

Analysis of the January 12, 2011 USDA Reports: WASDE, Grain Stocks, Crop Production, and Winter Wheat Seedings

Daniel O'Brien – Extension Agricultural Economist, K-State Research and Extension

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Summary of the Impact of USDA Reports on January 12, 2011

The information contained in a series of January 12, 2011 USDA reports provides strong support for grain prices in the coming year – especially so for feedgrains and oilseeds. Wheat price prospects also find support in these USDA reports – mainly due improved U.S. wheat export prospects following from wheat quality problems that have emerged in other major wheat exporting countries. The USDA released the following reports on January 12th:

- Grain Stocks Report for December 1, 2010 by the National Agricultural Statistical Service (NASS)
- Crop Production Report for January 2011 by NASS
- Winter Wheat Seedings Report for January 2011 by NASS
- World Agricultural Supply and Demand Estimates (WASDE) for January 12, 2011 by the World Agricultural Outlook Board (WAOB)

Stronger U.S. Feedgrain & Oilseed Market Price Prospects: Projections of near record tight U.S. corn and soybean supplies and ending stocks together with expectations of diminishing foreign coarse grain and oilseed ending stocks for the 2010/11 marketing year place grain markets in a risky, volatile market situation in 2011.

- **U.S. Corn vs Soybean Acreage Competition in 2011:** It is now even more likely grain markets will be extremely sensitive to 2011 planted acreage intentions for U.S. corn and soybeans in coming months.
- **Heightened Sensitivity to 2011 Crop Production Problems:** It is also even more likely now that any weather-based threats to feedgrain and oilseed crop production prospects in the U.S. and abroad in 2011 will lead to highly volatile grain futures markets - focusing on new crop CBOT December 2011 corn and November 2011 soybean futures contracts.
- **Sensitivity to 2011 South American Crop Prospects:** With La Nina weather patterns affecting crop production prospects in South America in 2011, some drier than normal crop conditions have caused concern for corn (Argentina) and soybean (Argentina and Brazil) prospects. Official estimates of 2011 crop size for these crops have not reflected these concerns, but the potential exists for any South American crop shortfalls to tighten already thin World market supplies in the coming year.
- **Competition from More Feed Quality Wheat in 2011:** Increased World supplies of feed quality wheat will compete with feedgrains for use in some parts of the World market, and may have a moderating impact on feedgrain prices in 2011.

Supportive to U.S. Wheat Market Price Prospects: Prospects are for continued strong wheat market prices in 2011, partly due to wheat supply-demand factors and partly to carryover support from strong feedgrain and oilseed prices.

- Higher Winter Wheat Acreage Not Reflecting Great Plains Production Concerns: Although U.S. winter wheat acreage is projected to be higher for MY 2010/11, concerns about dry conditions and reduced 2011 production potential for hard red winter wheat in the western Great Plains regions were only indirectly addressed in these reports.
- Strong U.S. Exports – Moderately Tight U.S. Ending Stocks: Even though U.S. wheat exports have been very strong so far in MY 2010/11 and have helped to reduce U.S. wheat ending stocks, still yet projected U.S. ending stocks remain at levels markedly larger than the 60 year lows that occurred in MY 2007/08.
- Sources of Support for Wheat Market Prices in 2011: Strength in U.S. wheat prices during the remainder of MY 2010/11 (through May 31, 2011) and into MY 2011/12 are likely to come from a couple of factors:
 - World demand for food quality wheat - which the U.S. now has and a number of major World export competitors such as Australia, Canada and Russia have lower than usual amounts or
 - Significant U.S. or Foreign crop production problems – which appear to have a greater than usual probability of happening for winter wheat in the U.S. Great Plains. Crop production prospects in flood ravaged eastern Australia and the drought damaged Black Sea region (Russia, Kazakhstan, Ukraine, Belarus, etc.) are uncertain at this time, and could lead to tighter World wheat supplies in 2011.

Impact on Farmer’s Grain Marketing Opportunities and Strategies in 2011: Following the release of these USDA reports on the morning of Wednesday, January 12th, grain futures markets closed strongly higher across the Chicago, Kansas City and Minneapolis grain exchanges. These higher prices offer new crop 2011 marketing opportunities for some central Kansas grain producers.

- **Corn New Crop 2011 Marketing Opportunities (1/13/2011)**:
 - Current Cash Corn Prices (central Kansas) = \$5.82 - \$5.93 (\$0.50 - \$0.61 u basis)
 - December 2011 Forward Contract = \$5.24 /bu (\$0.45 under basis)
 - DEC 2011 New Crop corn futures = \$5.65 - \$5.70 /bu
 - December 2011 @-the-Money \$5.70 Put = \$0.84 /bu put premium cost
 - Put option futures price floor ≈ \$4.85 DEC 2011 corn futures
 - Put option cash price floor (\$0.45 basis) ≈ \$4.40 Dec 2011 cash floor
- **Grain Sorghum New Crop 2011 Marketing Opportunities (1/13/2011)**:
 - Current Cash Milo Prices (central Kansas) = \$5.51 - \$5.87 (\$0.55 - \$0.90 u basis)
 - December 2011 Forward Contract = \$4.78 /bu (\$0.90 under basis)
 - DEC 2011 New Crop corn futures = \$5.65 - \$5.70 /bu
 - December 2011 @-the-Money \$5.70 Put = \$0.84 /bu put premium cost
 - Put option futures price floor ≈ \$4.85 DEC 2011 corn futures
 - Put option cash price floor (\$0.90 basis) ≈ \$3.95 Dec 2011 cash floor
- **Soybean New Crop 2011 Marketing Opportunities (1/13/2011)**:

- Current Cash Soybean Prices (central Kansas) = \$13.30-\$13.70 (\$0.50 - \$0.90 u basis)
- November 2011 Forward Contract = \$12.31 /bu (\$0.90 under basis)
- NOV 2011 New Crop soybean futures = \$13.20 - \$13.25 /bu
- November 2011 @-the-Money \$13.20 Put = \$1.49 /bu put premium cost
 - Put option futures price floor ≈ \$13.70 NOV 2011 Soyb futures
 - Put option cash price floor (\$0.90 basis) ≈ \$12.80 Nov 2011 cash floor

- **Wheat New Crop 2011 Marketing Opportunities (1/13/2011):**

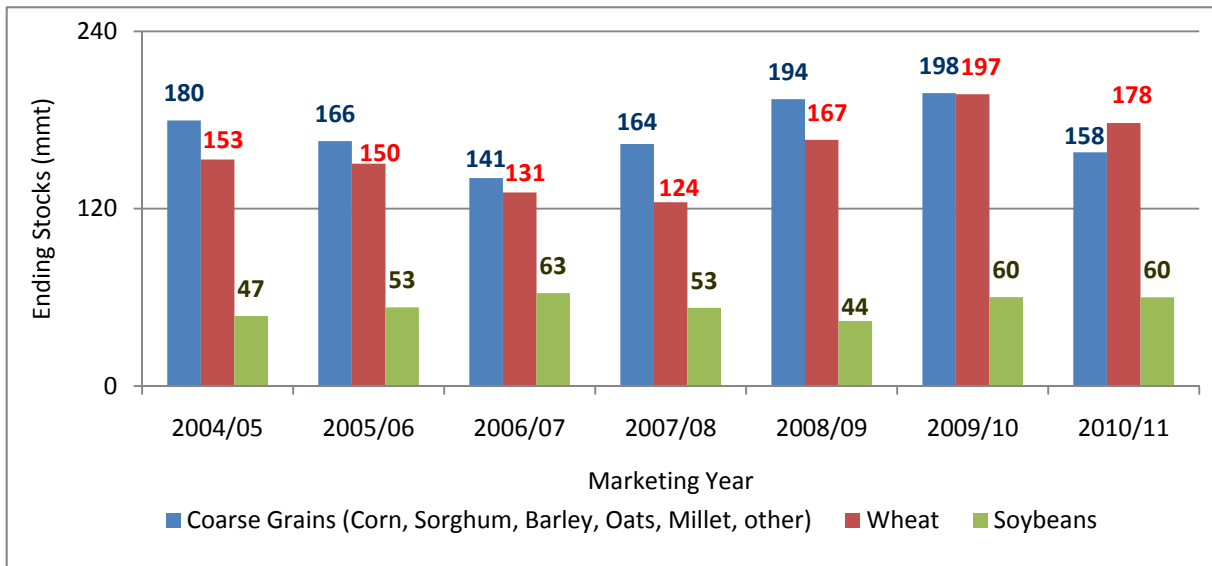
- Current Cash Wheat Prices (central Kansas) = \$7.64-\$7.89 (\$0.65 - \$0.90 u basis)
- JULY 2011 Forward Contract = \$7.70 /bu (\$1.05 under basis)
- JULY 2011 New Crop KCBT Wheat futures = \$8.75 /bu
- JULY 2011 @-the-Money \$8.70 Put = \$0.95 /bu put premium cost
 - Put option futures price floor ≈ \$7.75 JULY 2011 wheat futures
 - Put option cash price floor (\$1.05 basis) ≈ \$6.60 July 2011 cash floor

I. World Ending Stocks of Coarse Grains, Wheat and Soybeans

I-A. World Coarse Grain & Corn Stocks: World coarse grain production and total supplies are projected to be 1,083 mmt and 1,282 mmt, respectively, in MY 2010/11. The production estimate was lowered 5.1 mmt and the supply estimate was lowered 5.2 mmt from the December WASDE report. Total World use of coarse grains is projected to be 1,123 mmt in MY 2010/11, down 2.1 mmt from the December WASDE report but 4.0% larger than in MY 2008/09. World coarse grain total use has increased an average of 21.7 mmt per year since MY 2008/09. World coarse grain ending stocks are projected to be 158.8 mmt in MY 2010/11, down 3.1 mmt from the December WASDE report, representing 14.1% stocks-to-use (Figure 1). This level of ending stocks is the lowest since MY 2006/07 levels of 140.68 mmt (12.5% S/U).

