

Short Term Agricultural Outlook

Variability and Volatility

Pete Riley

USDA/Farm Service Agency

Economic and Policy Analysis Staff

Pete.Riley@wdc.usda.gov

September 20, 2012

Main Themes

- Drought stress
- Mixed end user response
- Strong price impacts
- Supplies recover with normal weather in 2013

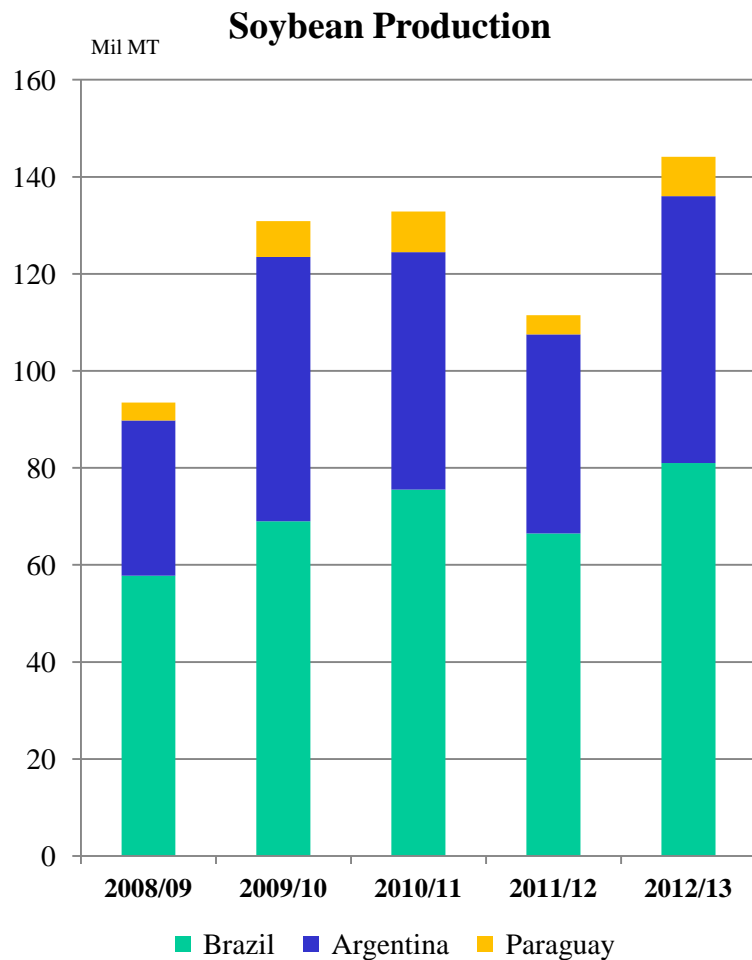
Market Snapshot

Current Cash vs. Year Ago and 5-Year Average

		5-year avg.	2011	2012
Corn	bu.	\$4.51	\$6.98	\$7.65
Soybeans	bu.	\$10.40	\$13.12	\$16.92
Hard red winter wheat	bu.	\$6.32	\$7.24	\$8.79
Up Cotton	lb.	\$0.73	\$1.07	\$0.69
Soybean oil	lb.	\$0.42	\$0.56	\$0.55
Soybean meal	ton	\$338.75	\$344.30	\$549.00
Hay (alfalfa)	ton	\$122.00	\$155.00	\$215.00
DDG	ton	\$128.02	\$200.14	\$291.14

Quotes. corn, soybeans, wheat from DTN. Others from AMS: soyoil and soymeal, Central Illinois, Cotton, 7 market areas; Hay, NE Nebraska, DDG is multi state average.

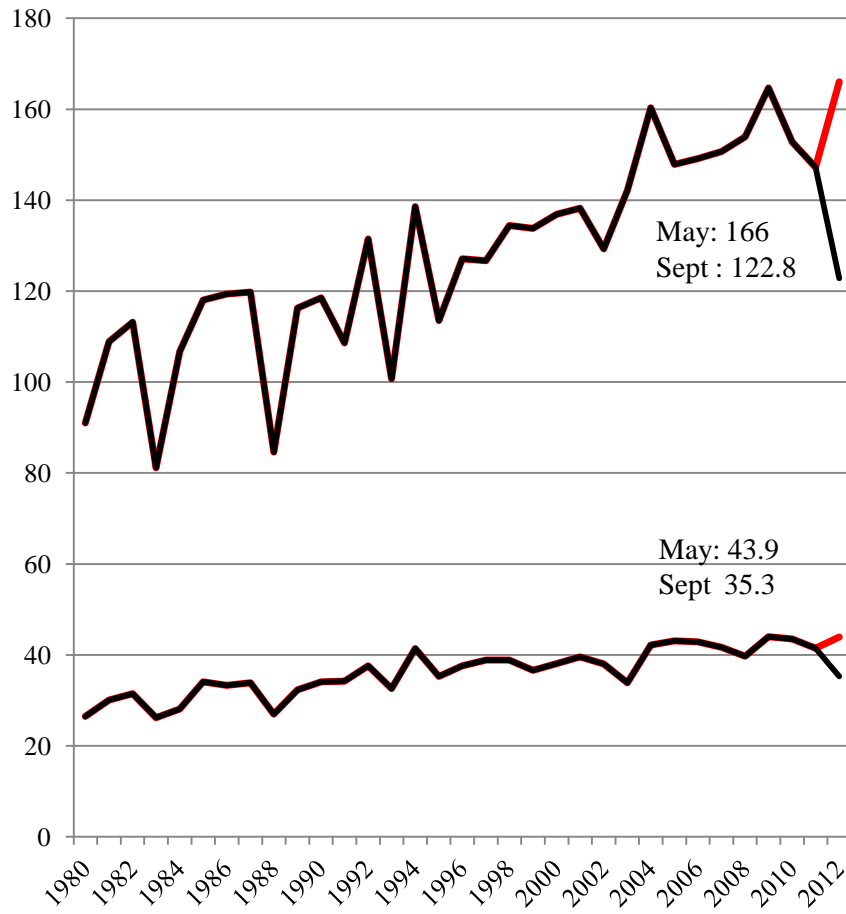
South American Crop Problems Preceded U.S. Drought and Tightened World Oilseed Market



