

## Play it Again, Sam

Here we go again. Another USDA crop report coming on Wednesday. Once more, another photo finish between all the grain analysts on the corn yield; all clustered around the USDA's October yield of 148.1 bushels per acre. With all the velcro, duct tape and crazy glue with which the analysts attach themselves to the USDA it is really hard to tell them apart. Once again, just like last year, I disagree strongly with the consensus. And if I am wrong it is not for lack of trying. My colleagues and I have spent several hundred hours since early September amassing many thousands of yield reports. I suspect that we have spent more time on yields than all the other analysts combined. So, besides the amount of homework done, why do we disagree so much? The answer I believe lies in the phrase "Better Than Expected". At the start of harvest this buzz phrase was uttered, picked up and repeated so often it became part of the vernacular. Let me give an example of "Better Than Expected". A construction worker slips and falls five stories, his fall is broken several times as he bounces off steel girders on the way down. With every bone in his body broken and multiple organs ruptured, he remains in a coma for three years. Yet he survives, he did....."Better Than Expected". But he is a far cry from his former self. The same is true of the corn crop. The 2011 corn crop got hammered from many directions. Much of the corn belt was planted extremely late. It suffered from multiple damaging wind events including a 100 miles an hour El Derecho in central Iowa. Then came the great nemesis of corn, namely extreme heat for three weeks during and after pollination. Drought established itself in July and August over large swaths of the belt. To top things off an early frost nipped the NW belt. The corn crop must have felt like the construction worker. And yet the yield is not a disaster. It **is** better than what a farmer might have expected. However, that does not mean that the USDA is correct. In August the USDA projected a yield in line with the third highest ever, optimistic to say the least. Since then they have backed off just 5 bushels, not a bad yield at all given all of the above.

In their October crop reports, the USDA relies heavily on their 1,920 test plots from ten major states. As usual they claimed uncanny accuracy this year because 80 percent of their plots had been harvested by Oct 1. Really? According to their own data, in 7 out of the top ten states, corn harvest was between only 2 and 12 percent. Whatever varieties the USDA grows in their plots, they apparently outyield all the others and like a twelve year old with a beard, are super precocious. In doing this work, accumulating thousands of yields, my basic philosophy is derived from the somewhat dubious logic of the bumper sticker "500 million flies can't be wrong, .....". If 50 thousand test plots are good, 100 thousand must be better. We try to leave no stone unturned. Against the USDA's national sample of 1,920 test plots we have collected 13,700 just in Illinois alone. The USDA estimates that the Illinois corn yield is 2 bushels above a year ago. Data from 9 separate sources tell a radically different story; namely a drop from a year ago of between 6 and 7 bushels. That is a difference of 8 to 9 bushels per acre from the USDA, for a total of over 100 million bushels just in Illinois. The same holds true for

Iowa where the spread is 9 bushels. In Nebraska the spread is 7, in Indiana 5 and in Wisconsin and Kansas more than 10. With the possible exception of Ohio and Michigan, due to the lack of data from the late harvest, we cannot find a single state that should be increased from the USDA October yield. They are either down, or down a lot. Since early September our pinpoint yield has remained between 140 and 143 bushels per acre, and today it is between 141 and 142, suggesting a crop of almost 600 million bushels below the USDA.

When I was a fifteen year-old, a comment I made in English class caused my teacher to turn around and say: "Macintosh, one day you may become a great wit; right now you are halfway there". I mention this because what I am about to say might suggest that my promise has yet to be fulfilled and that I have not retrieved my marbles. The yield reports that we have collected do not fully reflect the extent of the yield decline. A friend of mine, and part-time agronomist, who spends the summer walking the fields of Indiana, (how come the two of us have all the fun?), warned me months ago that there would be a large difference between the early planted corn and the late planted corn that got zapped by the heat. Almost all of our test plots have planting dates, so, using a May 10th cutoff, (when 40 percent of the crop was planted) we undertook a comprehensive study of thousands of yields early and late. Stunningly, the average drop off was over 15 bushels in the Midwest. However, the test plots from which we derive our data were not planted at the same time as the average farm, but much earlier. By May 10th Illinois farmers had planted 35 percent of the crop, but fully 65 percent of our test plots had been planted. Adjusting the data to every state's planted progress, our projected yield falls by more than an additional 2 bushels nationally. Where does this leave the final yield? You do the math. I am sick and tired of doing all the work, and besides the number is too low to print. I can hear the standard deviation crowd going crazy. "That would be an unprecedented October to final yield decline compared to the last twenty years!". My reply to that would be twofold; firstly that as a trader I have done better following the Monty Python dictum from the Spanish Inquisition, Expect The Unexpected. Secondly would be to ask if the USDA data has got better or worse over the last twenty years. Even the biggest fan of bloated bureaucracy would surely admit to the latter. Just look at the stocks report over the last year or two where the USDA is constantly losing and finding 250 million bushels, fully 6 million tons of corn, no easy feat. As standards decline deviations will rise. I suggest to the super committee in the interest of trimming the budget deficit, that it is high time for the USDA to hand over their stock and crop reporting duties to another government agency - like the Post Office.

Until last year, what I call the anecdotal yields, or the farmer yields, have been a very accurate predictor. But last year they overshot on the downside by 4 to 5 bushels. For that reason we are less reliant on our farmer network than a year ago. But for what it is worth, the farmer reports have consistently suggested a yield 11 bushels below a year ago, or 5 to 6 below the USDA. Another new data set of farmer yields, with well over 1,000 reports, is even further below our old network. Whether one takes the test plot data or the farmer reports, all the data have been pointing to a much smaller crop since

early September, which is completely at odds what the rest of the trade is saying. Perhaps fifty flies can be wrong.

Of course I do not expect the USDA to drop the yield 7 or 8 bushels on Wednesday. I am not that crazy. They always have a gradualistic approach to crop size. Clearly they will have to come down some. But the real fireworks should take place in January with the stocks report. Not only should the true crop size reveal itself, but there should be an acreage drop reflecting the many abandoned acres. I also believe that the January stocks report will throw into doubt the USDA's September stocks report. In a year of 7 to 8 dollar corn, last year's entire crop was commercialized as farmers had emptied their bins. The USDA does not canvas all the farmers but must apply some kind of historical ratio to on farm/off farm stocks which would not have reflected the abnormality of this year. The red hot cash premiums paid since early September suggest that the cash pipeline was bone dry. To see Chicago paying 70 cents over Dec futures at harvest time is to witness another handful of standard deviations. Corn premiums have been making record highs on a weekly basis for harvest time since early September. Is this telling us something? The difference between an empty pipeline and a full pipeline could well be 200 million bushels. To offset their dubious Sep stocks report the USDA collapsed domestic feeding and probably compounded one error with another. Does anybody truly believe that we continue to produce more meat year after year with less and less feed? This may well explain the current obesity epidemic, but somehow defies logic. If my theory is correct we may wake up in January and realize that the crop was over-estimated, the Sep stocks inflated, the acreage too high and the domestic feeding too low. 600 million bushels off the crop, 150 million bushels in feeding, 150 million bushels in stocks, 50 million bushels in acreage, it starts to add up, especially when you only start with a carryout of under 900.

There is plenty of cheap wheat in the world, and perhaps U.S. corn will become an island unto itself, but the function of the market will once more be to make sure that we do not run out of corn, just like last year. And just like last year, \$6.50 corn, will not do the trick, especially since we are in uncharted territory needing major rationing in back to back years.

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7 November 2011