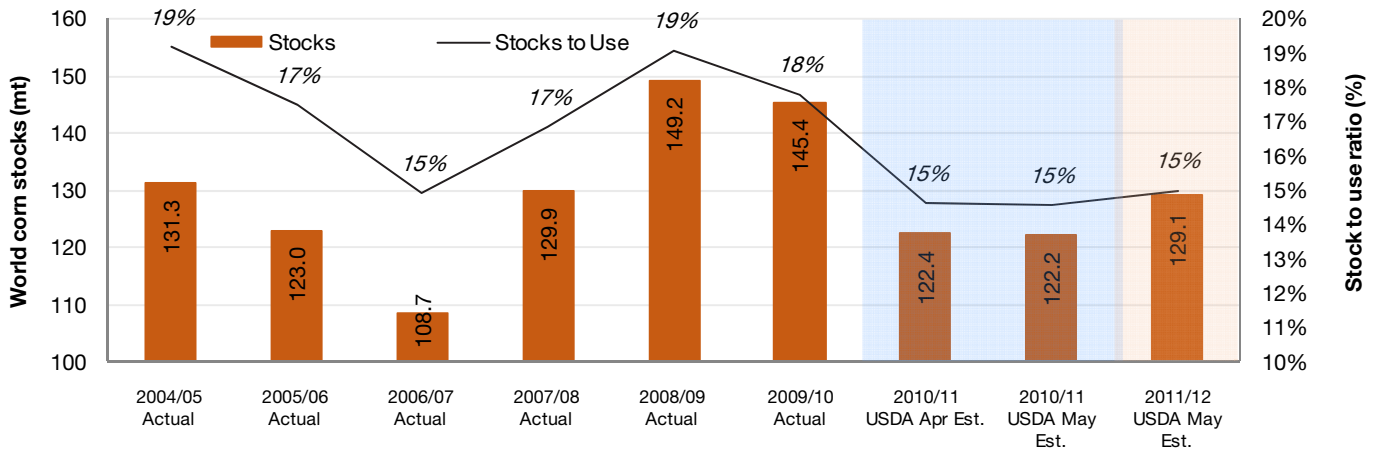


Figure 4: US corn supplies

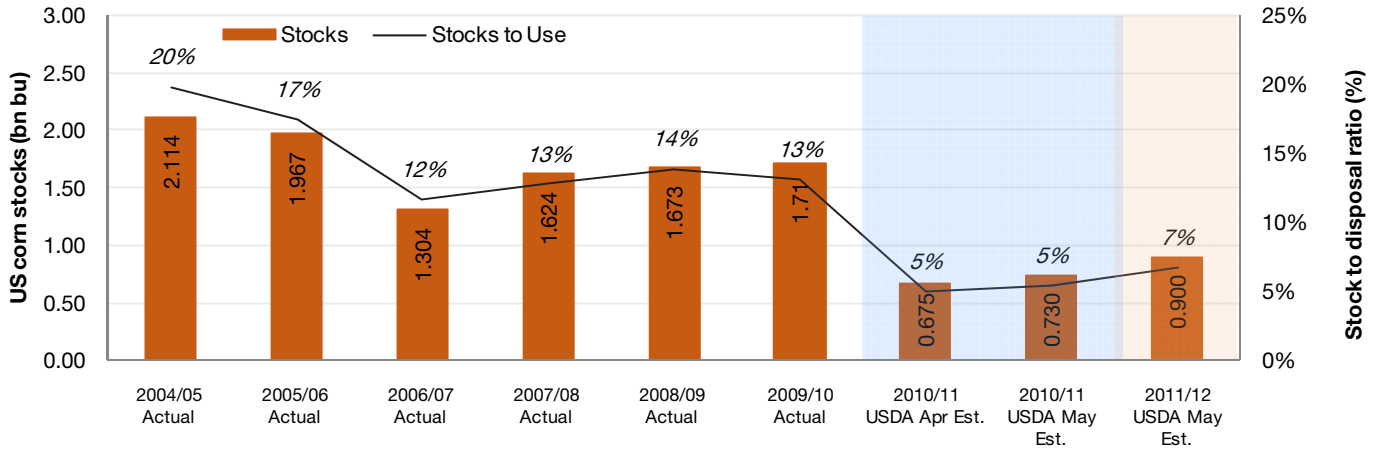