- South America 2011/12 production declined by 21 million metric tons (785 million bushels).
- Global demand led by China continued strong, pushing up U.S. exports of soybeans and products.
- As the U.S. balance sheet tightened, prices soared.
- Cash soybean prices averaged \$16.50 in July and August, up from \$11 in December.
- Soybean meal also advanced to record highs, well over \$500 per ton, compared with \$275 in December.
- Soybean oil prices were more subdued, on larger stocks and abundant palm oil supplies.

Corn Production Down 4 Billion Bushels From May, Soybeans Down 600 Million *

Corn and Soybean Yields, 1980-2012F



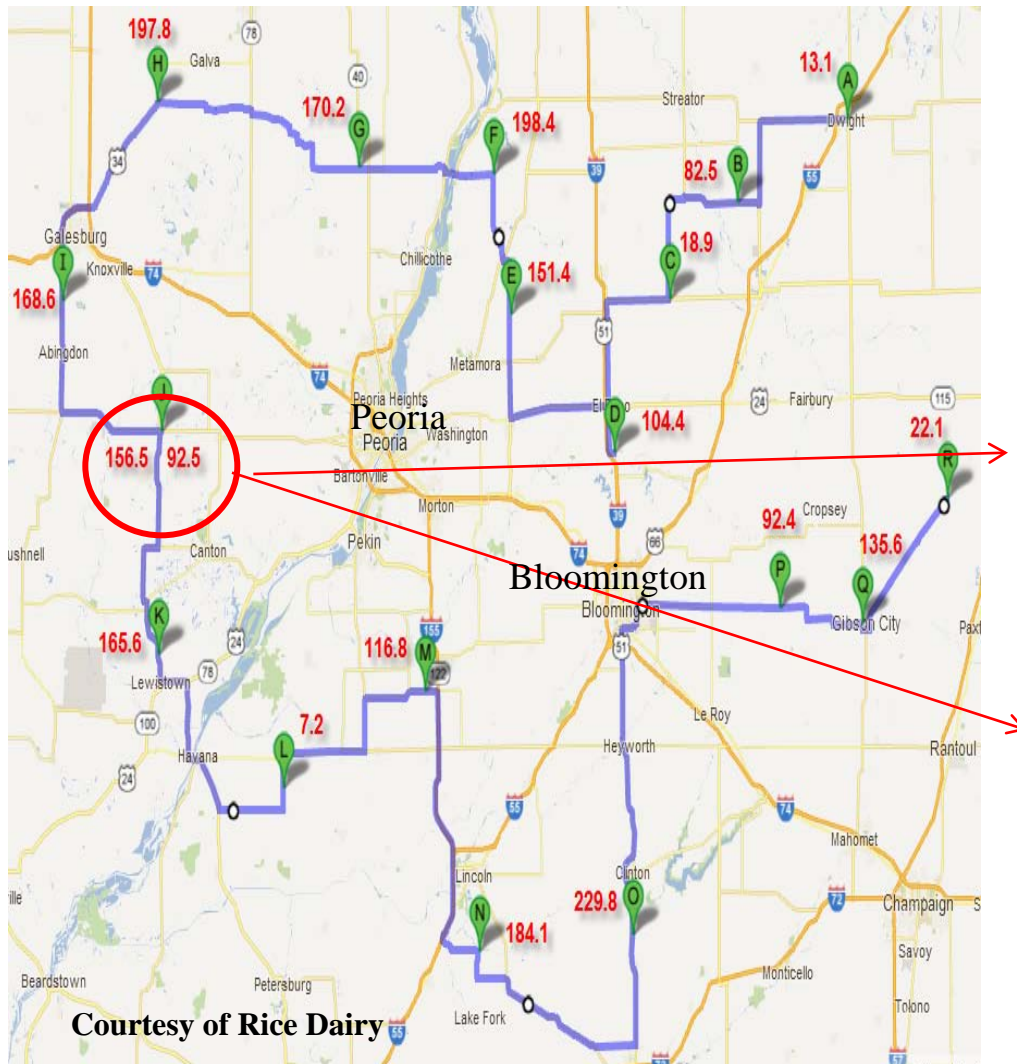
- End user hopes for replenished supplies and low prices gone.
- Magnitude of drought shocked most buyers, and by the time they were aware, it was too late to hedge.
- Corn yield currently forecast 43.2 bushels below May, and the lowest since 1995/96.
- Prospective corn crop is down 1.6 bil. bu. (13 percent) from 2011, and the lowest since 2006/07 when acreage was much lower.
- Soybean yield cut 8.6 bushels from initial May forecast, and the lowest since 2003/04.
- Soybean production forecast down 420 mil. bu.(14 percent) from 2011 and the lowest since 2003/04.

