

USDA World Ag Supply & Demand Estimates – September 2011

Corn supplies tighten even further but wheat stocks build...

- The USDA's September 2011 WASDE report was released overnight, providing further rationale for higher corn prices. The drivers for wheat remain unchanged. Wheat supplies are ample and wheat prices will only rise on the back of corn. The USDA unexpectedly increased its US soybean production forecast, but supplies remain tight. While cotton traders could find both bullish and bearish numbers in the WASDE report.

Summary

US corn production prospects have been slashed again because of continuing poor weather. US corn stocks were cut, and the US corn stock-to-use ratio is now forecast at critically tight 5.3%. Corn prices must remain very high to ration demand. It seems the main risk to prices is the escalating global economic uncertainty or a large adjustment to US ethanol policies.

The WASDE report was directly bearish for wheat prices, with the USDA unexpectedly raising their estimate of US and world wheat supplies. Global wheat stocks are up year-on-year, and are forecast at their second highest level of the past decade. In our view, wheat prices will only hold ground because corn supplies are critically tight.

The USDA unexpectedly raised this season's US soybean production forecast, despite adverse weather. Reflecting the larger crop, US soybean inventories were raised to levels well above trade estimates. But still, US soybean carryout supplies remain extremely tight. Tight supplies and strong corn prices should continue to provide support to global oilseed prices.

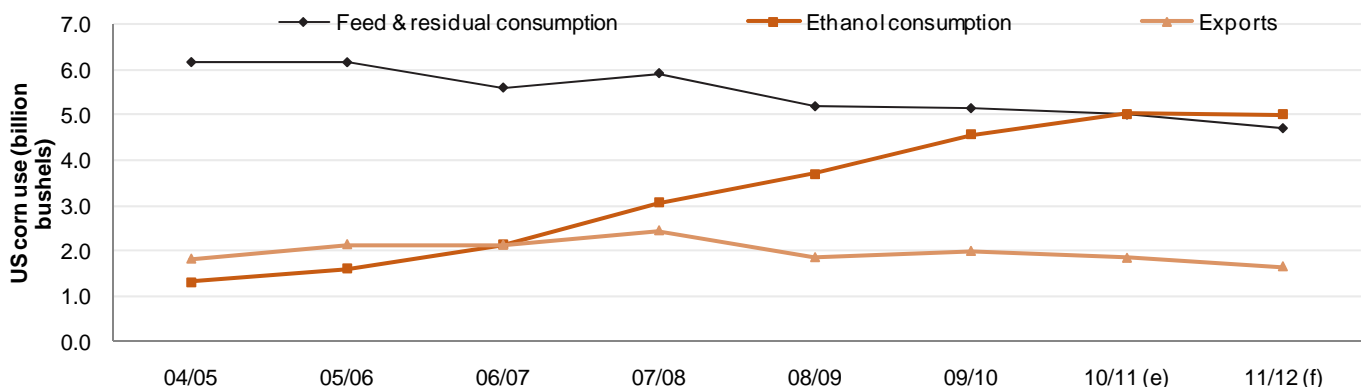
The USDA provided something for both the bears and bulls in the cotton market. US carry-in cotton supply estimates were lowered, but US cotton production was left unchanged, despite widespread forecasts of a downgrade. The size of the Pakistan cotton crop was cut, but this was offset by an upward revision to the Chinese cotton crop. World cotton stocks are forecast to recover notably from the very tight levels of the two preceding years, but are still the third lowest since 1994/95.

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 Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Wheat	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.861	0.861	0.671	0.664	0.761
Corn	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.940	0.920	0.714	0.626	0.672
Soybeans	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.230	0.225	0.155	0.152	0.165
Cotton	(m bale)	5.500	6.050	9.480	10.040	6.340	2.950	2.850	2.600	3.300	3.140	3.400

WORLD STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Wheat	(mt)	151.4	147.8	127.0	124.7	167.8	199.9	191.7	193.3	188.9	187.7	194.6
Corn	(mt)	131.3	123.0	108.7	129.9	149.2	143.9	122.9	124.3	114.5	112.6	117.4
Soybeans	(mt)	48.2	52.8	62.7	51.4	42.6	59.3	68.4	68.8	61.0	60.7	62.6
Cotton	(m bale)	54.1	60.4	62.8	60.6	60.6	43.9	45.0	44.0	52.7	-	51.9

