

Crop Marketing Comments: Chuck Danehower - U.T. Extension (6/29/12)
Special Report: Acreage and Grain Stocks Report

USDA released the June 29 Acreage Report and Quarterly Grain Stocks Report today. Both of these reports are based on conditions as of June 1. Today's reports have been called neutral to bullish for corn, neutral for cotton, bearish for soybeans and mixed for wheat. That said, there were no real surprises in today's USDA reports and with the reports out of the way the market will turn its focus on the weather and the weakening U.S. Dollar. Drought in the lower half to a third of the Midwest and the Mid-South continues to intensify with no real short term relief in sight. European leaders agree to use bailout funds to aid banks and that saw a surge in the Euro and a weakening U.S. Dollar with the Dollar in early trading at 81.69, down 1.32. Corn acreage at 96.4 million acres was 440,000 acres higher than the average trade guess and at the high end of estimates and 540,000 acres higher than the March 30 intentions. This would be the highest acreage since 1937. More importantly, harvested acreage is estimated at 88.85 million acres, a little higher abandonment number than earlier thought and less than the 89.1 million acres that USDA has been using. All cotton acreage at 12.6 million acres was 520,000 acres lower than the March 30 intentions, but was within the range of guesses. Soybean acreage at 76.1 million acres was 505,000 acres more than the average trade guess and 2.18 million acres higher than the March 30 estimate. It would be the third highest on record. All wheat acreage was at the low end of expectations and at 56.017 million acres were 830,000 lower than the average trade guess and 109,000 acres higher than the March 30 intentions. These acreage numbers are the ones at least for now that the market will be trading. Acreage changes since June 1 have occurred, most likely in abandoned acres, but will not fully come to light until a firmer number comes probably in the September USDA report. Acreage then will be based from FSA certified acres as well as surveys.

There were no major surprises in the Quarterly Grains Stocks Report as it is called neutral to bullish for corn, bearish soybeans and neutral to bearish wheat. Corn ending stocks were reported 33.5 million bushels lower than the average trade guess. Based on this stocks data, old crop ending stocks in the July report may be adjusted downward. Soybean stocks were 27.5 million bushels higher than the average trade guess, and above the top end of expectations. Unless exports are increased in the July USDA report, old crop ending stocks reported in July could be around 200 million bushels. Wheat stocks ended their marketing year at 742.7 million bushels, 14.7 million bushels higher than reported in June's USDA Supply & Demand report and 16.7 million bushels higher than the average trade guess.

The tables below summarize the Acreage report in the U.S. and Tennessee and the Quarterly Grain Stocks report.

	U.S.					Tennessee				
	Million Acres					1,000 Acres				
	2012 6/29/12	2012 3/31/12	Change	2011	Change	2012 6/29/12	2012 3/31/12	Change	2011	Change
Corn	96.405	95.864	+0.54	91.921	+4.5	930	950	-20	790	+140
Cotton	12.635	13.155	-0.52	14.735	-2.1	380	420	-40	495	-115
Soybeans	76.080	73.902	+2.18	74.976	+1.1	1330	1240	+90	1290	+40
Wheat	56.017	55.908	+0.11	54.409	+1.6	420	440	-20	420	--

Quarterly Grain Stocks (1,000 bushels)					
	2012	2011/12			
	June 1	March 1	December 1	September 1	June 1
Corn	3,148,540	6,023,356	9,647,466	1,127,645	3,669,838
Soybeans	667,475	1,374,488	2,369,885	215,013	619,283
Wheat	742,712	1,199,345	1,662,718	2,146,669	862,246

Biotech corn varieties nationwide overall were the same as last year at 88% of the corn planted. The stacked gene varieties were 3% higher than last year at the expense of the only insect resistance and only herbicide resistant varieties. Tennessee corn acreage will be the highest in 25 years.

In Tennessee, 97% of the cotton planted is a biotech variety compared to 98% last year and 94% nationwide. Tennessee growers have planted 84% of the cotton crop in a stacked gene variety with both insect and herbicide resistant genes.

Nationwide, herbicide resistant varieties account for 93% of soybeans planted compared to 94% last year. Double crop soybeans are estimated to account for 7% or 5.3 million acres nationwide. In Tennessee, the double crop soybean acreage is estimated at 31% or 412,300 acres.

The next USDA Supply and Demand report will be released on Wednesday, July 11 and will update the fundamental numbers based on the Acreage Report and Quarterly Stocks Reports. The supply and demand numbers below will not reflect an old crop stocks change, but will look at the effects of yield on ending stocks with today's acreage. I have added a line to show what the effects might be in the July 11 report.

<u>Corn</u>	-----Supply/Demand -----			
	<u>2011/12</u> <u>Projected</u>	<u>Bearish</u>	<u>2012/13</u> <u>Expected</u>	<u>Bullish</u>
Beginning Stocks(MB)	1,128	851	851	851
Acres (MPA)	91.9	96.4	96.4	96.4
Acres (MHA)	84.0	88.9	88.9	88.9
Yield	147.2	160	157	150
Imports	20	15	15	15
Supply(M. Bu)	13,506	15090	14823	14201
Use:				
Feed	4550	5450	5450	5450
Ethanol	5050	5000	5000	5000
Food, Seed	1405	1425	1425	1425
Exports	1650	1900	1900	1900
Total Use	12655	13775	13775	13775
Ending Stocks	851	1315	1048	426
Stocks/Use	6.7%	9.6%	7.6%	3.1%
Ending Stocks				
With adjustment (-33.5mb)	818	1282	1015	393
Stocks/Use	6.4%	9.3%	7.4%	2.9%