*USDA forecasts as of September 2012

Extreme Variability Marks the 2012 Corn Crop

Sampling results from a mid-summer tour of central Illinois

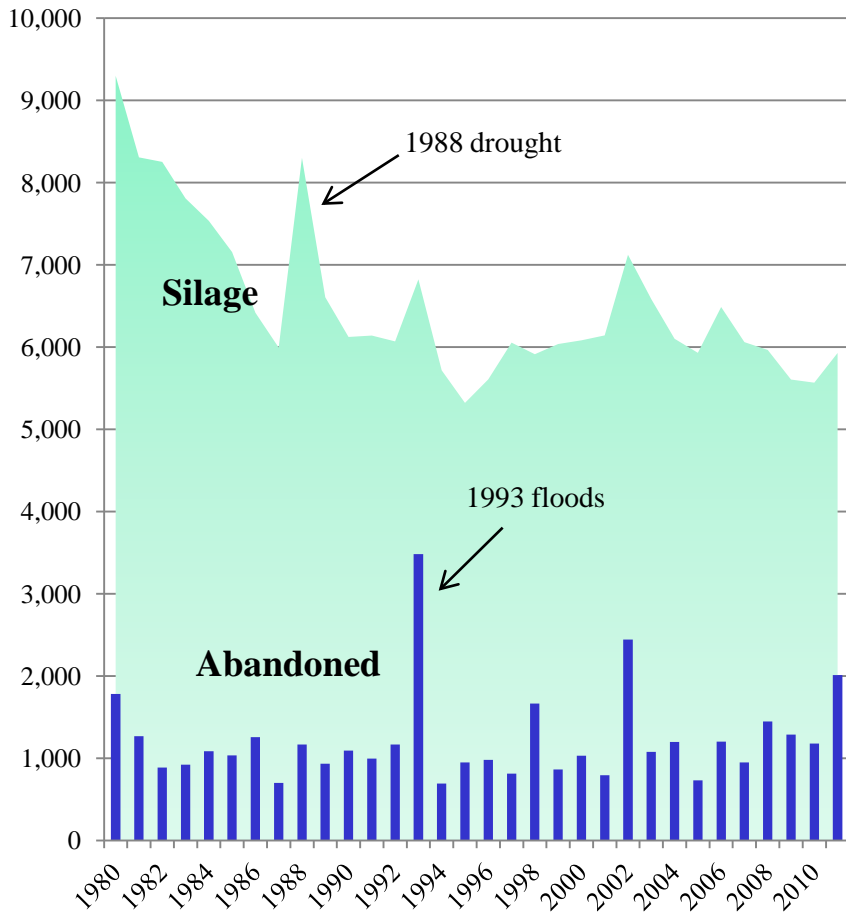
Pictures are from fields across the road from each other



Another Piece of the Puzzle: 2012 Harvested Acres?

Was it cut for silage, grazed out, or just abandoned?

Corn Area Not Harvested for Grain, 1980-2011



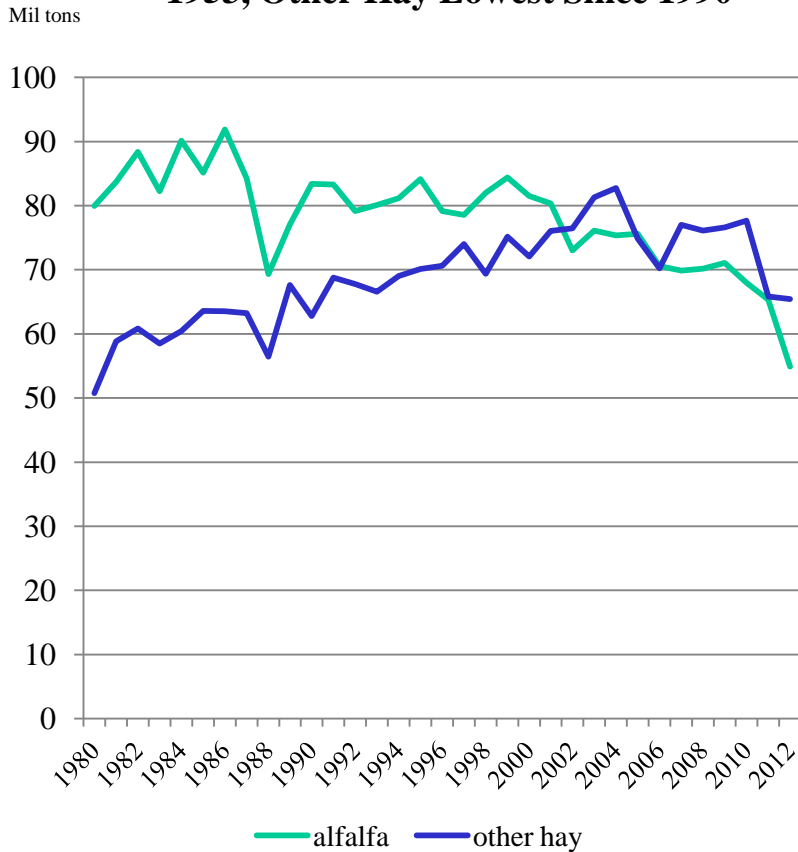
- At current yields, if area shrinks 1 mil. acres, production falls 135 mil. bu.; 2 mil. acres cuts 270 mil bu.
- Nitrate concentration in drought corn stalks adds risk to grazing, even ensiling.
- Many cash grain farms no longer have equipment for chopping.
- Quality concerns widespread.
- *Would you harvest this corn that would likely yield under 10 bushels?*



