



April 2016 – Crop Market Update Public Policy Department Budget & Economic Analysis Team

Prospective Plantings Report Shakes up the Market

On the last day of March, as usual, USDA released the annual Prospective Plantings report, providing the most comprehensive look to date at farmers upcoming planting intentions. Because it is the first really good public intelligence that the market gets about the size of the upcoming crop, this is always a closely monitored report.

This year, the Prospective Plantings report was full of surprises. Probably the biggest surprise of the bunch was that corn plantings were estimated to be 93.6 million acres in 2016. This would be a pretty healthy six percent increase over 2015 plantings. The real surprise, though, was in how this plantings estimate compared to the trade's pre-report expectations.

As I said earlier, the Prospective Plantings report is a pretty big deal, so lots and lots of market analysts and consultants put out pre-report estimates of the report's figures, at least for corn, soybeans, and wheat. A few days before the report comes out, Reuters compiles and summarizes pre-report estimates from 28 firms projecting corn, soybean and wheat acreage. This year's corn planting estimate from USDA was over 2.5 million acres bigger than even the largest of these pre-report estimates. On average, the trade had been looking for corn planting intentions to come in about a million acres larger than USDA's 90 million acre figure that was included in the February Outlook Forum. The point of all this is that nobody really saw 93.6 million acres of corn in the cards.

The higher-than-expected corn acreage was matched with soybean planting intentions that were below expectations, which only makes sense. But at 82.236 million acres, soybean planting intentions were not really that far out of line with the trade estimates. The average of pre-report expectations was about 83 million acres; however, a number of publically-released estimates were below 82 million acres. From this perspective, the soybean acres were not that big of a shock to the market.

On the other hand, wheat planting intentions were about as shocking—in the other direction—as the corn figure. All wheat planting intentions were estimated at 49.559 million acres. If this projection holds up, this will be the smallest wheat acreage since 1970. Incidentally, wheat acreage topped out at 88.3 million acres in 1981 and has trended more-or-less steadily lower since.

The implication of these acreage figures for supply/demand balance sheets is, of course, what the market is ultimately interested in. By supplying trend yield estimates along with some hopefully-realistic projections of offtake from major use categories, we can at least start to get an idea of how balance sheets are likely to be affected. Table 1 shows abbreviated balance sheets for corn, soybeans and wheat for 2015/16 along with projections for 2016/17 based on Prospective Plantings acreage, average abandonment, and trend yields. Note that the 2016/17 total use figures in this table are not intended to be at all predictive. Rather, they are intended to illustrate how ending stocks for each of these crops will develop with production that is consistent with current planting intentions and a fairly aggressive level of offtake.

Table 1. Supply and Use Balance Sheets for Corn, Soybeans, and Wheat

	Corn		Soybeans		Wheat	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
Planted Acres	88.0	93.6	82.7	82.2	54.6	49.6
Harvested Acres	80.7	85.6	81.8	81.3	47.1	42.0
Yield (harv. ac.)	168.4	166.0	48.0	45.8	43.6	45.9
Beginning Stocks	1,731	1,862	191	445	752	976
Production	13,601	14,385	3,929	3,795	2,052	1,929
Total Supply	15,382	16,287	4,150	4,270	2,924	3,015
Total Use	13,521	13,892	3,705	3,870	1,948	2,083
Ending Stocks	1,862	2,395	445	420	976	932
Stocks:Use	13.8%	17.2%	12.0%	10.8%	50.1%	44.8%

Keep in mind in viewing this illustration that both corn and soybean total use figures shown here would amount to new record levels of use—in the case of corn exceeding the prior record offtake by over 250 million bushels. For wheat, the level of total use shown in Table 1 would imply no change in wheat feeding compared to the prior year despite a big increase in corn use.

The point of the foregoing, of course, is that given present world market realities, the total use figures plugged into Table 1 for 2016/17 seem to be quite liberal: that is, very likely on the high side of what is actually achievable, certainly for corn and wheat. And with trend yields and optimistic use forecasts, the corn stocks-to-use ratio increases substantially, soybean stocks-to-use holds at over 10 percent and wheat stocks-to-use holds at about 45 percent. This underscores the generally bearish situation facing grain and oilseed markets right now. This is, of course, not a novel insight. The line on these markets for some time now has been that unless a production problem develops somewhere in the world this year, supplies are likely to build and continue pressuring prices. The Prospective Plantings report really didn't do much to change that situation.

On a brighter note, notwithstanding the preceding evaluation of longer-term fundamentals, right now the soybean market is in the midst of an impressive rally. November 2016 soybeans have risen from a price of about \$8.70 at the beginning of March to just over \$9.50 as I write this (Wednesday morning). This is the highest price on that contract since last July.

