

Analysis of the December 2010 USDA WASDE Report

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Summary of December 10th 2010 USDA WASDE Report

In the December 10th 2010 World Agricultural Supply-Demand Estimate (WASDE) report, the USDA made a small but important change in its domestic soybean supply-demand projections for the 2010/11 marketing year, and minor changes for wheat and corn. The USDA also made small increases in MY 2010/11 global ending stocks of corn and wheat. Small reductions were made in World soybean and oilseed supply-demand projections for MY 2010/11.

Corn, Grain Sorghum & Other Coarse Grain Ending Stocks and Prices: The USDA made a small change in projected MY 2010/11 U.S. corn supply-demand estimates, raising ending stocks slightly to 832 million bushels (mb) with ending stocks-to-use at 6.2%. Projected MY 2010/11 U.S. average cash corn prices were left unchanged – ranging from \$4.80 to \$5.60 /bu. The range midpoint of \$5.20 /bu. is \$1.00 /bu. higher than the previous record high U.S. average corn price of \$4.20 /bu in MY 2007/08. Supply-demand and price projections for U.S. Grain sorghum were unchanged from the November WASDE report. Foreign coarse grain ending stocks projections for MY 2010/11 were raised 1.1% to 137.17 mmt (16.7% S/U), compared to 24.71 mmt (8.1% S/U) for all corn, grain sorghum, barley and oats in the United States.

Soybean & Other Oilseed Ending Stocks and Prices: Projected U.S. soybean exports for MY 2010/11 were increased 20 mb to a record high 1.59 billion bushels (bb), with ending stocks reduced by the same amount to 165 mb (4.9% S/U). Projected MY 2010/11 U.S. average cash soybean prices were left unchanged – ranging from \$10.70 to \$12.20 /bu. The range midpoint of \$11.45 /bu. is \$1.35 /bu. higher than the previous record high U.S. average soybean price of \$10.10 /bu in MY 2007/08. Foreign oilseed ending stocks projections were lowered slightly to 64.35 mmt (19.7% S/U), compared to 5.93 mmt (11.9% S/U) for all U.S. soybeans, sunflowers, cottonseed, canola and other oilseeds. Foreign soybean ending stocks projections declined 1.29 mmt to 60.12 mmt (23.5% S/U).

Wheat Ending Stocks and Prices: Projected U.S. wheat food usage for MY 2010/11 was decreased 10 mb to 930 mb, with ending stocks increased by the same amount to 858 mb (35.2% S/U). The range of projected MY 2010/11 U.S. average cash wheat prices was narrowed by \$0.05 on each end to \$5.30 to \$5.70 /bu. The range midpoint of \$5.50 /bu. is \$1.28 /bu. lower than the record high U.S. average wheat price of \$6.78 /bu. in MY 2007/08. From MY 2009/10 to MY 2010/11 marked decreases in ending stocks-to-use have occurred for U.S. hard red winter wheat (from 48.7% to 31.7%), hard red spring wheat (47.1% to 31.5%), soft red winter wheat (66.3% to 59.3%), and white wheat (34.6% to 29.5%). Foreign wheat ending stocks projections were increased 3.94 mmt to 153.37 mmt (24.2% S/U), compared to 23.35 mmt for all U.S. wheat types combined.