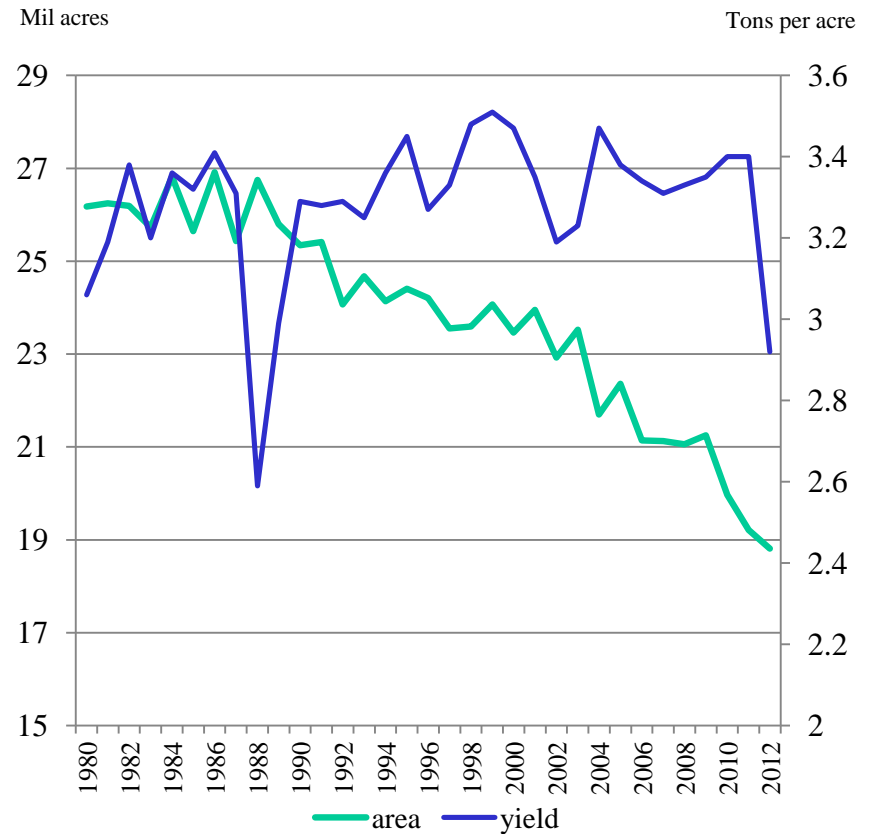
Drought Had Severe Impact on Forage

But Small Alfalfa Crop Also Reflects Declining Area with Shifts to Other Crops

Alfalfa Production Lowest Since 1953, Other Hay Lowest Since 1990



Alfalfa Area Lowest Since 1949, Yield Lowest Since 1988



Projected Corn Use To Drop Sharply in 2012/13

Sharp Reductions in Feed & Residual and Exports Started in 2011/12

- In the global context, the U.S. accounts for most of the adjustment, down 800 million bu. (20 mil. MT) year to year.
- Foreign corn use rises 12 mil. MT, with foreign production record high for the 3rd consecutive year.
- However, foreign consumption excluding China is flat.

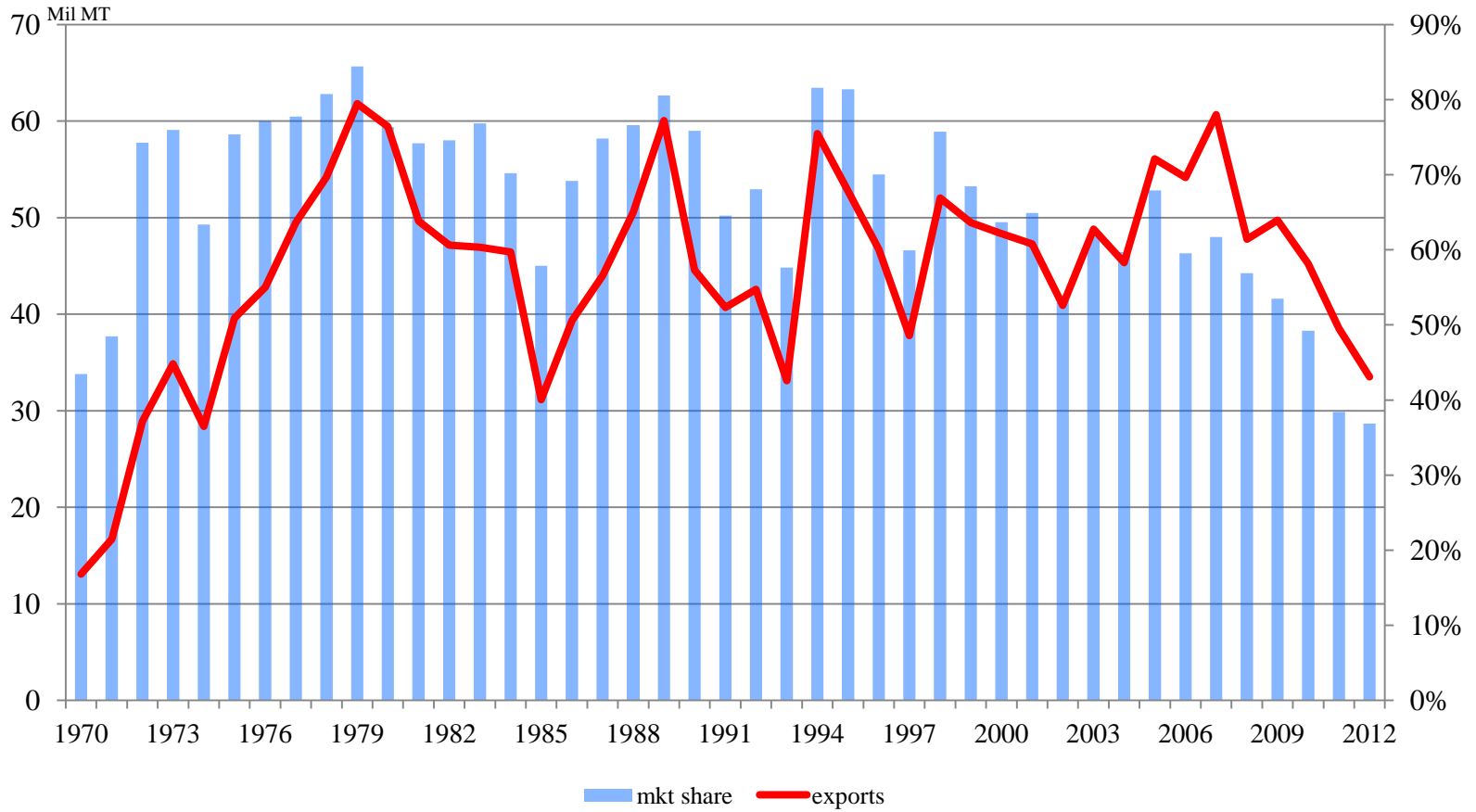
U.S. Corn Use by Sector (mil bu.)

