

USDA Lowers Corn Feed Projection by 100 Million Bushels

Corn Market Factors

Only one corn demand category was changed in today's WASDE report. Feed demand for 2009/10 was reduced by 100 million bushels and is now projected at 5.450 billion bushels. Feed use continues to struggle—a reflection of lower livestock inventories nationwide. Greater ethanol production is increasing the availability of DDGS, which are replacing at least a portion of corn use for feed. We are already past the peak demand season for feed; warmer weather should lead livestock producers to reduce energy needs in feed rations. We may get a better idea of corn-for-feed demand for the remainder of 2009/10 when USDA releases its Feed Outlook report next week. It will contain estimates of corn-for-feed use during the second quarter of 2009/10.

Despite weak ethanol margins, the spread between ethanol and gasoline futures has increased and lower corn prices are helping to promote ethanol production. Nearby ethanol futures are trading at a discount of 33 percent to RBOB futures; this usually suggests a strong incentive to increase ethanol blending. January ethanol production exceeded 1.065 billion gallons, utilizing over 379 million bushels of corn. Demand lagged production slightly, estimated at 1.021 billion gallons. For the first four months of the crop year, 1.440 billion bushels of corn have been utilized. If this level of production is maintained, corn use for ethanol could top 4.320 billion bushels.

Sugar Highlights

- 2008/09 ending stocks raised by 48,000 STRV.
- 2009/10 imports raised 130,000 STRV.
- 2009/10 stocks-to-use ratio at 11.6%.

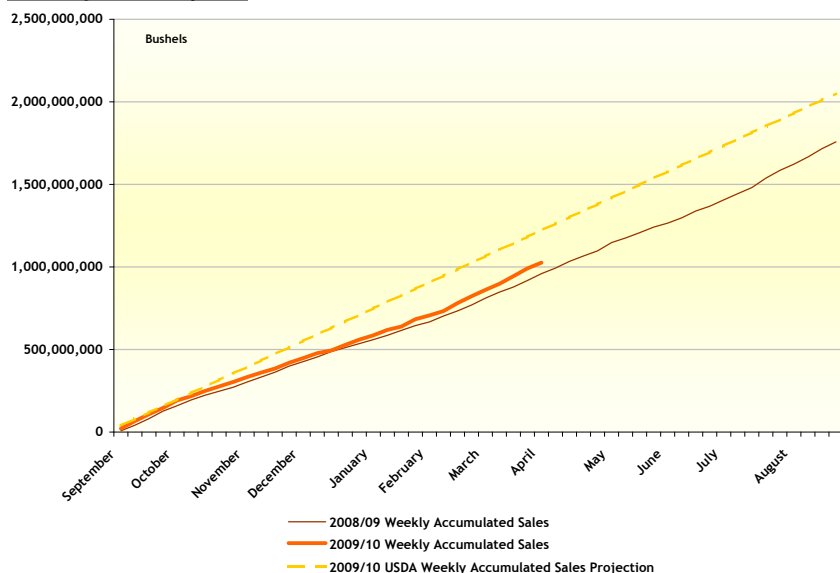
Corn Highlights

- 2009/10 corn feed use lowered to 5.45 billion bushels.
- All other 2009/10 projections unchanged from last month.

Today's Corn Futures Activity

Future	Open	High	Low	Settle	Change
MAY 10	348.25	352.00	344.00	345.75	-2.50
JUL 10	359.50	363.25	355.25	357.25	-2.25
SEP 10	370.00	373.50	365.75	367.75	-2.25
DEC 10	381.00	384.50	376.75	378.75	-2.50
MAR 11	394.25	397.50	390.00	391.50	-2.75
MAY 11	403.00	403.00	398.25	400.00	-2.75
JULY 11	409.00	410.75	404.00	406.00	-3.00

Monthly Corn Exports



This crop year's export projection was unchanged at 1.900 billion bushels. In the first 32 weeks of the current crop year, approximately 1.026 billion bushels of corn have been exported. This is up 7.0 percent from the same time last year. In the last five weeks, corn exports averaged 1.034 million metric tons (MMT) per week, up from 966,000 metric tons (MT) during 2008/09. USDA's projection for 2009/10 assumes a 2 percent increase from the prior crop year.

All told, corn ending stocks increased to 1.899 billion bushels for 2009/10. The stocks-to-use ratio is projected at 14.7 percent, and the average farm price range is now \$3.50 to \$3.70 per bushel.