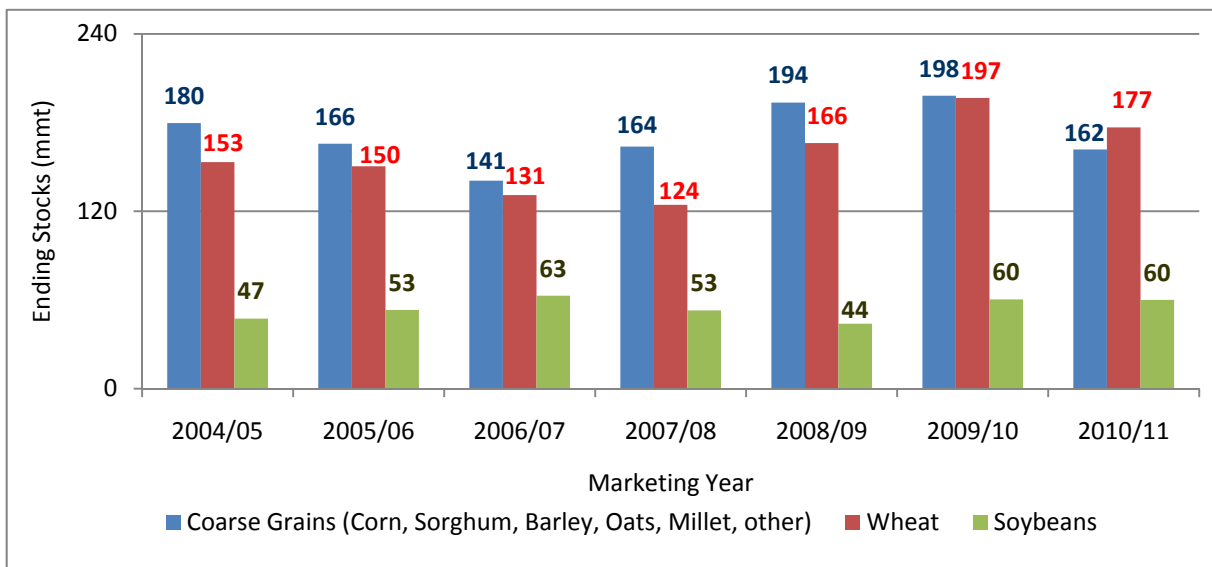
Competition for 2011 U.S. Crop Acres: Strong competition for U.S. crop acres is still expected to occur in the spring of 2011, with new crop NOV 2011 soybean and DEC 2011 corn futures reflecting market concerns about 2011 acreage and production prospects. Based on futures closes on December 10, 2010 the soybean/corn price ratio was 2.26 (i.e., \$11.93 ½ ÷ \$5.29 ¼).

World Ending Stocks of Coarse Grains, Wheat and Soybeans

World Coarse Grain & Corn Stocks: World coarse grain production and total supplies are projected to be 1,089 mmt and 1,287 mmt, respectively, in MY 2010/11. The production estimate was raised 3.4 mmt and the supply estimate was raised 2.6 mmt from the November WASDE report. Total World use of coarse grains is projected to be 1,125 mmt in MY 2010/11, up 0.9 mmt from the November WASDE report but 4.1% larger than in MY 2008/09. World coarse grain total use has increased an average of 22.6 mmt per year since MY 2008/09. World coarse grain ending stocks are projected to be 161.8 mmt in MY 2010/11, up 1.65 mmt from the November WASDE report, representing 14.4% stocks-to-use. 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 130 mmt (15.5% S/U) in MY 2010/11, up 0.84 mmt from the November 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 837.91 mmt in MY 2010/11, an annual increase of 11.8 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
(December 10, 2010 USDA WASDE Report)



World Wheat Stocks: World wheat ending stocks for MY 2010/11 are projected to be 176.7 mmt (26.5% S/U), up 4.2 mmt from the November WASDE (Figure 1). World wheat ending stocks in MY 2010/11 are down 10.1% from 196.7 mmt (30.2% S/U) in MY 2009/10, but are higher than 166.2 mmt (25.9% S/U) in MY 2008/09. Current World wheat ending stocks are 52.3 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 666.7 mmt in MY 2010/11, an average growth of 9.8 mmt or 1.6% per year. All types of wheat are included in this total, including hard red winter, hard red spring, soft red winter, white wheat, and durum varieties.

World Oilseed & Soybean Stocks: World oilseed ending stocks for MY 2010/11 are projected to be 70.3 mmt (18.7% S/U), down 1.04 mmt from the November WASDE report, and down from 72.19 mmt (20.2% S/U) in MY 2009/10. World oilseed ending stocks in MY 2010/11 are 13.9 mmt or 25% larger than the recent low in MY 2008/09 of 56.42 mmt (16.7% S/U). World oilseed use has grown from 338.4 mmt in MY 2008/09 to 376.8 in MY 2010/11, an annual increase of 19.1 mmt (5.7%). The category of “Oilseeds” includes soybeans, sunflowers, cotton, canola, flaxseed, peanuts, and other oilseed-type crops.

World soybean ending stocks are projected to be 60.1 mmt (23.5% S/U) in MY 2010/11, a decrease of 1.29 mmt from the November WASDE, and down from 60.41 mmt (25.3% S/U) in MY 2009/10, but up from 44.02 mmt (19.9% S/U) in MY 2008/09. World soybean use has increased from 221.1 mmt in MY 2008/09 to 256.3 in MY 2010/11, an annual increase of 17.6 mmt (7.9%).

Market Perspective on World Ending Stocks for Major Grains & Oilseeds: As shown in Figure 1, World coarse grain ending stocks in MY 2010/11 are projected to decline 18% from the levels of the previous marketing year. World wheat ending stocks in MY 2010/11 are projected to be 10% lower than record highs in the previous marketing year. World soybean ending stocks are projected to remain at moderately high levels in MY 2010/11.