	2010/11	2011/12	2012/13	change
Ethanol	5,021	5,000	4,500	-500
Exports	1,834	1,540	1,250	-290
Feed/res.	4,793	4,400	4,150	-250
End stocks	1,128	1,181	733	-448

U.S. Corn Exports and Market Share Continue to Shrink

High Prices Have Generated Strong Competitor Response

Exports lowest since 1993 flood year, market share lowest since at least 1970

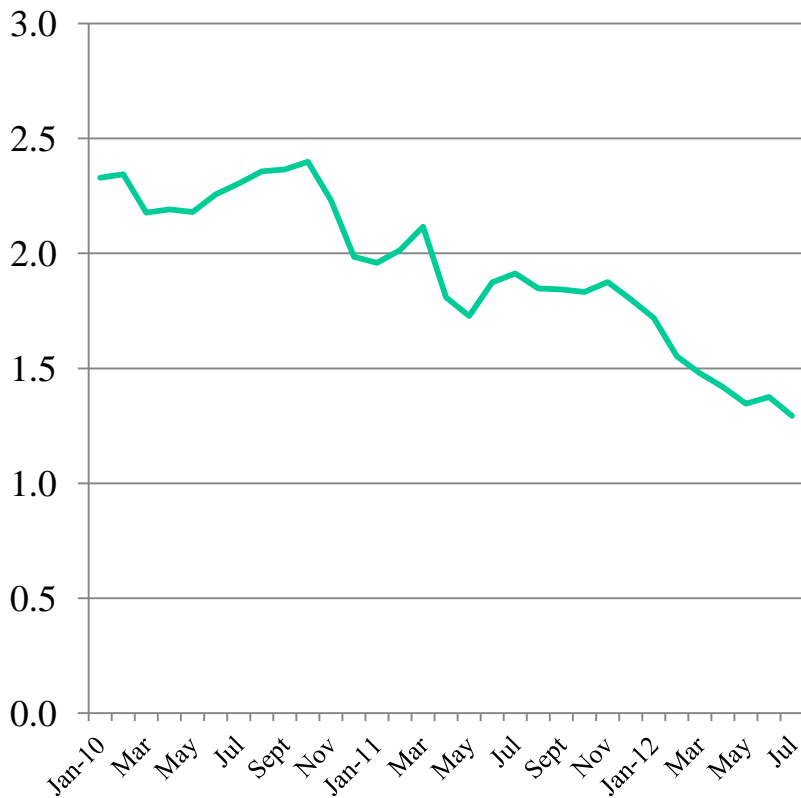


Stress on Livestock, Dairy and Poultry

Critical Question: Timing of Product Price Increases and Drop in Feed Costs

Milk-feed ratio hit record low in July

(series dates from 1939)

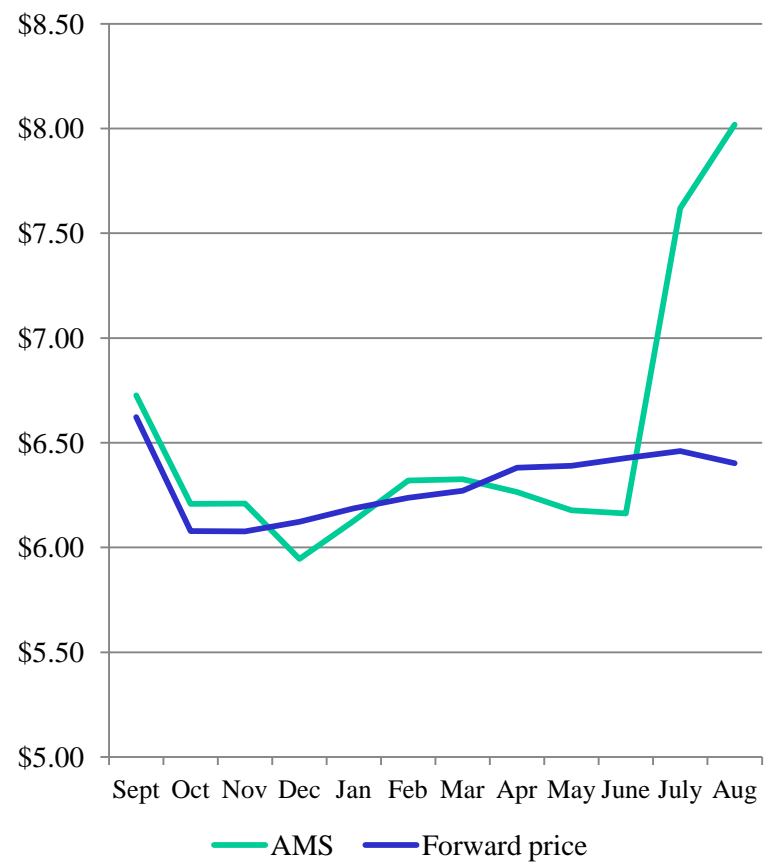


Liquidation or Thinning? Can producers hold on?

