

(BN) Corn Boom Goes Bust With U.S. Sales in Record Drop: Commodities

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By Jeff Wilson

April 9 (Bloomberg) -- The record collapse in U.S. corn exports and shrinking domestic demand are leaving more grain in silos, spurring a bear market just eight months after drought drove prices to an all-time high.

Stockpiles will be 836 million bushels (21.2 million metric tons) on Aug. 31, or 32 percent more than the U.S. Department of Agriculture forecast last month, according to the average of 35 analyst estimates compiled by Bloomberg. Export sales from the world's largest grower and shipper fell 54 percent in the year that began Sept. 1, heading for the biggest annual drop in government data that starts in 1960.

Surging grain costs last year forced Cargill Inc. and other meat producers to close plants and ethanol makers including Valero Energy Corp. to shut distilleries, easing demand for corn supplies curbed by the worst drought since the 1930s. The USDA says output will rebound as farmers plant the most acres in 77 years. Futures fell 25 percent from their peak in August, joining wheat and soybeans in bear markets as global food costs tracked by the United Nations fell for five consecutive months.

"The corn-supply situation has gone from being underwater to having its head above water," said Roger Fray, the executive vice president of grain at farmer-owned grain handler West Central Cooperative in Ralston, Iowa, who expects cash prices to drop 20 percent by December. "We have enough supply until what should be a record harvest."

#### Worst Commodity

Futures plunged 8 percent to \$6.395 a bushel this month on the Chicago Board of Trade, the most of 24 commodities tracked by the Standard & Poor's GSCI Spot Index, which tumbled 3.1 percent. The MSCI All-Country World Index of equities retreated 0.5 percent, and the U.S. Dollar Index, a measure of the currency against six trading partners, weakened 0.5 percent.

Treasuries returned 0.8 percent, a Bank of America Corp. index shows.

Corn will average \$6.15 in the fourth quarter, compared with \$7.1125 in the first three months of the year, according to the median of 13 analyst estimates compiled by Bloomberg. The December contract on CBOT closed yesterday at \$5.32.

U.S. exports are dropping faster than the government had forecast. Shipments since Sept. 1 reached 15.52 million tons as of March 28, from 34.07 million tons a year earlier, according to the USDA. The agency updates its forecasts tomorrow.

Cattle, hog and poultry producers in the U.S., who use two of every five bushels grown, probably consumed 30 percent less in the first quarter from a year earlier, based on March 1 inventories, said Joel Karlin, the director of commodity sales at Goshen, California-based Western Milling LLC, which makes feed. Production of ethanol, the second-largest user of corn, fell 12 percent since Sept. 1, Department of Energy data show.

#### Spurring Demand

Cheaper corn may revive demand from importers including China that allowed stockpiles to diminish when prices were high, said Jeff Hainline, the president of Advance Trading Inc. in Bloomington, Illinois. Midwest farmers won't plant until late this month, and lingering drought in Iowa, Minnesota, Nebraska and South Dakota means more risk the harvest in October will fall short of the government's target, he said.

The cost of importing U.S. corn in China is less expensive than domestic supply, data from Shanghai JC Intelligence Co. show. Sales of U.S. corn for delivery after the harvest begins reached 2.47 million tons on March 28, 34 percent higher than a year earlier, USDA data show.

The world is less dependent on U.S. corn, with its market share dropping to 24 percent this year, from more than 33 percent a year earlier, government data show. Argentina, the second-largest exporter, will boost output by 23 percent to 25.74 million tons, and Brazil will reap its second-largest crop ever, according to a Bloomberg survey.

### Inventory Surprise

Global inventories before this year's Northern Hemisphere harvests will total 120.41 million tons, according to a Bloomberg survey of 18 analysts. While that's down from 131 million a year earlier, it would be 2.5 percent more than forecast in March.

The USDA said March 28 that domestic inventories on March 1 were 8.1 percent bigger than analysts had forecast. Prices fell 13 percent in two days and reached \$6.265 on April 5, the lowest since June 29.

The government also said that farmers intend to plant 97.282 million acres this year, the most since 1936. Assuming normal weather patterns, global corn production will climb 15 percent to a record 975.65 million tons in the year beginning July 1, from 851.58 million tons a year earlier, Informa Economics Inc. said in an April 3 report.

### Hedge Funds

Hedge funds and other large speculators cut bets on higher corn prices by 51 percent in the week ending April 2, the biggest reduction since June 2010, U.S. Commodity Futures Trading Commission data show.

Growing conditions across the Midwest are improving after snow and rain increased soil moisture, according to data from the U.S. Drought Monitor. About 20 percent of the nine-state region on April 2 was classified with severe to exceptional drought, compared with 30 percent on Jan. 1 and 50 percent at the end of August. Drought conditions will ease through June 1 in the western Midwest, Great Plains and parts of the Southeast, according to the U.S. Climate Prediction Center.

The USDA predicted Feb. 22 that domestic cash prices would average \$4.80 this year. With cash corn for December delivery fetching around \$5 now, buyers may pay less than \$4 by December, according to Fray at West Central Cooperative, which has 28 storage facilities in Iowa, the top U.S. grower.

### Unkind Markets

The drop in prices has made some farmers reluctant to sell. Only about 2 percent of the 2013 crop has been sold in advance of the harvest, down from 20 percent on average in the past five years, probably because they are counting on a weather-driven rally similar to the previous three years, Fray said.

“There is no reason for consumers or investors to be anxious about running out of supplies,” said Dale Durchholz, the senior market analyst for AgriVisor LLC in Bloomington, Illinois. “When farmers and investors are hoping for a rally to sell, the market usually isn’t that kind.”

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