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Weekly Outlook: Renewed Focus on U.S. Crop Exports

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Crop markets continue to be heavily influenced by the prospective size of the U.S. corn and soybean crops, with the USDA's September 12 *Crop Production* report to provide an important update on prospective crop sizes. With prospects for very small crops, the potential strength of export demand for wheat, corn, and soybeans is of increasing importance as crop problems have also been experienced in other parts of the world.

U.S. wheat supplies are not in short supply due to the 13.5 percent increase in production this year. Since exports account for about 50 percent of the consumption of that crop in most years, however, demand in that sector is important for determining prices. The USDA has projected 2012-13 marketing year exports at 1.2 billion bushels, 150 million more than exports of last year. U.S. exports are expected to benefit from the 6 percent decline in production in the rest of the world. In particular, the sharp declines in production in Russia and Kazakhstan are expected to reduce combined exports from those two countries by nearly 650 million bushels this year. The market continues to expect some export restriction to be announced as a result of smaller supplies in that part of the world.

Through the first 12 weeks of the current marketing year, U.S. wheat exports and export sales lagged the pace needed to reach the USDA projection for the year. Both shipments and new sales, however, were relatively large during the last week of August, exceeding the average weekly pace required to meet projections. With on-going concerns about available supplies in the Black Sea region, recent large purchases by Egypt, and prospects for a smaller crop in Australia, there is renewed optimism that U.S. exports can reach, or perhaps exceed, the USDA projection. Those prospects would be bolstered by any export restrictions from the Black Sea region.

For corn, the 2011-12 marketing year ended on a very weak note for exports. Based on Census Bureau estimates through June and export inspection estimates through August 30, it appears that marketing year exports will total about 1.535 billion bushels, 15 million below the already very small forecast of 1.55 billion. The USDA has forecast 2012-13 marketing year exports at 1.3 billion bushels as exports will be limited by the small U.S. crop, the 25 percent increase in the Brazilian corn harvest earlier this year, prospects for larger feed grain crops in Canada and Mexico, and smaller imports by China. U.S. exports may receive some support from smaller crops and reduced exports from Russia and the Ukraine. The size of the 2013 corn crops in South America will be important for U.S. export prospects during the last

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half of the marketing year.

As of August 30, the USDA reported corn export sales to be delivered during the 2012-13 marketing year at 321 million bushels. With carryover sales of about 60 million bushels from the 2011-12 marketing year, total sales are still about 145 million bushels less than sales at the same time last year. The pace of sales of U.S. corn needs to move above 20 million bushels per week, compared to the most recent 4-week average of 6.4 million, in order to be on track to reach the USDA projection.

For soybeans, the 2011-12 marketing year ended on a strong note for exports. Based on Census Bureau estimates through June and export inspection estimates through August 30, it appears that marketing year exports will total about 1.36 billion bushels, 10 million above the USDA forecast. The USDA has forecast 2012-13 marketing year exports at only 1.1 billion bushels, reflecting this year's small harvest. The short U.S. crop comes on the heels of a 660 million bushel year-over-year reduction in combined production in Argentina and Brazil.

As of August 30, the USDA reported U.S. soybean export sales for delivery during the 2012-13 marketing year at 664 million bushels. Nearly 65 percent of those sales were to China and 26 percent were to unknown destinations. Carryover sales from the 2011-12 marketing year will be nearly 70 million bushels, so export commitments total about 734 million bushels, two-thirds of the USDA projection for the marketing year. Weekly sales that averaged 25.4 million bushels for the four weeks ended August 30 now need to average only 7 million bushels per week to bring sales to 1.1 billion bushels.

The export demand for corn and wheat is important for prices of those commodities, but the impact is somewhat muted since corn exports are now a relatively small percentage of the total consumption of U.S. corn and domestic wheat supplies are relatively more abundant. The soybean production shortfalls experienced in 2012, in combination with continued large purchases by China, make the soybean export situation more dicey. The large South American soybean crop expected in 2013 will be needed to avoid a severe rationing situation next spring and summer.