

Corn Jumps on New Supply Outlook

USDA Says Stockpiles, Acreage Far Lower Than Expected; 'Almost Unbelievable'
(Wall Street Journal, IL)
By IAN BERRY

Fresh U.S. government data rattled corn markets on Wednesday, sending futures prices soaring 9% and raising questions about the precision of earlier estimates.

Corn futures prices, which just a day earlier reached a nine-month low, jumped after the U.S. Department of Agriculture said stockpiles were much lower than the market expected.

The government on Wednesday also said the acreage now dedicated to planting corn for the coming crop is below forecasts.

The news was especially surprising because the USDA has in the past few months been sending bearish signals to the market, announcing in January that the most recent crop was a record.

The inventory figures and other acreage data "represent a significant bullish surprise for a corn market that appeared increasingly—and fundamentally perplexingly—bearish of late," said Lewis Hagedorn, an analyst with J.P. Morgan.

Corn for July delivery ended up 29.25 cents, or 9%, at \$3.5425 a bushel on the Chicago Board of Trade. The most actively traded contract, for delivery of corn in December, jumped 8.6% to \$3.735. Most contracts opened already at the daily limit for moves in the price of corn in either direction. At its highest point, July corn was up 9.8% and December was up 8.7%.

Prices are down 17% from the 2010 high set before the January report was released.

The USDA's estimates are "almost unbelievable," said Rich Feltes, senior vice president of research for MF Global. He said the USDA's quarterly grain stocks reports haven't defied analyst expectations by this much in more than a decade.

Corn stockpiles totaled 4.31 billion bushels as of June 1, according to the USDA report on Wednesday. While that is up 1.1% from a year ago, it came in 300 million bushels below expectations. Usually, private-sector estimates come within 40 million to 50 million bushels of the official figures, Mr. Feltes said.

Collectively, the two reports reduced expectations for U.S. corn supplies by roughly 500 million bushels.

The number of acres dedicated to corn planting this year came in at 87.872 million, also below forecasts. The USDA blamed the lower-than-expected acreage on damage caused by below-average temperatures and wet weather in the Midwest and portions of the Plains in mid-May, which hampered planting efforts and may have damaged seedlings.

The sudden realization that supplies are tighter than previously thought leaves corn prices more vulnerable to other factors, such as the summer's weather forecasts.

Analysts said the reduced stocks might be a sign that 2009 production was overstated.

Dan Basse, president of Ag Resource Co. in Chicago, said the storage estimate left him "scratching his head," as it implied livestock feeding of corn in the quarter climbed 40% versus the prior year, compared to an increase of only 3.6% in the two preceding quarters.

Some traders said the storage report confirmed chatter that livestock and ethanol producers are burning through more corn due to the relatively poor quality of the 2009 crop.

"This is in fact the first real write-down of last year's corn production that we have seen from them," said Nick Kouchoukos, director of information services at Lanworth, Inc., a Chicago-based company that relies in part on satellite imagery.

Lanworth's 2009 crop estimates have been well below the USDA's outlook since last summer. The company said the crop had a shortened yielding period due to delayed planting and suffered frost damage. Based on its surveys among elevators and weather models, it has projected a supply 8% lower than what the USDA said.

The USDA will issue a more detailed look at usage in its monthly supply and demand report to be released on July 9. 7-01-10