

## Falling Crop Outlook Puts Corn Above \$5

(Wall Street Journal)

By Ian Berry

CHICAGO—Corn prices climbed above \$5 a bushel as reports of a disappointing U.S. crop proliferated, delivering an unexpected hit to already-tight global grain supplies.

As harvest results trickle in field by field across the U.S. Midwest, many farmers are reporting that yields down from last year. This has repercussions in nations such as China, where grain supplies are closely monitored. China is the second-biggest consumer of corn after the U.S., and a potentially crop-damaging frost in its northeast agricultural region triggered Friday's move above the \$5 mark.

The U.S., the world's No. 1 corn grower and exporter, has suffered a series of downward revisions to its crop estimates. Although the corn crop is still likely to be among the highest on record, the acres were planted with an eye to growing global demand.

As recently as August, the U.S. Department of Agriculture projected that U.S. fields on average will produce 165 bushels an acre. The agency last week cut that estimate, and it is widely expected that the yield will come in at 160 bushels or lower.

Although a loss of five bushels an acre may seem small, it makes a big difference to supplies when multiplied across the 87.9 million acres planted, and would likely push U.S. supplies in storage next year below one billion bushels, a psychologically significant threshold. Avoiding that scenario will require higher prices, analysts say.

"The whole point is to drive (prices) up to a point where people decide they don't really want it," said Sid Love, analyst with Kropf and Love Consulting in Kansas City.

Corn for December delivery finished Friday 17.25 cents, or 3.5%, higher at \$5.1325 a bushel on the Chicago Board of Trade. Prices were last this high on Sept. 30, 2008, when the market was retreating from record highs near \$8 set earlier that summer. Corn prices have surged

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almost 60% since June 29.

A smaller-than-expected U.S. crop would be ill-timed, as the world's anticipated grain supplies have already been slashed by the severe drought in Russia this past summer.

Rising corn prices would have widespread implications. U.S. ethanol producers who rely on the grain are just beginning to recover financially from the 2008 spike.

Not only is corn found in wide variety of packaged foods, it is vital for livestock producers, who use it to fatten their herds of cattle and chickens. Shares of meat giant Tyson Foods Inc. were down 5.2%, as corn is one of its biggest costs. Demand has been solid this year as the livestock sector has rebounded, ethanol margins have been favorable and Asian imports have remained strong.

The strength of corn's rally is somewhat of a surprise because there wasn't any weather disaster in the Midwest that grabbed headlines. Instead, several smaller issues contributed to the lower yield. Heavy rains and flooding in some areas washed away nitrogen, a key nutrient, early in the season, causing problems that didn't show up until recently. Also, crops were

stressed by consistently hot night-time temperatures, which didn't give the crop a chance to "rest" and limited kernel growth.

Even with the reduced productivity, this year's U.S. harvest is slated to be the third-largest on record. And there is a possibility that the quality of the harvest will improve as the combines work their way north. Nationally, the crop was only 11% harvested as of Sunday, but farmers have made good progress this week thanks to mostly dry conditions.

"We still have a lot of corn out in the field," said Shawn McCambridge, senior grains analyst with Prudential Bache.

Forecasts of crop-damaging frost in China next week and a dry start to the planting season in South America were also supporting grains prices across the board on Friday. Wheat futures were up 2.5% at \$7.3725 a bushel, while soybean futures were 2.6% higher at \$10.6425 a bushel.

While traders are expecting a correction in the corn market soon, many analysts say the market could remain strong for months. The USDA last week projected that supplies as a percentage of usage would be at their lowest level in 15 years in 2011.

Recent mild corrections have been short-lived, as livestock producers and corn processors, wary of the potential for prices to climb even higher, are using the dips to lock in prices. Over the long term, farmers will likely need to plant significantly more corn acres in 2011 to replenish dwindling supplies, and will need higher prices as an incentive to do so. A similar situation in wheat could drive the two markets, along with soybeans, to "battle" for acres.

Rabobank said in a report that 2011 acreage is one of several question marks creating uncertainty about global grain supplies in 2011. Others include demand from China, which emerged this year as a consistent buyer of U.S. corn for the first time in several years, and

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how quickly Russian cropland rebounds from the drought.

"Rabobank does not—at this stage—believe the world is re-entering a 2007/08-type 'food crisis' scenario," the bank said. "However, at this stage there remain a number of significant risks which threaten to push grain prices higher over coming months." 9-18-10