Key Chart - US corn use by category

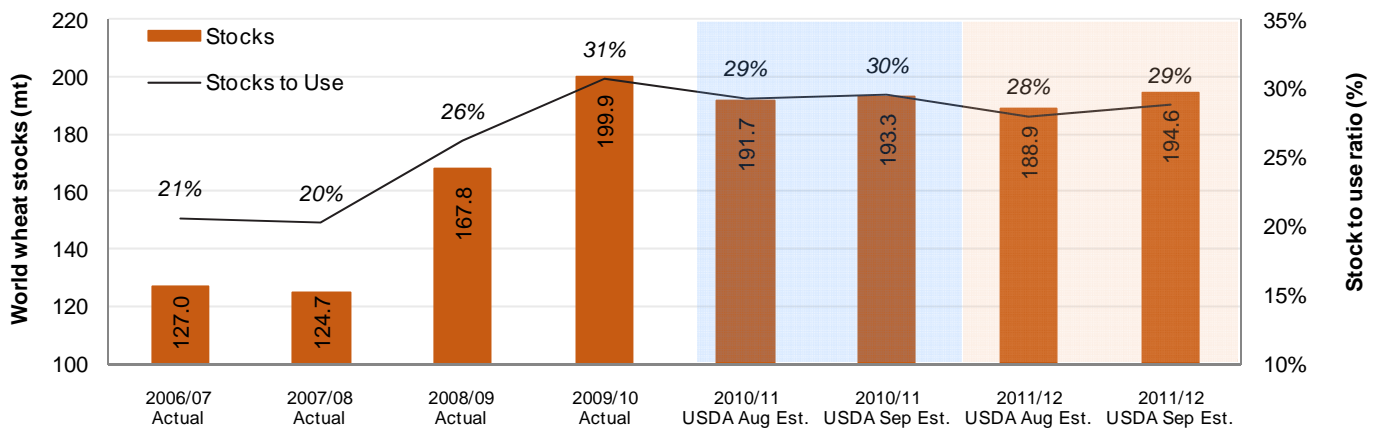




Wheat

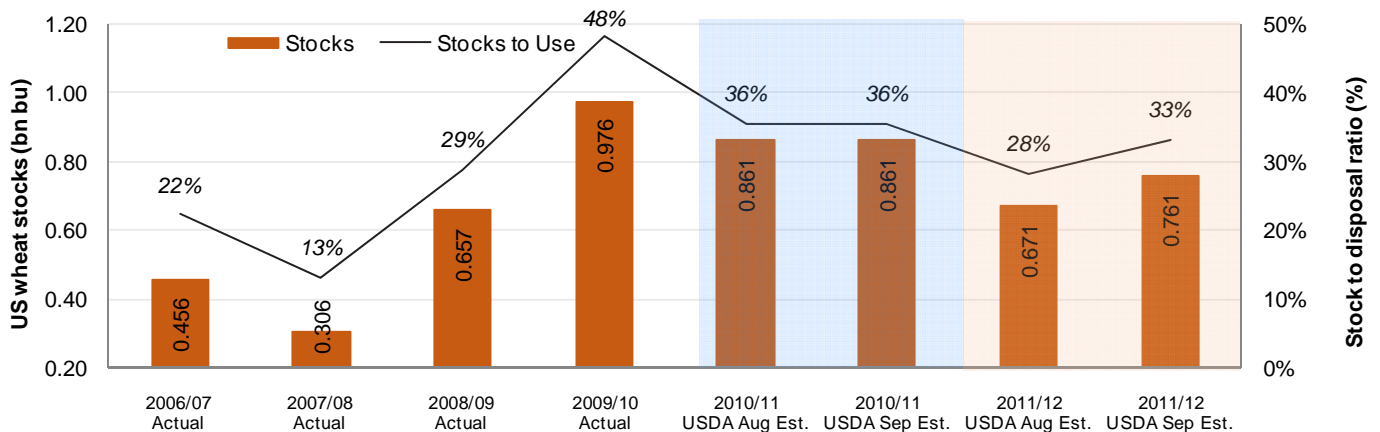
- The USDA's WASDE report was directly bearish for wheat prices, with the USDA unexpectedly raising their estimate of US and world wheat supplies. US wheat ending stocks for 2011/12 were raised by 90 million bushels to 761 million, well above trade guesses of 664 million. The rise in US wheat ending stocks is because of a reduction in domestic food wheat use, lower exports and increased imports from Canada. US wheat stocks are currently comfortable, and well above the tight results observed from 2005/06 to 2007/08 (571-306 million bushels).
- Global wheat production for 2011/12 was lifted by 6 million tonnes to a strong 678 million tonnes, implying a production surplus of 1.3 million tonnes against last month's 3 million tonnes forecast deficit. Production estimates were raised for Canada, Ukraine and the EU27. World wheat consumption was also raised, primarily in the 'feed wheat' category, reflecting greater than expected wheat availability and extremely tight coarse grain supplies.
- The USDA now forecasts world wheat stocks at 194.6 million tonnes (stock to use ratio of 28.7%), up 5.7 million tonnes from last month's forecast, and well above average trade guesses of 187.7 million tonnes. At nearly 195 million tonnes global wheat stocks are higher than the 2010/11 result, and are at their second highest level in the past decade. Most importantly, world wheat stocks are at comfortable levels, well above the tight results observed in 2006/07 and 2008/09 (127 million and 125 million tonnes respectively). Wheat stocks above 170 million tonnes (~25% stock-to-use) are ample.
- In our view, wheat prices will only hold ground because corn supplies are critically tight.

