

USDA's Supply & Demand Outlook for Wheat, Corn, and Soybeans for 2009/10

TD Newcrest Agriculture Conference - Harvesting Great Ideas
November 19, 2009

I would like to begin by thanking TD Newcrest for, once again, inviting me to participate in this conference. In the past, I have found this conference to be quite informative. Being here is an excellent opportunity for me to not only present USDA's views but also to learn Canada's perspective on the agricultural situation and outlook. I will take what I learn here today back to Washington.

As many of you know, as chairman of the World Agricultural Outlook Board (WAOB), I am responsible for overseeing the coordination, review, and clearance of all commodity forecasts released by USDA. WAOB's *World Agricultural Supply and Demand Estimates (WASDE)* report has become the benchmark supply/demand report used by commodity markets worldwide to establish prices. As chairman, it is my responsibility to ensure that estimates and forecasts published in the *WASDE* report are unbiased, based on sound information, and released in a timely manner. This morning, I will present USDA's November 10th assessment of the situation and outlook for wheat, corn, and soybeans both in the United States and abroad.

Not many months ago, meteoric rises in commodity prices to record levels captured the media's attention. Now, the economic landscape has changed dramatically. While price volatility remains a market feature; prices have moderated. In the United States, media interest is now heavily focused on healthcare reform, rising unemployment, mortgage foreclosures, the declining value of the dollar, and the worldwide recession. Food price inflation remains on the screen but does not appear to be a major concern.

Having said the above, I do not mean to imply that agricultural markets have returned to "normal." For the foreseeable future market equilibrium prices for many, if not most, commodities will be achieved at generally higher levels than 3 or 4 years ago. In this presentation, I will highlight the factors that USDA believes will drive the outlook.

Wheat Market Situation & Outlook

The U.S. wheat supply and demand situation continues to be shaped by the tight supply environment and record price levels experienced in late 2007 and early 2008. Low prices during the first half of this decade and world weather problems in 2006/07 and 2007/08 limited global production even as strong world economic growth drove consumption higher. As a result, global stocks dropped sharply and prices rose rapidly. Expanded global seedings and good weather in both 2008/09 and 2009/10 have led to a strong recovery in supplies with rebounding stocks and lower prices. Growing production and exports, particularly from the major producing countries of the FSU are limiting export opportunities for many of the world's more traditional exporters including Canada, EU, and the United States. With increased competition from Black Sea exporting countries, utilization of U.S. wheat is projected to decline again in 2009/10 driving ending stocks to their highest level in 10 years.

Record Prices and Good Weather Boost Global Wheat Production

Wheat prices soared to record levels in early 2008 with Chicago futures for soft red winter wheat (SRW) hitting \$12.80 per bushel in late February and early March. Futures for hard red winter wheat (HRW) topped \$13 per bushel and futures for hard red spring wheat (HRS) hit \$24 per bushel at the same time. Fueling the sharp price rise was a tightening situation for world wheat supplies. Stocks-to-use ratios for global wheat hit record lows in 2006/07 and again in 2007/08. Global stocks fell to a 26-year low in 2007/08 as global consumption exceeded production for a third straight year. In the 8 years ending with 2007/08, consumption had exceeded production every year but 2004/05.

World wheat producers responded to rising prices in the fall of 2008 to boost world area to its highest level since the late 1990's. U.S. producers reversed a long standing trend toward lower wheat area in 2008/09 to seed the most acres in 10 years. Foreign producers did similarly and with good weather in the Northern Hemisphere, yields in the U.S. and elsewhere set records. Although U.S. wheat area contracted in 2009/10 with lower prices, foreign area continued to rise as higher area in the FSU countries more than offset reductions elsewhere. With higher world area and another year of above trend yields, production for 2009/10 is the second highest ever at 672 million tons, just 11 million short of the 2008/09 record.

