



Grain Marketing Outlook Monthly Update



Ethanol Supports Corn Demand

Corn prices remained sluggish in the last month. A minor rally in late November tested the \$2.50 mark, before prices gradually slid back to the \$2.30s. It is difficult to pinpoint either compelling forces for or against the rally at this point. Suffice to say that the failure of the rally to be sustained is yet another case of hungry-bull syndrome. The market simply could not provide enough positive news to continue to push prices higher. After the market reports of December 10, and with the holidays approaching, corn futures prices are likely destined for a quiet month, with some attention paid to the weekly export numbers, but there is little else likely to cause ripples in the next month.

The December World Agricultural Supply and Demand Estimates (WASDE) provided few surprises to the corn market. Domestically, food, seed and industrial use was increased by 30m bushels, due to increased ethanol production. Downward revisions to exports largely offset the ethanol gains, though, as increased competition from Argentina, and lower projected corn demand from Canada reduce expected US exports by 25m bushels. Ending inventories are reduced by 5m bushels as a result of the two changes, a change inconsequential in every respect except for market psychology. These revisions were largely foreseen, but the net downward revision in corn stocks ultimately preserved the mildly positive sentiment of the market.

Globally, the WASDE revised projected Argentine and Ukrainian corn production higher, but sharply lowered sorghum production in Australia. Much of the shortfall in Australian production will be made up in reduced feeding instead of increased imports. The net results are somewhat higher ending global inventories of corn and coarse grains.

The market's tone was further strengthened by a Sparks report, dated 12 December, in which that company released its own projected corn

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Soybean Stocks Continue to Tighten

Soybeans rallied into the Thanksgiving holidays, briefly breaking the \$5.80 level, but weather patterns in Brazil sent prices reeling December 3. Over the next few days, the January contract seemed to find a bottom in the low \$5.60s. Since then, prices have recouped much of the earlier losses on renewed concerns about strong export demand and tight US stocks.

The December WASDE report continues the trends seen so far in this marketing year: stronger exports offset weak feed demand, resulting in tight ending inventories. The export number was again revised upwards, by 10m bushels. There were no downward revisions in domestic demand this month, so the increase in exports is subtracted directly from ending inventories, reducing them to 175m bushels, or 6.4%. At 6.4%, these inventories remain at or below pipeline stocks, ensuring that prices will remain quite twitchy over the coming months in response to bean market news. In products, the WASDE again revised ending soybean oil stocks downwards, to 1.435bn lbs, the lowest level since 1997 in nominal terms, but on a stocks-to-use basis, this is the lowest level since of soybean oil ending stocks since 1994. The revision is due largely to increased domestic consumption as a substitute for Canadian rapeseed oil. Ending stocks in meal remained unchanged, leaving soymeal as the real laggard in the soy complex to date. The global soybean outlook is mostly unchanged. Global oilseed production was revised slightly upwards on higher Canadian projections, but global soybean ending stocks were revised slightly downwards, due largely to a downward revision in the carryout of the 2001/02 marketing year.

Exports have remained the biggest driver of soybean prices over the last month, and the combination of current export strength as well as the prospects for the South American harvest and its impact will remain the focus of this market. In the last month, US exports have remained ahead of projections, as export inspections to date are only running 5% behind last year's pace. This is largely in line with the commitments and shipments to date, both down 6%. However, the current export projection of 900m bushels is 16% lower than last year—either the export pace will slow or

the export projection will rise in the coming month. The outlook for the South American harvest improved in December, as rains came to the dry northern Mato Grosso region and drier weather appeared in the soggy southern areas almost simultaneously. Although no one had yet cut yield forecasts in response to the Brazilian weather, the poor conditions had provided some positive sentiment to prices.

The summary for beans remains that the futures are strongly backwarddated; nearbys are 15c over July futures. In the next few weeks, exports will almost certainly experience a holiday-induced seasonal slowdown. However, the January 10th USDA reporting date will have not only the final revision for production, but the grain stocks report will also be released on that date. Until then, CBOT prices should remain relatively contained. There is also little likelihood of basis weakening over the next few weeks, as holidays slow trade, and temperatures should remain below normal. However, decisions should soon be made on whether to hold soybeans further into the marketing year. With the current inversion in futures prices, the market is offering a 15c premium for nearby sales over July. If we assume 3c/month storage, that number jumps to 36c. While there remain possibilities and scenarios for high prices at the end of the marketing year, they are anything but a given, and the certain premium for cash sales must be weighed carefully. Further, except for the most grain-deficit areas of Ohio, most of the scenarios will occur mainly on the CBOT, implying that DP or call option strategies would be better bets.

