



## August USDA S&D Report

The August crop report is always a big report, but this year it took on even more significance due to the tightening supply of world wheat from losses in **Russia, Kazakhstan, Ukraine, the EU, and Canada**. Markets continue to rise despite harvest fast approaching and despite what USDA thinks might possibly be record US production.

	August USDA	July USDA	Change vs Previous
Corn	13365	13245	+ 120
Soybeans	3433	3345	+ 88
Wheat	2265	2216	+ 39

The US corn and soybean production estimates were near the high end of trade expectations (see back page), and should offset some of the expected increase in US demand (right). But for now, **the big story remains world grain and oilseed stocks**.

World usage of wheat, corn, and soybeans will each be larger than production this year, causing ending stocks of each to drop. Here's the table showing August estimates vs July estimates, and below some good comments from **Diana Klemme** summarizing what these numbers mean.

	August USDA	July USDA	Change vs Previous
Corn	139.20	141.08	- 1.88
Soybeans	64.73 *	67.76 *	- 3.03
Wheat	174.76	187.05	- 12.29

\* Record

"It's still important to recognize that **the world is not running out of wheat. The world will still have about a 25% stocks/use ending ratio**, vs the 'low' number at the end of the 07 crop when it reached 19.9%. **Coarse grains on the other hand, are tightening rapidly**. Their ending stocks/use ratio is now forecast at 15.3%, vs the 'low' at the end of 06 crop when we fell to 13.7%. But this year's coarse grain number may well decline further. **Barley** is not considered a big item in the US, but it is in the world S&D's. The loss of 22 million tonnes of world barley production means a lot of feed substitutes are needed. World **soybean** stocks are tightening, more due to rising demand than falling production (but are still record large). **World consumption will set new record highs this year in coarse grains, wheat, and soybeans**. Consumption of coarse grains plus wheat plus total oilseeds is forecast to rise 42 million tonnes this year - a 2% hike globally. Longer term, it reinforces the fact that world production has a challenge to keep/maintain the acreage and yields necessary to feed the world!"

Looking at just the US S&D figures, we see that **corn demand continues to grow**, gaining 125 million from last year, **soybean demand is dropping** but not near as much as some analysts had previously thought, and **wheat demand is jumping sharply**, as the US may be the lone holder of residual wheat stocks in the world. As with world demand, US demand for corn and wheat would exceed our production this year, giving the market reason to at least not drop very far, if not rally to try to secure acres for 2011.

	2010-11 USDA	2009-10 USDA	Change vs Previous
Corn	13490 *	13365	+ 125
Soybeans	3243	3353 *	- 110
Wheat	2386	2018	+ 368

\* Record

Regarding export demand vs previous years, **Diana** wrote: "US corn + soybeans + wheat exports are now forecast at 4.685 billion bushels for 2010 crop. That's up 410M bushels over last year, but interestingly, it's not a record high. The prior record was a whopping 4.86 billion bushels in 2007 crop. The 2nd highest was clear back in the heyday, 1981, at 4.697 billion bushels. This will be the 2nd biggest export program for Corn + Soybeans, less so on wheat where exports peaked in 1981 crop at 1.77 bln bushels, far above this year's forecast 1.2 billion bushels."

	August USDA	July USDA	Change vs Previous
Corn	1312	1373	- 61
Soybeans	360	360	unch
Wheat	952	1093	- 141

Everything boils down to how many bushels we anticipate carrying forward at the end of the next year. Most analysts expect a large increase in **soybean** stocks. Some analysts are projecting a big **corn** crop along with a slight increase in demand, which could leave us with over 1.5 billion bushels at year end. Others are projecting a lower yield than USDA coupled with stronger demand, which could take ending stocks below 1.0 billion bushels. The first number is a comfortable amount of corn that wouldn't require a large addition of acreage next year, while the second figure is tight and would require the market to "buy" corn acres for 2011. Certainly right now the **wheat** price is "buying" spring wheat acres in the Southern Hemisphere as well "buying" winter wheat acres in the US and elsewhere in the Northern Hemisphere. The **base price for winter wheat revenue policies** will be set using the average of September 2011 futures from **August 15 to September 14**. With such a high starting level, using a revenue policy looks like a prudent way to manage both yield and price risk this year!



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### USDA Corn Yields by State

(bushel per acre)

	USDA 2010 Est.	USDA 2009 Actual
Illinois	180	174
Indiana	176	171
Iowa	179	182
Kansas	143	155
Michigan	156	148
Minnesota	178	174
Missouri	150	153
Nebraska	180	178
North Dakota	140	115
Ohio	176	174
South Dakota	148	151
Wisconsin	159	153
US	165.0	164.7

### USDA Soybean Yields by State

(bushels per acre)

	USDA 2010 Est.	USDA 2009 Actual
Illinois	49	46
Indiana	49	49
Iowa	51	51
Kansas	38	44
Michigan	43	40
Minnesota	44	40
Missouri	42	44
Nebraska	53	55
North Dakota	35	30
Ohio	46	49
South Dakota	40	42
Wisconsin	44	40
US	44.0	44.0

## More on the "Supply Side" from Today's Report

The **August Crop Production Report** was USDA first real estimate of the spring planted crops. These estimates were impacted mostly by plant population and ear counts. In September USDA will start to give us their ideas based more on kernel counts, which should give us a truly better read on this crop. This will be a BIG DEAL on corn, since some analysts believe we could get very tight on corn stocks this year even if the corn crop is a record. The **Linn Group** commented in their morning wire, "Market gave the USDA a big kiss off on their record yield estimate as the trade realizes or is at least starting to realize we have a good crop but there is no difference in a 163 to a 166 – it doesn't matter – and we need it. We end up under 162 and we have a problem and we need to ration with a demand base of 13.6 billion bushels out of the USDA – with Linn Group holding the line at 13.9 billion bushels – watch the USDA come up to our number as they are still way too light on exports – 2.050 billion bushels – hahahaha – try 2.250 billion bushels. Point is the real ending stocks number in corn even with a 165 is 1.1 million. Now take a 162 bpa (3 bpa less on 81 harvested) and the ending stocks are (just) 900 million bushels!" So you can tell from this that they are pretty bullish on corn. On soybeans, most analysts still believe the crop will be large enough to ensure stocks will grow – it's just a matter of how much. August weather will continue to have an impact on soybean yields and the market, as will the presence of Chinese demand.

Here are some of the estimates that other firms were using on corn and soybeans yield prior to the report:

Allendale	167.0 Corn	42.9 Soybeans
Informa	166.0 Corn	43.5 Soybeans
FC Stone	165.8 Corn	44.0 Soybeans
Doane	163.0 Corn	43.1 Soybeans
Linn Group	162.1 Corn	43.2 Soybeans
AIR Worldwide	158.3 Corn	42.5 Soybeans
Darrel Good/U of I	158.1 Corn	43.7 Soybeans

We see on corn how we could go from an abundance of corn stocks at the end of the year with a strong yield and some growth in demand to extreme rationing based on the lower yield estimates and growing demand. You can see why volatility is certain to stick around in these markets for the months ahead! In fact, even though the corn market traded off of its highs the day of the report, there was huge buying of corn call options that day, a sign that traders and end users want some protection *just in case* we get another 2008. If you want to lock in prices but are nervous to sell more bushels, consider using put options to set price floors.