Large U.S. Beginning Stocks Raise Supplies

Lower area and yields in 2009/10 reduced U.S. wheat production to 2.2 billion bushels, down 283 million or 11 percent from 2008/09. A sharp rebound in ending stocks in 2008/09 from 60-year lows in 2007/08, however, has boosted supplies to nearly 3 billion bushels. At this level, supplies will be the largest since 2000/01.

Shifts in soft red winter wheat area and production accounted for much of the increase in wheat production in 2008/09 and the decline in 2009/10. Responding to higher prices and opportunities to double crop soybeans, U.S. farmers increased SRW plantings 2.6 million acres or 30 percent for 2008/09. SRW planted area fell in 2009/10, dropping 2.9 million acres as cash prices in the fall of 2008 fell well below the preceding year's level. Although production also fell in 2009/10 for HRW, the decline in SRW production accounted for more than 70 percent of the year-to-year decline in U.S. wheat output. Partly offsetting are higher spring wheat yields which boosted HRS and durum wheat production 7 and 30 percent, respectively, for 2009/10. With the lateness of this year's corn and soybean harvest, winter wheat seedings for 2010/11 are expected to be down again, particularly in the SRW areas of the eastern Corn Belt and Mississippi River Valley.

U.S. Wheat Use Lower on Declining Exports

Total U.S. wheat use for 2009/10 is expected to fall for a second straight year as higher food use is more than offset by declines in feed and residual use and exports. Food use is projected at 955 million bushels, 30 million or 3 percent higher, as a return to more normal extraction rates increases the amount of wheat needed to meet flour demand. Wheat food use fell 2 percent in 2008/09 as a high quality crop boosted flour extraction rates to the highest level in years.

U.S. feed and residual use is expected to decline to 190 million bushels in 2009/10 with the smaller crop. Feed and residual use rebounded sharply in 2008/09 from the historically low level of 2007/08. With relatively high prices for wheat compared with corn this past summer, wheat

feeding has generally been limited to locally available supplies of SRW. Feed and residual use for 2009/10 is projected down 70 million bushels or 27 percent.

U.S. exports are projected to fall for a second straight year in 2009/10 as large world supplies and increased export competition limit U.S. wheat shipments. Exports are projected at 875 million bushels, down 140 million or 14 percent from 2008/09. This is down 388 million bushels from the 15-year high hit in 2007/08.

Large global production and supplies are expected to reduce world wheat trade in 2009/10. World wheat imports are projected to fall 18 million tons to 122 million (July-June trade year). A second straight year of high production in the FSU is boosting available supplies of low-priced wheat as a lack of storage capacity pushes Russia, Ukraine, and Kazakhstan to move newly-harvested wheat into world markets. Shipments by the United States' major wheat export competitors are expected to decline from the high levels of 2008/09, however, the projected 15 million ton decrease (July-June trade year) is less than the decline expected in world imports keeping substantial downward pressure on world demand for U.S. wheat.

Rising Ending Stocks Push Prices Lower

U.S. ending stocks are projected to increase 228 million bushels in 2009/10 as rising supplies and reduced usage boost carryout to a 10-year high of 885 million. The projected stocks-to-use level of 42.2 percent would be the highest since 1987/88 keeping significant pressure on U.S. wheat prices. Also keeping wheat prices low are large global stocks, projected to increase 24 million tons this year to 188 million. World stocks at this level would be the highest in 8 years.

Although wheat prices remain well below their record levels in 2008, they are also expected to stay well above the levels that prevailed in the late 1990's and early 2000's, supported by higher prices for feed grains and oilseeds. U.S. wheat farm prices for the 2009/10 marketing year are expected to fall 28 percent. At the mid-point of the projected range, the 2009/10 marketing-year average farm price is expected at \$4.55 per bushel, down \$1.93 from the record \$6.78 received by producers in 2008/09.

