

## USDA World Ag Supply & Demand Estimates – October 2011

### Wheat-fed bulls get slaughtered...

- The USDA's October 2011 WASDE report was released overnight. The report disappointed most bulls in the ag markets. The report was particularly bearish for wheat prices. For corn, the report disappointed pre-report expectations, but corn supplies remain very tight. In time, corn prices are likely to appreciate. The USDA cut its US soybean production forecast, and supplies have tightened to price-supporting levels. The report was also bearish for cotton markets.

### Summary

The USDA's WASDE report was bearish for wheat prices. Global wheat consumption was revised lower, and production lifted. US and world wheat supplies were revised higher. Wheat inventories around the world, and across classes, remain at comfortable levels. The world wheat stocks to use ratio has been revised higher to 30%. The last time the stocks to use ratio was this high was in 2009/10; in that year prices fell to US\$425/bu, well below current values of US\$627/bu.

The difference now for wheat markets is that corn stocks are critically tight. But even the corn bulls were a little disappointed with this month's WASDE report. US and global corn stocks were revised higher, reflecting slowing demand. However US corn stocks are forecast at their second tightest level in history. When the dust settles, we think this supply tightness should cause corn prices to rise. This will help support wheat prices.

The USDA revised lower its estimate of 2011/12 US soybean ending stocks to extremely tight levels, largely as a result of lower than expected output. US soybean stocks remain near the very tight levels observed in 2008/09 and 2009/10. This should keep a solid footing under soybean prices. The market is reliant on the big South American crops currently forecast.

The report was bearish for cotton. The USDA raised its cotton output estimate, reduced its demand estimate, and increased its US and world cotton stocks estimate. In our view, the global stock situation does not support US\$100/lb cotton prices.

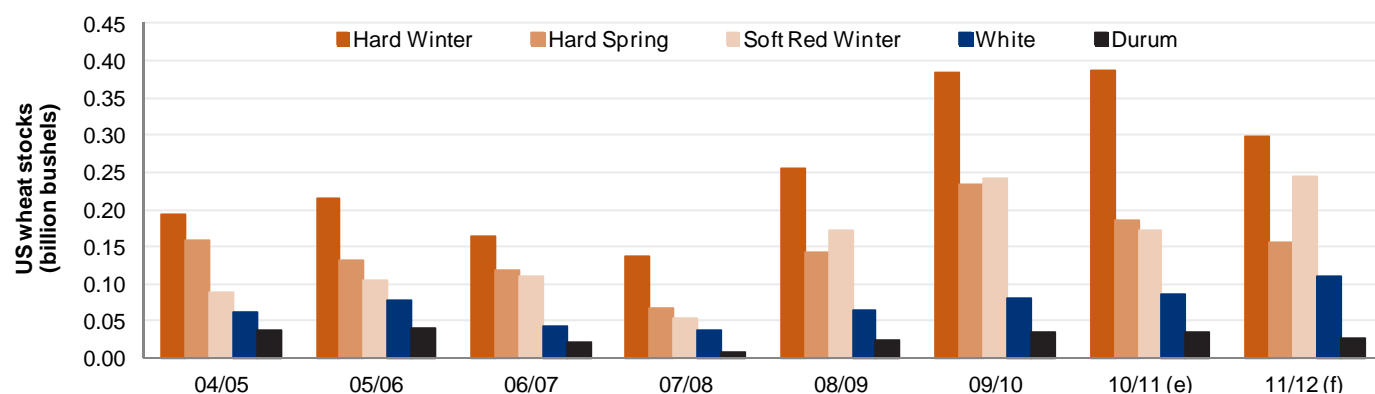
### Key results

US STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Wheat	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.861	0.862	0.761	0.753	0.837
Corn	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.920	1.128	0.672	0.804	0.866
Soybeans	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.225	0.215	0.165	0.186	0.160
Cotton	(m bale)	5.500	6.050	9.480	10.040	6.340	2.950	2.600	2.600	3.400	3.320	3.900

WORLD STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Wheat	(mt)	151.4	147.8	127.0	124.7	167.8	200.8	193.3	195.6	194.6	194.8	202.4
Corn	(mt)	131.3	123.0	108.7	129.9	149.2	143.9	124.3	129.8	117.4	120.5	123.2
Soybeans	(mt)	48.2	52.8	62.7	51.4	42.6	59.4	68.8	69.3	62.6	63.4	63.0
Cotton	(m bale)	54.1	60.4	62.8	60.6	60.6	44.0	44.0	44.9	51.9	~	54.8