World corn ending stocks are projected to be 127 mmt (15.2% S/U) in MY 2010/11, down 3.0 mmt from the December WASDE. This amount of World corn ending stocks is the lowest in 5 years, since 110.08 mmt (13.4% S/U) in MY 2006/07. World corn usage has grown from 766.83 in MY 2004/05 mmt to 836.12 mmt in MY 2010/11, an annual increase of 11.6 mmt (1.5%). World corn usage is projected to account for 74.5% of total World coarse grain use in MY 2010/11, up from 73.6% in MY 2009/10 and 72.4% in MY 2008/09.

Figure 1. World Ending Stocks of Coarse Grains, Wheat & Soybeans: MY 2004/05 thru MY 2010/11
(January 12, 2011 USDA WASDE Report)



I-B. World Wheat Stocks: World wheat ending stocks for MY 2010/11 are projected to be 177.99 mmt (26.8% S/U), up 1.3 mmt from the December WASDE (Figure 1). World wheat ending stocks in MY 2010/11 are down 9.8% from 197.43 mmt (30.3% S/U) in MY 2009/10, but are higher than 166.59 mmt (26.0% S/U) in MY 2008/09. Current World wheat ending stocks are 53.6 mmt larger than in the benchmark low supply year of MY 2007/08 when stocks fell to 124.4 mmt and 20.2% ending stocks-to-use. Total use of World wheat increased from 607.7 mmt in MY 2004/05 to 665.3 mmt in MY 2010/11, an average growth of 9.6 mmt or 1.6% per year. All the various types of wheat are included

in this total, including hard red winter, hard red spring, soft red winter, white wheat, and durum varieties.

I-C. World Oilseed & Soybean Stocks: **World oilseed** ending stocks for MY 2010/11 are projected to be 68.25 mmt (18.1% S/U), down 2.03 mmt from the December WASDE report, and down from 71.68 mmt (20.2% S/U) in MY 2009/10. World oilseed ending stocks in MY 2010/11 are 11.8 mmt or 21% larger than the recent low in MY 2008/09 of 56.50 mmt (16.7% S/U). World oilseed use has grown from 338.4 mmt in MY 2008/09 to 376.1 in MY 2010/11, an annual increase of 18.9 mmt (5.6%). The category of "Oilseeds" includes soybeans, sunflowers, cotton, canola, flaxseed, peanuts, and other oilseed-type crops.

World soybean ending stocks are projected to be 58.28 mmt (22.8% S/U) in MY 2010/11, a decrease of 1.84 mmt from the December WASDE, and down from 60.23 mmt (25.2% S/U) in MY 2009/10, but up from 44.07 mmt (19.9% S/U) in MY 2008/09. World soybean use has increased from 221.13 mmt in MY 2008/09 to 255.49 in MY 2010/11, an annual increase of 17.2 mmt (7.8%).

II. Feedgrain Market Situation and Outlook

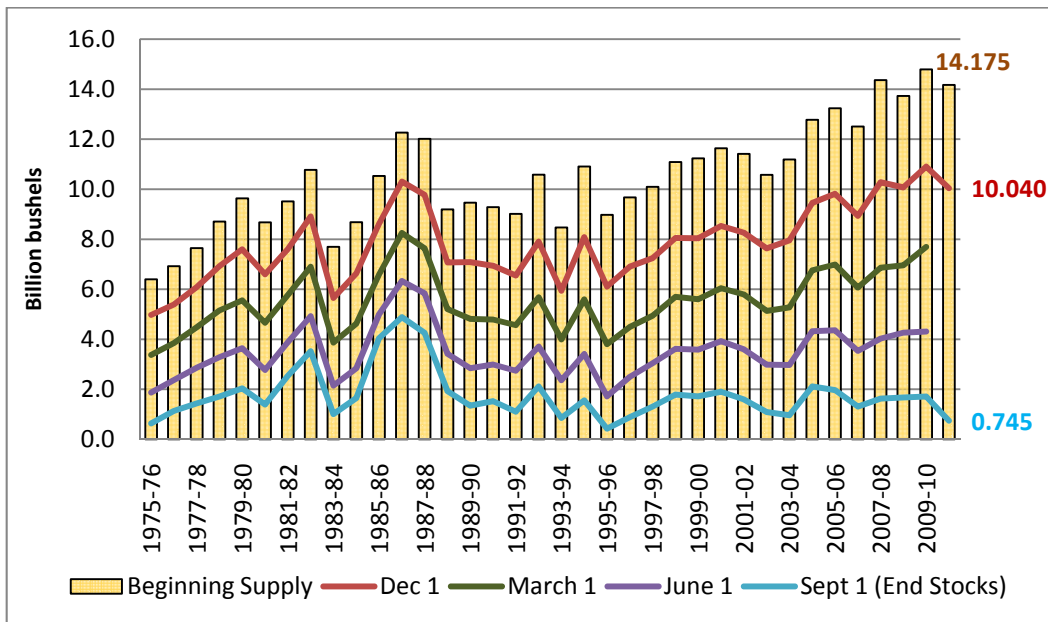
II-A. Corn & Grain Sorghum ⇒ Continued strong support for feedgrain markets

- **World Coarse Grain ending stocks in MY 2010/11 = 158.8 mmt (14.1% S/U)** (down 3.08 mmt vs December 2010 WASDE)
 - Versus 198 / 194 / 164 mmt (18% / 18% / 14% S/U) for MY 2009/10, MY 2008/09 & MY 2007/08, respectively
 - *Tight world Coarse Grain stocks; Current 14.1% S/U still greater than 12.5% S/U of MY 2006-07*
 - *Increased supplies of feed quality wheat from Australia and Canada may compete with feedgrains for livestock feed use World markets in MY 2010/11*
- **U.S. Corn ending stocks in MY 2010/11 = 745 mb (5.5% S/U)** (down 87 mb from December 2010 WASDE)
 - Versus 1.708 / 1.673 / 1.624 bb (13.1% / 13.9% / 12.7% S/U) for MY 2009/10, MY 2008/09 & MY 2007/08, respectively
 - U.S. Corn prices in \$4.90 - \$5.70 /bu range in MY 2010/11 (vs \$3.55 /bu in MY 2009/10)
 - *Continued strong ethanol use, but rationing of feed use & exports due to high corn prices in MY 2010/11*
 - *Longer term focus on 2011 U.S. crop acreage and production prospects & U.S. ethanol policy implementation (E-15)*
 - U.S. Grain Sorghum prices in \$5.10 - \$5.90 /bu range in MY 2010/11 (vs \$3.22 /bu in MY 2009-10)

II-B. U.S. Corn Stocks on December 1st 2010

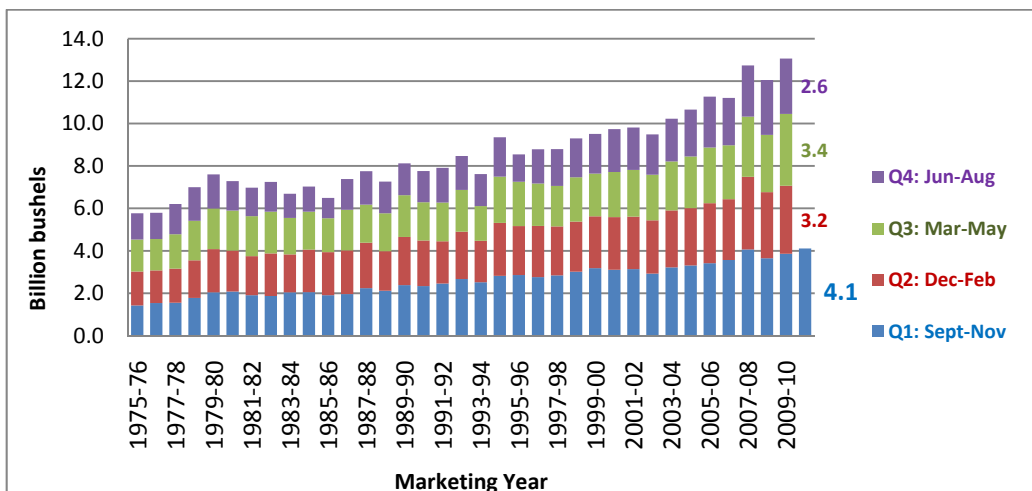
II-B1. Quarterly Corn Stocks In its January 12th report, USDA NASS estimated U.S. corn stocks in all positions on December 1, 2010 to be 10.040 billion bushels (bb), down 7.9% from a year ago (Figure 2). The 10.040 bb December 1st corn stocks figure was 27 mb or 0.3% smaller than average pre-report expectations of private analysts. Of this total, 6.302 bb were stored on farms, with 3.378 bb stored off farms. In the January 2011 USDA WASDE report September 1, 2011 ending stocks for MY 2010/11 were projected to be 745 mb, which would be the lowest amount since MY 1995/96.