Corn Market Situation & Outlook

The U.S. corn supply and demand situation continues to be driven by the expansion in ethanol production and its use as a renewable alternative to crude oil in transportation fuel. The use of corn for ethanol has more than doubled during the past 4 years and is expected to continue to grow, albeit at a slower rate, as Federal mandates for biofuel rise more slowly over the next few years. The growth in demand for corn has boosted prices, encouraged increased plantings and production, and had significant implications for domestic corn feeding. Despite the expansion in domestic corn use, exports remain an important source of demand for U.S. corn. Export shipments are expected to recover modestly in 2009/10 with rising world demand for feeding and the general economic recovery; however, exports will not return to the record 2007/08 level. Large world supplies of feed grains and wheat are expected to provide substantial competition for U.S. corn.

Rising Biofuels Mandates Boost Corn Acreage and Supplies

The U.S. Renewable Fuels Standard (RFS), which mandates the use of biofuels, first became law in 2005 and then was sharply expanded in 2007. During this same period, the replacement of

methyl tertiary butyl ether (MTBE) by ethanol as a gasoline oxygenate and higher crude oil prices drove demand for ethanol and profitability for ethanol producers. U.S. ethanol production capacity grew sharply in response to these policy and economic factors, increasing from 5 billion gallons per year in September 2006 to 13 billion today. Ethanol production capacity continues to outpace the Federal biofuel mandates, having surpassed the 2010 requirement of 12 billion gallons by January 2009.

The dramatic rise in ethanol production capacity increased demand for corn and drove cash and futures prices well above historic levels during the fall of 2006. Although prices have fallen from their record highs in summer 2008, prices remain well above the levels experienced prior to the expansion in ethanol production capacity that started in 2006. Starting in 2007, U.S. farmers shifted cropland into corn in response to higher prices. Planted area, which averaged just over 79 million acres during the 1997-2006 period, has remained historically high since then. This shift is expected to continue given higher price levels and strong demand for corn for ethanol. The U.S. corn yield for 2009 is forecast at a record 162.9 bushels per acre, up 9 bushels from 2008, resulting in a crop forecast of 12.9 billion bushels and pushing projected supplies to a record high of 14.6 billion bushels.

Ethanol Drives Domestic Corn Use

U.S. domestic corn use is expected to increase 7 percent in 2009/10, growing to a record 10.9 billion bushels. Corn use for ethanol, which has more than tripled over the past 5 years, is expected to increase 14 percent in 2009/10 supported by higher biofuel mandates, abundant supplies, and lower prices. Use for ethanol is projected at 4.2 billion bushels, up 523 million bushels from 2008/09. Ethanol production is projected to account for 32 percent of total corn use in 2009/10, up from 11 percent in 2003/04.

Impact on Corn Feeding

With every ton of corn used for ethanol resulting in the production of about 17 pounds of distillers dried grains, the rising availability of feed co-products has had a significant impact on corn feeding. The production of feed co-products from corn processing has increased 3 fold in the past 10 years with co-product output expected to exceed 41 million metric tons in 2009/10. All of this growth has been from the expansion of dry mill corn processing which produces distillers' grains as a co-product of ethanol production.

Corn feed and residual use for 2009/10 is projected at 5.4 billion bushels, up 3 percent from 2008/09 with the increase reflecting higher expected residual loss with the higher forecast yield and production. Weak demand for meat and severe financial pressure on livestock producers is expected to reduce red meat production in 2010 limiting feeding demand for corn. Rising supplies of distillers' grains are expected to keep feeding demand for corn below historic levels as we saw in 2008/09. Feed and residual use is projected to exceed ethanol use again in 2009/10; however, total food, seed, and industrial use, which includes ethanol and other use for sweeteners, starch, and food, is expected to exceed feed and residual use for the first time ever in 2009/10.

U.S. Corn Exports Recover

World corn production for 2009/10 is projected to slip slightly from the 2008/09 record level, falling less than 1 percent to 790 million tons. A 23-million-ton decrease in foreign production

is nearly offset by a forecast 21-million-ton increase in the United States. U.S. exports are projected to rise with foreign consumption projected 10 million tons higher for 2009/10.

