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Damaged U.S. Corn Crop Pinches Global Supply

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The U.S. is reaping its smallest corn harvest in three years after a drought damaged what was a record crop as recently as July, driving annual prices to an all-time high and curbing an expansion in global food supplies.

The government will forecast production of 314.7 million metric tons tomorrow, 27.4 million tons less than four months ago, the average estimate of 30 analysts surveyed by Bloomberg showed. The cut is equal to output in [Argentina](#), the second- biggest exporter. The [U.S. Department of Agriculture](#) already expected a third annual drop in global corn stockpiles and the first in soybean inventories in three years, offset by an expansion in wheat reserves to the largest in a decade.

Corn, used mostly to make livestock feed and ethanol, is the only one of eight members of the Standard & Poor's GSCI Agriculture Index to gain this year. At a time when global food prices tracked by the [United Nations](#) fell 9.1 percent from a record in February, U.S. consumers are paying the most ever for pork chops, ground beef, flour and cheese. World food costs are 68 percent higher than five years ago and combined corn, wheat and soybean stockpiles are dropping to a three-year low, data compiled by Bloomberg show.

"The situation has improved, but it remains tight," said Michel Portier, the head of Agritel, a Paris-based adviser to about 2,000 farmers. "The smallest weather problems could cause a price jump. For now all goes well, but it's clear that on a global level, we still need a good harvest in 2012."

Soybeans Slump

Corn futures have climbed 4.6 percent this year to \$6.58 a bushel as of 9:32 a.m. on the Chicago Board of Trade, outpacing the 12 percent drop in the S&P GSCI Agriculture Index. Prices jumped 15 percent from this year's low of \$5.7225 on Oct. 3, and the most-widely held option gives the owner the right to buy corn at \$7 by Nov. 25. Futures indicate rising prices through at least mid next year. Soybeans have

slumped 14 percent this year to \$12.10 a bushel as wheat tumbled 19 percent to \$6.455.

The USDA probably will cut its corn forecast tomorrow for a fourth consecutive month after yields were curbed by the hottest summer since 1955 in the Midwest, the main growing region. U.S. stockpiles before next year's harvest begins in September may drop 29 percent, reducing global inventories to a five-year low of 122.75 million tons, the analysts surveyed said.

Wheat Supplies

World wheat inventories before next year's harvest will rise 3.3 percent to 202 million tons, and soybean stockpiles will drop 7.7 percent to 63.91 million, according to the Bloomberg survey. Combined inventories of corn, wheat and soy may drop 1.5 percent to 388.7 million tons.

R.J. O'Brien & Associates LLC, a Chicago-based futures broker, asked the USDA yesterday to delay the report until Nov. 14 to allow for account transfers after the collapse of MF Global Holdings Ltd. The USDA said it has no plans to postpone.

Pilgrim's Pride Corp., the second-largest U.S. poultry producer, reported on Oct. 28 a third consecutive quarterly loss, citing higher grain costs. [Tyson Foods Inc. \(TSN\)](#), based in Springdale, [Arkansas](#), and the largest U.S. meat processor, said in September it paid about \$250 million more for grain and feed in its fiscal third quarter that ended July 2.

Gains in corn prices may be curbed should livestock farmers use the slump in wheat to add more of that grain to their feed. Wheat-feed use will rise more than 9 percent to 124.2 million tons this marketing year, the most in about two decades, the London-based International Grains Council estimates.

'Constant Drag'

"Wheat is a constant drag on the corn market," said [Dale Durchholz](#), a senior market analyst at AgriVisor LLC, a consultant in Bloomington, [Illinois](#). "The wheat carryout we're dealing with right now isn't burdensome, but it's more than comfortable."

Global wheat production may rise by 5.1 percent to 681.2 million tons this year, the third-biggest crop since at least 1960, the USDA estimated in October. The IGC expects 684 million tons and the UN's Food & Agriculture Organization 691 million tons.

Agricultural demand may also be weaker than expected should economies keep slowing. Corn demand rose 1.1 percent in 2009, the least in six years, as nations contended with the worst global recession since World War II, USDA data show. Soybean use fell 3.9 percent that year, the most since 1984, and wheat consumption retreated 0.7 percent in 2008, the most in four years, according to the USDA.

Global Expansion

The global economy will expand 4 percent next year, unchanged from this year, the [International Monetary Fund](#) forecast in September. The Washington-based group cut its 2012 prediction by 0.5 percentage point.

The economy in [China](#), accounting for almost 22 percent of global corn consumption, will expand 9 percent next year, the IMF estimates. Global corn usage will gain 2.4 percent to 863 million tons in the 12 months ending in June, the IGC said Oct. 27, raising its forecast by 10 million tons. Wheat consumption will advance 3.4 percent to 677 million tons, the group said.

U.S. demand for corn used to make ethanol may exceed feed use for the second straight year in 2012, the USDA estimates. Refiners will buy 5 billion bushels (127 million tons) in the 12 months ending in August, and livestock farmers 4.7 billion bushels, the USDA said in a report Oct. 12.

Ethanol Profit

Refiners are buying more corn as profit margins last week widened to the most in a year, data compiled by Bloomberg show. Gasoline futures rallied 26 percent in the past year on the [New York Mercantile Exchange](#), boosting the competitiveness of ethanol.

Corn for immediate delivery cost 18.2 cents a bushel more than futures last month in Decatur, Illinois, the highest October premium in at least four years, data compiled by

Bloomberg show. The city is home to Archer Daniels Midland Co., the second-largest U.S. ethanol producer.

Pilgrim's Pride, a unit of JBS SA based in Greeley, [Colorado](#), reported a third-quarter loss of \$162.5 million on Oct. 28 and said prices for feed ingredients remain volatile. There was "another structural shift" in corn prices this year that will persist through at least 2012, Tyson Foods President Donnie Smith told analysts on a conference call on Sept. 7.

Farmers contended with extreme growing conditions this season. Average temperatures in the Midwest were as much as 8 degrees Fahrenheit above normal in July, and some farms from Illinois to Indiana were the driest ever that month, according to Kyle Tapley, an agricultural meteorologist for Rockville, Maryland-based MDA Information Systems Inc.

Price Gains

Corn futures averaged \$6.90 this year, more than twice the annual average of the past decade, and are heading for the costliest year on record. Soybeans averaged 76 percent more than the 10-year average and wheat 61 percent more.

"The situation is not going to be as dire as last year," said [Abdolreza Abbassian](#), a senior economist at the UN's FAO in [Rome](#). "On the one hand, there's supply that has improved, but on the other hand, we have economic conditions that are not allowing for a very rapid increase in demand."

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