Figure 5: World soybean supplies

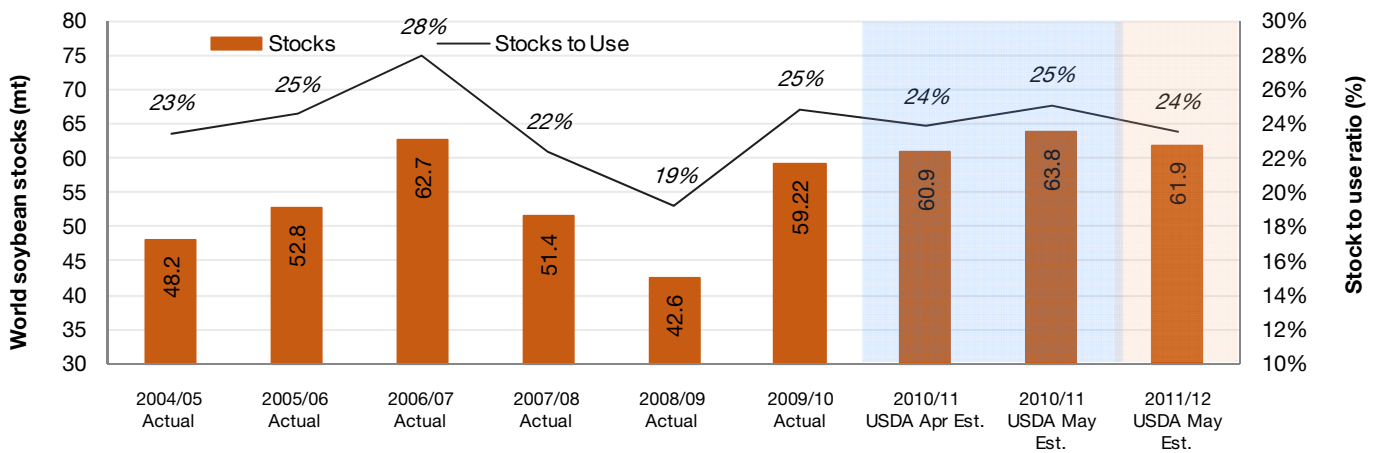




Figure 6: US soybean supplies

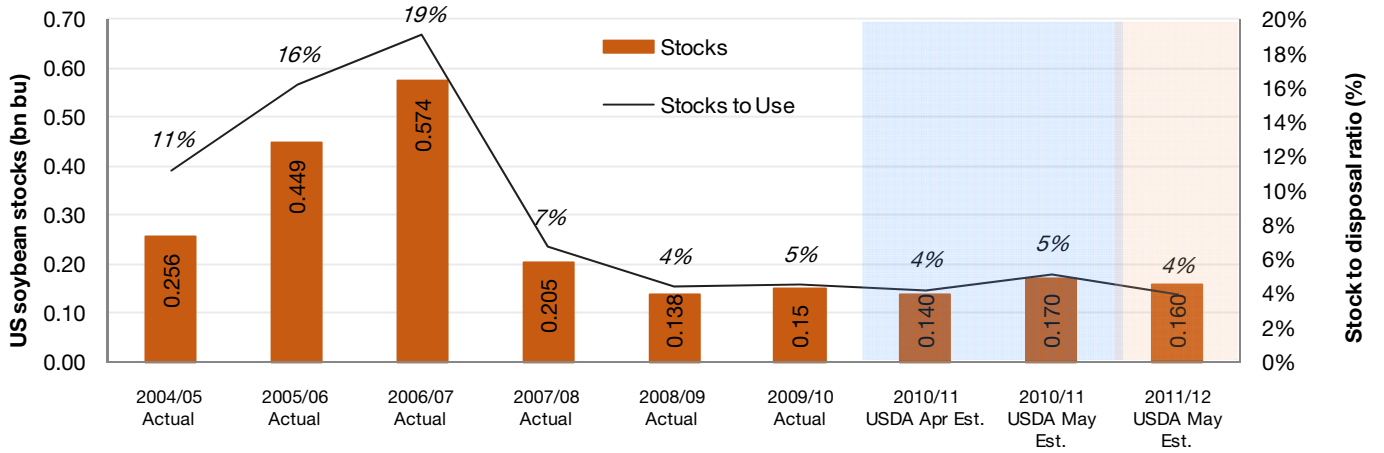