U.S. corn exports are projected at 2.1 billion bushels, up 13 percent year-to-year, but well below the record of 2.4 billion in 2007/08. Larger domestic corn supplies, lower prices, and a gradual recovery in world corn feeding demand are expected to boost U.S. exports. Growth in global livestock and poultry feeding is expected to remain limited, but small gains in corn feeding are expected as wheat feeding falls below last year's record level. Global wheat feeding reached an 18-year high in 2008/09 with record world wheat production. Increased foreign corn consumption is expected to boost global corn imports 2 percent in 2009/10 with the United States gaining export market share on reduced competition from Black Sea corn exports and stronger demand from Mexico, South Korea, and a number of smaller Central American and Caribbean countries that are traditional U.S. corn buyers. Large supplies of Brazilian corn and policies there aimed toward moving this corn into the world market, as well as abundant supplies of low-cost Black Sea wheat will keep pressure on U.S. corn exports.

Lower Corn Ending Stocks Provide Support for Prices

U.S. total corn use in 2009/10 is forecast at a record 13.0 billion bushels with year-to-year growth expected to outpace the growth in supplies. U.S. corn ending stocks are projected at 1.6 billion bushels, down 49 million or 3 percent from 2008/09. Global corn ending stocks are expected to fall much more sharply with foreign stocks projected down 12 percent, a decline of 484 million bushels or 12 million tons from 2008/09.

In the near term, corn prices, particularly in the cash market, are expected to come under some unusual late season price pressure as harvest delays abate and nearby supplies increase. Longer-term rising U.S. and world corn demand for biofuels and feeding are expected to support prices at levels that are high by historical standards, but well below the record levels of last year. The large U.S. crop will limit near-term price gains as current supplies are more than adequate to meet 2010 U.S. mandates for ethanol use. U.S. farm prices for the 2009/10 marketing year are expected to fall 13 percent from those producers received in 2008/09. At the mid-point of the projected range, the 2009/10 marketing-year average farm price is expected at \$3.55 per bushel, down from \$4.06 in 2008/09 and well below the record \$4.20 in 2007/08 when ethanol production was at the height of its expansion.

Soybean Market Situation and Outlook

Two principal events that occurred during the 2008/09 marketing year will heavily influence soybean markets for the next year. First, Argentina soybean production totaled only 32 million tons, down from a potential 50 million based on area planted and normal yields. A devastating drought left Argentina with the smallest soybean crop in seven years. Second, China, the world's largest soybean importer, increased government purchases of soybeans that more than doubled China's ending stocks to 9 million tons, an increase of almost 5 million tons. These events depleted global soybean stocks and shifted the location of some of these stocks to China.

For the past 5 years, China has accounted for all of the increase in global soybean trade, and currently accounts for over half of global imports. During the next 10 years, China will remain the world's leading importer of soybeans, with imports projected to grow to 55 million tons a decade from now. With little growth projected for domestic production, China's dependence on foreign supplies will continue to rise as China's producers focus on wheat and corn.

U.S. oilseed production for 2009/10 is projected at a record 98 million tons, up 10 percent from 2008/09. Higher soybean production accounts for most of the increase. Based on a yield of 43.3 bushels per acre and with 77.5 million harvested acres, soybean production is projected at a record 3.3 billion bushels, up 352 million bushels from 2008/09. Soybean supplies are projected at 3.5 billion bushels, up 9 percent from 2008/09. Production gains are partly offset by lower beginning stocks. Canola production is also projected higher as record yields more than offset lower planted area. Sunflowerseed, cottonseed, and peanut production are all projected to decline from 2008/09 levels.