Figure 1: World wheat supplies



Source: USDA and CBA

Figure 2: US wheat supplies



Source: USDA and CBA



Coarse grain and corn

- The USDA WASDE report was bullish for world coarse grain prices. The USDA cut its 2011/12 US corn production estimates, as expected, from 12.9 billion bushels last month to 12.5 billion this month because of adverse weather. The USDA pegged average corn yields at 148.1 bushels per acre, down from their August forecast of 153 bushels. The USDA's production forecast was in line with trade estimates.
- Reflecting limited supply availability and forecast high prices, the USDA cut its US corn consumption and export estimates. Total corn use for 2011/12 is projected 400 million bushels lower with tighter supplies. Feed use consumption is reduced as livestock profitability declines given high grain prices. Corn used for ethanol is forecast 100 million bushels lower because of a weakening outlook for US gasoline demand. But still, the ethanol sector remains the largest direct user of US corn and continues to squeeze out livestock and export demand.
- Despite lower consumption, the smaller crop size means US corn inventory forecasts have been reduced to 672 million bushels, down from last month's forecast of 714 million. The stock to use ratio is forecast at a critically tight 5.3%, and should continue to support near-record corn prices. Corn prices must remain high in order to ration demand. It seems the main near term risk to prices is the rising global economic uncertainty or a substantial adjustment to US ethanol policies.
- World coarse grain production has been slashed by 3.1 million tonnes to reflect the smaller US corn crop. Slightly larger world barley, sorghum, millet and oat supplies partly offsetting. Interestingly, the USDA raised Brazilian and Argentinean corn production for 2011/12 by a combined 5.5 million tonnes because of higher expected area. It will be interesting to see if current forecasts to a return to La Nina conditions adversely affect South America's summer crop potential.
- Global corn consumption for 2011/12 is lowered 7.3 million tonnes, mostly reflecting lower expected use in the United States. World corn ending stocks are projected 3 million tonnes higher this month at 117.4 million tonnes, as falling consumption offsets reduced production. According to Bloomberg, the trade had expected world corn stocks to be trimmed to 112.6 million tonnes, but still, world coarse grain supplies remain critically tight and supportive for prices.