The soybean rally appears to be driven by expectations of continued growth in global demand (that is already very strong), a recent weakening of the dollar versus other major currencies, and some speculation that if Brazil's and Argentina's currencies continue to strengthen, their farmers may cut back on production. At this point, these justifications are all pretty speculative so that support for this rally could unwind rather quickly if more concrete evidence of emerging fundamental strength doesn't materialize. In the meantime, though, this rally has produced an unexpected pricing opportunity that is worth taking a good hard look at given the generally bearish environment that we are operating in.

World Agricultural Supply and Demand Estimates Summary

The April World Agricultural Supply and Demand Estimates (WASDE) report always seems kind of anticlimactic. After getting a look ahead to the upcoming crop year with the Prospective Plantings report, the April WASDE falls back to an exclusive focus on the current marketing year.

Of course, the marketing year is far from over, so there is still plenty of room for making changes to crop balance sheets—at least on the demand side; the supply side is pretty firm by now, of course.

And USDA did give us some changes in this month’s report. The quarterly Grain Stocks report, released along with Prospective Plantings on the last day of March, provided some new information that formed the basis of adjustments to use figures. For corn and wheat, indicated disappearance based on the quarterly stocks report suggests that use has been a little slower than expected.

For wheat, slower use was reflected on the balance sheet as a 10 million bushel reduction in the feed and residual category. With no other changes, this bumped wheat ending stocks up to 976 million bushels. This moves projected ending stocks just a touch over the 2009/10 ending stocks level of 975 million bushels. If this projection holds, then, wheat ending stocks will be the highest in absolute terms since 1987/88. As a percentage of use, stocks are also historically high—unlike corn and soybeans, wheat use now is pretty consistent with what it was in the late-1980s. Figure 1 shows wheat ending stocks as a percentage of use going back to 1980.

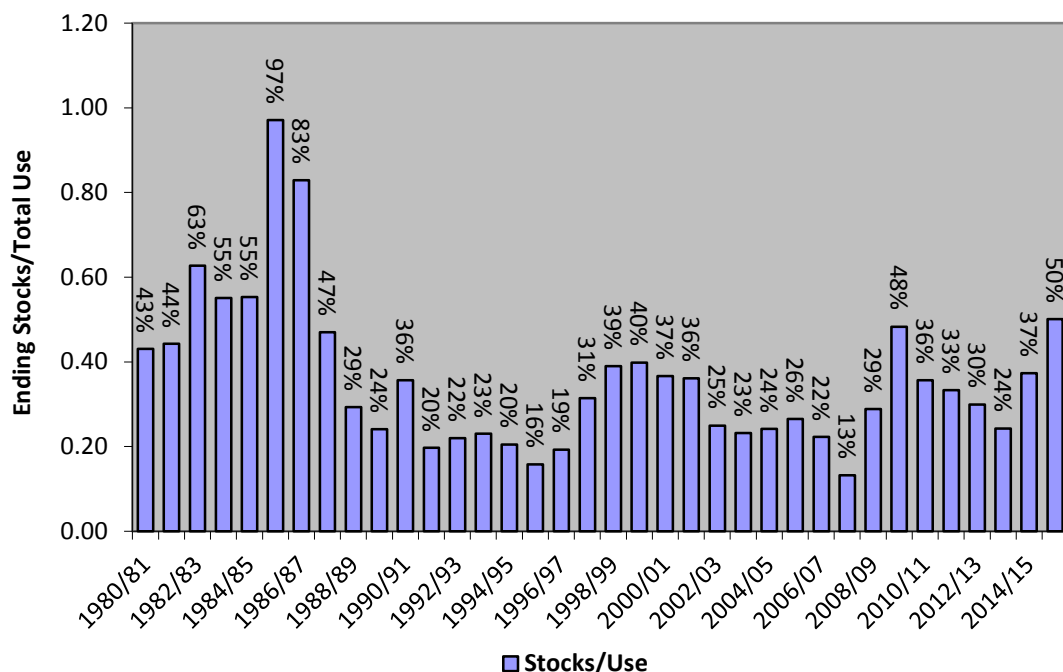


Figure 1. Wheat Marketing Year Ending Stocks as a Percent of Total Use: 1980/81 – 2015/16(est.)

Wheat stocks have been higher than they are currently, but not for a good long time. With the dramatic drop in wheat plantings this year, wheat stocks are almost certain to drop—though how much they might drop will depend critically on this year’s yields.

For corn, the slower-than-expected offtake was reflected in a couple of partially-offsetting adjustments to the balance sheet. Feed use was dropped by 50 million bushels (to 5.25 billion bushels) and ethanol use was raised by 25 million bushels (also 5.25 billion bushels) compared to last month’s report. On net, these changes added 25 million bushels to projected corn carryover. Table 2 shows the full corn balance sheet with this month’s updated use figures.

