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Corn Crop Heading for Record to Feed 1 Billion Cows: Commodities
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By Tony C. Dreibus, Jeff Wilson and Rudy Ruitenberg

Dec. 22 (Bloomberg) -- Farmers will reap a record corn crop for a sixth consecutive season in 2012, slowing a slump in stockpiles of livestock feed as global meat demand approaches a quarter of a billion metric tons.

Production will rise 4.8 percent to 867.5 million metric tons in 2011-12, curbing the drop in inventories to 0.8 percent, the smallest decline in three years, the U.S. Department of Agriculture estimates. With harvests expanding from Argentina to China, prices will fall as much as 30 percent to \$4.305 a bushel in Chicago trading next year, according to the median of 24 analyst estimates compiled by Bloomberg News.

Corn prices doubled in the past two years as farmers failed to keep up with meat consumption that expanded 62 percent in a generation. Stockpiles fell in eight of the past 12 years and are down 34 percent since 2000, contributing to a surge in world food costs. Growers are now planting the most corn ever and more feed will come from a projected record wheat harvest.

"Farmers have responded to record prices by producing historic crops," said Bill Gary, the president of Commodity Information Systems Inc. in Oklahoma City, who has worked in grain markets for a half century. "There will not be a big bullish argument for the corn market in months ahead."

Corn already tumbled 21 percent to \$6.14 on the Chicago Board of Trade since reaching a three-month high of \$7.79 on Aug. 29. The grain fell 2.4 percent this year, compared with a 19 percent slump in the Standard & Poor's Agriculture Index of eight commodities. The MSCI All-Country World Index of equities dropped 11 percent and Treasuries returned 9.6 percent, a Bank of America Corp. index shows.

Global Shipments

Output will expand the most in the European Union, China, Ukraine, Argentina, Brazil and Russia, helping to compensate for a 1.1 percent drop in the U.S., the biggest grower, the Washington-based USDA predicts. The U.S. share of global shipments will drop below 50 percent for the first time since 1971. Farmers are responding to prices that averaged \$6.80 a bushel this year, more than double the past 10 years.

Global production of beef, veal, pork, chicken and turkey will reach 248.6 million tons next year, 21 percent more than a decade ago and 62 percent more than in 1992, the USDA estimates. Total meat consumption per person will rise every year through at least 2020, the Organization for Economic Cooperation and Development in Paris and the Food and Agriculture Organization forecast in a June report. Demand will expand almost 73 percent by 2050, the Rome-based FAO said in a report Dec. 14.

Farm Animals

There were 1.38 billion cattle in 2009, compared with 1.31 billion a decade earlier, the FAO estimates. The global pig population has expanded to 942 million from 894 million in 1999 while

farmers added almost 5 billion chickens to 18.6 billion, the data show. Grazing cattle, which primarily feed on pasture, account for about a quarter of world beef production, according to the FAO.

World beef production will reach 56.8 million tons next year, 2.8 percent less than in 2007, according to the USDA. Pork will rise 10 percent to 103.4 million tons since 2007 as poultry advances 17 percent to 88.4 million tons. Farmers will use a record 640.6 million tons of corn and wheat feed this season,

5.6 percent more than a year earlier, the USDA estimates.

It takes about 2.6 pounds of corn to produce a pound of beef, compared with 3.6 pounds for pork and 2 pounds for chicken, according to estimates from the National Pork Board, the U.S. Cattlemen's Beef Board and National Chicken Council.

The projected decline in corn prices may be curtailed should weather hurt crops in South America, which typically plants corn this quarter for harvests that begin in March.

Growers are focusing on the La Nina phenomenon which typically brings heavier rainfall in Asia and the Pacific and drier weather in South America.

Developing Crops

Corn jumped 3.1 percent on Dec. 19 on the CBOT on speculation that dry and hot weather will slow development of crops in Argentina and Brazil, T-Storm Weather LLC said in a report that day. The weather is similar to 2008-2009, when a La Nina pattern strengthened in December, the Chicago-based forecaster said. Argentina's corn output fell 30 percent that season while Brazil's declined 13 percent.

Livestock farmers will use more wheat, after prices fell 23 percent this year. Wheat-feed use will advance 9 percent to

125.5 million tons, the most in about two decades, the London-based International Grains Council estimates.

Less Bullish

For now, speculators are getting less bullish on the grain, the world's biggest food crop by volume. Hedge funds and other money managers are holding a net-long position, or bets on higher prices, of 127,666 futures and options, data from the Commodity Futures Trading Commission show. That's down from as many as 408,854 contracts in January. The most widely held option gives holders the right to sell corn at \$5 by the end of February, CBOT data show.

Greater demand may also come from ethanol refiners. About 30 percent of U.S. corn went into producing the fuel in 2008, compared with 11 percent in 2002, according to the Journal of Applied Poultry Research of the Champaign, Illinois-based Poultry Science Association.

Ethanol production in the U.S. is forecast to climb 2.2 percent next year to 920,000 barrels a day, the Energy Department said in its most recent Short-Term Energy Outlook report. That's an annual production rate of 14.1 billion gallons, up from 13.8 billion in 2011, according to Energy Department data.

"We've had farmers all over the world ramp up production," said Dave Norris, an independent broker in Harrogate, England, who has been trading grains since 1979. "It should come as no surprise that these bumper crops ultimately send prices crashing."

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