Figure 2. U.S. Corn Total Supply & Quarterly Use Since the 1975/76 Marketing Year
 (Source: USDA National Agricultural Statistical Service)



II-B2. Quarterly Corn Usage: A record high total of 4.11 bb of U.S. corn was used during the September-November 2010 period (Figure 3). This projected use is up from the previous record of 4.066 bb in Sept-Nov 2007. The 4.11 bb in corn usage during Sept-Nov 2010 represents approximately 30.6% of projected total corn usage during MY 2010/11, up from 29.5% the previous year, but less than the average of 31.1% for the MY 2000/10 through MY 2009/10 period.

Figure 3. U.S. Quarterly Corn Use Since the 1975/76 Marketing Year
 (Source: USDA National Agricultural Statistical Service)



II-C. U.S. Corn Supply-Demand Balance Sheet & Price Projections

II-C1. U.S. Corn Acreage, Yields and Production in 2010: Based in the January 2011 USDA NASS Crop Production report, projected U.S. harvested corn acres in 2010 were increased slightly to 81.446 million acres (Table 1). Estimated corn yields in the U.S. in 2010 were dropped to 152.8 bu/ac, a decline of 1.5 bu from November-December 2010 Crop Production reports. Consequently, projected 2010 U.S. corn production was dropped to 12.447 bb, a decline of 93 mb from the November-December 2010 USDA Crop Production reports.

Table 1. U.S. Corn Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(January 12, 2011 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	93.5	86.0	86.4	88.2
Harvested Area (million acres)	86.5	78.6	79.5	81.4
Yield per harvested acre (bushels/acre)	150.7	153.9	164.7	152.8
	million bushels			
Beginning Stocks	1,304	1,624	1,673	1,708
Production	13,038	12,092	13,092	12,447
Imports	20	14	8	20
Total Supply	14,362	13,729	14,774	14,175
Ethanol for fuel	3,049	3,709	4,568	4,900
Non-ethanol Food, Seed & Industrial	1,393	1,316	1,371	1,380
Exports	2,437	1,849	1,987	1,950
Feed & Residual	5,858	5,182	5,159	5,200
Total Use	12,737	12,056	13,066	13,430
Ending Stocks	1,624	1,673	1,708	745
% Ending Stocks-to-Total Use	12.8%	13.9%	13.1%	5.5%
U.S. Average Farm Price (\$/bushel)	\$4.20	\$4.06	\$3.55	\$4.90-\$5.70 <i>Midpoint = \$5.30</i>

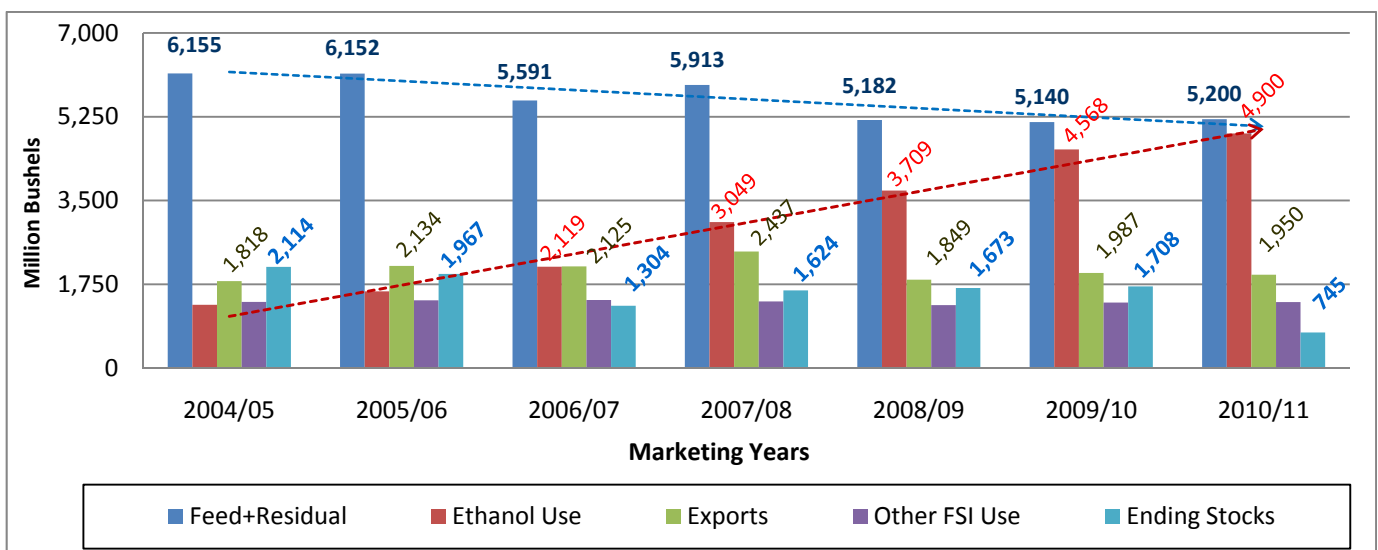
II-C2. U.S. Corn Supply-Use: Important changes were made in U.S. corn supply-demand balances in MY 2010/11 in the January 12, 2011 WASDE report (Table 1). Beginning stocks of 1.708 bb were combined with 2010 U.S. corn production of 12.447 bb and imports of 20 mb (up 5 mb) to bring total MY 2010/11 U.S. corn supplies to 14.175 bb (a drop of 87 mb). Total corn use of 13.43 bb in MY 2010/11 was made up of ethanol use of 4.9 bb (up 100 mb) combined with non-ethanol food, seed and industrial use of 1.38 bb, exports of 1.95 bb and feed and residual use of 5.2 bb (down 100 mb). The U.S. corn ethanol and total use amounts in MY 2010/11 are record highs.

II-C3. U.S. Corn Ending Stocks: Ending stocks of U.S. corn are projected at 745 mb in MY 2010/11 which is down 87 mb from last month's WASDE report, and down 963 mb from MY 2009/10. This represents 5.5% ending stocks-to-use. This 5.5% ending stocks-to-use projection in January 2011 continues a downward trend in ending stocks-to-use estimates for MY 2010/11, from 8.3% (September) to 6.7% (October) to 6.2% (November-December). It is also markedly lower than 13.1% S/U in MY 2009/10, and 13.9% in MY 2008/09. This is the lowest U.S. corn % stocks-to-use figure since MY 1995/96 (i.e., 5% S/U).

II-C4. U.S. Corn Prices: United States season average corn prices for MY 2010/11 were projected to be in the range of \$4.90-\$5.70 per bushel with a midpoint of \$5.30 (i.e., an increase of \$0.10 per bushel on each end of the range). This compares to an estimated MY 2009/10 price of \$3.55 /bu, \$4.06 /bu in MY 2008/09, and \$4.20 /bu in MY 2007/08.

II-C5. U.S. Corn Use and Ending Stocks Trends During MY 2004/05 through MY 2010/11: Since MY 2004/05, U.S. feed and residual use of corn has generally declined (Figure 4). However, the 5.2 bb projection for MY 2010/11 interrupts that trend. Corn use for ethanol has increased steadily over the same period from 1.323 bb to 4.9 bb. Exports of U.S. corn have averaged 2.063 bb since MY 2004/05, above to the 1.950 bb projection for MY 2010/11. Corn ending stocks increased from MY 2006/07 to MY 2009/10 to a high of 1.708 bb, but are projected to markedly decline to 745 bb in MY 2010/11.

Figure 4. Trends in U.S. Corn Use and Ending Stocks: MY 2004/05 through MY 2010/11
(January 12, 2011 USDA WASDE Report)



II-D. U.S. Grain Sorghum Supply-Demand Balance Sheet & Price Projections

II-D1. U.S. Grain Sorghum Acreage, Yields and Production in 2010: Based in the January 2011 USDA NASS Crop Production report, projected U.S. harvested grain acres in 2010 were increased slightly to 4.808 million acres (Table 2). Estimated grain sorghum yields in the U.S. in 2010 were dropped to 71.8 bu/ac., a decline of 0.7 bu from November-December 2010 Crop Production reports. Consequently, projected 2010 U.S. grain sorghum production was increased to 345.4 mb, an increase of 7 mb from the November-December 2010 USDA Crop Production reports.