### Key Chart – US wheat stocks comfortable across the board





### Wheat

- The USDA's WASDE report was bearish for wheat prices. US and world wheat supplies were revised higher once again, and are both at comfortable levels.
- US wheat ending stocks for 2011/12 were raised 10% this month to 837 million bushels as lower expected domestic use and exports more than offset reduced production. Average trade estimates had pegged US ending stocks at 753 million bushels according to a Bloomberg survey. US wheat stocks are very comfortable from a historical perspective. US wheat production was lowered 3.3% this month, mostly reflecting lower spring wheat output as estimated in the September 30 Small Grains report. Domestic US wheat consumption was revised lower by nearly 7% to 1.178 billion bushels, and US wheat exports were lowered 5%. US exports are now forecast to fall 24% year on year. Strong exportable supplies in other countries and relatively high US wheat prices are expected to constrain US exports this season.
- Global wheat production was revised higher and consumption revised lower, resulting in an upward revision to stocks. The USDA lowered old-crop world wheat consumption as a result of lower livestock demand, contributing to higher carry-in stocks for 2011/12. Feed wheat consumption estimates were also reduced sharply for the 2011/12 season, contributing to a reduction on overall wheat use. World wheat production for 2011/12 was revised 3 million tonnes higher to 681 million tonnes, 5% larger than the 2010/11 crop. If realised, this will be the third largest world wheat crop in history, only marginally behind the 2009/10 record of 684.4 million tonnes. The world wheat production surplus has been increased to nearly 7 million tonnes for 2011/12, up from the September estimate of 1.3 million tonnes.
- World wheat stocks for 2011/12 are now forecast at 202.4 million tonnes, up 4% from the September estimate and up 3.5% from 2010/11 levels. Analysts had forecast inventories at 195 million tonnes. The global wheat stock to use ratio has been revised higher from 28.7% to 30% this month. The last time the world wheat stocks to use ratio was this high was in 2009/10 – in that year prices fell to US\$425/bu, well below current values of US\$627/bu.

Figure 1: World wheat supplies

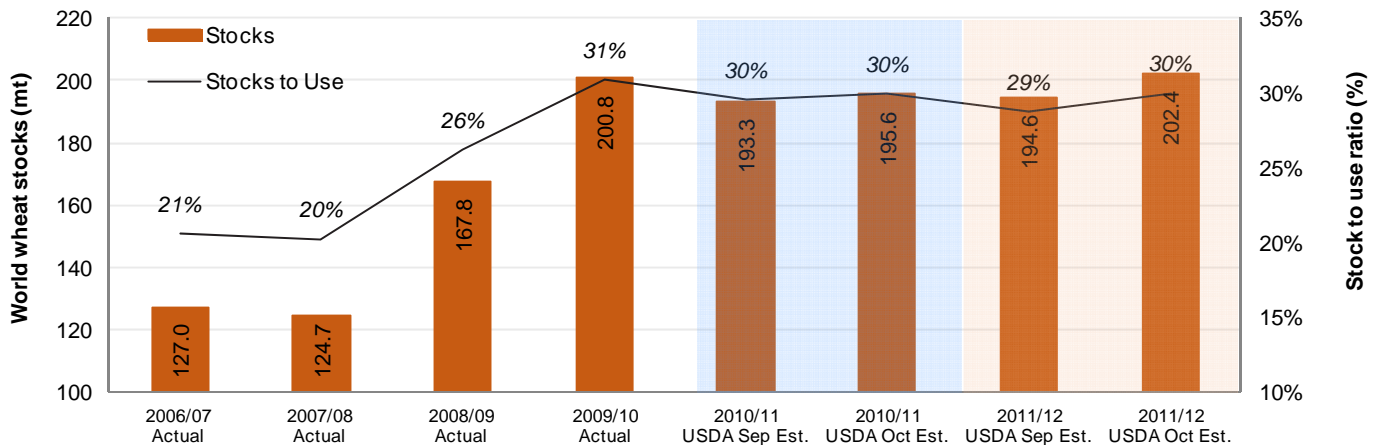
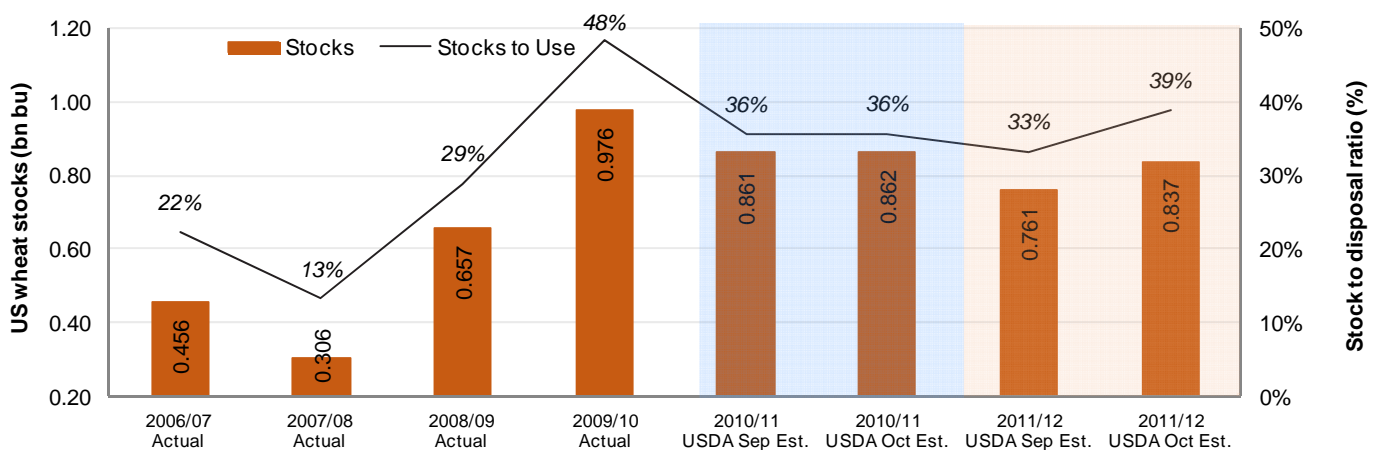


