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USDA's WASDE report shows steadily increasing effects from ethanol production

By Agri-Pulse Staff

Washington, Feb. 9 – USDA's World Agricultural Supply & Demand Estimates released Tuesday (despite snow closing down the federal government in DC) show U.S. wheat ending stocks for 2009/10 up 5 million bushels to 981 million bushels – and U.S. feed grain ending stocks projected down 1.4 million metric tons from last month to 48.4 mmt, due to higher expected corn use and sorghum exports. Projected U.S. soybean ending stocks for 2009/10 are reduced to 210 million bushels, down 35 million from last month due to increased exports and crush.

For wheat, the projected marketing-year average farm price is narrowed 5 cents on both ends of the range to $4.75 to $4.95 per bushel. The projected marketing-year average farm price for corn is narrowed 5 cents on both ends of the range to $3.45 to $3.95 per bushel.

Corn used for ethanol is projected 100 million bushels higher reflecting the latest ethanol production data from the Energy Information Agency. November's record ethanol production was up 3 percent from the previous record in October as higher prices for ethanol and distillers grains boosted ethanol producer returns. November-December corn use for ethanol was up 16 percent from the same period in 2008/09. Although returns have declined since November, recently lower corn prices continue to support profitability for ethanol producers. A 5-million-bushel reduction in expected corn use for sweeteners partly offsets the increase for ethanol.

Total U.S. meat production for 2010 is little changed as higher beef production is more than offset by lower forecast production of pork and turkey. The milk production forecasts are raised for 2009 and 2010. The forecast for 2009 reflects recent USDA estimates of fourth-quarter production. Milk production is forecast higher for 2010 based on the higher-than-expected January 1 dairy replacement heifer estimate. Herds are not expected to decline as rapidly as forecast last month, boosting milk production.

The 2009/10 U.S. cotton supply and demand estimates show sharply higher exports, lower ending stocks, and higher prices relative to last month. Production and domestic mill use are unchanged. The export forecast is raised 1.0 million bales to 12.0 million, as new export sales of more than 1.8 million bales were made in January. Led by a drop in the New York futures market, recent lower prices for U.S. cotton combined with strong foreign mill demand have boosted export prospects. Accordingly, U.S. ending stocks are now forecast at 3.3 million bales, 21.4 percent of total use. If realized, this would be the lowest stocks-to-use ratio since 2003/04. The forecast range of 59 to 65 cents per pound for the marketing-year average price received by producers is raised 2 cents on the lower end and 1 cent on the upper end, based on a higher-than-expected average price received for the month of December.

Food and Agricultural Policy Research Institute (FAPRI) crop economist Melvin Brees at the University of Missouri Extension Service sees the lower corn and soybean ending stocks as positive for higher futures prices. Overall, however, he concludes that "fundamentals remain negative for crop prices" with broad economic conditions, including weakening oil prices and a strengthening dollar, weighing down grain prices, adding market uncertainty and price volatility.

The 40-page WASDE report is at: www.usda.gov/oce/commodity/wasde/latest.pdf.

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