

USDA's Bountiful Brazil Crop Outlook Sets Bearish Tone for Corn, Soybeans

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In its latest Supply and Demand report February 8, the U.S. Department of Agriculture created a bearish atmosphere for corn and soybeans and a bullish reaction for wheat. All three are opposite what the markets have been indicating for months.

What to make of the February round of USDA numbers?

SOYBEANS

First and foremost, the USDA did its job by maintaining domestic soybean ending stocks above 100 million bushels, trimming its 2012-13 projection by 10 million bushels to 125 million bushels, by leaving export demand at 1.345 billion bushels, despite the fact the U.S. is on pace to hit that mark by the end of March.

Secondly, the USDA was able to squelch global short-supply fears by trimming only 1 million metric tons off Argentine soybean production, to 53 million metric tons, and hiking Brazil's estimated crop by 1 million metric tons to 83.5 million metric tons, which would be up 26% from the 2012 harvest and an all-time high.

Meanwhile, those on the ground and the rest of the world are looking for the hot and dry conditions to have lopped off more to the tune of total production closer to 45 million metric tons. To that end, one must tip their cap to USDA and say, "well done."

CORN

Corn numbers were a little less controversial, with domestic ending stocks increasing 50 million bushels due to a likely decrease in export demand. This maintains USDA's other "unofficial" floor for the corn ending stocks-to-use ratio above 5%.

In terms of global production, an increase of 1.5 million metric tons for Brazil's crop was offset in large part by a decrease of 1 million metric tons in Argentina. Similar to the situation in soybeans, this could grow larger once the USDA ascertains grain traders have given up on 2012-13 issues and are focusing instead on the 2013-14 crop years.

Global ending stocks climbed just over 2 million metric tons to 118.04 million metric tons, creating a slight increase in ending stocks to use of 13.6%.

WHEAT

It's interesting to note that the most bearish market saw the most bullish numbers. Projected domestic ending stocks for 2012-13 were trimmed by 25 million bushels due to the same increase in feed demand. This isn't overly surprising, given the tight price relationship between cash corn and cash soft red winter wheat (the DTN Indexes, national average cash prices, showed a difference of only 26 cents Thursday night).

Globally, production numbers were decreased, slightly despite Australia's stressed crop being left unchanged at 22 million metric tons. Again, as with corn and soybeans, this number will likely be changed when traders' attention goes elsewhere.

BOTTOM LINE

To reiterate, the USDA created a bearish atmosphere for corn and soybeans, and the opposite for wheat, contrary to what each market indicated for months. Time will tell how long the knee-jerk reaction to this report lasts and if long-term changes in market structure occur.

In trading February 8, soybean futures for March delivery fell 34 ¼ cents to \$14.52 ½ a bushel, the contract's lowest settlement since January 29. March corn futures fell 1 ¾ cents to \$7.09 a bushel, the lowest close since January 11, and March soft red winter wheat futures rose ¼ cent to \$7.56 ¼ a bushel. March hard red winter wheat futures fell 1 ¼ cents to \$7.99 ¾ a bushel.

U.S. ENDING STOCKS (billion bushels)						
	Feb.	Avg	High	Low	Jan.	2011-12
Corn	0.632	0.615	0.667	0.502	0.602	0.989
Soybeans	0.125	0.129	0.140	0.115	0.135	0.169
Sorghum	0.021	0.022	0.025	0.019	0.021	0.023
Wheat	0.691	0.728	0.783	0.706	0.716	0.743

WORLD ENDING STOCKS (million metric tons)						
	Feb.	Avg	High	Low	Jan.	2011-12
Corn	118.04	115.74	117.00	114.00	115.99	131.01
Soybeans	60.12	59.22	60.30	58.00	59.46	55.25
Wheat	176.73	175.54	178.20	166.70	176.64	196.54
Wheat	0.691	0.728	0.783	0.706	0.716	0.743

WORLD PRODUCTION (million metric tons)					
	2012-2013		2011-2012		
	Feb.	Jan.	Feb.	Jan.	
Soybeans					
Brazil soybeans	83.5	82.5	66.5	66.5	
Argentine soybeans	53.0	54.0	40.1	40.1	
Corn					
Brazil corn	72.5	71.0	73.0	73.0	
Argentina corn	27.0	28.0	21.0	21.0	
Wheat					
Australia wheat	22.0	22.0	29.9	29.9	
Canada wheat	27.2	27.2	25.3	25.3	

Telvent DTN Senior Analyst Darin Newsom has more than 20 years of experience following commodity markets and developing risk-management strategies. He focuses on how the structure of a market — futures trends combined with price relationships between contracts — indicates what type of market exists and therefore which strategies are appropriate.

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