Figure 2: US wheat supplies



Source: USDA and CBA



### Coarse grain and corn

- The USDA's WASDE report was slightly more bearish than analysts had expected, but in our view, the fundamental situation is still supportive for high corn prices.
- The USDA revised its estimate of US corn production 0.4% lower 12.443 billion bushels this month, below average trade estimates for 12.48 billion bushels. US corn yields were forecast at 148.1 bushels per acre, below pre-trade estimates of 148.7 bushels per acre. But offsetting the reduced production forecast was a 208 million bushel upward revision to carry-in supplies, driven by a lower in old-crop (2010/11) consumption in the livestock sector. As a result, US corn ending stocks for 2011/12 were revised nearly 30% higher this month to 866 million bushels, above estimates of 804 million. Despite the upward revision this month, US corn stocks remain critically tight with a stock to use ratio of 6.8%. This is still the second tightest US corn stocks to use ratio in history, only marginally above the 1995/96 low of 5%. The average of the 2000s has been 13.8%.
- Global coarse grain stocks were revised higher but still remain forecast at their tightest levels for the past decade. Global coarse grain beginning stocks are revised higher because of slower than expected consumption in 2010/11, particularly in the US. Global coarse grain production was revised 5.1 million tonnes higher, as a 5.6 million tonne increase in world corn production offset modest reduction in the other grains. Chinese corn production was raised 4 million tonnes to a record 182 million tonnes. FSU output was also revised higher.
- Reflecting higher supplies, global coarse grain supplies have been revised higher, but the increased consumption was insufficient to offset higher total supplies. As a result, world coarse grain ending stocks for 2011/12 were revised 4% higher to 156 million tonnes. World corn stocks were revised nearly 5% higher to 123.2 million tonnes, above estimates for 120.5 million. But despite the upward revision, world corn stocks are nearly 7 million tonnes below the 2010/11 result and 26 million tonnes below 2008/09 stocks. The world corn stocks to use ratio is forecast at 14.2%, the tightest level since 1974.