II-D2. U.S. Grain Sorghum Supplies & Usage: Some small changes were made in MY 2010/11 supply-demand projections for U.S. grain sorghum in the January 2010 WASDE report. Based on beginning stocks of 41 mb and 2010 production of 345 mb, total supplies of U.S. grain sorghum are projected to be 387 mb (up 8 mb) for MY 2010/11 (Table 2). Projected total use of 350 mb (up 10 mb) in MY 2010/11 consists of food, seed and industrial use (including ethanol use) of 90 mb, exports of 150 mb (down 10 mb), and feed and residual use of 110 mb (up 20 mb).

II-D3. U.S. Grain Sorghum Ending Stocks & Prices: Ending stocks of U.S. grain sorghum are projected at 37 mb (down 2 mb) in MY 2010/11, representing 10.6% ending stocks-to-use. This stocks-to-use

figure is down from 11.5% in the December 2010 WASDE report, and compares to 10.4% in MY 2009/10 and 11.7% in MY 2008/09. Average grain sorghum prices for MY 2010/11 are projected to be in the range of \$5.10-\$5.90 /bu, with a midpoint of \$5.50 /bu. This price projection is up \$0.20 /bu on both ends of the range since the December 2010 WASDE. The U.S. average price for grain sorghum in MY 2010/11 is \$0.20 /bu higher than for U.S. corn.

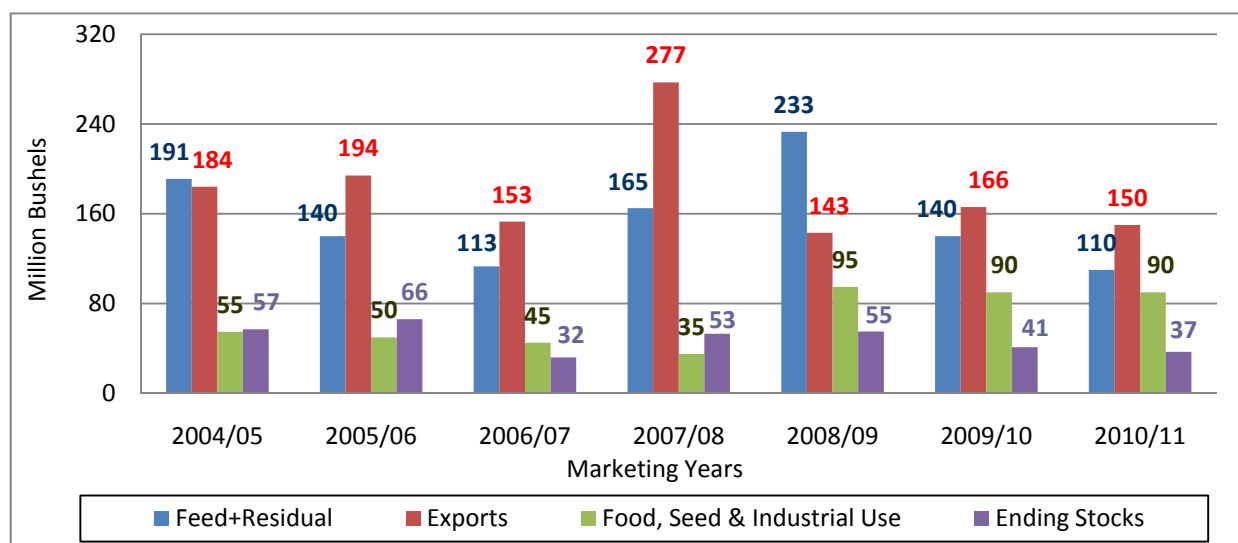
Table 2. U.S. Grain Sorghum Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(January 12, 2011 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	7.7	8.3	6.6	5.4
Harvested Area (million acres)	6.8	7.3	5.5	4.8
Yield per harvested acre (bushels/acre)	73.2	65.0	69.4	71.8
	million bushels			
Beginning Stocks	32	53	55	41
Production	497	472	383	345
Total Supply	530	525	438	387
Food, Seed & Industrial	35	95	90	90
Exports	277	143	166	150
Feed & Residual	165	233	140	110
Total Use	477	471	396	350
Ending Stocks	53	55	41	37
% Ending Stocks-to-Total Use	11.1%	11.7%	10.4%	10.6%
U.S. Average Farm Price (\$/bushel)	\$4.08	\$3.20	\$3.22	\$5.10-\$5.90 <i>Midpoint = \$5.50</i>

II-D4. U.S. Grain Sorghum Use and Ending Stocks Trends During MY 2004/05 through MY 2010/11:

Increased use of grain sorghum for ethanol production for the last three marketing years (MY 2008/09 through MY 2010/11) is reflected by higher food, seed and industrial use in Figure 5. Ending stocks for U.S. grain sorghum have remained in the range of 32 to 66 mb since MY 2004/05, with 37 mb of ending stocks (10.6% stocks-to-use) projected for MY 2010/11.

Figure 5. Trends in U.S. Grain Sorghum Use & Ending Stocks During MY 2004/05 thru MY 2010/11
(January 12, 2011 USDA WASDE Report)



II-D5. Market Implications for U.S. Corn and Grain Sorghum in MY 2010/11: As was the situation after the November and December WASDE reports, projections of MY 2010/11 U.S. corn ending stocks of 745 mb (markedly below 1 billion bushels) and 5.5% stocks-to-use (nearing closer yet to historic lows of 5% in MY 1995/96) continue to provide strong underlying fundamental supply-demand support U.S. corn and grain sorghum prices for at least the first 6-8 months of 2011. With U.S. cash corn prices for MY 2010/11 projected to be record high in the \$4.90 to \$5.70 /bu range, there continues to be evidence that price rationing has been occurring in U.S. feedgrain export shipments. Eventual rationing of corn use is possible if not likely in the U.S. livestock feeding and ethanol production sectors - depending in large part on whether livestock and ethanol prices keep pace with corn input prices or not. Even though current economic conditions in the U.S. have at least stabilized if not shown slight improvement, a non-negligible possibility exists of major financial stress occurring in the later part of MY 2010-11 in the U.S. ethanol, livestock feeding and export industries due to a faltering U.S. economy coupled with extremely high priced corn inputs.

Conservatively speaking, it also continues to be the case that because MY 2010/11 is a “short crop” year as opposed to a “normal” marketing year, it is likely that Kansas cash corn prices may tend to decline moderately in January-February (due largely to delayed farmer cash sales for income tax management purposes). Then from January-February 2011 forward, Kansas cash corn prices may tend to move at least moderately higher until eventual matching and exceeding Nov-Dec 2010 highs in April 2011 before reaching 2010/11 marketing year highs in May. From May 2011 forward, Kansas corn prices in short crop years have tended to first move slightly lower into June, and then to eventually fall markedly in July and August as the following year’s feedgrain crop develops (assuming no crop production problems in 2011, etc.).

If current projections of near record tight U.S. corn stocks in MY 2010/11 continue, there is a strong possibility that April-May 2011 corn prices could be extremely volatile and possibly set marketing year highs as a result of a) uncertainty about 2011 U.S. feedgrain and oilseed acreage (i.e., “bidding for acres”), and b) weather-driven 2011 crop production concerns. If weather problems do threaten the 2011 U.S. corn crop during the summer of 2011, then even more volatile and sharply higher U.S. corn futures and cash prices could result, along with the risk of damaging corn usage industries because of high prices.