World grain prices are likely to continue to be supported in MY 2010/11 by a combination of supply-demand factors, including...

- Continued growth in World usage combined with at least moderately tighter ending stocks-to-use in MY 2010/11 for coarse grains, wheat and oilseeds
- Anticipation of strong competition for U.S. crop acreage in the spring of 2011 between corn, soybeans and other crops
- Tightening World supplies of food quality wheat following 2010 harvest problems in the Black Sea region, eastern Australia and Canada – with subsequent competition to purchase remaining food quality wheat supplies from the United States and elsewhere for the remainder of MY 2010/11
- Healthy U.S. export prospects for soybeans due to...
 - Dry conditions during seeding time for soybeans in South America in November-December 2010, and continued concerns about the possible impacts of the current La Nina weather pattern on South American soybean and corn production prospects in 2011
 - Expectations of continued strength in Chinese soybean and soybean product imports in MY 2010-11
- Continued strength of U.S. grain-based ethanol production and associated feedgrain use in the next 6-12 months
- The risk of volatile World economic conditions that could affect potential export purchasing power of U.S. grain and oilseed export customers, especially as U.S. currency values fluctuate relative to other world currencies

Current World market prospects support the case that tightening grain and oilseed supply/demand fundamentals will provide support for U.S. grain and oilseed prices through the winter months on into the 2011 spring planting and early crop development periods.

Feedgrain Market Situation and Outlook

Corn & Grain Sorghum ⇒ Continued support for feedgrain market outlook in late 2010 - 2011

- **World Coarse Grain ending stocks in MY 2010/11 = 161.88 mmt (14.4% S/U)** (up 1.65 mmt vs November 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 14.4% 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 = 832 mb (6.2% S/U)** (up 5 mb from November 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 \$4.80 - \$5.60 /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 \$4.90 - \$5.70 /bu range in MY 2010/11 (vs \$3.22 /bu in MY 2009-10)

U.S. Corn Supply-Use: Only minor changes were made in U.S. corn supply-demand balances in the December 10th WASDE report in MY 2010/11 (Table 1). Beginning stocks of 1.708 bb were combined with 2010 U.S. corn production of 12.54 bb and imports of 15 mb to bring total MY 2010/11 U.S. corn supplies to 14.262 bb. Imports and total supplies were raised 5 mb from the November WASDE report. Total corn use of 13.43 bb in MY 2010/11 was made up of ethanol use of 4.8 bb combined with non-ethanol food, seed and industrial use of 1.38 bb, exports of 1.95 bb and feed and residual use of 5.3 bb. The U.S. corn ethanol and total use amounts in MY 2010/11 are record highs.

U.S. Corn Ending Stocks: Ending stocks of U.S. corn are projected at 832 mb in MY 2010/11 (up 5 mb from last month's WASDE report, and down 876 mb from MY 2009/10), representing 6.2% ending stocks-to-use. This stocks-to-use projection is essentially equal to the November WASDE estimate, but down from 8.3% and 6.7% in the Sept. – Oct. WASDE reports, respectively, and down from 13.1% in MY 2009/10, and from 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).

U.S. Corn Prices: United States season average corn prices for MY 2010/11 were projected to be in the range of \$4.80-\$5.60 per bushel with a midpoint of \$5.20. 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.

