

The Milkweed



Dairy's best information and insights

Issue No. 384, July 2011

6/30: USDA Reports More Corn Acres, But Ignores Flooding

SEE LANDSAT PHOTOGRAPHS OF MISSOURI RIVER FLOODING ON PAGE 16.

by Pete Hardin

Corn cash markets and futures prices collapsed following release of USDA's June 30, 2011 revised acreage report. USDA slightly raised its estimates of U.S. acres planted to corn in 2011 – to 92.28 million acres. USDA's survey also found about 10% (350 million) more bushels of corn inventories than previously been projected.

The cash market for no. 2 yellow corn, central Illinois reacted by falling from \$6.8950 per bushel on June 27 to \$6.2500 on July 1. Futures moved even more. Corn for July delivery fell to \$6.29 on June 30, a one-day drop of \$.69 or nearly 10% per bushel, before regaining \$.1175 to \$6.4075 on July 1. December corn futures dropped \$.30 to \$6.2050 on June 30 and then dropped another \$.2375 the next day to \$5.9675. Futures prices then moved up and down the first week of July, settling Thursday at \$6.50 for July and \$6.1550 for December before another market bombshell sent prices soaring on Friday, July 8. (See sidebar story on this page.)

USDA's June 30 corn acreage estimates irresponsibly ignored events that occurred after the close of date collection on June 17: massive flooding along parts of the Missouri River.

How did USDA find more corn acreage than one month ago? Wisconsin's capable State Agricultural Statistician, Robert Battaglia, noted that corn prices inspired farmers' late spring decisions to convert additional marginal land from hay and pasture to corn acreage. Despite much adverse weather, USDA's optimistic acreage reports gave the grain trade opportunity to kick the stuffing out of corn prices in following days.

Corn marketers must also be nervous about mounting political pressures in Washington, D.C. to jettison ethanol blending credits and import tariffs on ethanol. (The U.S. Senate voted by a huge, bipartisan 73-27 majority June 16 to end the \$.45 per gallon ethanol blenders tax credit and drop the \$.54 per gallon tariff on imported ethanol, mainly from Brazil.) Federal taxpayer subsidies that have helped

make U.S. corn ethanol production seemingly too profitable. For the current 2010-2011 grain marketing year, ethanol will use 40% of the total U.S. corn supply. Five years ago – 2005-2006 – ethanol demand used only 12.1% of the U.S. corn crop.

Massive Missouri River flooding ...

On the other hand, Mother Nature presents stark challenges to 2011 crops in numerous parts of the country. In the analysis of *The Milkweed*, USDA's June 30, 2011 report clearly missed the impact of the overflowing Missouri River, and many of its tributaries, on crop acreage during the second half of June. June 17 marked the end of collecting data for USDA's June 30, 2011 grain acreage report. During the second half of June, combined heavy rainfall and melt of a massive snow pack in the Rocky Mountains combined to send portions of the extended Missouri River into extreme flood mode.

As proof of our analysis that USDA's cut-off point of June 17, 2011 for grain acreage data collection seriously missed the Missouri River flooding, *The Milkweed* prints, in color, on page 16 two Landsat satellite photographs covering the northwestern corner of Iowa and environs. One Landsat photograph shows the Missouri River on June 15, 2011. The second Landsat photograph depicts that same region, 16 days later – July 1, 2011. In those 16 days, the dramatic expansion of Missouri River flooding in that small corner of grain country clearly demonstrates – on a small-scale basis – how late June flooding cannibalized USDA's "planted" acres.

The massive volume of rainfall and snowmelt moving down the Missouri and some of its tributaries means high water levels will extend until late August, at least. When levees and other water-retention structures are subject to such stresses for so long, danger of breaching increases dramatically. The relatively flat topography surrounding the Missouri River in farm country means that when levy breaches occur, they'll flood massive acres. Hamburg, Iowa – a town in northwest Iowa that's been in the news in recent weeks now due to flood concerns – is located several miles from the Missouri River!!!

Thus, USDA's June 30, 2011 grain acreage report, by measuring *planted* acreage, obviously ignored the flooding along the extended Missouri River that occurred after data collection ceased on

June 17. Certainly, acres along the Missouri now flooded were counted as planted by USDA – without recognition of subsequent massive flooding.