Figure 3: World corn supplies

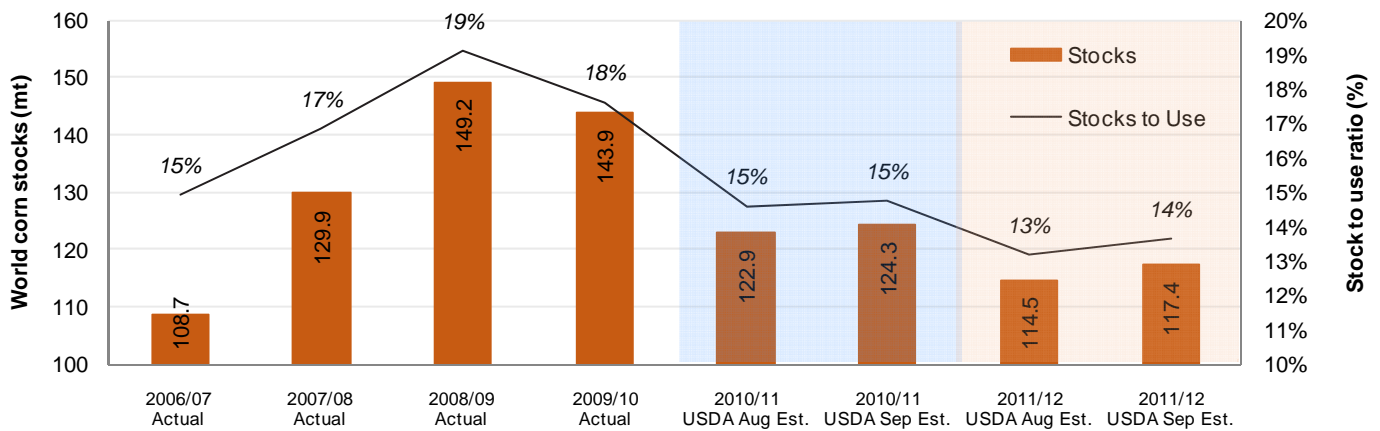
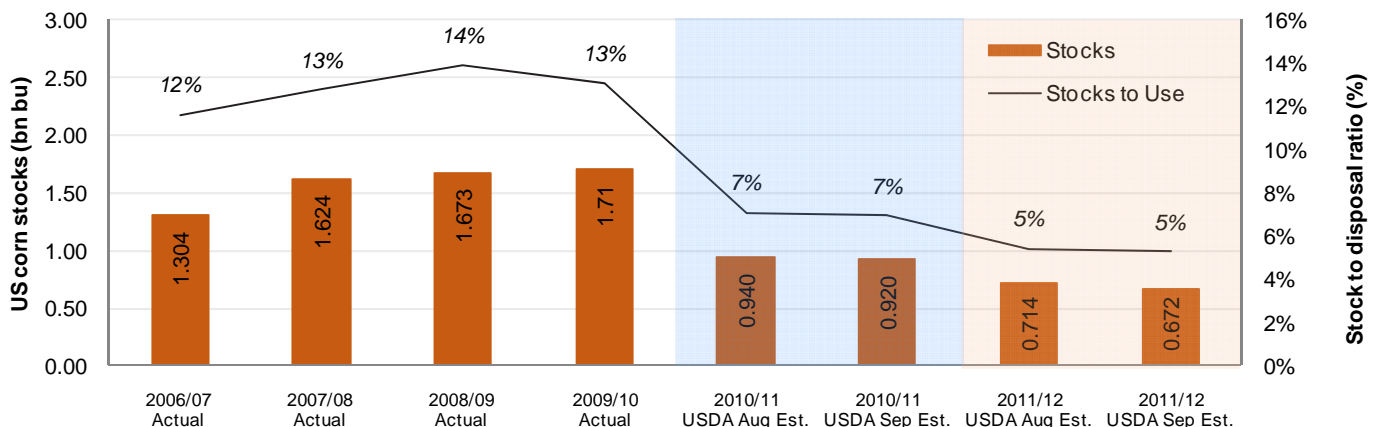