Table 1. U.S. Corn Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11

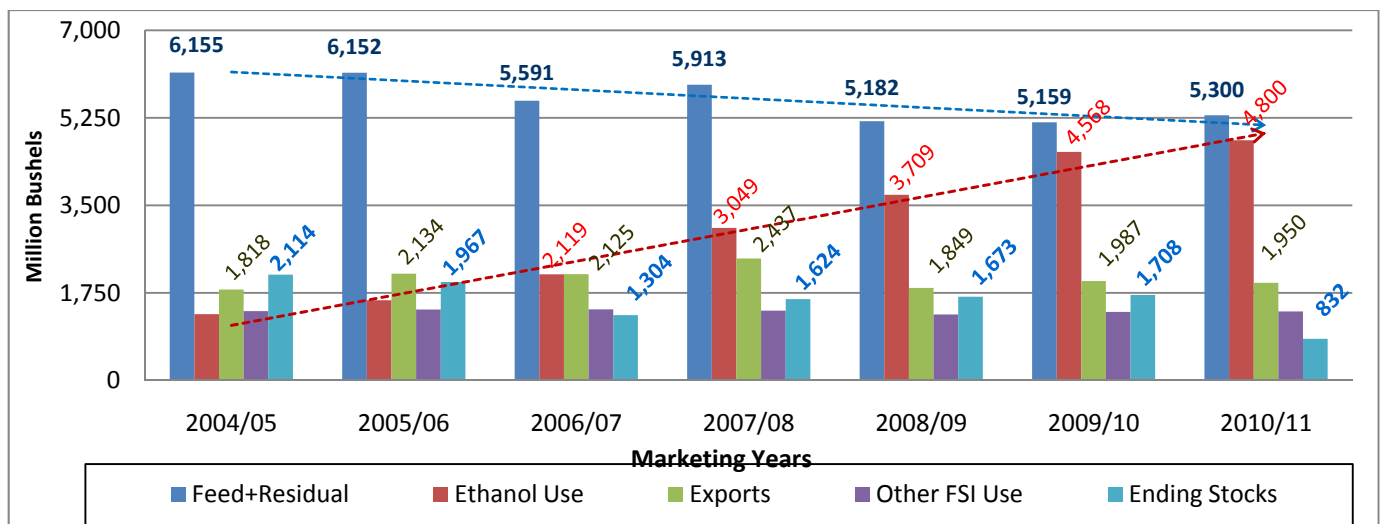
(December 10, 2010 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	93.5	86.0	86.5	88.2
Harvested Area (million acres)	86.5	78.6	79.6	81.3
Yield per harvested acre (bushels/acre)	150.7	153.9	164.7	154.3
	million bushels			
Beginning Stocks	1,304	1,624	1,673	1,708
Production	13,038	12,092	13,110	12,540
Imports	20	14	8	15
Total Supply	14,362	13,729	14,792	14,262
Ethanol for fuel	3,049	3,709	4,568	4,800
Non-ethanol Food, Seed & Industrial	1,393	1,316	1,370	1,380
Exports	2,437	1,849	1,987	1,950
Feed & Residual	5,858	5,182	5,159	5,300
Total Use	12,737	12,056	13,084	13,430
Ending Stocks	1,624	1,673	1,708	832
% Ending Stocks-to-Total Use	12.8%	13.9%	13.1%	6.2%
U.S. Average Farm Price (\$/bushel)	\$4.20	\$4.06	\$3.55	\$4.80-\$5.60 <i>Midpoint = \$5.20</i>

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 2). However, the 5.3 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 4.8 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 832 bb in MY 2010/11.

Figure 2. Trends in U.S. Corn Use and Ending Stocks: MY 2004/05 through MY 2010/11

(December 10, 2010 USDA WASDE Report)



U.S. Grain Sorghum Supplies & Usage: There were no changes in MY 2010/11 supply-demand projections for U.S. grain sorghum in the December 10 WASDE report. Based on beginning stocks of 41 mb and 2010 production of 338 mb, total supplies of U.S. grain sorghum are projected to be 379 mb for MY 2010/11 (Table 2). Projected total use of 340 mb in MY 2010/11 consists of food, seed and industrial use (including ethanol use) of 90 mb, exports of 160 mb, and feed and residual use of 90 mb.

U.S. Grain Sorghum Ending Stocks & Prices: Ending stocks of U.S. grain sorghum are projected at 39 mb in MY 2010/11, representing 11.5% ending stocks-to-use. Average grain sorghum prices for MY 2010/11 are projected to be in the range of \$4.90-\$5.70 /bu. with a midpoint of \$5.30 /bu. The U.S. average price for grain sorghum in MY 2010/11 is \$0.10 /bu higher than for U.S. corn.