III. Wheat Market Situation & Outlook

III-A. Wheat Market Impact ⇒ Continued strong market outlook with production risk & market volatility possible in 2011

- **World wheat ending stocks in MY 2010/11 = 177.9 mmt (26.8% S/U)** (*up 1.27 mmt from December 2010 WASDE report*)
 - Versus 197 / 167 / 124 mmt (30% / 26% / 20% S/U) for MY 2009/10, MY 2008/09 & MY 2007/08, respectively
 - *A year-to-year decline in World wheat production and supplies combined with increased wheat usage has lead to lower ending stocks for MY 2010/11.*
 - Lower World wheat supplies resulting from production problems and limits in exportable food quality wheat supplies in key wheat production regions.
 - Recent wet harvest problems in eastern Australia and Canada combined with Black Sea region (Russia, Ukraine, others) production problems earlier in 2010 have decreased the amount of food quality wheat in World export channels. These developments provide further support for U.S. wheat export prospects in early 2011.
 - *Higher World prices seem do not yet seem to be rationing wheat export trade (possibly due to lower US Dollar exchange rates)*
 - *Current MY 2010/11 World wheat ending stocks of 177.9 mmt (26.8% S/U) are still 53.5 mmt above record low ending stock levels of 124.4 mmt & 20% S/U in MY 2007/08*
- **U.S. wheat ending stocks in MY 2010/11 = 818 mb (33% S/U)** (*down 40 mb from December 2010 WASDE*)
 - Versus 976 / 657 / 306 mb (48% / 29% / 13% S/U) for MY 2009/10, MY 2008/09, & MY 2007/08, respectively
 - U.S. wheat prices in \$5.50 - \$5.80 /bu range in MY 2010/11 (*vs \$4.87 /bu in MY 2009/10*)
 - *Continued dry soil conditions in central U.S. Great Plains hard red winter wheat regions may limit U.S. wheat production prospects for 2011.*
 - *Continued World wheat production problems in key areas (Black Sea region, western Australia, Canada etc.) support U.S. wheat export prospects in 2011, especially for food quality wheat.*
 - *Higher wheat prices are driven in part by a weaker U.S. dollar & prospects for stronger U.S. wheat exports for MY 2010/11.*
 - *Projected MY 2010/11 U.S. wheat ending stocks have declined to 818 mb, but are still 167% or 512 mb larger than record 60 year lows of 306 mb in MY 2007/08.*

III-B. U.S. Winter Wheat Seedings for Harvest in 2011

USDA NASS projected that U.S. winter wheat seedings for 2011 totaled 40.990 ma, up 10% from 37.335 ma for 2010, but down 5% from 43.346 ma seeded for 2009. Hard red winter (HRW) wheat seeded acreage equals 29.6 ma (up 4%) with soft red winter (SRW) wheat seeded acreage equalling 7.76 ma (up 47%). White winter (WW) wheat seeded area equals 3.66 ma (up 4%), while durum wheat area equals 235,000 acres (up 21%). Earlier row crop harvest in 2010 (compared to 2009) and higher wheat prices helped bring about increases in HRW and SRW wheat areas, although the dry fall may have also caused some acreage not to be planted that otherwise would have been seeded to wheat. Concerns exist about lack of moisture across much of the HRW wheat growing area, which in turn could cause production problems and possibly even switching of crops later this spring.

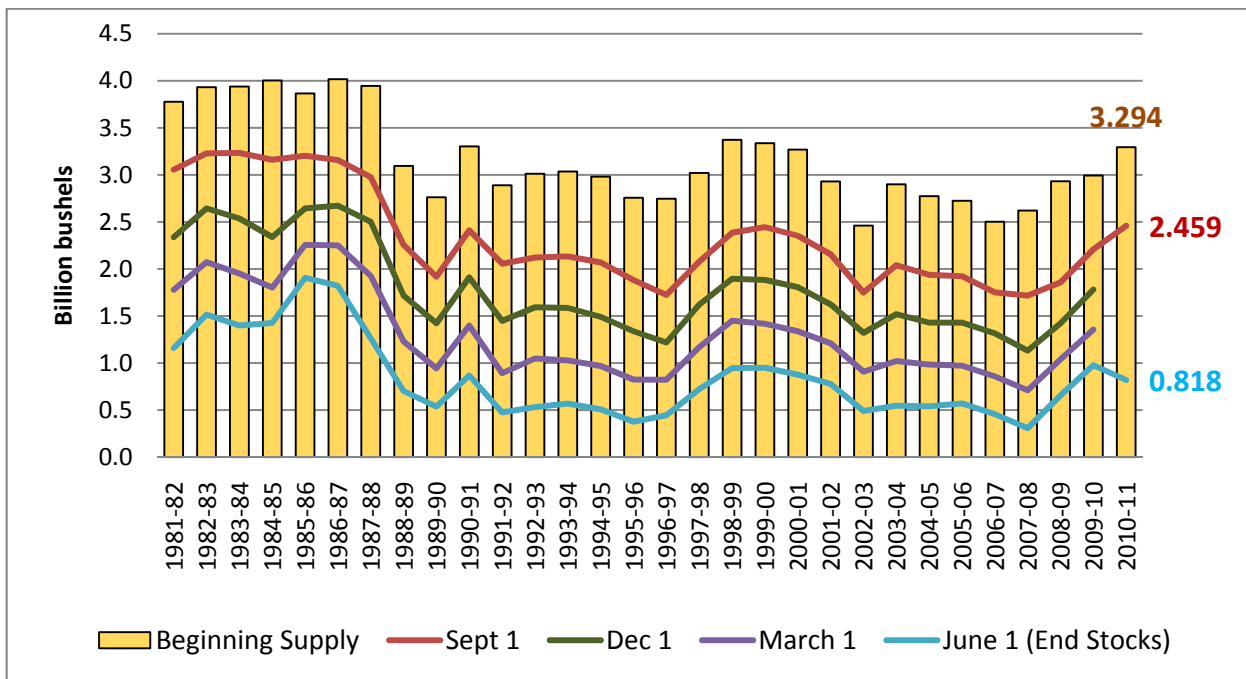
In Kansas, 8.800 ma of HRW wheat was seeded for harvest in 2011, up from 8.400 ma for 2010 but still below 9.3 ma seeded for harvest in 2009. Western Kansas in particular is one of the primary areas of concern in regards to HRW wheat moisture and production prospects.

III-C. U.S. Wheat Stocks on December 1st 2010

III-C1. Quarterly Wheat Stocks: It was estimated by USDA NASS that U.S. wheat stocks in all positions on December 1st 2010 totaled 1.928 bb, up 8% from 1.782 bb a year earlier, and 30% larger than the average of 1.478 bb since MY 2000/01 (Figure 6). This December 1st U.S. wheat stocks figure of 1.928 bb was only 10 mb smaller than average pre-report expectations of private analysts. Of this U.S. total, 550 mb were stored on farms, with 1.378 bb stored off farms on December 1st. Projected June 1st 2011 ending stocks for MY 2010/11 are 818 mb, which would be the second largest amount of U.S. wheat ending stocks since MY 2000/01, trailing only 976 mb in MY 2009/10.

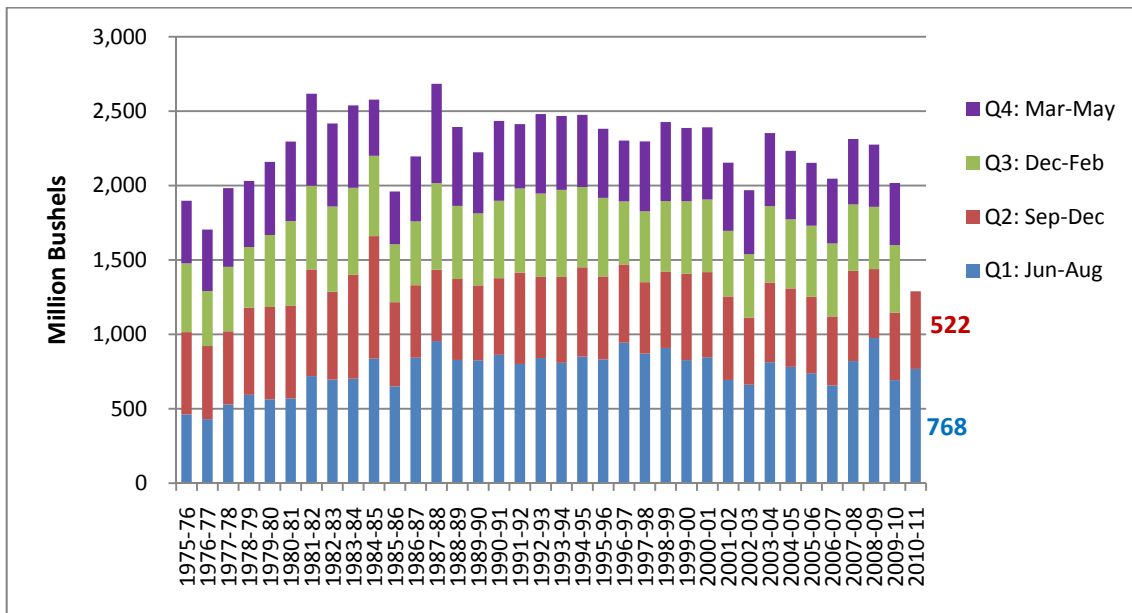
Figure 6. U.S. Wheat Total Supply & Quarterly Use Since the 1975/76 Marketing Year

(Source: USDA National Agricultural Statistical Service)



III-C2. Quarterly Wheat Usage: A total of 522 mb of U.S. wheat was used during September-November 2010, up 22% from the previous year according to USDA NASS, and slightly larger than the average Sept-Nov use since 2000 of 515 mb (Figure 7). This amount of wheat usage during the Sept-Nov 2010 period would equal 31% of total MY 2010/11 usage for the same months, which is less than the average of 35% for Sept-Nov since MY 2000/01.