Figure 7: World cotton supplies

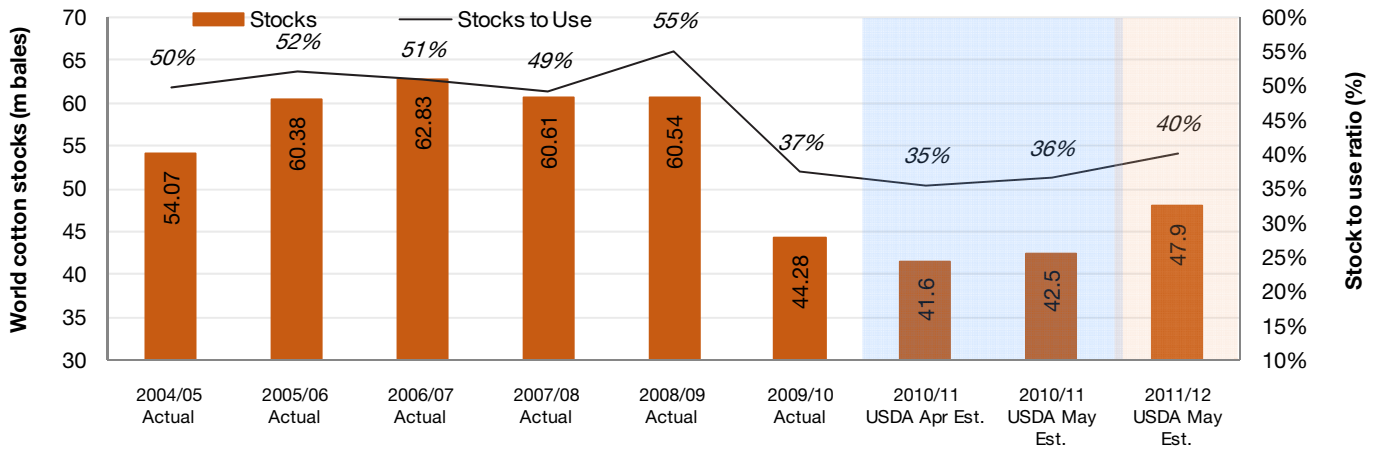
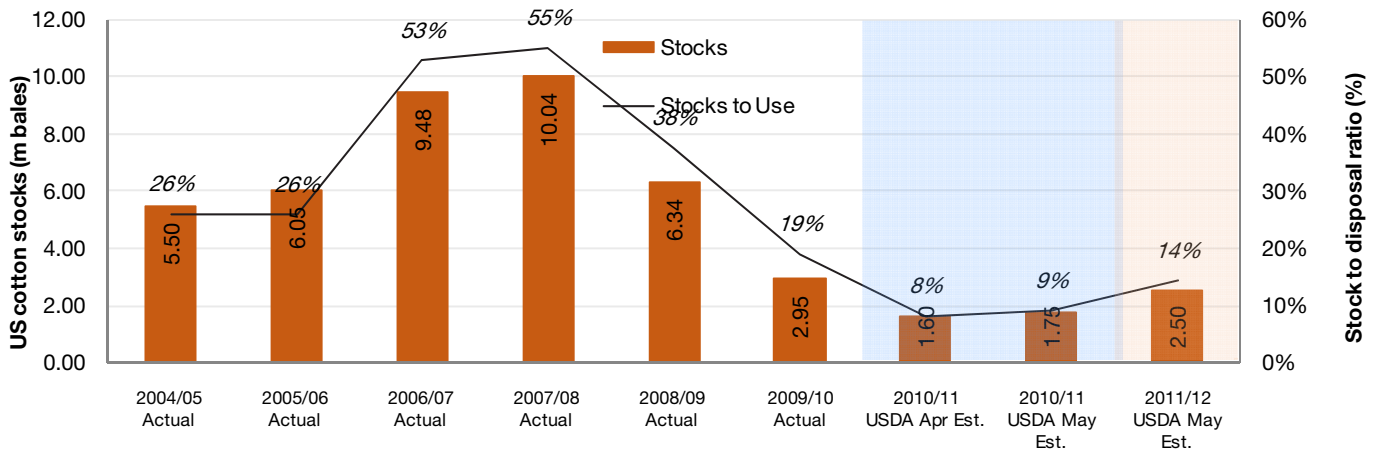


