

## Market Comments

The corn balance sheet appears little changed from the previous month and yet **markets reacted negatively to a number of key data in both the WASDE report as well as the grain stocks survey and the survey of wheat seedings.** The quarterly grain stocks survey has been producing plenty of surprises in the last two years and this release threw another curveball at the market. Ahead of the report analysts were expecting Dec 1 corn and residual stocks to be 9.391 billion bushels while the USDA report pegged overall corn stocks at 9.641 billion bushels. The higher than expected stocks imply significantly smaller feed use compared to a year ago since ethanol production was particularly strong during the quarter and offset any declines in corn exports. Grain analysts estimate that feed corn and residual use for the Sep - Nov quarter was down 9% compared to the previous year, a significant number given higher numbers of hogs and cattle on feed. Chicken numbers are down and that has clearly had an impact but it seems that other factors are at play, namely a larger supply of DDGs going into the domestic supply rather than exports. The USDA balance sheet currently shows feed and residual corn use for 2011/12 at 4.6 billion bushels, 4% below year ago levels. But with higher ethanol production (hence more DDGs) and burdensome wheat supplies (more wheat feeding) it remains to be seen if the feed and residual number will be adjusted lower in the coming months. Indeed, the wheat planting numbers were one of the more bearish news in the latest USDA updates. Pre-report estimates pegged total wheat seedings at 40.933 million acres, slightly higher than the 2011 seedings of 40.646 million acres. The January 12 report pegged winter wheat seedings at 41.947 million acres. This represents a 3.2% increase from the previous year and winter wheat seedings are currently 12.4% higher than two years ago. The increase in US domestic wheat seedings combined with higher wheat supply in other markets is expected to put further downward pressure on wheat values, with some expecting soft wheat returning to the long term \$5-5.5/bu range. In that scenario, wheat would continue to provide a strong alternative for inclusion in feeding rations and put downward pressure on corn prices (see our discussion in the (1/6 DLR)

Markets also were gearing up for a modest reduction in the final yield for the crop year. Instead, USDA slightly increased both the final yield and harvested acres. The net in-

## USDA/WASDE Corn Supply/Demand Estimates

	2010/11	2011/12		Change vs. Dec
	USDA Estimate	USDA Dec Est	USDA Jan Est	
million acres				
Planted	88.2	91.9	91.9	0.0
Harvested	81.4	83.9	84.0	0.1
bushels				
Yield	152.8	146.7	147.2	0.5
million bushels				
Beginning stocks	1,708	1,128	1,128	0
Production	12,447	12,310	12,358	48
Imports	28	15	15	0
<b>Supply, total</b>	<b>14,182</b>	<b>13,453</b>	<b>13,501</b>	
Feed and residual	4,793	4,600	4,600	0
Ethanol for fuel	5,021	5,000	5,000	0
Food, seed, other	1,407	1,405	1,405	0
<b>Domestic use, total</b>	<b>11,220</b>	<b>11,005</b>	<b>11,005</b>	<b>0</b>
Exports	1,835	1,600	1,650	50
<b>Use, total</b>	<b>13,055</b>	<b>12,605</b>	<b>12,655</b>	<b>50</b>
Ending stocks	1,128	848	846	-2
Stocks/Use	8.6%	6.7%	6.7%	

crease in supply was offset by a 50 million bushel increase in exports. USDA opted to leave ethanol use unchanged despite reports of record ethanol production. It is likely that the surge in ethanol production was due to the fact that refiners rushed to maximize use ahead of the expiry of ethanol credits. Should the current rate of ethanol production be sustained, however, it could add another +100 million bushels of demand to the balance sheet. At this point markets will start to focus on early estimates for the 2012/13 marketing year. USDA will release an early read in its February outlook meetings. There is broad expectation that corn acres could increase by as much as 3 million acres this spring and with reduced feed use, ending stocks for 2012/13 could end up over \$1.6 billion bushels, which could pressure corn below the \$5 threshold.

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