- Cash hog prices currently under \$50 per cwt., down about \$15 (23 percent) from year ago.
- Beef steer prices just over \$120 cwt, already up modestly from year ago on shrinking herd.
- Broiler prices rising toward 90 cents/lb, up moderately from year ago, but not keeping pace with soaring protein costs.
- Meat export growth will remain vital with slipping domestic consumption.

Ethanol Sector May Be Better Covered Than Most Other Users

AMS Spot Bids vs. Est. Forward Contracted, 2011/12



- Extensive forward pricing reduced sector's exposure to spike in corn price this summer.
- Business model includes limited storage and reliance on farmer deliveries year round.
- Most plants offer bids for future delivery several months out.
- The July NASS farm price of \$7.14 is consistent with a national average cash price of \$7.61 and average ethanol bids of \$6.46 at a 40 percent share.
- A reduction of \$1 per bu. corn costs would imply a variable cost reduction of 35-40 cents.

Sources: AMS National Weekly Ethanol Summary and Forward price bids collected from selected ethanol plant web sites.

Prices Currently Softening on Harvest Pressure

Record Early Harvest and Rush to Dump Low Quality Corn

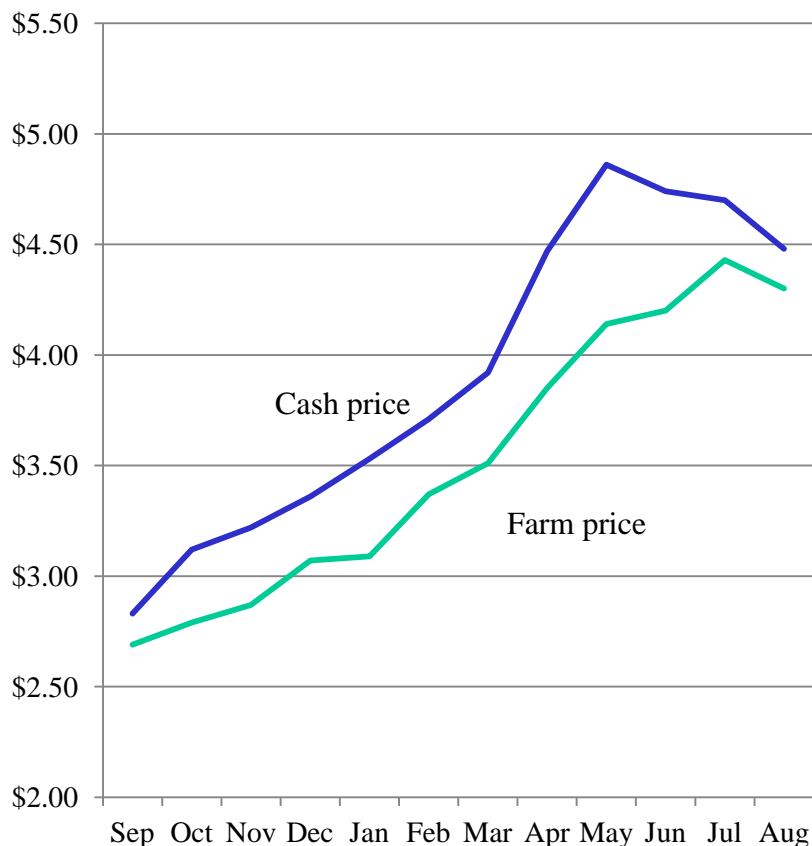


- 2012 corn is generally poor quality (low test weight, molds, and aflatoxin risk).
- With no carry in futures prices, strong incentives exist to move corn into the market—only store the good corn on farm.
- An early seasonal low is expected, to be followed by a scramble to obtain quality corn for those end users still standing.
- This is likely to run up prices later in the year, along with tendency to for the market to rise in February to bid in new crop acreage.