Figure 8: US cotton supplies





Key data – US perspective

US WHEAT		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Yield	(bpa)	43.20	42.00	38.70	40.20	44.90	44.500	46.400	-	46.400	-	-	42.500
Area Planted	(m ac)	59.70	57.20	57.30	60.50	63.20	59.200	53.600	-	53.600	-	-	58.000
Area Harvested (Implied)	(m ac)	50.00	50.10	46.80	51.00	55.70	49.900	47.600	-	47.600	-	-	48.000
Production	(bn bu)	2.158	2.105	1.812	2.051	2.499	2.218	2.208	-	2.208	-	2.037	2.043
Consumption	(bn bu)	1.169	1.152	1.140	1.051	1.260	1.137	1.180	-	1.180	-	-	1.240
Exports	(bn bu)	1.066	1.003	0.908	1.263	1.015	0.881	1.275	-	1.275	-	-	1.050
Ending Stocks	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.839	0.845	0.839	-	0.650	0.702
Ending Stocks to Disposal	(%)	24.2%	26.5%	22.3%	13.2%	28.9%	48.4%	34.2%	-	34.2%	-	-	30.7%

US CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Yield	(bpa)	160.40	148.00	149.10	150.70	153.90	164.700	152.800	-	152.800	-	-	158.700
Area Planted	(m ac)	80.90	81.80	78.30	93.50	86.00	86.400	88.200	-	88.200	-	-	92.200
Area Harvested (Implied)	(m ac)	73.60	75.10	70.60	86.50	78.57	79.500	81.400	-	81.400	-	-	85.100
Production	(bn bu)	11.807	11.114	10.535	13.038	12.092	13.092	12.447	-	12.447	-	-	13.505
Consumption	(bn bu)	8.844	9.136	9.085	10.300	10.207	11.079	11.550	-	11.550	-	-	11.550
Feed & residual consumption	(bn bu)	6.158	6.155	5.595	5.913	5.182	5.140	5.150	-	5.150	-	-	5.100
Ethanol consumption	(bn bu)	1.323	1.603	2.119	3.049	3.709	4.568	5.000	-	5.000	-	-	5.050
Exports	(bn bu)	1.818	2.134	2.125	2.437	1.849	1.987	1.950	-	1.900	-	-	1.800
Ending Stocks	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.675	0.661	0.730	-	0.808	0.900
Ending Stocks to Disposal	(%)	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	5.0%	-	5.4%	-	-	6.7%

US SOYBEAN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Yield	(bpa)	42.20	43.00	42.70	41.70	39.70	44.000	43.5	-	43.5	-	-	43.400
Area Planted	(m ac)	75.20	72.00	75.50	64.70	75.70	77.500	77.400	-	77.400	-	-	76.600
Area Harvested (Implied)	(m ac)	74.00	71.30	74.60	64.10	74.70	76.400	76.600	-	76.600	-	-	75.700
Production	(bn bu)	3.124	3.063	3.188	2.677	2.967	3.359	3.329	-	3.329	-	-	3.285
Crush	(bn bu)	1.097	1.739	1.808	1.803	1.757	1.752	1.650	-	1.650	-	-	1.655
Seed use	(bn bu)	0.088	0.093	0.080	0.093	0.095	0.090	0.089	-	0.089	-	-	0.900
Exports	(bn bu)	1.097	0.940	1.116	1.159	1.279	1.501	1.580	-	1.550	-	-	1.540
Ending Stocks	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.140	0.153	0.170	-	0.167	0.160
Ending Stocks to Disposal	(%)	11.2%	16.2%	19.1%	6.7%	4.4%	4.5%	4.2%	-	5.2%	-	-	3.9%