Figure 4: US corn supplies



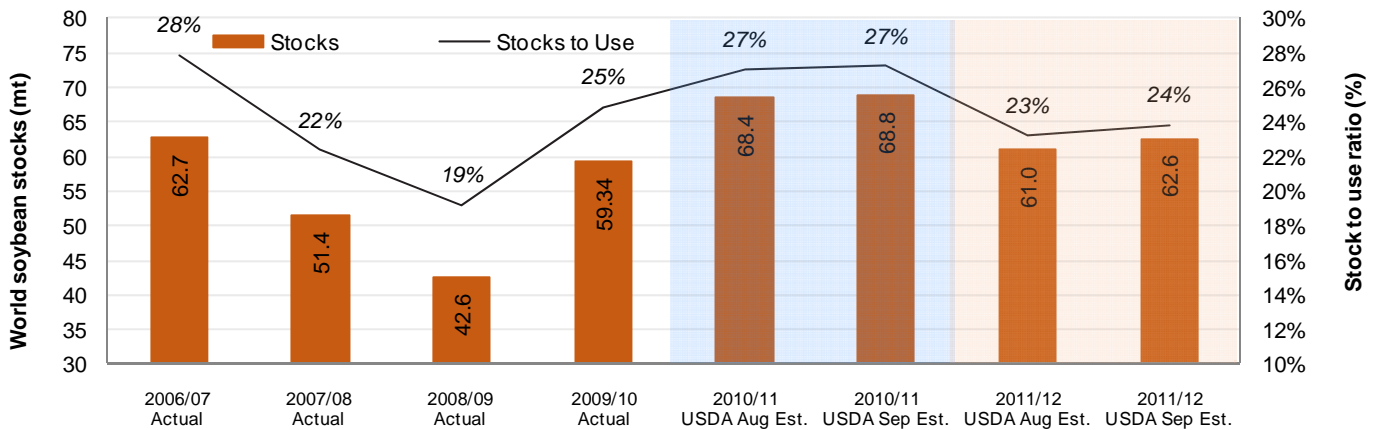
Source: USDA and CBA



Oilseeds

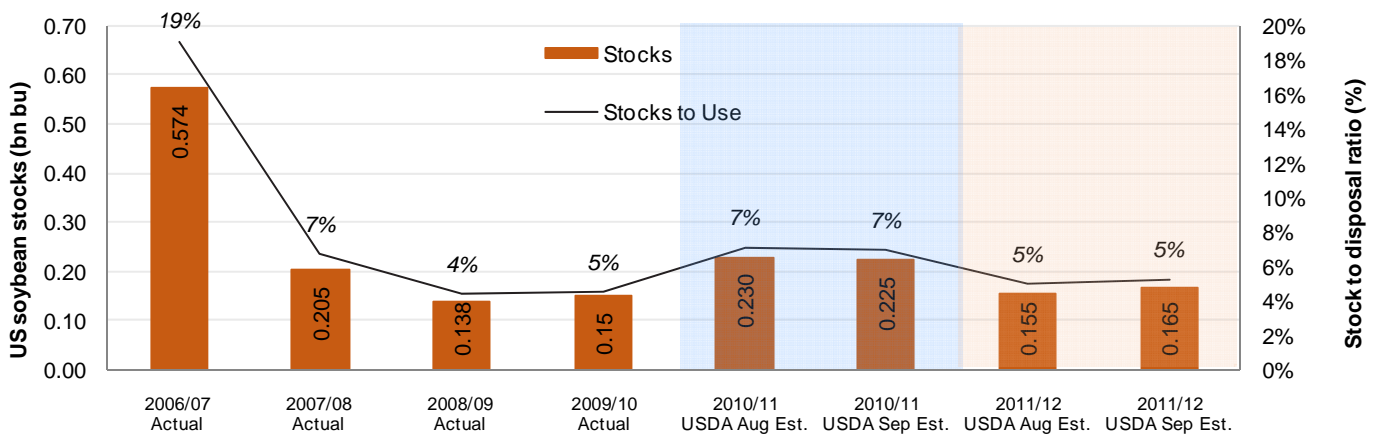
- The USDA unexpectedly raised their 2011/12 US soybean production forecast estimates, despite the recent adverse weather. US soybean production is now projected at 3.085 billion bushels, up 29 million due to higher yields. The market had expected US soybean production to be cut 24 million to 3.03 billion bushels. Only minor adjustments were made for US soybean use, with higher soybean oil use in biodiesel production offset by lower food use. Exports were raised marginally.
- Reflecting the larger than expected crop, the USDA lifted the US soybean ending stocks by 10 million to 165 million bushels, higher than trade estimates of 152 million bushels. But despite being larger than expected, the USDA's estimate still implies extremely tight US soybean carryout supplies. These tight supplies, and forecast strong corn prices, should continue to provide support to US soybean prices.
- Global oilseed production for 2011/12 is projected at 453.0 million tonnes, up 1.5 million tonnes from last month. Production increases for soybeans (US and India), rapeseed (Canada), sunflower seed (EU27), and cottonseed (China) are only partly offset by lower peanut production. World soybean ending stocks for 2011/12 were raised by 1.6 million tonnes to 62.6 million this month, versus estimates of 60.7 million tonnes, but this still remains 6 million tonnes tighter than 2010/11 world soybean stocks.