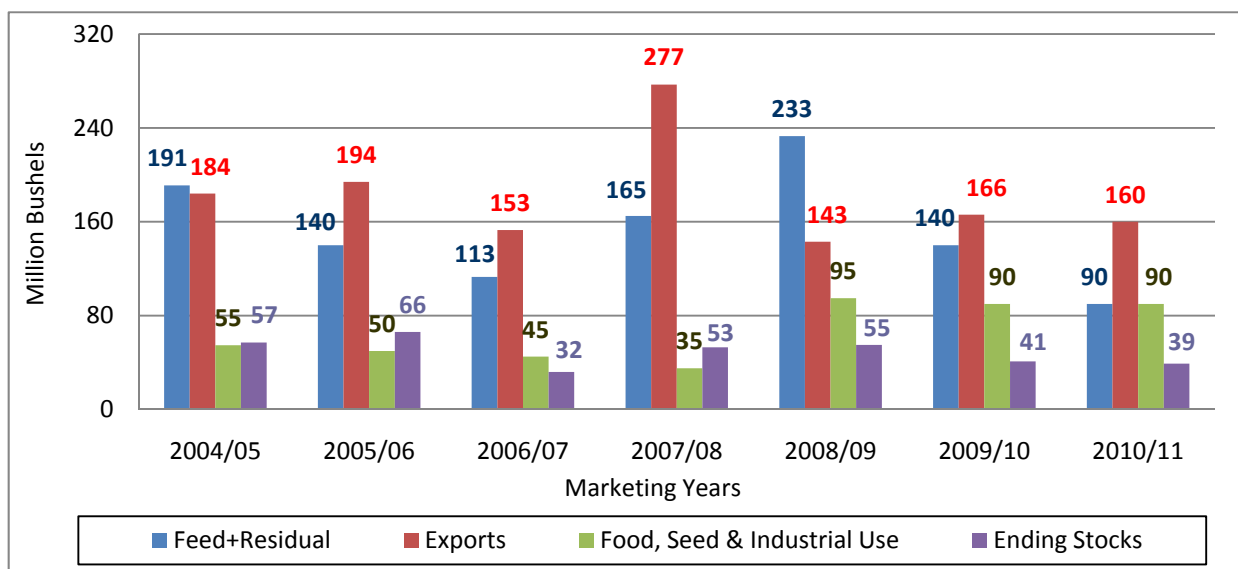
Table 2. U.S. Grain Sorghum Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(December 10, 2010, 2010 USDA WASDE Report)

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	4.7
Yield per harvested acre (bushels/acre)	73.2	65.0	69.4	72.5
	million bushels			
Beginning Stocks	32	53	55	41
Production	497	472	383	338
Total Supply	530	525	438	379
Food, Seed & Industrial	35	95	90	90
Exports	277	143	166	160
Feed & Residual	165	233	140	900
Total Use	477	471	396	340
Ending Stocks	53	55	41	39
% Ending Stocks-to-Total Use	11.1%	11.7%	10.4%	11.5%
U.S. Average Farm Price (\$/bushel)	\$4.08	\$3.20	\$3.22	\$4.90-\$5.70 <i>Midpoint = \$5.30</i>

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 3. Ending stocks for U.S. grain sorghum have remained in the range of 32 to 66 mb since MY 2004/05, with 39 mb of ending stocks (11.5% stocks-to-use) projected for MY 2010/11.

Figure 3. Trends in U.S. Grain Sorghum Use & Ending Stocks During MY 2004/05 thru MY 2010/11
(December 10, 2010 USDA WASDE Report)



Market Implications for U.S. Corn and Grain Sorghum in MY 2010/11: As was the situation after the November WASDE report, projections of MY 2010/11 U.S. corn ending stocks of 832 mb (below 1 billion bushels) and 6.2% stocks-to-use (nearing 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 the remainder of 2010 and on into 2011. With U.S. cash corn prices for MY 2010/11 projected to be record high in the \$4.80 to \$5.60 /bu range, there is 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. Given current high corn prices and uncertain economic conditions in the United States, a serious 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 extremely high priced corn inputs.

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 remain high during December 2010, but then decline moderately in January (due largely to delayed farmer cash sales for income tax management purposes). Then from January 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 in 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.

Wheat Market Situation & Outlook

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

- **World wheat ending stocks in MY 2010/11 = 176.7 mmt (26.5% S/U)** (up 4.21 mmt from November 2010 WASDE report)
 - Versus 197 / 166 / 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 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 176.7 mmt (26.5% S/U) are still 52.3 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 = 858 mb (35% S/U)** (up 10 mb from November 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 \$5.30 - \$5.70 /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.*
 - *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 858 mb, but are still 180% or 552 mb larger than record 60 year lows of 306 mb in MY 2007/08.*

U.S. Wheat Supply-Use: No changes were made in projected U.S. wheat supplies for MY 2010/11, but a small decrease was made in projected food usage (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 2.436 bb (down 10 mb from the November WASDE) was comprised of 930 mb of food use (down 10 mb), seed use of 76 mb, exports of 1.25 bb, and feed and residual use of 180 mb.

U.S. Wheat Ending Stocks: Ending stocks of U.S. wheat are projected at 858 mb (35.2% S/U) in MY 2010/11 (up 5 mb from the November WASDE, and down 118 mb from MY 2009/10). Projected MY 2010-11 U.S. wheat ending stocks-to-use had decreased each month since the July WASDE, falling

from 49.8% to 39.9% to 37.0% to 34.9% to 34.7% in the November WASDE, but now increasing slightly to 35.2% S/U.