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Supply and Demand Tables

The supply and demand tables are now available in Excel format from

<http://aede.osu.edu/programs/outlook> with the grain marketing newsletter.

About the author

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Wheat Exports Weak: How Many Acres?

In step with corn, wheat rallied into the Thanksgiving holiday, with old crop probing the \$3.90 resistance level, but failing to break it. The December 3 meltdown carried wheat along for the ride. Unlike corn or beans, wheat has yet to find any news to staunch the bleeding, and has continued to slide, to the \$3.50 level. New crop 2003 has continued the slide that started in August. In the near-term, the \$3.00 support has held, but the wheat market remains in need of encouragement.

The December WASDE report offered mild support. Domestic use is increased 30m bushels as the demand for ethanol diverts corn from feeding and increases wheat demand. However, decreasing global demand prompted a reduction in the projected level of US exports, by 25m bushels. These two changes result in a 5m bushel reduction in ending inventories. Global numbers are almost unchanged, as a number of small revisions offset one another.

The wheat market is currently focused on two numbers: exports and plantings. To date, exports have remained mixed. While sales are

running 15% above last year, inspections and exports are both behind, which has reinforced concerns about exports through the remainder of the marketing year. The first USDA projection of winter wheat plantings is not due until the January round of USDA releases, but a survey conducted by Kansas State University Ag Economist Bill Tierney indicates 7.7% higher wheat plantings this year nationwide, with a 13% increase in the Eastern Cornbelt. This raises the question of the number of these acres that will reach the combine. Many of our Outlook & Policy attendees project that many of these new acres in the Eastern Cornbelt will be cut for forage, and then replanted into corn or soybeans. At this point, it is difficult to gauge how important this effect will be, but new crop prices are certainly lower now than they were at planting.

Most likely, the wheat market is somewhat overestimating the amount of wheat that will be produced, especially SRW. I expect that the January report will roughly confirm Tierney's numbers, but that Eastern Cornbelt abandoned wheat acres will also rise, especially if new-crop corn remains at or above \$2.40 and wheat remains below \$3.10.

Corn, continued.

balance sheet. According to Sparks' projections, the year-end corn inventory will be only 744m bushels, instead of the 843m USDA projection. Sparks arrives at this level through higher exports and stronger ethanol demand than the USDA. Because of the relatively solid pace of exports to date, and the state of America's export competitors, Sparks foresees current marketing year exports of 1.94bn bushels, 40m bushels higher than the December USDA number. Sparks also sees 53m more bushels of corn consumed by the ethanol industry than the USDA. The net result is a stocks-to-use ratio of 7.4% from Sparks, whereas the current USDA figure is 8.6%. However, Sparks does not differ from the USDA on the 2002/03 average corn price: \$2.40/bushel for Sparks, and a range of \$2.20 to \$2.60 for the USDA. I am not prepared to take a position on who is more believable except to say that both sources are highly credible. The only observation that I will add is that I would expect average prices to be at least \$2.45 if Sparks' consumption projections are accurate

What does all this mean for Ohio farmers and their marketing plans? It seems unlikely that the futures markets will move strongly in either direction over the coming month. Holidays always tend to be slower, and the lack of yield or acreage revisions in the current report reduces the chance of revisions in the January report. This leaves only export numbers to influence prices until then. Basis has improved by about 5c over the last month, and with the continuing cold weather and low water levels in the Mississippi, there seems little reason to expect basis to weaken, and some probability that it might continue to firm. At this point, there seems little risk in holding physical corn, although any returns must come from basis improvement, as there seems relatively little justification for higher futures prices. Over the rest of the marketing year, there is still reason to think that grain deficit areas of Ohio may see significant basis improvement, but the case for futures improvement over the rest of the marketing year is much weaker. For those in areas with weaker local demand, basis-deferred sales would allow profits from barge disruptions through the winter, and should have little downside.