Corn Outlook Signals Price Pinch
Harvest Forecast Is Cut by 3.2%; Rains in Midwest
(Wall Street Journal)
By SCOTT KILMAN

Keeping the heat under food prices, the Agriculture Department trimmed its one-month-old forecast of the U.S. corn harvest by 3.2% because of a rain-delayed planting season in parts of the Midwest.

"This is another inflationary development," said Michael Swanson, an agricultural economist at banking giant Wells Fargo & Co. "I wouldn't be surprised if corn heads towards $8 a bushel -- not that anybody can afford to pay that."

The USDA said in a flurry of monthly crop-related reports released Tuesday that it expects U.S. farmers to harvest 11.7 billion bushels of corn this year, based on early June conditions.

Since May, when the department forecast a 12.1-billion-bushel crop, heavy and persistent rain across Iowa, Illinois, Missouri and Indiana have prevented many farmers from getting all of their crops into the ground. Most Midwestern farmers try to finish planting by mid-May so their crops reach full maturity before autumn temperatures could kill the plants.

Corn prices, which have tripled over the past two years to reach record-high levels, climbed further Tuesday. In action at the Chicago Board of Trade, the corn futures contract for July delivery jumped 16 cents a bushel to settle at $6.7325 a bushel. Futures contracts for delivery between December 2008 and July 2009 were trading above $7 a bushel.

Despite problems with the U.S. corn crop, planting booms in places such as China, Brazil, Australia, the European Union and Russia are beginning to rebuild world-wide stocks of some commodities. The USDA raised by 4% its one-month-old forecast of the amount of corn that will be left in global stocks by the start of the 2009 harvests. Likewise, the department raised its one-month-old global wheat-production forecast by 6.9 million metric tons to 662.9 million metric tons, which would be 8.5% bigger than last year.

Although the U.S. corn-harvest reduction is small, its significance is amplified because strong demand for corn to make food, feed and fuel is draining U.S. stocks to precariously low levels. The amount of U.S. corn that the department expects to be left before the start of the fall 2009 harvest -- 673 million bushels -- would be the tightest on record when measured against expected use, said Dan Basse, president of AgResource Co., a Chicago commodity forecasting concern.

In the tug of war for corn, food executives, livestock producers and exporters are losing out to makers of corn-derived ethanol, whose product competes with high-priced gasoline.
The USDA forecast that the ethanol industry, which benefits from federal mandates, will consume four billion bushels of the new corn crop, up 33% from three billion bushels of the 2007 crop. High prices, meanwhile, are forcing livestock producers to slash their use of corn by roughly one billion bushels from last year.

Grain analysts are divided over whether the Midwest crops can recover from their late start. The USDA monthly forecast is based on models that in the past have had a hard time accounting for seed improvements. Government surveys of actual field conditions won't begin until later in the growing season. What's more, some weather forecasters see a better chance of Midwest growing conditions returning to a normal pattern by next week.

Still, some Midwest agronomists expect the USDA to slice its forecast of the U.S. soybean crop next. Iowa soybean farmers have yet to plant 14% of the land they intend to. In addition, Palle Pedersen, an Iowa State University agronomist, estimates that about 10% of Iowa's soybean fields will have to be replanted. Soybean fields planted this late in central Iowa usually generate about 60% of their normal yield, he said.