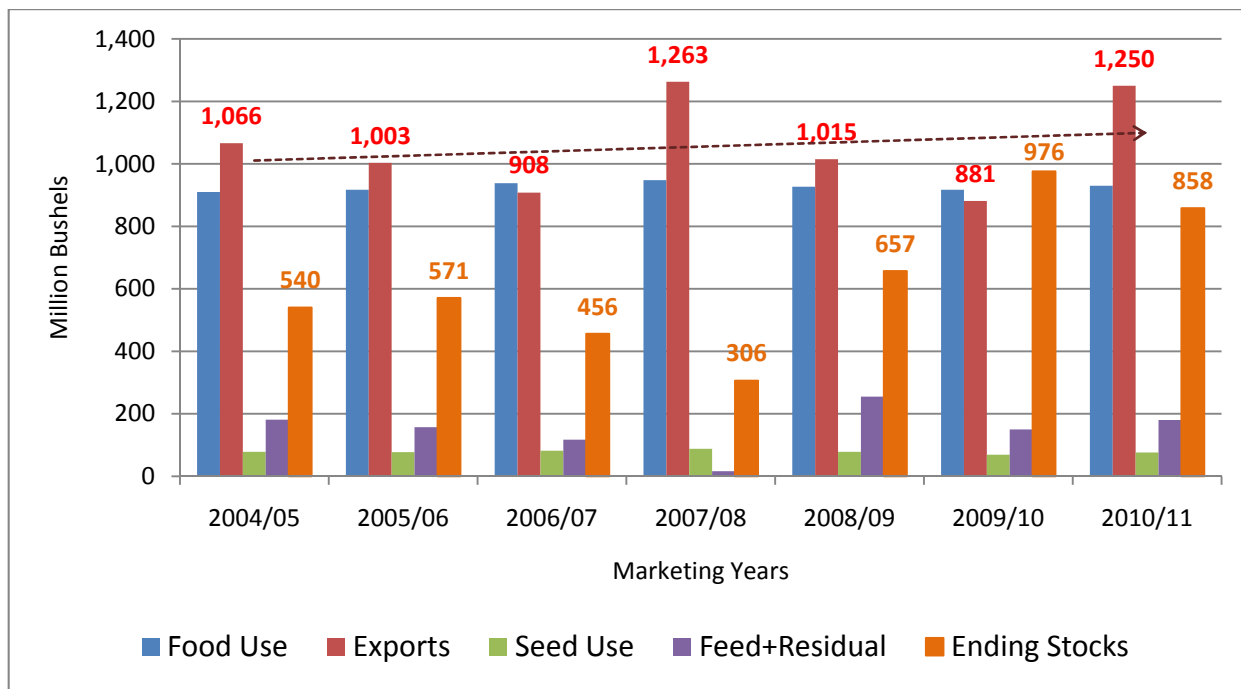
U.S. Wheat Prices: Average U.S. wheat prices for MY 2010/11 were projected to be in the range of \$5.30-\$5.70 /bu (narrowing \$0.05 on each end of the price range), with a midpoint of \$5.50. This compares to an estimated MY 2009/10 average price of \$4.87 per bushel, and a record high price of \$6.78 per bushel in MY 2008/09.

Table 3. U.S. Wheat Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(December 10, 2010 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	1,250
Feed & Residual	16	255	150	180
Total Use	2,314	2,275	2,018	2,436
Ending Stocks	306	657	976	858
% Ending Stocks-to-Total Use	13.2%	28.9%	48.4%	35.2%
U.S. Average Farm Price (\$/bushel)	\$6.48	\$6.78	\$4.87	\$5.30-\$5.70 <i>Midpoint = \$5.50</i>

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 4). The December 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 December WASDE wheat export forecast of 1.250 bb is near 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 858 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 if not exceed current projections – possibly resulting in lower U.S. wheat ending stocks projections in future USDA WASDE reports.