Figure 3: World corn supplies

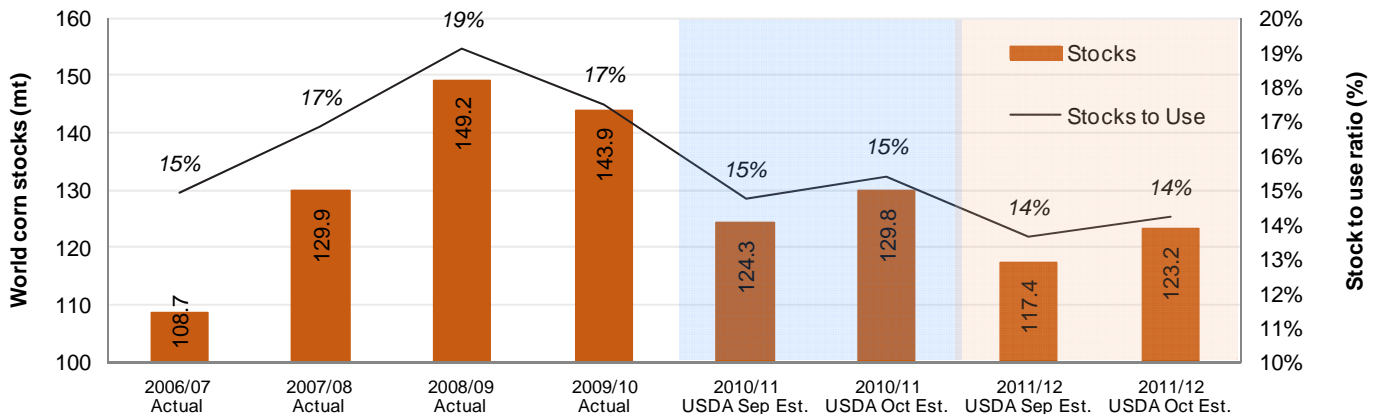
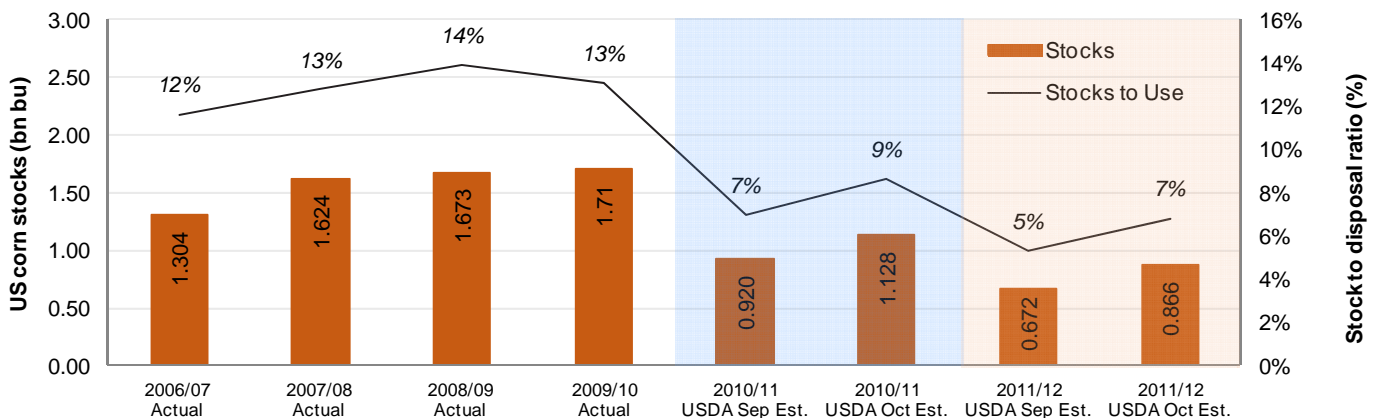


Figure 4: US corn supplies



Source: USDA and CBA



Oilseeds

- The USDA report was mildly bullish for oilseed prices.
- The USDA revised lower its estimate of 2011/12 US soybean ending stocks by 3% this month to just 160 million bushels, well below trade forecasts for 186 million. The size of the 2011/12 US soybean crop was downgraded to 3.06 million bushels, 8% smaller than the 2010/11 crop, based on lower harvested area and yield. US soybean yields were reduced to 41.5 bushels per acre, below trade estimates of 42.1 bushels. US soybean exports for 2011/12 are reduced 40 million bushels to 1.375 billion, reflecting the slow pace of export sales and strong early season export competition from South America. This represents a substantial slowing in US exports from 1.5 billion bushels in 2010/11 and 2009/10.
- But global soybean and oilseed ending stocks for 2011/12 were revised higher. An upward revision to beginning stocks and a downward revision to consumption more than outweighed a downward revision to production. Global oilseed production for 2011/12 is projected at 453.5 million tons, up 0.5 million from last month according to the USDA. A modest decrease in global soybean and canola/rapeseed production is offset by higher sunflowerseed production. World oilseed inventories are forecast at 73 million tonnes, up 400 thousand for the month, but still 7 million tonnes below the 2010/11 result.