Table 2. U.S. Corn Supply and Use Balance Sheet

	2012/13	2013/14	2014/15	2015/16	
				March	April
				<i>million acres</i>	
Planted Acres	97.3	95.4	90.6	88.0	88.0
Harvested Acres	87.4	87.5	83.1	80.7	80.7
				<i>bushels</i>	
Yield (harv. ac.)	123.1	158.1	171.0	168.4	168.4
				<i>million bushels</i>	
Beginning Stocks	989	821	1,232	1,731	1,731
Production	10,755	13,829	14,216	13,601	13,601
Imports	160	36	32	50	50
Total Supply	11,904	14,686	15,479	15,382	15,382
Feed & Residual	4,315	5,040	5,324	5,300	5,250
Ethanol	4,641	5,124	5,200	5,225	5,250
Other FSI	1,397	1,369	1,360	1,370	1,371
Exports	730	1,920	1,864	1,650	1,650
Total Use	11,083	13,454	13,748	13,545	13,521
Ending Stocks	821	1,232	1,731	1,837	1,862
Stocks:Use	7.4%	9.2%	12.6%	13.6%	13.8%
Avg. Price	\$6.89	\$4.46	\$3.70	\$3.40 - \$3.80	\$3.30 - \$3.70

Corn ending stocks have increased steadily since the drought-induced low at the end of the 2012/13 marketing year. If actual plantings end up anywhere close to the projections in the Prospective Plantings report, corn carryover will almost certainly continue to build for at least another year. Price changes since the release of Prospective Plantings may have had the effect of peeling a few acres off to soybeans—that certainly seems to be what the market is trying to do—but this late in the game, not all that many acres are still mobile.

The soybean balance sheet did get a small positive adjustment in this month's WASDE. Soybean exports have been on pace to exceed the prior projection of 1.69 billion bushels. Accordingly, USDA bumped projected soybean exports by 15 million bushels—not a big change, obviously, but in a positive direction at least. Ending stocks are now projected at 445 million bushels. This is still far higher than the market is generally comfortable with. However, the fact that soybean exports still needed to be revised up at all with all of the headwinds U.S. suppliers are facing in foreign markets (e.g., strong dollar, increased competitiveness from Argentina, slowing China growth) is a pretty bullish sign. Certainly the market is taking it as such.

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Global Weatherman

Farmers have always liked to talk about the weather. How could it not be of interest when your livelihood is directly dependent on what Mother Nature decides to throw our way? Of course we worry year 'round about rainfall, snowfall, moisture of all kinds, but maybe we worried a little less when we didn't actively have a crop in the ground. Thankfully, increasing global trade in commodities has ensured that there isn't any down time in the weather worry game any longer. (Sarcasm intended.)

Tuesday, USDA released their World Agricultural Production report. If you're not familiar with this particular publication, it's basically a global weather report that tracks the impact weather is having on crop production in various markets. The report comes out monthly; its findings having been utilized in the WASDE. The data generated by USDA FAS's weather gang (I don't think they actually call themselves that) is one component used to estimate global production. This month's report holds some interesting stories.

Mexico Corn

Mexico has two seasons for corn production: spring/summer (April-November) and fall/winter (November-April). The good weather conditions that benefited spring/summer production, carried through to fall/winter planting, which encouraged higher than anticipated planted area. Typically the spring/summer accounts for approximately 70 percent of total corn production, but favorable growing conditions for the fall/winter season is pushing Mexico's overall production numbers higher than last month. Mexico's 2015/16 corn production at 24.0 million metric tons, up 2.1 percent from last month. Harvested area is estimated at 7.1 million hectares, up 1.4 percent from last month. Yield is estimated at 3.38 tons per hectare, slightly up from last month. The favorable weather bump is increasing estimates over last month, but overall 2015/16 corn production is still estimated down 5.8 percent from last year.

Brazil Corn

Brazil also famously has two seasons for corn production. First-season corn harvest, which accounts for 34 percent of total production, is well underway after favorable growing conditions. The larger second-season crop has also benefited from favorable weather, but yield prospects are incredibly dependent on April rains. We'll all be keeping an eye on precipitation, which is currently tracking with patterns from the last strong El Nino which occurred in 1997-98.

Argentina Corn

Argentina corn production for 2015/16 is estimated at 28.0 million metric tons, up 3.7 percent from last month but 2.4 percent below last year's output. Rain has been prevalent February through April, which was good for yield (early harvested fields in Buenos Aires, Córdoba, Entre Ríos and Santa Fe are reporting above average yields), but is slowing harvest. Some flooding in corn and soybean fields near creeks and streams is evident.

Argentina Soybeans

The market has been trading up on information from Argentina and Brazil for a while. The USDA weather gang highlights that rain continues through April, slowing down harvest. Harvest is only 25 percent complete, significantly behind schedule.

Good information on Indian soybeans, EU and Ethiopian wheat and Ethiopian sorghum are also included. Now, back to worrying about U.S. weather.

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