Figure 4. Trends in U.S. Wheat Use and Ending Stocks: MY 2004/05 through MY 2010/11
(December 10, 2010 USDA WASDE Report)



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 remained volatile – but have generally moved in a sideways direction, with January 2011 KCBT wheat futures trading within a range of closing prices between \$6.97 ¼ on October 4th to \$8.11 on November 8th. After closing at \$7.05 ¾ on November 16th, JAN 2011 KCBT wheat began climbing higher, including a \$0.48 ½ “jump” from the November 30th close to the December 1st opening price or \$7.96 /bu.. Driven by foreign wheat harvest and quality problems and continued dry conditions in U.S. winter wheat production areas, on December 3rd JAN 2011 KCBT wheat closed at \$8.22 (higher than the \$8.11 high price since August 2010), and continued higher to \$8.43 ¾ on December 9th. The December 10th close for JAN 2011 KCBT wheat was at \$8.32 /bu.

These volatile market conditions indicate 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 markedly above historic 30 year lows experienced MY 2007/08, concerns 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 and resulting from these market concerns about having adequate wheat supplies.

In most aspects, market prospects for 2011 have not changed appreciably since November, except for the significant wet harvest and wheat quality problems that are occurring in Australia and the emerging understanding of scope of wheat quality problems with the 2010 Canadian crop. Although MY 2010/11 World wheat stocks are not projected to be as tight as in MY 2007/08, the World wheat market is likely to continue to find support in 2011 from the following factors:

- a) Australian and Canadian wheat quality problems in 2010

- b) Export limits from Black Sea countries
- c) Dry soils and the increased possibility of 2011 winter wheat production problems in the U.S., Russia, and other selected major wheat exporters
- d) Continued steady growth in World wheat usage
- e) The current availability of sizable, reasonable quality U.S. wheat stocks to help meet World export demand

Until, or rather, unless 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 tight, with wheat market prices remaining at historically high levels. However, an appreciable threat of significant World wheat production problems in 2011 that could lower World wheat stocks ever further (closer to level of the 30 year lows in MY 2007/08) 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.

Soybean Market Situation & Outlook

Soybeans ⇒ Continued strength in soybean and oilseed markets through winter into spring 2011

- **World Oilseed ending stocks in MY 2010/11 = 70.3 mmt (18.7% S/U)** (down 1.04 mmt vs November 2010 WASDE)
 - Versus 72 / 56.4 / 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 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 = 165 mb (4.9% S/U)** (down 20 mb from November 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 \$10.70 - \$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.*

U.S. Soybean Supply-Use: The USDA made only one change in the MY 2010/11 U.S. soybean supply-demand balance sheet, that of raising U.S. exports and lowering ending stocks by the same amount. Total supplies of 3.536 bb for MY 2010/11 were made up of beginning stocks of 151 mb, 2010 U.S.

soybean production of 3.375 bb and imports of 10 mb. Total use of U.S. soybeans in MY 2010/11 of 3.371 bb (up 20 mb) consisted of crushings of 1.665 bb, exports of 1.59 bb (a record high and up 20 mb from the November WASDE), seed use of 88 mb, and residual use of 29 mb.

Soybean meal exports from the U.S. in MY 2010/11 are projected to be 9.2 mln. tons, up 100,000 tons from the November WASDE but still down 18% from 11.175 mln. tons in MY 2009/10. Domestic use of soybean meal was lowered 100,000 tons, offsetting the increase in U.S. SBM exports.

Exports of U.S. soybean oil in MY 2010/11 of 2.7 billion lbs is down from 3.357 bln 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 \$0.02 ½ on each end of the price range to \$0.45 to \$0.47 per pound for MY 2010/11.

U.S. Soybean Ending Stocks: Ending stocks of U.S. soybeans are projected to be 165 mb in MY 2010/11, which is down 20 mb from the November WASDE, and up only 14 mb from 151 mb U.S. ending stocks in MY 2009/10. This represents 4.9% ending stocks-to-use, down from 10.6%, 8.0% and 5.5% in the September, October and November 2010 USDA WASDE reports, respectively. Projections of MY 2010/11 ending stocks-to-use for U.S. soybeans of 4.9% in have declined to the degree that they are now nearly equal to the 4.5% levels in both MY 2009/10 and MY 2008/09.

U.S. Soybean Prices: Average U.S. soybean prices for MY 2010/11 are projected to be in the range of \$10.70-\$12.20 per bushel, with a midpoint of \$11.45 /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.