Record Season Average Prices Forecast for Wheat, Corn, and Soybeans

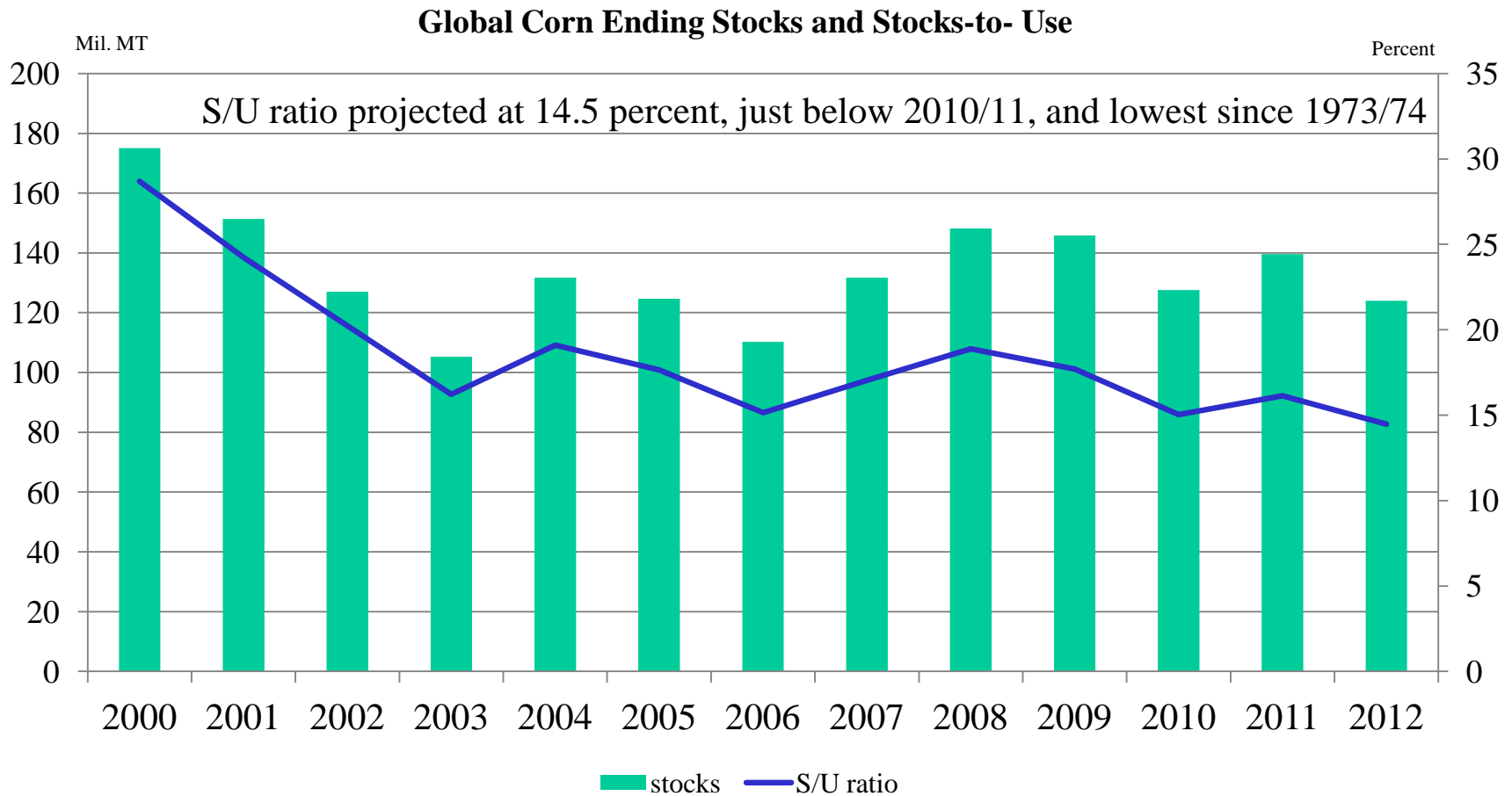
Possible Analog Year for Corn
Price Pattern: 1995/96

USDA price forecasts as of September 2012 for farm prices weighted by marketings; cash prices may be higher.



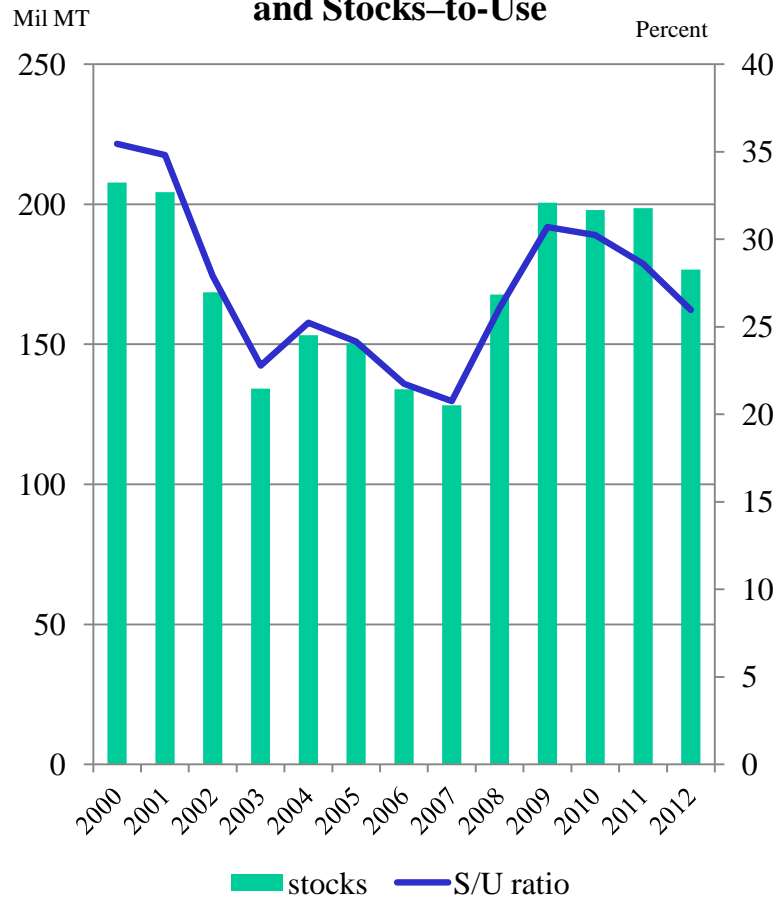
		2011/12	2012/13
All wheat	bu.	\$7.24	\$8.10
Corn	bu.	\$6.25	\$7.90
Soybeans	bu.	\$12.45	\$16.00
Rice , long grain	cwt.	\$13.40	\$13.00
Up cotton	lb.	\$0.885	\$0.70

