

GRAIN MARKETING – HOW TIGHT ARE ENDING STOCKS?

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The 2010 growing season can be summarized by an early planting, higher temperatures, consistent rains, early harvest and record yields. As of December 10, 2010 USDA forecasted the Wisconsin corn crop at 162 bushels per acre, a new state record and 50 bushel per acre soybeans. Nationally, the corn crop is pegged at 154.3 and soybeans at 43.9. Grain prices traded downward from planting season until the mid-summer when demand for U.S. grains became stronger. There were production shortfalls in the world in China and Russia, which resulted in Russia placing an embargo on wheat exports. The growth in demand outpaced the large production levels resulting in a tighter year-over-year ending stocks situation. Corn ending stocks-to-use ratio is at historic lows. Moving into 2011, the tight ending stocks will continue to keep the grain markets at relatively higher price levels, but will also allow for high daily price volatility, as well as large price swings.

Corn

Nationally, the corn yield expected to be 154.3 bushels, just below the 30 year trend line. The yields combined with the 88.2 million acres planted in 2010 created the third largest United States corn crop on record. Nationally the northern tier states, North Dakota, Minnesota, Wisconsin, Michigan, and New York are having record yield years. The northern tier states benefited from higher growing degree days while further south, yields were dampened by higher night temperatures during pollination. In Wisconsin, records were set in yields and production at 162 bushels per acre and 477 million bushels.

Demand is expected to increase over the 2009 crop marketing year. Feed and residual use is stable to slightly smaller compared to the year, with some reductions in livestock production. Beef production is expected to be 2% lower, pork production is expected to be 7% lower and poultry production up by 3%.

Ethanol demand continues to grow but at a much slower rate than the past 3 years as production is approaching the 15 billion gallon level set in the Renewable Fuels Standard. However, October 2010 experienced the largest ethanol production in US history. The ethanol blender's credit and ethanol import tariff is set to expire on December 31st and as of the time of this writing, Washington was considering extending it. The state ethanol blending mandates will still exist and will provide a partial floor for ethanol production in the United States, but the blending mandates could also be filled by importing ethanol, likely from Brazilian sugarcane.

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The growth in demand exceeding the large supply, it is expected to pull the ending stocks to 832 million bushels and thus having a 6.2% stocks to use ratio. This stocks to use ratio is at historic low levels, the lowest stocks to use ratio was 5.0% from the 1995 /96 marketing year. The Wisconsin 2010/11 marketing year average price is expected to be \$5.05, edging out the previous high years from 2007 and 2008 of \$4.20 and \$4.06, respectively. With the tight ending stocks, relatively higher prices are expected for the 2010 crop. Marketing in 2011 is going to take discipline, as there will likely be information which supports one's views but as production risk subsides, prices could fall very quickly. Any bearish changes in supply or demand could result in significant price deterioration. However if there is bullish changes from a reduction in supply or an increase in demand, it would put the tight ending stocks position even tighter. When holding out for higher prices in 2011, it might be wise to consider some type of downside price protection.

Soybean

National soybean yield is expected to be 43.9 bushels per acre. This is only a small reduction compared to last year's record yield of 44.0 bushels per acre. The state yield is 50 bushels per acre edging out the previous state record yield of 48 bushels per acre from 1998. Here in the state there are 25% more soybeans anticipated than last year with a record production of 80 million bushels.

Even though there is a record large production, demand is also larger than last year with a record large export demand expected. Over the last several years exports have continually set records and the 2010/11 marketing year is expected to set another. 2009 was a record export year and even more soybeans are expected to be marketed in the 2010 crop marketing year. In the 2009 crop marketing year, China imported 60% of our soybean exports. With such a large portion of our exports headed to one country there is huge risk potential with their usage levels. For 2011 though, China is expected to import similar or even more than last year as they have outstanding sales on 80% of what they did last year and experienced a reduction in 2010 production. With the 2010 crop this is expected to increase, as of the writing, China has accepted delivery or has forward contracts on approximately 80% of what was exported to them last year. With these high early sales, it is likely that more soybeans will be export to China this next year. The US dollar is currently weak relative to other currencies. However a weak US Dollar allows for more exports as our soybeans are viewed as being cheaper. When looking at the other two main soybean exporting countries, the market is still trying to size up South American production. Last year Brazil and Argentina had a record crop, this year production is currently forecasted at similar levels with increases in acreage but a modest reduction back to trend yield. The big question is just how large of a crop South America will have. Currently, there is a La Nina affecting the southern hemisphere, which is pulling moisture from their crop.

Soybean crush is also expected to maintain production levels as last year, as demand for vegetable oils and soybean meal grow. The soybean oil domestic demand is expected to increase by 7% in the 2010/2011 marketing year. The price of soybean oil is expected to be 47 cents per pound, while 2008 and 2009 were 32 cents and 36 cents, respectively. Soybean oil exports are expected to be higher than the 2008 crop but lower than last year's demand. Biodiesel is expected to increase in 2011 nearly doubled over 2009 production but still less than the 2007 record production year. Soybean meal usage is expected to be similar to 2008 levels and slightly less than 2009 as higher prices limit feed use domestically. Soybean meal exports are projected less than last year's record by about 17% but still the second highest soybean meal exports on record.

With the strong export demand and relatively stable demand from soybean crush the ending stocks for the 2010 crop is expected to be 165 million bushels. The U.S. season average farm price is expected to be \$11.45, while the Wisconsin average soybean price is expected to be \$11.25.

Summary

The U.S. corn and soybean crops are large but robust demand will result in a year-over-year reduction in ending stocks for 2010/11. Producers who prefer to speculate on higher prices for their 2010 and 2011 production might still want to consider some price protection for their crops. With the tight ending stocks that are currently suggested by the strong demand in both the corn and soybean markets, prices are expected to be relatively higher in 2011 than in previous years. Currently, we are in the upper range of prices compared to the previous four years. If demand rationing occurs or concerns about 2011 production begin to disappear prices can respond negatively. With these higher prices though also comes a lot of risk, as demand begins to waiver so too could the prices. The challenge for producers will be to maintain a clear set of market objectives in the face of continual market hype. Those looking for reasons to delay marketing their crop will likely find plenty of rationale for additional price increases, but, like prior demand driven markets, once the speculative interest wanes and concerns about 2011 production subside, prices can retreat in dramatic fashion.