Figure 5: World soybean supplies



Source: USDA and CBA

Figure 6: US soybean supplies



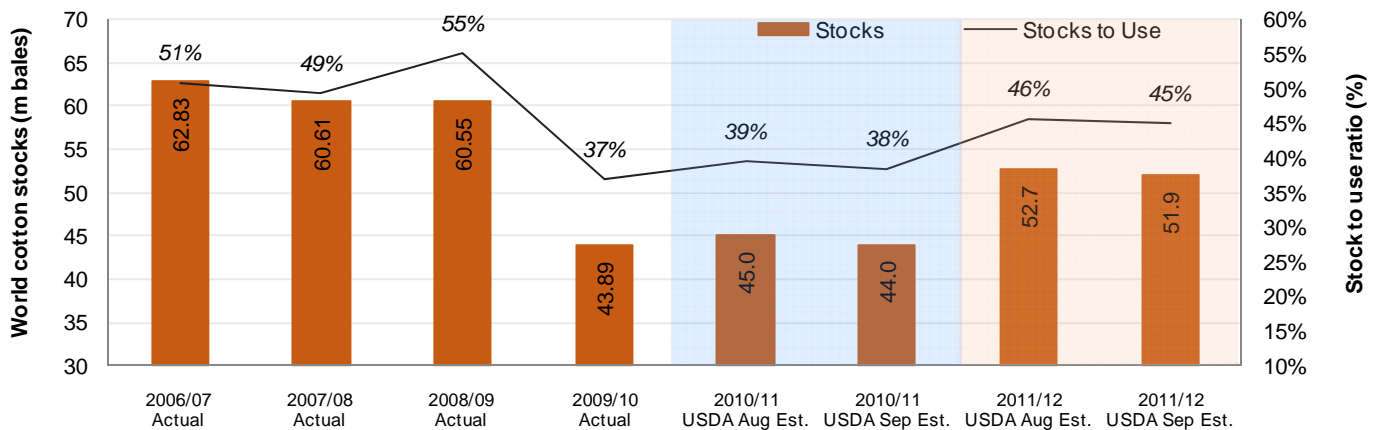
Source: USDA and CBA



Cotton

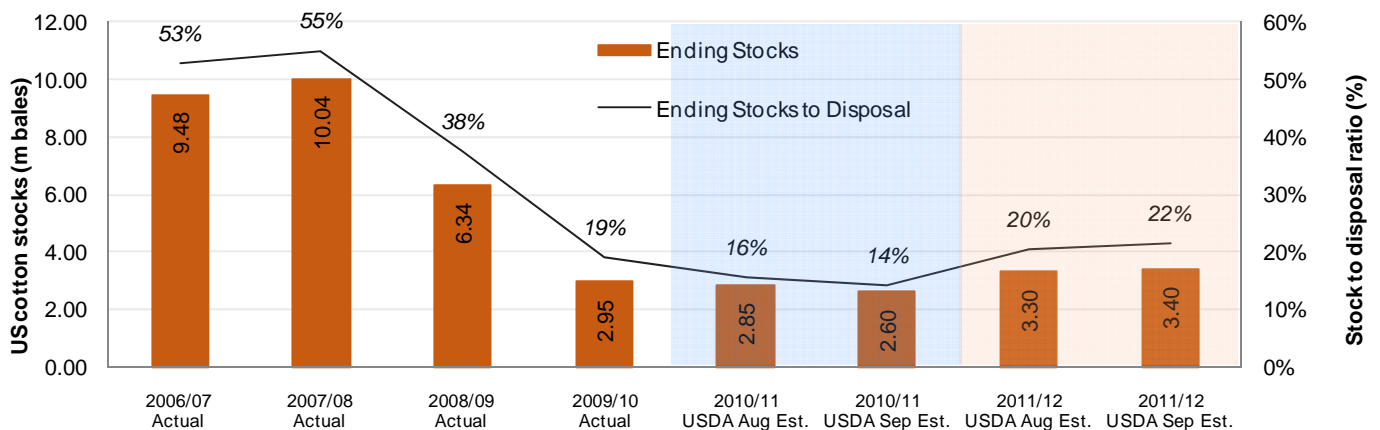
- The USDA's WASDE report contained something for both the bears and bulls for the cotton market.
- Bullish for US prices was a 250 thousand bale reduction in US carry-in supplies based on an upward revision to old-crop use. But bearish for prices was the fact that the USDA left this year's estimate of US cotton production virtually unchanged at 16.56 million bales, compared to private estimates of a 14.8 to 16.5 million bale crop (consensus was 16 million bales). The USDA did cut yield forecasts, but they offset that with a higher area estimate. US cotton exports for 2011/12 were cut from 12.3 million bales to 12 million bales with lower imports to China. US cotton ending stocks for 2011/12 were revised higher by 10 thousand bales to 3.4 million, up from 2.6 million bales last year, and up from trade estimates of 3.1 million bales.
- Internationally, the USDA has lowered its 2011/12 carry-in supply estimate by 1 million bales this month, but partially offset this with increased global production, resulting in a 750 thousand bale downward revision to global cotton ending stock forecasts to 51.9 million bales. Despite the slight reduction in stocks this month, the USDA's current stock estimate for 2011/12 easily exceeds 2009/10 and 2010/11 stocks (43.9 and 44.0 million bales respectively). The projected world cotton stocks-to-use ratio of 45% also reflects a recovery from the very tight levels of the two preceding years, but is still the third lowest since 1994/95.
- The major adjustments to world cotton production include a ½ million bale downgrade to the Pakistan cotton crop which is more than offset by a 1 million increase to Chinese cotton production prospects. The larger Chinese cotton crop reduces their forecast import requirements.

Figure 7: World cotton supplies



Source: USDA and CBA

Figure 8: US cotton supplies



Source: USDA and CBA



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 Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Yield	(bpa)	43.20	42.00	38.70	40.20	44.90	44.500	46.400	46.400	45.200	~	45.200
Area Planted	(m ac)	59.70	57.20	57.30	60.50	63.20	59.200	53.600	53.600	55.200	~	55.200
Area Harvested (Implied)	(m ac)	50.00	50.10	46.80	51.00	55.70	49.900	47.600	47.600	45.900	~	45.900
Production	(bn bu)	2.158	2.105	1.812	2.051	2.499	2.218	2.208	2.208	2.077	~	2.077
Consumption	(bn bu)	1.169	1.152	1.140	1.051	1.260	1.137	1.131	1.131	1.267	~	1.262
Exports	(bn bu)	1.066	1.003	0.908	1.263	1.015	0.881	1.289	1.289	1.100	~	1.025
Ending Stocks	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.861	0.861	0.671	0.664	0.761
Ending Stocks to Disposal	(%)	24.2%	26.5%	22.3%	13.2%	28.9%	48.4%	35.6%	35.6%	28.3%	~	33.3%

US CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Yield	(bpa)	160.40	148.00	149.10	150.70	153.90	164.700	152.800	152.800	153.000	149.200	148.100
Area Planted	(m ac)	80.90	81.80	78.30	93.50	86.00	86.400	88.200	88.200	92.300	~	92.300
Area Harvested (Implied)	(m ac)	73.60	75.10	70.60	86.50	78.57	79.500	81.400	81.400	84.400	~	84.400
Production	(bn bu)	11.807	11.114	10.535	13.038	12.092	13.092	12.447	12.447	12.914	12.544	12.497
Consumption	(bn bu)	8.844	9.136	9.085	10.300	10.207	11.079	11.420	11.430	11.410	~	11.110
Feed & residual consumption	(bn bu)	6.158	6.155	5.595	5.913	5.140	5.140	5.000	5.000	4.900	~	4.700
Ethanol consumption	(bn bu)	1.323	1.603	2.119	3.049	3.709	4.568	5.020	5.020	5.100	~	5.000
Exports	(bn bu)	1.818	2.134	2.125	2.437	1.849	1.987	1.825	1.835	1.750	~	1.650
Ending Stocks	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.940	0.920	0.714	0.626	0.672
Ending Stocks to Disposal	(%)	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	7.1%	6.9%	5.4%	~	5.3%

US SOYBEAN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Yield	(bpa)	42.20	43.00	42.70	41.70	39.70	44.000	43.500	43.500	41.400	41.100	41.800
Area Planted	(m ac)	75.20	72.00	75.50	64.70	75.70	77.500	77.400	77.400	75.000	~	75.000
Area Harvested (Implied)	(m ac)	74.00	71.30	74.60	64.10	74.70	76.400	76.600	76.600	73.800	~	73.800
Production	(bn bu)	3.124	3.063	3.188	2.677	2.967	3.359	3.329	3.329	3.056	3.032	3.085
Crush	(bn bu)	1.097	1.739	1.808	1.803	1.757	1.752	1.645	1.629	1.635	~	1.635
Seed use	(bn bu)	0.088	0.093	0.080	0.093	0.095	0.090	0.087	0.087	0.090	~	0.088
Exports	(bn bu)	1.097	0.940	1.116	1.159	1.279	1.501	1.495	1.495	1.400	~	1.415
Ending Stocks	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.230	0.225	0.155	0.152	0.165
Ending Stocks to Disposal	(%)	11.2%	16.2%	19.1%	6.7%	4.4%	4.5%	7.1%	7.0%	5.0%	~	5.3%

US COTTON DATA		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Yield	(lb/ac)	855	831	814	879	813	777	812	812	822	~	807
Area Planted	(m ac)	13.66	14.25	15.27	10.83	9.47	9.150	10.970	10.970	13.730	~	14.720
Area Harvested	(m ac)	13.06	13.80	12.73	10.49	7.57	7.530	10.700	10.700	9.670	~	9.850
Production	(m bale)	23.25	23.89	21.59	19.21	12.82	12.190	18.100	18.100	16.550	15.96	16.560
Domestic Use	(m bale)	6.69	5.87	4.94	4.59	3.59	3.460	3.800	3.900	3.800	~	3.800
Exports	(m bale)	14.44	17.55	13.01	13.65	13.28	12.040	14.400	14.380	12.300	12.01	12.000
Ending Stocks	(m bale)	5.50	6.05	9.48	10.04	6.34	2.950	2.850	2.600	3.300	3.14	3.400
Ending Stocks to Disposal	(%)	26.0%	25.8%	52.8%	55.0%	37.6%	19.0%	15.7%	14.2%	20.5%	~	21.5%

US WHEAT STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Hard Winter	(bn bu)	0.193	0.215	0.165	0.138	0.254	0.385	0.386	0.386	0.222	~	0.272
Hard Spring	(bn bu)	0.159	0.132	0.117	0.068	0.142	0.234	0.185	0.185	0.143	~	0.158
Soft Red Winter	(bn bu)	0.088	0.106	0.109	0.055	0.171	0.242	0.170	0.170	0.197	~	0.197
White	(bn bu)	0.062	0.078	0.044	0.037	0.064	0.080	0.085	0.085	0.096	~	0.106
Durum	(bn bu)	0.038	0.040	0.022	0.008	0.025	0.035	0.035	0.035	0.013	~	0.028
All US Wheat	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.861	0.861	0.671	~	0.761