US COTTON DATA		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Yield	(lb/ac)	855	831	814	879	813	777	811	-	811	-	-	800
Area Planted	(m ac)	13.66	14.25	15.27	10.83	9.47	9.150	10.970	-	10.970	-	-	12.570
Area Harvested	(m ac)	13.06	13.80	12.73	10.49	7.57	7.530	10.710	-	10.710	-	-	10.800
Production	(m bale)	23.25	23.89	21.59	19.21	12.82	12.190	18.100	18.10	18.100	-	-	18.000
Domestic Use	(m bale)	6.69	5.87	4.94	4.59	3.59	3.460	3.700	-	3.800	-	-	3.800
Exports	(m bale)	14.44	17.55	13.01	13.65	13.28	12.040	15.750	15.65	15.500	-	14.65	13.500
Ending Stocks	(m bale)	5.50	6.05	9.48	10.04	6.34	2.950	1.600	1.70	1.750	-	3.36	2.500
Ending Stocks to Disposal	(%)	26.0%	25.8%	52.8%	55.0%	37.6%	19.0%	8.2%	-	9.1%	-	-	14.5%

Key data – global perspective

WORLD WHEAT		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Production	(mt)	628.8	621.7	596.3	611.0	682.2	684.2	647.2	-	648.1	-	-	669.6
Consumption	(mt)	610.1	624.4	616.9	617.3	641.5	654.3	662.3	-	662.1	-	-	670.5
Feed consumption	(mt)	106.7	111.3	106.3	96.3	117.9	119.2	122.5	-	122.8	-	-	124.2
Exports	(mt)	111.2	116.2	111.2	117.2	143.7	135.9	124.2	-	124.7	-	-	127.3
Stocks	(mt)	151.4	147.8	127.0	124.7	166.2	196.2	182.8	182.3	182.2	-	181.8	181.3
Stocks to Use	(%)	24.8%	23.7%	20.6%	20.2%	25.9%	30.0%	27.6%	-	27.5%	-	-	27.0%

WORLD CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Production	(mt)	712.8	696.4	712.4	792.4	798.8	813.0	814.9	-	815.4	-	-	867.7
Consumption	(mt)	685.0	704.0	728.5	772.0	782.0	816.8	838.3	-	838.6	-	-	860.8
Feed consumption	(mt)	471.1	476.3	478.1	496.6	479.3	484.4	493.5	-	493.5	-	-	506.1
Exports	(mt)	78.2	80.9	93.8	95.6	84.5	96.9	90.8	-	90.6	-	-	92.5
Stocks	(mt)	131.3	123.0	108.7	129.9	149.2	145.4	122.4	122.8	122.2	-	124.8	129.1
Stocks to Use	(%)	19.2%	17.5%	14.9%	16.8%	19.1%	17.8%	14.6%	-	14.6%	-	-	15.0%



WORLD SOYBEANS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Production	(mt)	216.0	220.4	236.6	221.2	212.0	260.8	260.4	-	262.0	-	-	263.3
Consumption (total)	(mt)	205.4	215.2	224.5	229.7	221.3	238.4	255.8	-	254.4	-	-	262.7
Exports	(mt)	64.5	64.0	71.5	79.6	76.8	92.65	98.51	-	95.6	-	-	98.8
Stocks	(mt)	48.2	52.8	62.7	51.4	42.6	59.22	60.94	61.55	63.8	-	61.28	61.9
Stocks to Use	(%)	23.5%	24.5%	27.9%	22.4%	19.2%	24.8%	23.8%	-	25.1%	-	-	23.5%

WORLD COTTON		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Apr Est.	2010/11 Avg Trade Est.	2010/11 USDA May Est.	2011/12 USDA Apr Est.	2011/12 Avg Trade Est.	2011/12 USDA May Est.
Production	(m bale)	120.39	117.69	121.99	119.91	107.10	101.39	114.53	-	114.60	-	-	124.72
Consumption	(m bale)	108.82	116.11	123.47	122.97	109.95	118.40	117.12	-	116.51	-	-	119.50
Exports	(m bale)	35.02	44.53	37.12	38.47	30.07	35.57	38.13	-	37.00	-	-	39.87
Stocks	(m bale)	54.07	60.38	62.83	60.61	60.54	44.28	41.55	-	42.5	-	-	47.9
Stocks to Use	(%)	49.7%	52.0%	50.9%	49.3%	55.1%	37.4%	35.5%	-	36.5%	-	-	40.1%



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