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Weekly Outlook: A Rebound in World Grain Production Expected

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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The USDA's report of World Agricultural Supply and Demand Estimates (WASDE) released on May 11 refocused the market's attention on world crop production and the implications for re-building U.S. and world stocks. The report reflects prospects for some modest increase in world feed grain stocks and prospects for maintaining world wheat and soybean stocks. However, substantial uncertainty remains.

World and U.S. feed grain production is expected to be record large in 2011-12, nearly 6 percent more than produced in 2010-11. Substantial year-over-year increases in production are expected in the U.S., Argentina, Europe, Russia, Ukraine, Mexico, and China. Much of the increase (84 percent) is expected to be in corn production. While world coarse grain consumption is expected to increase by nearly 2 percent during the year ahead, world stocks at the end of the 2011-12 marketing year are expected to be modestly larger than stocks at the beginning of the year. Those stocks, however, are expected to be substantially smaller than at the end of the 2008-09 and 2009-10 marketing years.

For the U.S., the USDA projects a record large corn crop of 13.505 billion bushels in 2011. That projection reflects March corn planting intentions and a trend yield adjusted for planting progress. There is considerable uncertainty about corn acreage and yield due to late planting in many areas and extensive flooding along the southern Mississippi River as well as tributaries to the Mississippi. Some reshuffling of acreage from March intentions is expected based on rapid planting in some western areas, substantial delays in other areas, and the loss of some acreage.

Domestic consumption of corn is expected to stagnate in the year ahead as livestock numbers stabilize and ethanol consumption begins to plateau. Exports are expected to decline to a nine year low of 1.8 billion bushels as a result of larger feed grain crops in the rest of the world. Year ending stocks of corn are projected at 900 million bushels, or 6.7 percent of projected consumption. The 2011-12 average farm price of corn is projected in a range of \$5.50 to \$6.50 compared to the projection of \$5.10 to \$5.40 for the current year. The average farm price for the current year reflects very aggressive contracting of corn sales at relatively low prices. The USDA's estimates of average monthly prices received from September 2010 through March 2011 were well below the average spot cash prices in those months.

For wheat, the USDA projects a 3 percent increase in world production, with production expected to be well below the record levels of 2008-09 and 2009-10. Year-over-year increases are expected in India,

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Russia, Ukraine, Kazakhstan, Europe, and Canada. The largest decline is expected in the U.S. The National Agricultural Statistics Service (NASSA) forecasts the U.S. winter wheat crop at 1.424 billion bushels, 61 million smaller than the 2010 crop. Based on planting intentions and trend yield, the spring wheat crop is expected to total 619 million bushels, 104 million smaller than the 2010 crop. Production is still very uncertain due to drought conditions in some hard red winter wheat areas and delayed planting in some spring wheat areas.

The USDA projects a 50 million bushel increase in wheat feeding this summer and a 225 million bushel reduction in wheat exports during the year ahead. Year-ending stocks are expected to decline from 839 million bushels on June 1, 2011 to 702 million on June 1, 2012. The 2011-12 marketing year average price is projected in a range of \$6.80 to \$8.20, compared to an average of \$5.65 for the year just ending. Much of the 2010 crop was sold before prices moved sharply higher.

World soybean production is expected to be record large in 2011-12 (0.5 percent larger than the 2010-11 crop), although the U.S. crop is just being planted and the South American crop will not be planted for several months. Soybean consumption in China is expected to increase by 8 percent and world stocks are expected to decline modestly by the end of the 2011-12 marketing year.

Based on March planting intentions and a trend yield, the 2011 U.S. soybean crop is projected at 3.285 billion bushels, 44 million smaller than the 2010 crop. Consumption is expected to be 15 million bushels less than during the current year, resulting in a 10 million bushel year-over-year decline in year ending stocks. The 2011-12 marketing year average price is projected in a range of \$12.00 to \$14.00, compared to an average of \$11.40 for the current year.

Early projections of adequate U.S. and world supplies at current price levels resulted in price weakness following the release of the USDA report. Now, the market will monitor crop development to see if the projections materialize.