Table 4. U.S. Soybean Supply-Demand Balance Sheet: MY 2007/08 through MY 2010/11
(December 10, 2010 USDA WASDE Report)

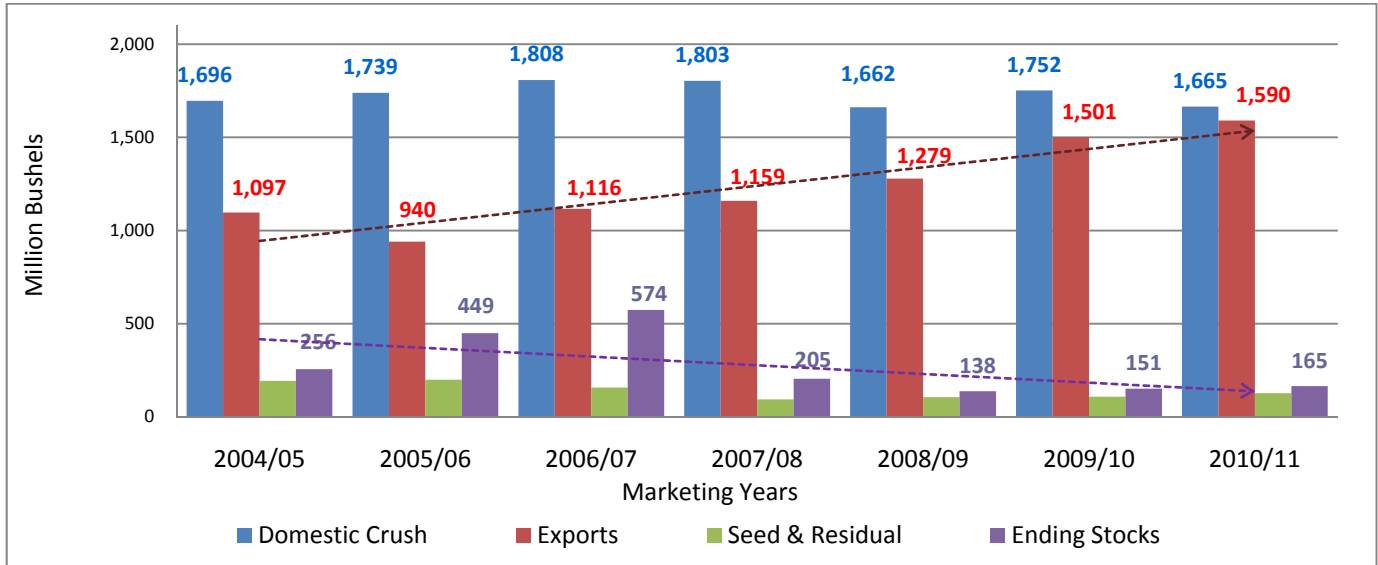
Item	2007/08	2008/09	2009/10	2010/11
Planted Area (million acres)	64.7	75.7	77.5	77.7
Harvested Area (million acres)	64.1	74.7	76.4	76.8
Yield per harvested acre (bushels/acre)	41.7	39.7	44.0	43.9
	million bushels			
Beginning Stocks	574	205	138	151
Production	2,677	2,967	3,359	3,375
Imports	10	13	15	10
Total Supply	3,261	3,185	3,512	3,536
Domestic Crushings	1,803	1,662	1,752	1,665
Exports	1,159	1,279	1,501	1,590
Seed	89	90	90	88
Residual	5	16	18	29
Total Use	3,056	3,047	3,361	3,371
Ending Stocks	205	138	151	165
% Ending Stocks-to-Total Use	6.7%	4.5%	4.5%	4.9%
U.S. Average Farm Price (\$/bushel)	\$10.10	\$9.97	\$9.59	\$10.70-\$12.20 <i>Midpoint = \$11.45</i>

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 5). Projected U.S. soybean crush of 1.665 bb in MY 2010/11 is nearly equal to 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 165 mb (4.9% S/U) are third lowest since MY 2004/05, only marginally above the extremely low levels of MY 2008/09 (138 mb, 4.5% S/U) and MY 2009/10 (151 mb, 4.5% S/U). If U.S. soybean exports continue to increase in MY 2010/11, it is likely that U.S. ending stocks will decline to the levels of the last two marketing years – adding further support to soybean market prices in MY 2010/11.

Figure 5. U.S. Soybean Use and Ending Stocks: MY 2004/05 through MY 2010/11

(December 10, 2010 USDA WASDE Report)



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 256.24 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 60.12 mmt are essentially equal to ending stocks levels of 60.41 mmt in MY 2009/10 and 44.02 mmt in the tight supply year or MY 2008/09. This may indicate a relatively small margin for error (16.1 mmt or 6.2% 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., \$10.70 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 December 10th, CBOT November 2011 soybean futures closed at \$11.93 ½, while CBOT 2011 December corn futures closed at \$5.29 ¼, equaling a soybean/corn price ratio of 2.255. 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.