

R.J.O'Brien Fundamental Outlook

Quick View of USDA November 9 Reports

November 9, 2001

There were no major surprises in today's USDA reports. While the corn and soybean production estimates were in the expected direction, i.e. moving higher, both were above the average trade estimate. Balance sheet revisions, outside of the production numbers, were fairly limited across the board, but again biased towards increasing ending stocks, particularly for corn and soybean oil.

Corn

USDA estimated the US corn crop at 9.546 billion bushels, up from 9.430 billion last month and compares to 9.968 billion last year. The yield was put at 138.0 bushels/acre vs 136.3 last month and 137.1 last year. Today's estimate came in moderately above the average trade estimate of 9.498 billion, but within the range of ideas, which topped out at 9.585 billion. While the estimate did come in above expectations, we do not see it as a major surprise as the risk was clearly viewed as the crop getting larger. It was likely a case of the crop making several smaller increases over the next couple of months, or being largely reflected in this month's report. Revisions from this point forward should be fairly inconsequential.

The demand side of the US balance sheet was left completely unchanged this month. As we wrote in our pre-report outlook, there are several factors at play influencing this year's exports. While US sales have been slow, China's entry into WTO and potential Argentine problems are countering factors.

With unchanged demand, the production increase was carried through to ending stocks, which are now estimated by USDA for 2001/02 at 1.574 billion bushels, up from 1.458 billion last month and compare to 1.899 billion last year. Last year at this time USDA was estimating 2000/01 stocks at 1.664 billion bushels and was following a pattern of declining stocks in recent months. The December contract made its low of \$1.85 in mid-August last year and traded back down to \$1.87 in mid-September. With the shrinking ending stocks estimates in October and November, December futures were able to recover a bit, seeing a low of \$2.04 in November on the ending stocks estimate of 1.664 billion. Unfortunately, ending stocks are on the way up this year, instead, and may allow for December to take a dip below \$2.00. However, we do not anticipate prices trading below last year's \$1.85 low at this time.

In terms of world numbers, the most notable revision was the lowering of the Argentine corn crop to 14.0 MMT from 15.5 MMT last month and 15.5 MMT last

year. Exports were lowered to 9.0 MMT from 10.7 MMT last month and 10.5 MMT last year. The USDA did not follow the revisions of the ag attaché this month for China as they left their balance sheet essentially unchanged. The lower Argentine crop obviously helped counter the low US export sales recently in allowing the US export projection to remain unchanged.

Soybeans

USDA estimated the US soybean crop at 2.923 billion bushels, slightly above the average trade estimate of 2.907 billion and up from the same 2.907 billion bushel estimate last month. The average yield was estimated at 39.4 bushels/acre, up from 39.2 last month. This year's crop compares to 2.758 billion last year with a yield of 38.1 bushels/acre. While the crop was a bit above the average trade estimate, it was within the range of ideas, which topped out at 2.934 billion.

US balance sheet revisions were very limited. Crush was increased 5 million bushels to 1.665 billion and is up from 1.641 billion in 2000/01. Residual was raised 2 million. Exports were unchanged. The 16 million bushel increase in production allowed 2001/02 US ending stocks to increase to 355 million bushels from 345 million last year and are up moderately from 248 million in 2000/01.

The most attention from today's reports for the soycomplex likely will be seen in soybean oil. USDA raised old crop ending stocks by 73 million pounds to 2.873 billion as expected given the release of official Census data. For new crop, despite the increase in crush, production actually declined slightly, by 30 million pounds. On the demand side, domestic usage was reduced by 150 million pounds and, when combined with the increase in beginning stocks, 2001/02 US soybean oil ending stocks shot up to 2.680 billion pounds from 2.490 billion last month and are nearing 2000/01 levels of 2.873 billion.

The soybean meal balance saw 2000/01 ending stocks increase to 386 thousand tons from 325 million previously, again following Census data. New crop production increased 89 thousand tons with the increase in crush. Unlike soybean oil, demand increases did counter the increase in supply for 2001/02. While domestic usage was lowered 100 thousand tons, exports were increased 250 thousand to 7.650 million vs 7.600 million last year. New crop ending stocks were left unchanged at 275 thousand tons.

For South America, USDA left the 2001/02 Brazilian crop unchanged this month at 41.5 MMT, but still up sharply from 38.4 MMT last year. The Argentine crop, on the other hand, was raised to 28.0 MMT from 27.0 MMT last year and 26.7 MMT last year. Argentine soybean exports for 2001/02 were raised to 8.5 MMT from 8.0 MMT last month and 7.45 MMT last year. Changes to the Chinese balance were mostly inconsequential this month.

Wheat

As expected, this month's report for wheat was extremely uneventful. The all wheat balance for 2001/02 was left completely unchanged with ending stocks at 652 million bushels vs 876 million last year. However, there were some by-class revisions this month. SRW ending stocks were lowered 10 million bushels to 78 million vs 135 million last year as exports were raised 10 million bushels. HRW ending stocks were raised 15 million to 315 million vs 411 million last year as domestic usage and exports were both lowered slightly. Slight changes were also made to the HRW and durum balances but were generally inconsequential.

For the world situation, USDA lowered the 2001/02 Argentine crop to 17.0 MMT from 17.5 MMT last month and 16.5 MMT last year. Exports were lowered 0.5 MMT to 12.5 MMT and compare to 11.7 MMT last year.

On the upside, USDA raised the Australian crop moderately to 22.0 MMT from 20.5 MMT last month and 23.8 MMT last year. Exports were raised 1.5 MMT, as well, to 17.5 MMT vs 15.9 MMT last year.

Other major exporter balances were left mostly unchanged, although 2001/02 EU exports were lowered 0.5 MMT.

The Chinese balance was left unchanged this month.

USDA made another solid increase in the FSU wheat crop this month, now at 88.5 MMT, up 3.0 MMT from last month and is up 6.0 MMT over the last two months.

The increase in the FSU crop was the largest contributor to the increase in 2001/02 total world wheat production to 575 MMT from 571 MMT last month vs 582 MMT last year. World ending stocks moved up to 140 MMT from 136 MMT last month and compare to 161 MMT last year, but the increase in world stocks is almost entirely due to the FSU.

Randy Mittelstaedt