The Milkweed has learned that USDA employees are conducting a special survey this summer to

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Mexican Milk Invades U.S.!



Fluid milk processed in Mexico is now being sold in several U.S. markets. FDA has adopted a "Third Party Certification" program to inspect foreign milk plants, their farm milk supplies, and milk trucks for compliance with U.S. Grade A dairy sanitary rules. See pages 6-7.

China's Latest Corn-Buying Spree Further Churns U.S. Market

China made major new purchases of U.S. corn during the first week of July, driving corn prices sharply higher following the previous week's decline. USDA announced that China bought 540,000 metric tons of corn for delivery after August. Market analysts expect much larger corn purchases – possibly millions of metric tons – to follow in coming months, setting the stage for even more price volatility and supply shortages.

Corn prices recovered much of their losses seen following USDA's June 30 crop report, which estimated the 2011 U.S. corn crop to be the second largest in 70 years. As *The Milkweed* went to press, the July 12 cash price for no. 2 yellow corn at Central Illinois stood at \$6.6950 per bushel, with corn futures

at \$6.9700 for July and \$6.5800 for December.

Some market observers, including *The Milkweed*, believe USDA's June 30 crop estimates are overly optimistic in failing to fully consider the true extent of Missouri River flooding and other adverse conditions on the ground in key corn-growing areas. (See related story on page 16.)

China's corn-buying spree comes at a bad time for dairy producers who purchase grain and for consumers, who face continued food price inflation as the U.S. economic slump continues and high unemployment persists.

Observers expect Chinese grain purchases to continue at a brisk pace in coming years. China, the world's second-largest corn producer, had been a net corn-exporting nation in recent years. That changed in 2010, however, when local droughts and increased consumer demand turned China into a major exporter of both U.S. corn and soybeans. China is increasingly using U.S. corn as livestock feed to meet rising middle-class demand for pork and other high-quality animal proteins.

TENNESSEE MILK HAULER RUNS 50 RIGS ON WASTE VEGETABLE OIL SEE PAGES 8-9

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better analyze how much U.S. grain acreage has been impaired by 2011's flooding.

In early summer 2011, the corn trade faces great uncertainty involving weather, economic, and political uncertainty. The "market" – i.e., commercial traders at the Chicago Board of Trade took USDA's report at face value and sharply discounted corn prices. Given all the uncertainty in the world of grain, USDA's June 30 analysis is regarded as the "best" current information, accurate or not. Private analysts are generally less optimistic about this nation's 2011 corn crop prospects, due to widespread weather challenges – from drought to flooding.

Discord between many private analysts' gut feelings about the 2011 corn crop and USDA's June 30 finding of slightly more corn acreage acres planted – means that right now, the grain trade and grain users (including dairy) are shrouded in a fog of uncertainty. That uncertainty extends to the following sectors:

Weather: Take your pick – drought, flooding, too hot, too cold. Aberrant weather is hammering crop production and livestock/poultry in many areas of the United States. That's a fact. Crops in much of Texas and other states in both the Southwest and Southeast are hammered by drought. Meanwhile, flooding (and the threat of additional flooding) means flooded acres in 2011 will yield nothing but mosquitoes and algae. Globally, weather concerns this summer are another factor to consider, particularly with respect to China.

Take-down of U.S. ethanol subsidies: Based on the June 19 U.S. Senate vote, the budget-chopping frenzy that's building in Washington, D.C. means the likely end of blending credits and import tariffs for ethanol. When such changes might occur – whether during the current fiscal year (for which no federal budget exists) or the 2011-12 fiscal year (which begins October 1) – it's highly predictable that some of the public moo-la that's fueled expansion of corn ethanol will be dramatically shrink.

At this time, political pressures are focusing on the \$.45 per gallon blending credits for corn ethanol. According to an article appearing in *The New York Times* on July 8 ("Ethanol Subsidies Besieged, page B 1), no politicians are yet questioning the mandate that boosted ethanol percentages in gasoline up to 15%. That increase has both political and emotional baggage. Some consumers contend that higher ethanol content in gasoline caused undue mechanical damage and problems.