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 Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(mt)	628.8	621.7	596.3	611.0	682.2	684.4	648.2	648.2	672.1	~	678.1
Consumption	(mt)	610.1	624.4	616.9	617.3	641.5	652.3	655.3	654.7	675.0	~	676.9
Feed consumption	(mt)	106.7	111.3	106.3	96.3	117.9	117.3	115.7	115.0	127.9	~	130.1
Exports	(mt)	111.2	116.2	111.2	117.2	143.7	135.8	130.1	130.2	131.3	~	131.9
Stocks	(mt)	151.4	147.8	127.0	124.7	167.8	199.9	191.7	193.3	188.9	187.7	194.6
Stocks to Use	(%)	24.8%	23.7%	20.6%	20.2%	26.2%	30.6%	29.3%	29.5%	28.0%	~	28.7%

WORLD CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(mt)	712.8	696.4	712.4	792.4	798.8	813.4	821.4	824.0	860.5	~	854.5
Consumption	(mt)	685.0	704.0	728.5	772.0	782.0	816.7	842.4	843.6	868.9	~	861.6
Feed consumption	(mt)	471.1	476.3	478.1	496.6	479.3	483.0	494.4	495.0	510.1	~	505.1
Exports	(mt)	78.2	80.9	93.8	95.6	84.5	96.8	90.0	89.5	93.0	~	93.2
Stocks	(mt)	131.3	123.0	108.7	129.9	149.2	143.9	122.9	124.3	114.5	112.6	117.4
Stocks to Use	(%)	19.2%	17.5%	14.9%	16.8%	19.1%	17.6%	14.6%	14.7%	13.2%	~	13.6%

WORLD COARSE GRAIN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(mt)	1014.6	977.5	989.1	1078.7	1110.2	1110.2	1092.1	1095.2	1136.3	~	1131.2
Consumption	(mt)	975.7	991.6	1016.1	1056.5	1079.7	1108.6	1126.6	1127.7	1150.0	~	1144.1
Exports	(mt)	101.6	107.1	117.4	127.1	113.0	122.95	115.07	114.6	115.27	~	116.5
Stocks	(mt)	178.8	163.7	138.4	161.7	195.9	195.40	160.92	162.9	147.21	~	150.0
Stocks to Use	(%)	18.3%	16.5%	13.6%	15.3%	18.1%	17.6%	14.3%	14.4%	12.8%	~	13.1%

WORLD SOYBEANS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(mt)	216.0	220.4	236.6	221.2	212.0	260.8	264.0	264.1	257.5	~	259.0
Consumption (total)	(mt)	205.4	215.2	224.5	229.7	221.3	238.3	252.9	252.6	262.3	~	262.2
Exports	(mt)	64.5	64.0	71.5	79.6	76.8	92.59	91.22	91.3	97.89	~	98.3
Stocks	(mt)	48.2	52.8	62.7	51.4	42.6	59.34	68.42	68.8	60.95	60.66	62.6
Stocks to Use	(%)	23.5%	24.5%	27.9%	22.4%	19.2%	24.9%	27.1%	27.2%	23.2%	~	23.9%

WORLD OILSEEDS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(mt)	381.29	391.65	403.33	392.22	396.31	442.69	452.08	452.88	451.44	~	452.98
Consumption (crush only)	(mt)	302.09	318.27	328.36	339.09	338.66	357.60	375.56	375.35	389.42	~	389.67
Exports	(mt)	74.56	76.04	83.73	92.67	94.16	108.07	106.56	106.64	113.91	~	114.43
Stocks	(mt)	58.38	64.31	72.54	61.68	54.97	71.17	78.05	80.0	69.54	~	72.6
Stocks to Use	(%)	18.7%	20.2%	22.1%	18.2%	16.2%	19.9%	20.8%	21.3%	17.9%	~	18.6%

WORLD COTTON		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Aug Est.	2010/11 USDA Sep Est.	2011/12 USDA Aug Est.	2011/12 Avg Trade Est.	2011/12 USDA Sep Est.
Production	(m bale)	120.39	117.69	121.99	119.91	107.10	101.38	114.59	114.56	122.71	~	122.96
Consumption	(m bale)	108.82	116.11	123.47	122.97	109.95	118.89	113.93	114.39	115.18	~	115.22
Exports	(m bale)	35.02	44.53	37.12	38.47	30.07	35.57	35.30	35.38	37.59	~	37.30
Stocks	(m bale)	54.07	60.38	62.83	60.61	60.55	43.89	44.99	44.0	52.66	~	51.9
Stocks to Use	(%)	49.7%	52.0%	50.9%	49.3%	55.1%	36.9%	39.5%	38.4%	45.7%	~	45.1%



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