

Implications of the Corn Stocks

1st October 2012

Friday's corn and wheat stocks reports have some considerable implications. They suggest amongst other things that last year's corn crop was overstated.

The corn stocks were 200 million bushels below expectations, and wheat stocks were 170 million bushels below expectations, as more wheat was fed, displacing corn.

By September 1st this year over 1 billion bushels of corn had been harvested, 700 million more than normal. A lot of this early Southern corn was fed on farm or transported and consumed elsewhere. Additionally, with by far the highest ratio ever of new crop corn on hand versus old crop on September 1st, an unusually high amount of co-mingling would have taken place. In my opinion at least 200 million bushels of new crop would have been consumed or co-mingled, leaving the true old crop carry in at 788 million bushels, and not 988. This basically means that the USDA overstated the corn supply by some 600 million bushels, or 15 million tons.

Since last January I have claimed that last year's crop was greatly overstated, and Friday's report at least somewhat vindicates that position, although, quite frankly, the USDA's corn statistics for the last three years are so messed up, how much they were off on the crop, and how much they were off on feeding, we will never know. The USDA continues to play hide and seek with several hundred million bushels. Now you see me now you don't. They jumped all over a slightly bearish soybean stocks number to raise last year's crop, but a 600 million bushel miss in corn is met with absolute silence. No comment.

Incidentally, around 35 million bushels of soybeans above normal were also harvested by September 1st, so there is a good chance the soybean stocks were overestimated, and an equally good chance that the USDA is in error in raising last year's crop.

What we do know is that the corn supply is less, and/or the demand is greater.

Once more, for the third year in a row, it appears that the USDA is overstating this year's crop. The early corn yields were catastrophically bad, and they have been improving, but I do not have any data to suggest that the yield will reach the USDA's level. The only state where the corn yield is underestimated appears to be Minnesota. To be fair to the USDA and to anyone trying to estimate this year's crop, the

variability of yield is unprecedented. In test plots I have seen varieties yield 250 and 100, just feet apart. The jury will be out on this crop for a while.

In addition to overstating the corn stocks and the yield, the USDA is probably overstating the acreage. Every time we have had the type of drought we suffered from this year, we have had a large abandonment of acres, an issue which the USDA has yet to address. There is historical precedence to suggest that up to 4 million acres could have been abandoned. That would be almost 500 million bushels of corn. One does not need much imagination to say that biggest rationing ever lies ahead for the corn market.

One final thought. Things would be so much easier if the USDA started the crop year on August 1st and not September 1st. In that way we would be sure that the corn stocks would all be old crop, and not co-mingled. The USDA may not be aware, but this last year, if we had not harvested an unprecedented amount of early corn, the well would have run dry. For two years in a row the early corn has saved their bacon. One year the crop will not be early, and the way we are going, there won't be any bacon.

Best regards, John Macintosh