If USDA adjusts downward by 33.5 million bushels the ending stocks for this current marketing year, we could see a carryover of 818 million bushels for 2010/11. I would not however be surprised to see a somewhat corresponding adjustment made in exports hence leaving old crop ending stocks where they are. Using current trade estimates for a yield of 157 bushels/acre in the expected column would result in a carryover of a little over a billion bushels. If yields have not deteriorated as much as thought and 160 bushels/acre nationwide can be achieved then stocks would improve to 1.315 billion bushels. If conditions continue to get worse and 150 bushels/acre are made then stocks tighten considerably to just 3.1% stocks to use. These assumptions are based on usage remaining constant which if supplies are reduced, most likely demand will be reduced also. Prices will stay volatile and may have a tendency to put in highs before it is obvious that the weather market is over. Corn prices at mid-day traded up 5 ¾ cents at \$6.32 bushel for September. After today, the market will return to watching the weather and crop condition reports. I am currently 50% forward priced on the crop and will look closely at making pricing decisions using put options to set a floor.

Cotton

-----Supply/Demand -----

	<u>2011/12</u>		<u>2012/13</u>	
		<u>Bearish</u>	<u>Expected</u>	<u>Bullish</u>
Beginning Stocks (MB)	2.60	3.40	3.40	3.40
Acres (MA Planted)	14.74	12.6	12.6	12.6
Acres (MA Harvested)	9.46	10.05	10.05	10.05
Yield (lbs.)	790	800	777	765
Imports	0.02	0.01	0.01	0.01
Supply(MB)	18.19	20.16	19.68	19.43
Use:				
Domestic	3.40	3.20	3.20	3.20
Exports	11.60	11.80	11.80	11.80
Ending Stocks (MB)	3.40	5.16	4.68	4.43
Stocks/Use	21.3%	34.4%	31.2%	29.5%

. Using expected yields from the June USDA report of 777 pounds per acre would result in ending stocks for 2012/13 of 4.68 or 4.7 million bales. If yields improved to 800 pounds per acre then ending stocks would be 5.16 million bales. A yield of 765 pounds would generate ending stocks of 4.43 million bales. This ending stock number would not justify much of a price increase. Unless world production falters, cotton prices will be more tied to demand and will need an increase in demand to move substantially. There is a possibility that production in China and India could be less than earlier projected if weather conditions there do not improve. December cotton at mid-day was 70.36 cents per pound, up 0.85 cents. I am looking for a rally to price the cotton crop.

Soybeans

-----Supply/Demand -----

	<u>2011/12</u>		<u>2012/13</u>	
	<u>Projected</u>	<u>Bearish</u>	<u>Expected</u>	<u>Bullish</u>
Beginning Stocks(MB)	215	175	175	175
Acres (MAP)	75.0	76.1	76.1	76.1
Acres (MAH)	73.6	75.3	75.3	75.3
Yield	41.5	43.9	43.0	42
Imports	15	15	15	15
Supply(M. Bu)	3286	3496	3428	3353
Use:				
Crushing	1660	1645	1645	1645
Exports	1335	1485	1485	1485
Seed, Feed	116	125	125	125
Total Use	3111	3255	3255	3255
Ending Stocks	175	241	173	98
Stocks/Use	5.6%	7.4%	5.3%	3%
Ending Stocks				
With adjustment (+28mb)	203	269	201	126
Stocks/Use	6.6%	8.3%	6.2%	3.8%

Today's acreage and grain stocks report for soybeans was considered bearish, but not enough to overcome the concerns on the weather and a weakening Dollar. Coming on the heels of a reduced South American crop, the market has serious concerns on the U.S. drought. Although it is earlier than normal to be concerned on soybeans, the drought has hindered early season growth particularly among double crop soybeans. Stocks in the U.S. can become extremely tight if a couple of bushels are shaved off the yield. Most likely, demand will lessen if supplies are short. Later in the new crop year, a large supply of South American soybeans is expected to hit the market. That could make it difficult for current prices to be sustained. November soybeans traded during the day up 23 ¼ cents at \$14.26 ¾. I would currently be 50% forward priced and look to shift to price protection using put options.

<u>Wheat</u>	-----Supply/Demand -----			
	<u>2011/12</u> <u>Projected</u>	<u>Bearish</u>	<u>2012/13</u> <u>Expected</u>	<u>Bullish</u>
Beginning Stocks(MB)	862	728	728	728
Acres (MAP)	54.4	56.0	56.0	56.0
Acres (MAH)	45.7	48.8	48.8	48.8
Yield	43.7	46.0	45.4	44.5
Imports	120	120	120	120
Supply(M. Bu)	2982	3093	3063	3020
Use:				
Food, Seed	1019	1018	1018	1018
Feed, Resid	180	220	220	220
Exports	1055	1150	1150	1150
Ending Stocks	728	705	676	632
Stocks/Use	32.3%	29.5%	28.3%	26.5%
Ending Stocks				
With adjustment (+15mb)	743	720	691	647
Stocks/Use	33.2%	30.2%	28.9%	27.1%

USDA will probably adjust the 2010/11 ending stocks to 743 million bushels based on today's Grain Stocks Report. Unless usage declines, ending stocks have a good chance of ending the 2012/13 marketing year with less wheat stocks on hand than it started with. Stocks in a 650 – 700 million bushels range are generally considered adequate and would not justify upward price moves. However, wheat does tend to trade with corn and we could see wheat prices push higher on the strength of corn prices. There are a few pockets of concern in foreign production that could also keep the market on edge. September traded mid-day at \$7.54 a bushel, up 8 cents and July 2013 was at \$7.93 ¾ a bushel, up 5 cents. Consider a pricing strategy for 2013 wheat production.