Domestic soybean crush is projected to increase 2 percent to 1.7 billion bushels, reflecting a modest increase in domestic soybean meal use and higher soybean meal exports. Soybean meal exports are projected to increase as South American supplies will be limited through next spring, largely due to Argentina's drought-reduced harvest. U.S. consumption of soybean oil is projected to increase slightly as higher biodiesel use of soybean oil more than offsets a continued decline in food use. Biodiesel production is projected to use 11 percent of total soybean oil production for 2009/10 compared with 10 percent in 2008/09. Soybean exports are projected at a record 1.32 billion bushels, up 42 million from 2008/09. Ending stocks for 2009/10 are projected at 270 million bushels, up 132 million from 2008/09, leaving the stocks-to-use ratio at 8.5 percent compared with 4.5 percent for 2008/09.

The U.S. season-average soybean price for 2009/10 is projected at \$8.20 to \$10.20 per bushel, i.e., \$9.20 at the midpoint, compared with \$9.97 per bushel in 2008/09. Prices are expected to remain historically firm due to relatively strong corn and soybean oil prices. Soybean meal prices are forecast at \$245 to \$305 per short ton, compared with \$331 per ton for 2008/09. Soybean oil prices are projected at 33 to 37 cents per pound compared with 32 cents per pound for 2008/09.

Global oilseed production for 2009/10 is projected at 429 million tons, up 9 percent (34 million tons) from 2008/09. U.S. oilseed production gains account for 25 percent of the global increase. Total foreign supplies are projected to increase by 8 percent from 2008/09. Most of the foreign increase is due to projected soybean production gains in South America.

Global oilseed ending stocks for 2009/10 are projected at 69 million tons, up 13 million tons from 2008/09. Most of the increase is due to higher projected soybean stocks in Brazil, Argentina, and the U.S. Global canola/rapeseed stocks and sunflowerseed stocks are projected to decline.

The Biodiesel Mandate

The 2007 Energy Act mandates that U.S. biodiesel use must reach 650 million gallons by 2010, and rise to 1 billion gallons by 2012. For 2008/09, soybean oil-based biodiesel accounted for about 269 million gallons of biodiesel production. When other fats and oils are included, biodiesel production reached 573 million gallons, above the level mandated for 2009. Production is on track to reach the 650 million gallon level mandated for 2010. Soybean oil-based biodiesel production is projected at 300 million gallons, 45 percent of the total.

Based on data reported by the National Biodiesel Board in June 2009, annual existing production capacity for biodiesel stands at 2.7 billion gallons per year with another 400 million gallons of annual capacity planned for development. But, only about 25 percent of existing capacity is

currently being utilized. Although soybean oil prices have fallen from 2008 levels, so have diesel prices, so net returns for producing biodiesel are not highly favorable. However, with current soybean oil prices near 37 cents per pound, net returns have improved from the summer. Despite increasing imports and use of palm oil and canola oil in formulations, food processors are likely to continue to bid soybean oil prices to levels that leave biodiesel production margins low. If not, food processors' vegetable oil supplies would be at risk due to the substantially idle biodiesel production capacity that exists.

To meet the 2012 mandated levels of biodiesel use laid out in the 2007 Energy Act, a sharp increase in biodiesel supplies will be needed. It appears from U.S. Census Bureau data that non-soybean-based fats and oils may provide much of the needed supplies. In 2008/09, other fats and oils accounted for 55 percent of total methyl ester production, up from 41 percent in 2007/08 and just 16 percent in 2006/07. While it appears that the 1.0 billion gallon mandate can be met without severe adjustments to the soybean oil balance sheet, the increased use of soybean oil for biodiesel production in South America may lead more importers to the U.S. for soybean oil. USDA is monitoring this development.

Thank you. I would be pleased to respond to any comments or questions you may have.

Tables and Charts:

The attached charts and tables provide additional details. Note: For additional details, see the November 10, 2009, *World Agricultural Supply and Demand Estimates* report at: <http://www.usda.gov/oce/commodity/wasde>.