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October USDA Reports

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Today the USDA released the October update of survey-based forecasts of the size of the 2011 U.S. corn and soybean crops. In addition, forecasts of consumption and ending stocks for the 2010-11 and 2011-12 marketing years for corn, and soybeans were updated. Following is a summary of those reports.

Corn

The forecast of acreage harvested for grain was reduced by 450,000 acres from the September report, to a total of 83.396 million acres. Area harvested is now down about a million acres from the initial forecast in June. The U.S. average yield is forecast at 148.1 bushels, unchanged from September. Production is now forecast at 12.432 billion bushels, 14 million smaller than the 2010 crop. This is the first forecast of 2011 corn production that is smaller than 2010 production. The forecasts were also less than expected, as most analysts expected the USDA yield forecast to be raised to around 149 bushels. Changes in the two biggest producing states, Illinois and Iowa, basically offset one another. Illinois corn yield dropped two bushels to 159 and Iowa increased two bushels to 169.

For the current marketing year, the biggest change to the U.S. corn balance sheet was the increase in beginning stocks to 1,128 million bushels, reflecting the estimate of September 1 stocks recently released by the USDA. There has been much discussion of the accuracy of this forecast since it was released. The only change on the use side of the balance sheet was a 50 million bushel reduction in the forecast of exports. Year-ending stocks are now forecast at 866 million bushels, compared to 672 million last month. Use for all purposes is projected at 12.71 billion bushels, leaving year-ending stocks at 6.8 percent of projected use. The 2011-12 marketing year average farm price is projected in a range of $6.20 to $7.20, down $.30 from last month's projection.

The world corn production forecast for 2011-12 increased by 230 million bushels, with increases in China, Ukraine, and 12 former Soviet Union states. World stock levels are projected to increase by about the same amount compared to projections last month.

Soybeans

The forecast of harvested acreage was reduced by 150,000 acres from the September report, to a total of 73.676 million acres. The U.S. average yield is forecast at 41.5 bushels, below the average analyst expectation of about 42 bushels, and 0.3 bushels smaller than the September forecast. The 2011 crop is forecast at 3.059 billion bushels, 269 million smaller than the 2010 crop. The Illinois forecast dropped two bushels to 46 and Iowa dropped by half a bushel to 51.5. Despite concerns that an early frost had damaged soybeans in northern production areas, Minnesota's yield was unchanged, South Dakota increased one bushel, and North Dakota decreased one bushel.

For the current marketing year, the forecast of exports was reduced by 40 million bushels. However, a 10 million bushel drop in beginning stocks and the drop in production more than offset the decline in exports, with the result that year-ending stocks are forecast at 160 million bushels, 5 million smaller than the September forecast. The 2011-12 marketing year average farm price is projected in a range of $12.15 to $14.15, $.50 below last month's forecast.

Summary

Corn and soybean prices have declined sharply over the last month. The USDA production reports suggest that the part of the decline based on "better than expected" corn and soybean yields may have been overdone. The supply side of U.S. markets for the current marketing year are basically set. All eyes will now be on indications of demand.