Figure 7. U.S. Quarterly Wheat Use Since the 1975/76 Marketing Year
 (Source: USDA National Agricultural Statistical Service)



III-D. U.S. Wheat Supply-Demand Balance Sheet & Price Projections

III-D1. U.S. Wheat Supply-Use: A few important changes were made in projected U.S. wheat supplies for MY 2010/11, with the primary changes being an increase in exports and a decrease in ending stocks (Table 3). Projected U.S. wheat supplies of 3.294 bb in MY 2010/11 were made up of 976 mb of beginning stocks, 2.208 bb of production in 2010, and 110 mb of imports. Total use of U.S. wheat of 2.476 bb (up 40 mb from the December WASDE) was comprised of 930 mb of food use, seed use of 76 mb, exports of 1.30 bb (up 50 mb), and feed and residual use of 170 mb (down 10 mb).

III-D2. U.S. Wheat Ending Stocks: Ending stocks of U.S. wheat are projected at 818 mb (33.0% S/U) in MY 2010/11 (down 40 mb from the December WASDE, and down 158 mb from MY 2009/10). Projected MY 2010/11 U.S. wheat ending stocks-to-use has decreased almost continuously each month since the July WASDE, changing from 49.8% (July) to 39.9% (August) to 37.0% (September) to 34.9% (October) to 34.7% (November) WASDE to 35.2% (December), and now down to 33.0% S/U in January 2011.

III-D3. U.S. Wheat Prices: Average U.S. wheat prices for MY 2010/11 were projected to be in the range of \$5.50-\$5.80 /bu (increasing \$0.20 on the lower each and \$0.10 on the upper end of the price range), with a midpoint of \$5.65. This compares to an estimated MY 2009/10 average price of \$4.87 /bu, and a record high price of \$6.78 /bu in MY 2008/09.

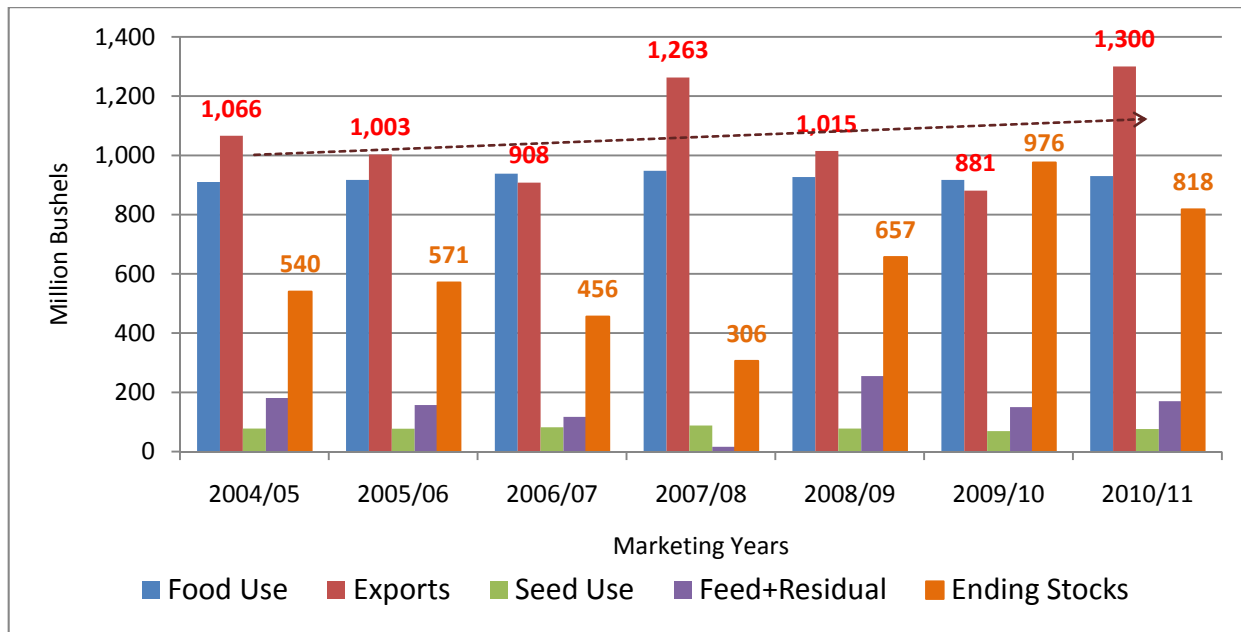
Table 3. U.S. Wheat Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(January 12, 2011 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	60.5	63.2	59.2	53.6
Harvested Area (million acres)	51.0	55.7	49.9	47.6
Yield per harvested acre (bushels/acre)	40.2	44.9	44.5	46.4
	million bushels			
Beginning Stocks	456	306	657	976
Production	2,051	2,499	2,218	2,208
Imports	113	127	119	110
Total Supply	2,620	2,932	2,993	3,294
Food Use	948	927	917	930
Seed Use	88	78	69	76
Exports	1,263	1,015	881	1,300
Feed & Residual	16	255	150	170
Total Use	2,314	2,275	2,018	2,476
Ending Stocks	306	657	976	818
% Ending Stocks-to-Total Use	13.2%	28.9%	48.4%	33.0%
U.S. Average Farm Price (\$/bushel)	\$6.48	\$6.78	\$4.87	\$5.50-\$5.80 <i>Midpoint = \$5.65</i>

III-D4. U.S. Wheat Use and Ending Stocks Trends During MY 2004/05 through MY 2010/11: Food use of U.S. wheat has been consistently in the range of 910 to 948 mb since MY 2004/05, averaging 928 mb per marketing year (Figure 8). The January WASDE forecast of 930 mb for MY 2010/11 is essentially equal to the average for the period. Since MY 2004/05, exports of U.S. wheat have been variable, ranging from 865 mb to 1.263 bb. The January WASDE wheat export forecast of 1.300 bb is greater than the top end of the recent historical range.

Ending stocks of U.S. wheat increased from a 60 year low of 306 mb in MY 2007/08, up to 657 mb in MY 2008/09 and to 976 mb in MY 2009/10, but are projected to decline to 818 mb in MY 2010/11. With shortfalls of food quality wheat in other key wheat producing and exporting countries in the World (i.e., Australia, Canada, Russia and other countries in the Black Sea region), U.S. wheat exports for MY 2010/11 are expected to continue to remain strong.

Figure 8. Trends in U.S. Wheat Use and Ending Stocks: MY 2004/05 through MY 2010/11
(January 12, 2011 USDA WASDE Report)



III-E: Market Implications for U.S. Wheat

After the panic in World wheat markets over Black Sea and European production problems that lasted throughout July and into early August 2010, wheat futures prices had continued to be extremely volatile. After closing at \$7.45 1/2 on December 1st, March 2011 KCBT wheat first “jumped” or “gapped” higher to on December 1st to close at \$7.96 /bu.. Then driven by foreign wheat harvest and quality problems and continued dry conditions in U.S. winter wheat production areas, on January 13, 2011 March 2011 KCBT wheat closed at \$8.68 1/2.

These volatile market conditions are indicative of World wheat supply-demand uncertainty for both the remainder of MY 2010/11 as well as for wheat production and supply prospects in MY 2011/12. Although World wheat ending stocks for MY 2010/11 are projected at levels that are still markedly above historic 30 year lows experienced MY 2007/08, concerns still exist about tightening supplies of food quality wheat as well as the adequacy of moisture in a number of critical World wheat production areas. Strong U.S. wheat export shipments to date in MY 2010/11 are reflective of market concerns about having adequate supplies of food quality wheat.

Until World wheat production markedly expands to meet or surpass increasing wheat usage in the next 1-2 years or more, World wheat ending stocks are likely to remain at least moderately tight, with wheat market prices remaining at historically high levels. However, an appreciable threat of significant World wheat production problems in 2011 that could dramatically lower World wheat stocks to levels even closer to the 30 year lows in MY 2007/08. Such a scenario would likely lead to extremely volatile and high wheat market prices, and widespread concerns about the adequacy of World wheat / food supplies by various governmental agencies, advocacy groups, and the U.S. public. With quality problems in key areas (Australia and Canada), more non-food quality wheat will compete with feedgrains for livestock feed use in MY 2010/11.