Figure 5: World soybean supplies

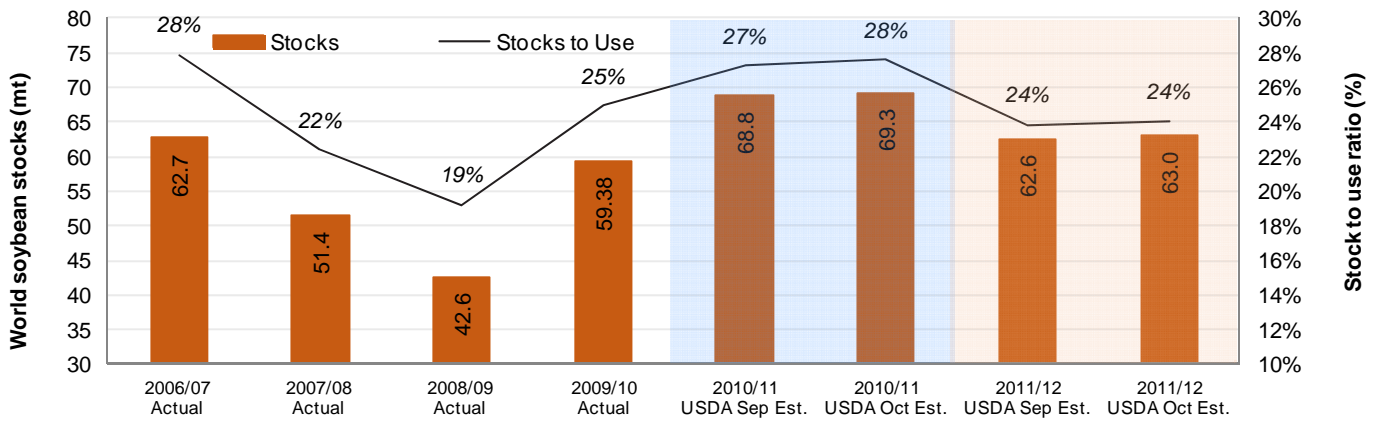
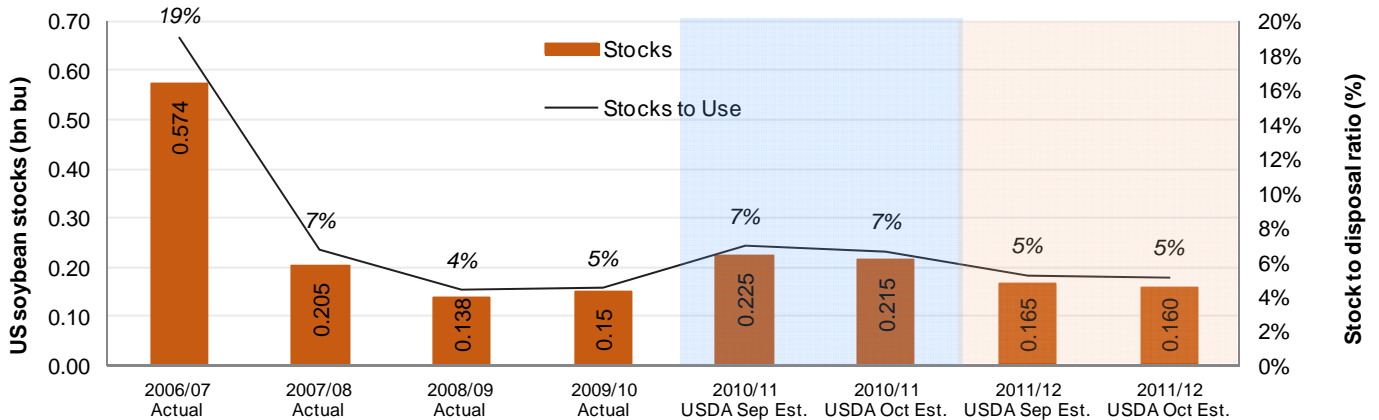


Figure 6: US soybean supplies



Source: USDA and CBA



Cotton

- This was another bearish WASDE report for the cotton market.
- The USDA unexpectedly revised higher its estimate of 2011/12 US cotton production to 16.61 million bales this month as a result of slightly higher yields. The USDA's estimate came in above private estimates which ranged from 15.8 to 16.5 million bales. According to the USDA, lower Texas production was more than offset by increases elsewhere, particularly Georgia. In addition, foreign mill demand has been reduced, causing a ½ million bale reduction to US export prospects. US cotton inventories for 2011/12 have been subsequently increased from 3.4 million bales to 3.9 million bales, well above trade estimates of 3.3 million. The US cotton stocks-to-use ratio has been revised higher to 25.5%, much higher than the 19% and 14% stock to use ratios observed in 2009/10 and 2010/11.
- World cotton stocks were also revised sharply higher. The USDA's 2011/12 world cotton forecasts include larger supplies, lower consumption, and higher ending stocks. World production is raised 1.2 million bales, as increases for Australia, India, Brazil, Pakistan, and Mali more than offset a reduction for China. Chinese production is lowered ½ million bales this month, but at 33.5 million bales, the 2011/12 crop remains significantly above the 30.5 million bale 2010/11 crop. World consumption is reduced 0.75%, reflecting sluggish demand and weaker forecasts for world economic growth. Global trade is reduced, including a ½ million bale reduction to Chinese imports. Global cotton stocks were revised 3 million tonnes higher to 54.8 million bales, up a massive 10 million bales from 2010/11 ending stocks. The world stocks to use ratio is forecast at 48%, up from 39% in 2010/11 and 37% in 2009/10. Stocks above 45% are not critically tight and do not support prices at US\$100/lb, in our view.