USDA Corn Supply/Demand Estimates				
	2007/08	2008/09	2009/10 Projections	
(Million Bushels)		Estimate	March	April
Beginning Stocks	1,304	1,624	1,673	1,673
Production	13,038	12,092	13,131	13,131
Imports	20	14	10	10
Total Supply	14,362	13,729	14,814	14,814
Feed & Residual	5,913	5,246	5,550	5,450
Food, Seed & Industrial	4,387	4,953	5,565	5,565
Ethanol for Fuel	3,049	3,677	4,300	4,300
Total Domestic	10,300	10,198	11,115	11,015
Exports	2,437	1,858	1,900	1,900
Total Use	12,737	12,056	13,015	12,915
Total Ending Stocks	1,624	1,673	1,799	1,899
Average Farm Price	\$4.20	\$4.06	\$3.45-\$3.75	\$3.50-\$3.70
Planted Acres (Million)	93.5	86.0	86.5	86.5
Harvested Acres (Million)	86.5	78.6	79.6	79.6
Yield per Harvested Acre	150.7	153.9	164.9	164.9

Global Supply and Demand

Minor adjustments were made to 2008/09 global corn supply and demand figures, but the big story is South American production, with large 2009/10 corn crops projected in Argentina and Brazil. Argentine production was unchanged at 21.0 MMT. The country is projected to export more than half of its total production, or 12.0 MMT. If this holds true, it will be an 18 percent increase from 2008/09.

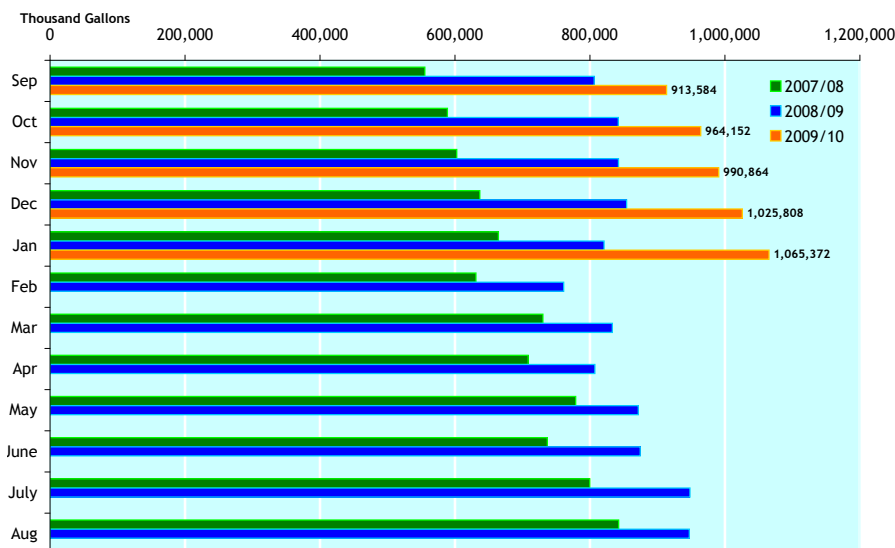
Brazil’s crop projection, if actualized, will be second in size only to record production in 2007/08. Production for 2009/10 was raised 2.5 MMT to 53.5 MMT. Exports are unchanged at 8.0 MMT, up 12 percent from last year.

Analysis

Other than rumors that China may need to import corn and prospects of another huge U.S. crop in 2010/11, the corn market has been relatively quiet from a fundamental perspective.

Demand for corn-based food products (HFCS, corn syrup, etc.) is still weak, although there are early signs of recovery from 2009. Domestic starch and dextrose delivery figures are rebounding but liquid sweetener demand is still declining. One bright point, however, has been the growth of HFCS demand in Mexico, due in great part to strong sugar prices in that country.

But challenges still abound for the U.S. wet milling industry. Princeton’s recently released study linking HFCS to obesity is probably the most damning yet, HFCS opponents would argue. “Reformulation” is becoming a buzz word among



Monthly Ethanol Production

food manufacturers as they respond to increasing customer demand for more healthful products. Furthermore, first lady Michelle Obama has begun a campaign pressuring food manufacturers to offer more healthful options. This marks an unprecedented strategy that places more accountability with food sellers in addition to encouraging public dietary awareness. All of this is contributing to shifting consumer preferences. And the most intriguing aspect of this is that cost does not seem to be an issue when food processors decide to reformulate.

Ethanol is the single strongest demand component for corn consumption. As we approach peak travel season, the direction of crude oil and gasoline prices will determine the fate of ethanol

prices. At current levels, ethanol blending is likely to be maximized. Profitability will be highly dependent on whether producers remain long on their corn positions and take advantage of current market prices for ethanol.

Funds have been showing renewed interest in corn futures, buying over 15,000 contracts on Wednesday alone. Although most of the market's gains were given back on Thursday, there is some indication non-commercial traders have lost their appetite for sugar, turning instead to the grain markets. In fact, the seasonal trend at this time of year has been for stronger corn futures for the past three crop years.