Global Corn Tightening in 2012/13 Despite Second Largest Global Crop Ever

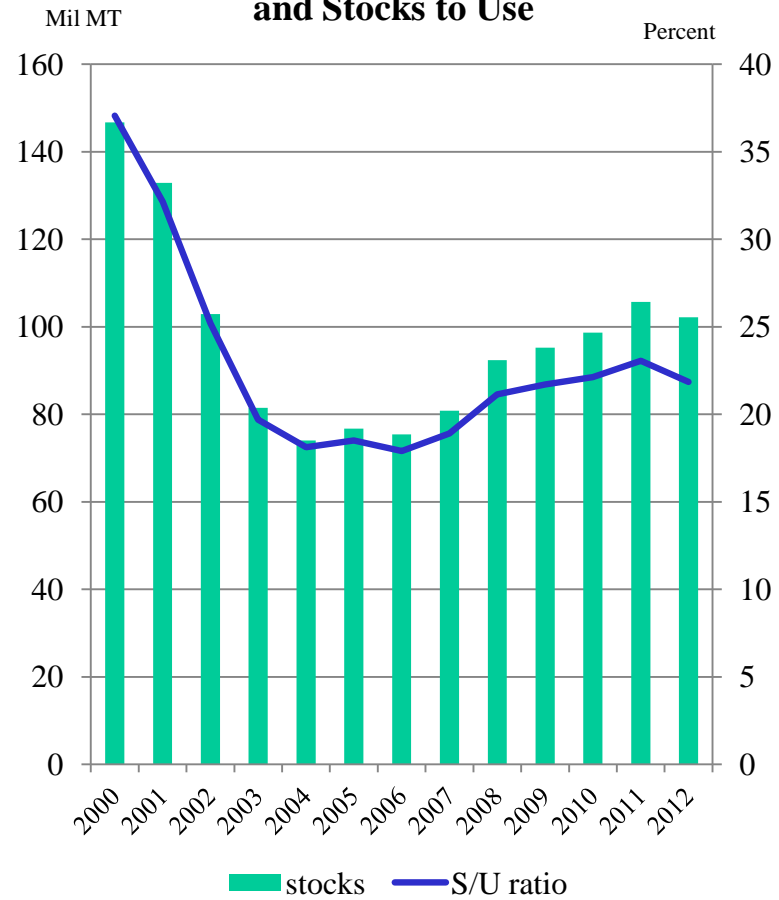


Global Wheat Market to Tighten Rice Relatively Abundant

World Wheat Ending Stocks and Stocks-to-Use

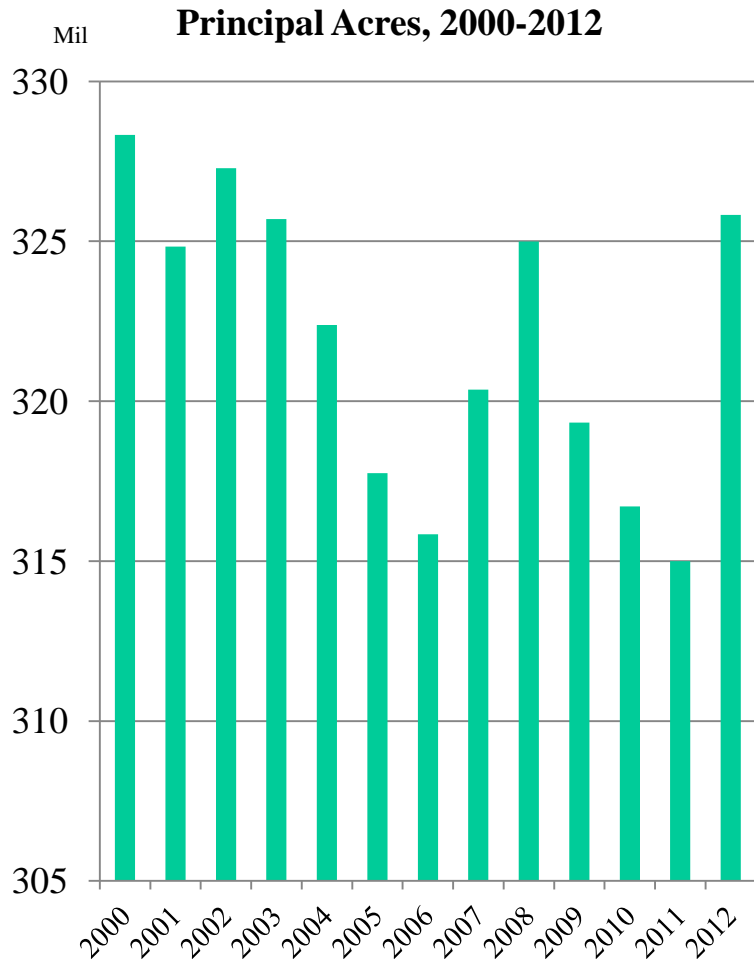


World Rice Ending Stocks and Stocks to Use



U.S. Planted Area for 2013?

Still Large But Likely Some Decline



- Total plantings jumped nearly 11 million acres in 2012 on strong market incentives and very favorable weather.
- Despite likelihood of continued price incentives, some decline expected on normal weather assumption.
- Small net reduction in CRP acres from recent expiry and new sign-up, but limited potential for crops.
- Almost impossible to repeat 96 mil. acres plus for corn without perfect planting conditions, and expect some reduction in corn on corn.
- Soybean area will be sensitive to South American prospects.
- Wheat prospects bolstered by good export potential; rain in Plains is essential.

Risk Factors Ahead

Nearby

- Changes in crop estimates
- Possible corn quality discounts or premiums
- Availability of winter wheat grazing/other forage and pasture
- South American crop rebound
- Brazilian export logistics
- Potential spillover from corn into other markets

2013 Crop year

- Acreage prospects
- Weather
- Extent of livestock rebound
- Ethanol RFS status, import and export uncertainty
- Extent of export recovery

Light at the End of the Tunnel or Another Train Ahead?