Figure 7: World cotton supplies

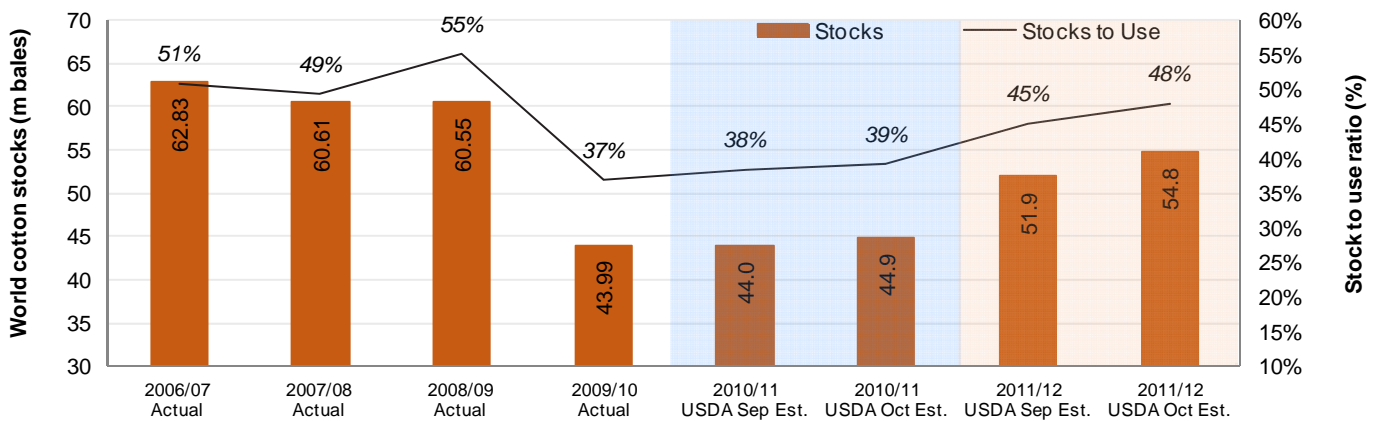
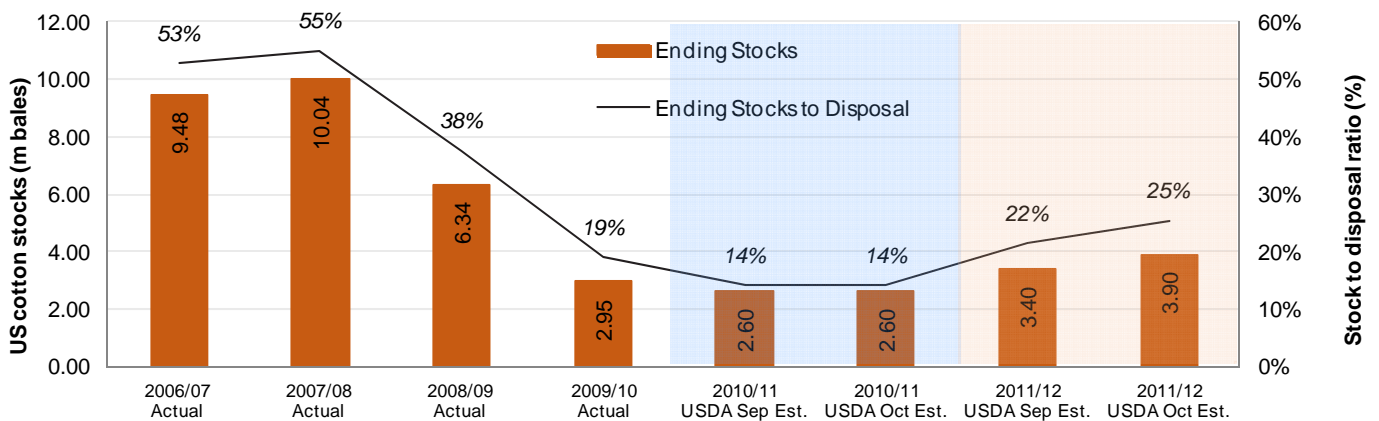


Figure 8: US cotton supplies



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 Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Yield	(bpa)	43.20	42.00	38.70	40.20	44.90	44.500	46.400	46.300	45.200	~	43.900
Area Planted	(m ac)	59.70	57.20	57.30	60.50	63.20	59.200	53.600	53.600	55.200	~	54.400
Area Harvested (Implied)	(m ac)	50.00	50.10	46.80	51.00	55.70	49.900	47.600	47.600	45.900	~	45.700
Production	(bn bu)	2.158	2.105	1.812	2.051	2.499	2.218	2.208	2.207	2.077	~	2.008
Consumption	(bn bu)	1.169	1.152	1.140	1.051	1.260	1.138	1.131	1.128	1.262	~	1.178
Exports	(bn bu)	1.066	1.003	0.908	1.263	1.015	0.879	1.289	1.289	1.025	~	0.975
Ending Stocks	(bn bu)	0.540	0.571	0.456	0.306	0.657	0.976	0.861	0.862	0.761	0.753	0.837
Ending Stocks to Disposal	(%)	24.2%	26.5%	22.3%	13.2%	28.9%	48.4%	35.6%	35.7%	33.3%	~	38.9%

US CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Yield	(bpa)	160.40	148.00	149.10	150.70	153.90	164.700	152.800	152.800	148.100	148.730	148.100
Area Planted	(m ac)	80.90	81.80	78.30	93.50	86.00	86.400	88.200	88.200	92.300	~	91.900
Area Harvested (Implied)	(m ac)	73.60	75.10	70.60	86.50	78.57	79.500	81.400	81.400	84.400	~	83.900
Production	(bn bu)	11.807	11.114	10.535	13.038	12.092	13.092	12.447	12.447	12.497	12.479	12.443
Consumption	(bn bu)	8.844	9.136	9.085	10.300	10.207	11.086	11.430	11.218	11.110	~	11.110
Feed & residual consumption	(bn bu)	6.158	6.155	5.595	5.913	5.182	5.125	5.000	4.803	4.700	~	4.700
Ethanol consumption	(bn bu)	1.323	1.603	2.119	3.049	3.709	4.591	5.020	5.020	5.000	~	5.000
Exports	(bn bu)	1.818	2.134	2.125	2.437	1.849	1.980	1.835	1.835	1.650	~	1.600
Ending Stocks	(bn bu)	2.114	1.967	1.304	1.624	1.673	1.708	0.920	1.128	0.672	0.804	0.866
Ending Stocks to Disposal	(%)	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	6.9%	8.6%	5.3%	~	6.8%

US SOYBEAN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Yield	(bpa)	42.20	43.00	42.70	41.70	39.70	44.000	43.500	43.500	41.800	42.060	41.500
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	~	73.700
Production	(bn bu)	3.124	3.063	3.188	2.677	2.967	3.359	3.329	3.329	3.085	3.102	3.060
Crush	(bn bu)	1.097	1.739	1.808	1.803	1.757	1.752	1.650	1.648	1.635	~	1.635
Seed use	(bn bu)	0.088	0.093	0.800	0.093	0.095	0.090	0.087	0.087	0.088	~	0.088
Exports	(bn bu)	1.097	0.940	1.116	1.159	1.279	1.499	1.495	1.500	1.415	~	1.375
Ending Stocks	(bn bu)	0.256	0.449	0.574	0.205	0.138	0.151	0.225	0.215	0.165	0.186	0.160
Ending Stocks to Disposal	(%)	11.2%	16.2%	19.1%	6.7%	4.4%	4.5%	7.0%	6.6%	5.3%	~	5.2%

US COTTON DATA		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Yield	(lb/ac)	855	831	814	879	813	777	812	812	807	~	809
Area Planted	(m ac)	13.66	14.25	15.27	10.83	9.47	9.150	10.970	10.970	14.720	~	14.720
Area Harvested	(m ac)	13.06	13.80	12.73	10.49	7.57	7.530	10.700	10.700	9.850	~	9.850
Production	(m bale)	23.25	23.89	21.59	19.21	12.82	12.190	18.100	18.100	16.560	16.14	16.610
Domestic Use	(m bale)	6.69	5.87	4.94	4.59	3.59	3.460	3.900	3.900	3.800	~	3.800
Exports	(m bale)	14.44	17.55	13.01	13.65	13.28	12.040	14.380	14.380	12.000	11.75	11.500
Ending Stocks	(m bale)	5.50	6.05	9.48	10.04	6.34	2.950	2.600	2.600	3.400	3.32	3.900
Ending Stocks to Disposal	(%)	26.0%	25.8%	52.8%	55.0%	37.6%	19.0%	14.2%	14.2%	21.5%	~	25.5%

US WHEAT STOCKS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Hard Winter	(bn bu)	0.193	0.215	0.165	0.138	0.254	0.385	0.386	0.386	0.272	~	0.298
Hard Spring	(bn bu)	0.159	0.132	0.117	0.068	0.142	0.234	0.185	0.185	0.158	~	0.157
Soft Red Winter	(bn bu)	0.088	0.106	0.109	0.055	0.171	0.242	0.170	0.171	0.197	~	0.244
White	(bn bu)	0.062	0.078	0.044	0.037	0.064	0.080	0.085	0.085	0.106	~	0.111
Durum	(bn bu)	0.038	0.040	0.022	0.008	0.025	0.035	0.035	0.035	0.028	~	0.028
<b>All US Wheat</b>	(bn bu)	<b>0.540</b>	<b>0.571</b>	<b>0.456</b>	<b>0.306</b>	<b>0.657</b>	<b>0.976</b>	<b>0.861</b>	<b>0.862</b>	<b>0.761</b>	<b>~</b>	<b>0.837</b>