Sugar Market Factors

USDA did not make any significant changes to sugar supply and demand in today's WASDE report. Increases to 2008/09 carryout and to the 2009/10 Tariff Rate Quota (TRQ) allotments were minimal. Total supply for the 2009/10 crop year is now 11.693 million short tons, raw value (STRV), putting the projected stocks-to-use ratio at 11.6 percent. This may suggest USDA believes the market is adequately supplied. Later in this report we will discuss whether USDA will announce an increase to the TRQ.

Mexico's sugar numbers were unchanged in today's report. With Mexico running almost 12 percent behind last year's cane crush, it is difficult to believe production will exceed the projected 4.9 million tons, raw value. The only figure that may see a change is consumption. Prices for refined sugar in Mexico are down slightly from their peak of \$0.44/lb., FOB the mill. Today's market reflects pricing closer to \$0.38/lb. Much of this is due to increased high fructose corn syrup (HFCS) imports. USDA claims shipments of HFCS from the U.S. to Mexico during the October 2009 through January 2010 totaled 260,267 metric tons, dry basis. This is a 259 percent increase over the same period a year ago. If this pace continues, Mexico could have some excess sugar available for export during May and June.

USDA Sugar Supply/Demand Estimates				
1,000 Short Tons, Raw Value (STRV)				
	2007/08	2008/09	2009/10 Projection	
		Estimate	March	April
Beginning Stocks	1,799	1,660	1,451	1,499
Production	8,152	7,532	7,942	7,907
Beet Sugar	4,721	4,214	4,500	4,500
Cane Sugar	3,431	3,318	3,442	3,407
FL	1,645	1,577	1,665	1,630
HI	182	192	137	137
LA	1,446	1,397	1,500	1,500
TX	158	152	140	140
Imports	2,620	3,082	2,157	2,287
TRQ	1,354	1,370	1,257	1,387
Other Program	565	308	350	350
Other	701	1,404	550	550
Mexico	694	1,402	540	540
Total Supply	12,571	12,274	11,550	11,693
Exports	203	136	150	150
Deliveries	10,708	10,639	10,325	10,325
Food	10,506	10,473	10,140	10,140
Other	202	166	185	185
Miscellaneous	0	0	0	0
Total Use	10,911	10,775	10,475	10,475
Ending Stocks	1,660	1,499	1,075	1,218
Stocks/Use Ratio	15.2%	13.9%	10.3%	11.6%

The potential for increased Mexican sugar imports may factor into USDA's decision to either grant additional TRQ supply or simply re-assign the added supply to Mexican imports, as it did last year. To let this scenario play out, USDA could delay any announcement until after Mexico halts sugar production in late May or early June.

Many industry groups, including the cane refiners, are pressuring the administration to open the import quota as early as possible. Will USDA acquiesce? Price is a major factor. Does USDA believe the prices for raw and refined sugar are currently too high? The raw sugar price has moved well off its high so there is no real need to increase

raw sugar supply, some would argue. According to some in the industry, most refined sugar needs are booked for fiscal year 2009. If the projected stocks-to-use ratio has risen from 7.9 percent in October 2009 to its current 11.6 percent with minimal changes in supply and no changes in demand, then what reason is there for USDA to announce a quota increase? It may be easier for USDA to wait and see if Mexico has excess sugar.

The only issue we believe USDA must address is domestic shortfalls to allotments, and this may be the most compelling reason to increase supply through imports. Both cane and beet production figures fall well short of the announced allocations. Thus there is no discussion of blocked stocks. It is uncertain if these industries hold the inventory to offset their respective shortfalls. The beet sugar industry may well have 500,000+ tons in inventory, but there is no way to know what percentage of this is physical sugar and what percentage is “thick juice.” (This “juice” is what the industry uses at the beginning of the campaign to start up processing plants.) There is no way to know whether USDA will move in this direction, though the possibility certainly exists.

Mexico Sugar Supply and Use			
<i>1,000 Metric Tons, Raw Value</i>			
	2008/09	2009/10 Projections	
	Estimate	March	April
Supply			
Beginning Stocks	1,975	488	488
Production	5,260	5,100	4,900
Imports	160	720	970
Use			
Domestic	5,540	5,300	5,000
Exports	1,367	490	490
Ending Stocks	488	518	868
U.S. HFCS Exports to Mexico*			
Oct-Sep 2008/09	297,231 metric tons		
Oct-Jan 2008/09	100,393 metric tons		
Oct-Jan 2009/10	260,267 metric tons		
<i>* Metric tons, dry-weight basis. Census Bureau data.</i>			

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