IV. Soybean Market Situation & Outlook

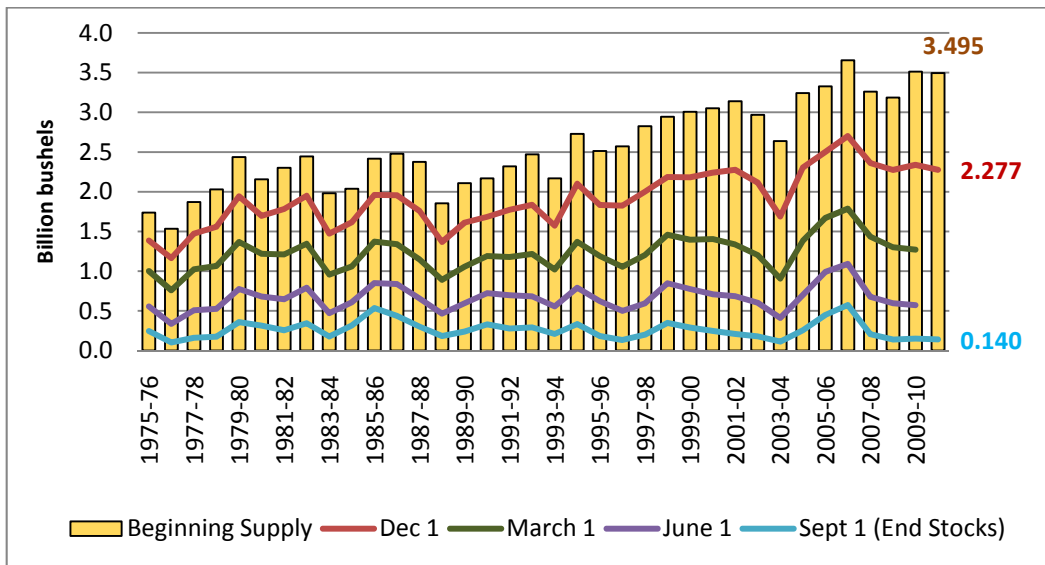
IV-A. Soybean Market Impact ⇒ Continued strength in soybean and oilseed markets through winter into spring 2011

- **World Oilseed ending stocks in MY 2010/11 = 68.3 mmt (18.1% S/U)** (down 2.03 mmt vs December 2010 WASDE)
 - Versus 72 / 56.5 / 62 mmt (20% / 17% / 18% S/U) for MY 2009/10, MY 2008/09 & MY 2007/08, respectively
 - *Continued strength in World export markets for soybeans, soybean meal and soybean oil provide support for oilseed market prices*
 - *Uncertainty about 2011 South American soybean production where the 2011 harvest is likely to be delayed by recent dry conditions in key Argentina and Brazilian soybean production regions*
 - Ongoing concerns about possible impact of La Nina weather patterns on South American crop production prospects in 2011
 - *China's predominant position in world soybean and soybean production export trade provides a "strong but narrow" demand base for world soybean-related export markets*
- **U.S. Soybean ending stocks in MY 2010/11 = 140 mb (4.2% S/U)** (down 25 mb from December 2010 WASDE)
 - Versus 151 / 138 / 205 mb (4.5% / 4.5% / 7% S/U) for MY 2009/10, MY 2008/09 & MY 2007/08, respectively
 - U.S. Soybean prices in \$11.20 - \$12.20 /bu range in MY 2010/11 (vs \$9.59/bu in MY 2009/10)
 - *Record U.S. soybean exports of 1.59 mb are providing support for soybean prices so far in MY 2010/11.*
 - *MY 2010/11 U.S. Soybean crush, soybean meal exports & soybean oil exports are projected to be down at least marginally versus MY 2009/10 due to trade competition from Brazil and Argentina.*

IV-B. U.S. Soybean Stocks on December 1st 2010

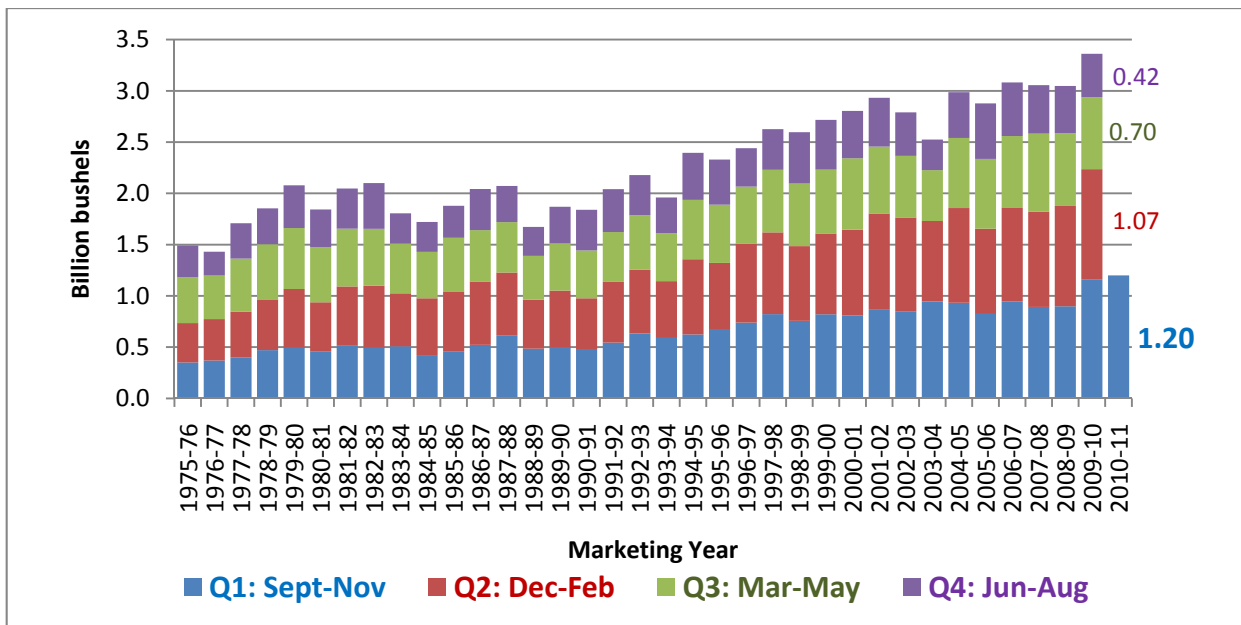
IV-B1. Quarterly Soybean Stocks: The USDA NASS estimate of U.S. soybean stocks in all positions on December 1st 2010 totaled 2.277 bb, down 2.6% from 2.339 bb the previous year (Figure 9). This was 68 mb less than average pre-report estimates, and is essentially equal to the most recent 10 year average of December 1st U.S. soybean stocks of 2.28 mb since MY 2000/01. Of the 2.277 bb total, 1.091 bb were stored on farms, with 1.185 bb stored off farms. In the USDA WASDE report, MY 2010/11 ending stocks on September 1, 2011 were projected to be 140 mb, which would be the lowest amount of U.S. soybean ending stocks since MY 2003/04.

Figure 9. U.S. Soybean Total Supply & Quarterly Use Since the 1975/76 Marketing Year
 (Source: USDA National Agricultural Statistical Service)



IV-B2. Quarterly Soybean Usage: A total of 1.2 bb of U.S. soybeans were used during the September-November 2010 period, up 22% compared to the same period in 2009 (Figure 10). This amount is 288 mb or 32% greater than the average U.S. Sept-Nov soybean usage since MY 2000/01 of 912 mb, representing 35.8% of projected total U.S. soybean use during MY 2010/11 (up from 34.6% in Sept-Nov 2009 and up from an average of 31.0% since MY 2000/01).

Figure 10. U.S. Quarterly Soybean Use Since the 1975/76 Marketing Year
 (Source: USDA National Agricultural Statistical Service)



IV-C. U.S. Soybean Supply-Demand Balance Sheet & Price Projections

IV-C1. U.S. Soybean Acreage, Yields and Production in 2010: Based in the January 2011 USDA NASS Crop Production report, projected U.S. planted soybean acres in 2010 were decreased to 77.404 ma (down 310,000 acres from the November-December reports) (Table 4). Projected U.S. harvested soybean acres in 2010 were decreased to 76.616 ma (down 207,000 acres from the November-December reports). Estimated soybean yields in the U.S. in 2010 were dropped to 43.5 bu/ac, a decline from 43.9 bu from December. Consequently, projected 2010 U.S. soybean production was dropped to 3.329 bb, a decline of 46 mb from December 2010.

Table 4. U.S. Soybean Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(January 12, 2011 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	64.7	75.7	77.5	77.4
Harvested Area (million acres)	64.1	74.7	76.4	76.6
Yield per harvested acre (bushels/acre)	41.7	39.7	44.0	43.5
	million bushels			
Beginning Stocks	574	205	138	151
Production	2,677	2,967	3,359	3,329
Imports	10	13	15	15
Total Supply	3,261	3,185	3,512	3,496
Domestic Crashings	1,803	1,662	1,752	1,655
Exports	1,159	1,279	1,501	1,590
Seed	89	90	90	88
Residual	5	16	18	22
Total Use	3,056	3,047	3,361	3,355
Ending Stocks	205	138	151	140
% Ending Stocks-to-Total Use	6.7%	4.5%	4.5%	4.2%
U.S. Average Farm Price (\$/bushel)	\$10.10	\$9.97	\$9.59	\$11.20-\$12.20 <i>Midpoint = \$11.70</i>

IV-C2. U.S. Soybean and Soybean Product Supply-Use: The USDA made several small changes in the MY 2010/11 U.S. soybean supply-demand balance sheet, with adjustments to imports, total supply, domestic crush, residual, and ending stocks. Total supplies of 3.495 bb (down 41 mb) for MY 2010/11 were made up of beginning stocks of 151 mb, 2010 U.S. soybean production of 3.329 bb and imports of 15 mb (up 5 mb). Total use of U.S. soybeans in MY 2010/11 of 3.355 bb (down 16 mb) consisted of crashings of 1.655 bb (down 10 mb), exports of 1.59 bb (a record high), seed use of 88 mb, and residual use of 22 mb (down 7 mb).