## 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 Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(mt)	628.8	621.7	596.3	611.0	682.2	684.4	648.2	648.2	678.1	~	681.2
Consumption	(mt)	610.1	624.4	616.9	617.3	641.5	650.8	654.7	653.3	676.9	~	674.4
Feed consumption	(mt)	106.7	111.3	106.3	96.3	117.9	115.7	115.0	112.6	130.1	~	125.5
Exports	(mt)	111.2	116.2	111.2	117.2	143.7	135.8	130.2	131.1	131.9	~	135.3
Stocks	(mt)	151.4	147.8	127.0	124.7	167.8	200.8	193.3	195.6	194.6	194.8	202.4
Stocks to Use	(%)	24.8%	23.7%	20.6%	20.2%	26.2%	30.8%	29.5%	29.9%	28.7%	~	30.0%

WORLD CORN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(mt)	712.8	696.4	712.4	792.4	798.8	819.4	824.0	828.3	854.5	~	860.1
Consumption	(mt)	685.0	704.0	728.5	772.0	822.7	822.7	843.6	842.4	861.6	~	866.7
Feed consumption	(mt)	471.1	476.3	478.1	496.6	479.3	489.0	495.0	494.1	505.1	~	509.5
Exports	(mt)	78.2	80.9	93.8	95.6	84.5	96.8	89.5	89.4	93.2	~	94.2
Stocks	(mt)	131.3	123.0	108.7	129.9	149.2	143.9	124.3	129.8	117.4	120.5	123.2
Stocks to Use	(%)	19.2%	17.5%	14.9%	16.8%	19.1%	17.5%	14.7%	15.4%	13.6%	~	14.2%

WORLD COARSE GRAIN		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(mt)	1014.6	977.5	989.1	1078.7	1110.2	1116.2	1095.2	1099.0	1131.2	~	1136.3
Consumption	(mt)	975.7	991.6	1016.1	1056.5	1079.7	1114.6	1127.7	1126.2	1144.1	~	1148.5
Exports	(mt)	101.6	107.1	117.4	127.1	113.0	122.95	114.61	114.2	116.46	~	117.1
Stocks	(mt)	178.8	163.7	138.4	161.7	195.9	195.39	162.90	168.2	149.96	~	156.0
Stocks to Use	(%)	18.3%	16.5%	13.6%	15.3%	18.1%	17.5%	14.4%	14.9%	13.1%	~	13.6%

WORLD SOYBEANS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(mt)	216.0	220.4	236.6	221.2	212.0	260.8	264.1	264.1	259.0	~	258.6
Consumption (total)	(mt)	205.4	215.2	224.5	229.7	221.3	238.2	252.6	251.2	262.2	~	261.8
Exports	(mt)	64.5	64.0	71.5	79.6	76.8	92.59	91.30	91.7	98.30	~	97.7
Stocks	(mt)	48.2	52.8	62.7	51.4	42.6	59.38	68.82	69.3	62.55	63.35	63.0
Stocks to Use	(%)	23.5%	24.5%	27.9%	22.4%	19.2%	24.9%	27.2%	27.6%	23.9%	~	24.1%

WORLD OILSEEDS		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(mt)	381.29	391.65	403.33	392.22	396.31	442.62	452.88	452.78	452.98	~	453.47
Consumption (crush only)	(mt)	302.09	318.27	328.36	339.09	338.66	357.47	375.35	374.22	389.67	~	389.27
Exports	(mt)	74.56	76.04	83.73	92.67	94.16	108.07	106.64	107.01	114.43	~	114.07
Stocks	(mt)	56.38	64.31	72.54	61.68	54.97	71.22	79.97	80.0	72.56	~	73.0
Stocks to Use	(%)	18.7%	20.2%	22.1%	18.2%	16.2%	19.9%	21.3%	21.4%	18.6%	~	18.8%

WORLD COTTON		2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 USDA Sep Est.	2010/11 USDA Oct Est.	2011/12 USDA Sep Est.	2011/12 Avg Trade Est.	2011/12 USDA Oct Est.
Production	(m bale)	120.39	117.69	121.99	119.91	107.10	101.41	114.56	115.08	122.96	~	124.19
Consumption	(m bale)	108.82	116.11	123.47	122.97	109.95	119.11	114.39	114.32	115.22	~	114.38
Exports	(m bale)	35.02	44.53	37.12	38.47	30.07	35.50	35.38	35.44	37.30	~	36.51
Stocks	(m bale)	54.07	60.38	62.83	60.61	60.55	43.99	43.97	44.9	51.91	~	54.8
Stocks to Use	(%)	49.7%	52.0%	50.9%	49.3%	55.1%	36.9%	38.4%	39.2%	45.1%	~	47.9%



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