Soybean meal exports from the U.S. in MY 2010/11 are projected to be 9.2 mln tons, down 18% from 11.175 mln tons in MY 2009/10. Domestic use of soybean meal of 30.5 mln tons in MY 2010/11 is down 119 mln tons from MY 2009/10. Prices for soybean meal are projected to be \$320 to \$360 per ton, up \$10 on each end of the range from December, and up from \$311.27 in MY 2009/10 and from \$331.17 in MY 2010/11.

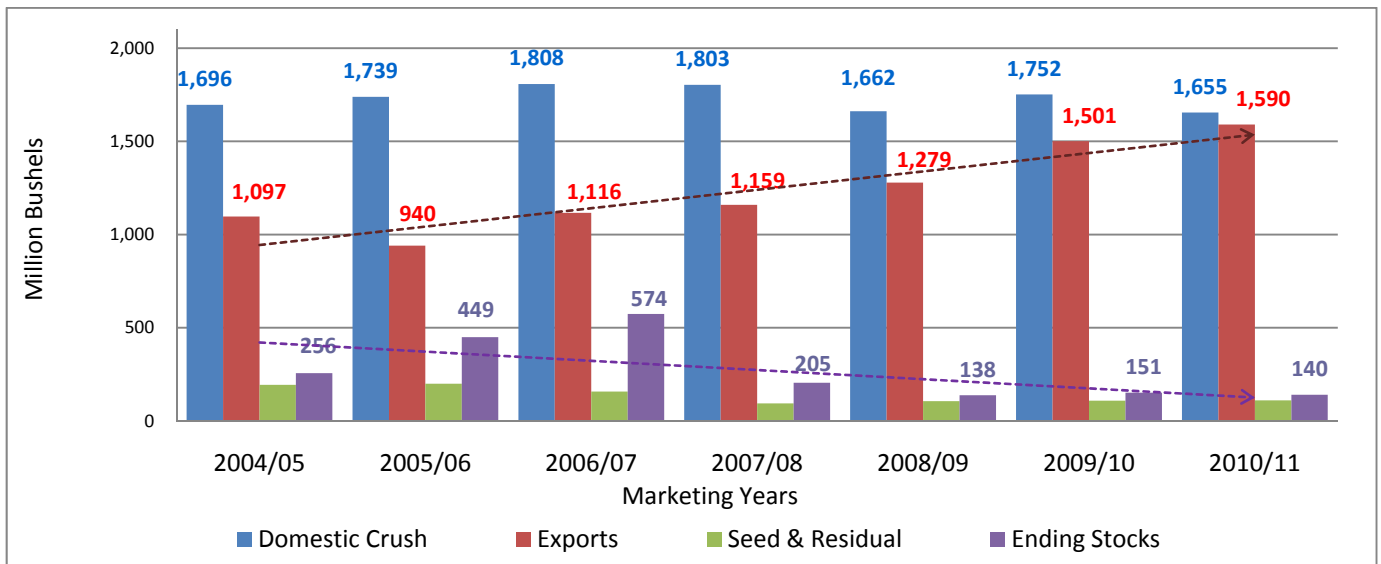
Exports of U.S. soybean oil in MY 2010/11 of 2.7 billion lbs is down from 3.357 billion lbs the previous year. Use of U.S. soybean oil for biodiesel production in MY 2010/11 (in the form of methyl ester) is projected to be 2.9 billion lbs, up from 1.681 billion lbs in MY 2009/10. Projected prices for soybean oil in the U.S. were raised \$0.03 on each end of the price range to \$0.48 to \$0.52 per pound for MY 2010/11.

IV-C3. U.S. Soybean Ending Stocks: Ending stocks of U.S. soybeans are projected to be 140 mb in MY 2010/11, which is down 25 mb from the December WASDE, less than 151 mb U.S. ending stocks in MY 2009/10, and essentially equal to 138 mb in MY 2008/09. This represents 4.2% ending stocks-to-use, down from 10.6%, 8.0%, 5.5%, and 4.9% in the September, October, November and December 2010 USDA WASDE reports, respectively. Projections of MY 2010/11 ending stocks-to-use for U.S. soybeans of 4.2% in have declined to the degree that they are now below the 4.5% levels in both MY 2009/10 and MY 2008/09.

IV-C4. U.S. Soybean Prices: Average U.S. soybean prices for MY 2010/11 are projected to be in the range of \$11.20-\$12.20 per bushel (up \$0.50 on the low end and unchanged on the upper end of the range), with a midpoint of \$11.70 /bu. This compares to an estimated MY 2009/10 U.S. average price of \$9.59 /bu, and an average price of \$9.97 /bu in MY 2008/09.

IV-C5. U.S. Soybean Use and Ending Stocks Trends During the MY 2004/05 through MY 2010/11 Period: U.S. soybean exports have trended higher from MY 2005/06 to MY 2010/11 – increasing from 940 mb up to a record high of 1.590 bb (Figure 11). Projected U.S. soybean crush of 1.655 bb in MY 2010/11 is below the lower end of the range of 1.662 bb to 1.808 bb since MY 2004/05. Projected MY 2010/11 ending stocks of 140 mb (4.2% S/U) are the second lowest since MY 2004/05, only marginally above the extremely low levels of MY 2008/09 (138 mb, 4.5% S/U). If U.S. soybean exports continue to increase in MY 2010/11, it is possible that U.S. ending stocks could decline below the level MY 2008/09 – adding further support to soybean market prices in MY 2010/11.

Figure 11. U.S. Soybean Use and Ending Stocks: MY 2004/05 through MY 2010/11
(January 12, 2011 USDA WASDE Report)



IV-C6. Market Implications for U.S. Soybeans

The ongoing strength of U.S. and World soybean prices during MY 2010/11 has been based mainly on export demand – particularly shipments of soybeans and soybean products to China. Growth in World total soybean use over this most recent three year period (from 221.13 mmt in MY 2008/09 to 238.55 mmt in MY 2009/10 to 255.49 mmt in MY 2010/11) trends upward with growth in World soybean exports (from 76.85 mmt in MY 2008/09 to 92.78 mmt in MY 2009/10 to 98.0 mmt in MY 2010/11).

In MY 2008/09 China accounted for 41.1 mmt (53%) of World soybean imports, followed by 50.34 mmt (58%) in MY 2009/10, and a projected level of 57 mmt (59%) in MY 2010/11. Projected World soybean ending stocks in MY 2010/11 of 58.28 mmt are slightly smaller than the level of ending stocks in MY 2009/10 (60.23 mmt) and but greater than in the tight supply year or MY 2008/09 (44.07 mmt). This indicates a relatively small margin for error (14.2 mmt or 5.6% of projected MY 2010/11 World soybean production) between ending stocks projections for the current marketing year, and those in the most recent short ending stocks year in MY 2008/09.

Given current USDA WASDE projections for MY 2010/11 of World soybean supplies, exports and domestic demand, as well as ending stocks balances – it continues to be likely that U.S. soybean prices will remain at historically high levels (i.e., \$11.20 to \$12.20 /bu for MY 2010/11). However, given the record of price volatility of soybean and other grain commodity markets since fall 2006, any appreciable threat to World soybean supply and/or demand factors could be expected to spark even more extreme price volatility in soybean prices in MY 2010/11. In particular, World soybean markets in 2011 will be vulnerable to soybean production problems in either the U.S. or South America, or to any weakness in World soybean export demand. The occurrence of the La Nina weather pattern appears to have at least marginally increased the risk of drier crop conditions in South American soybean production areas in 2011. Also, the possibility of economic and financial policy changes in China that could cause it to choose to reduce its aggressive purchases of soybeans and soybean products would likely have a marked negative impact on soybean and soybean product prices, given its dominant role as an export buyer in these export market.

With strong prices forecast for both corn and soybeans for MY 2010/11, it is increasingly likely that a strong competition for U.S. crop acres will occur in the spring of 2011, with new crop NOV 2011 soybean and DEC 2011 corn futures reflecting market concerns about 2011 acreage and production prospects. On January 13th, CBOT November 2011 soybean futures closed at \$13.12 ½, while CBOT 2011 December corn futures closed at \$5.70 ½, equaling a soybean/corn price ratio of 2.30. Throughout the winter and early spring U.S. corn and soybean producers will focus on this ratio of new crop 2011 soybean and corn price prospects as well as the projected costs of fertilizer, seed, pesticides, and other crop inputs as they decide which crops to plant in the coming year.