Chinese situation: The food needs of China's 1.33 billion consumers are a key global game-changer. Major portions of China are being hammered by serious drought and rapid expansion of deserts. Historically, China has not been much of an importer of corn. China's 2011 corn crop is a wild card in the future, global corn price equation. China is now buying U.S. corn.

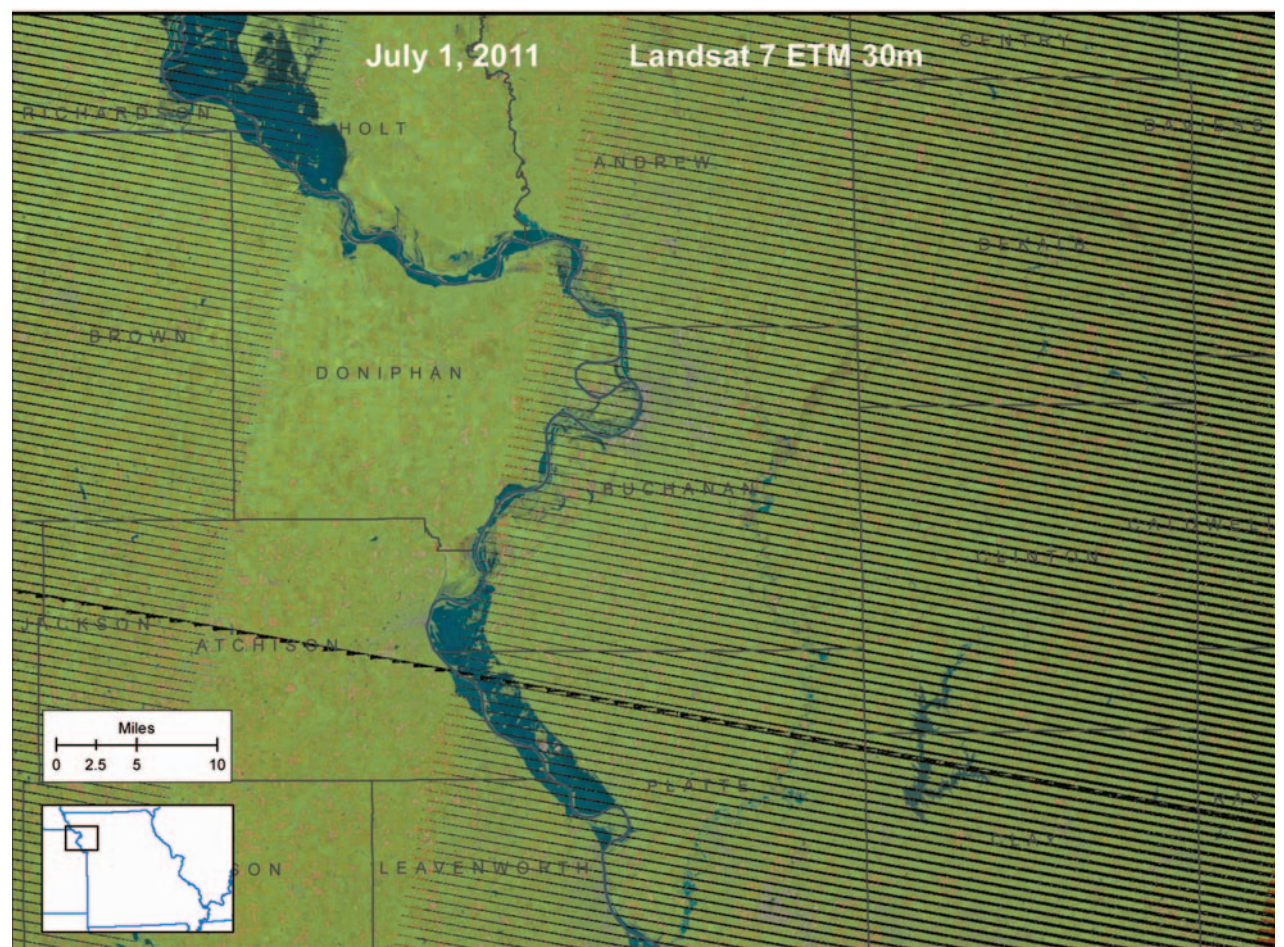
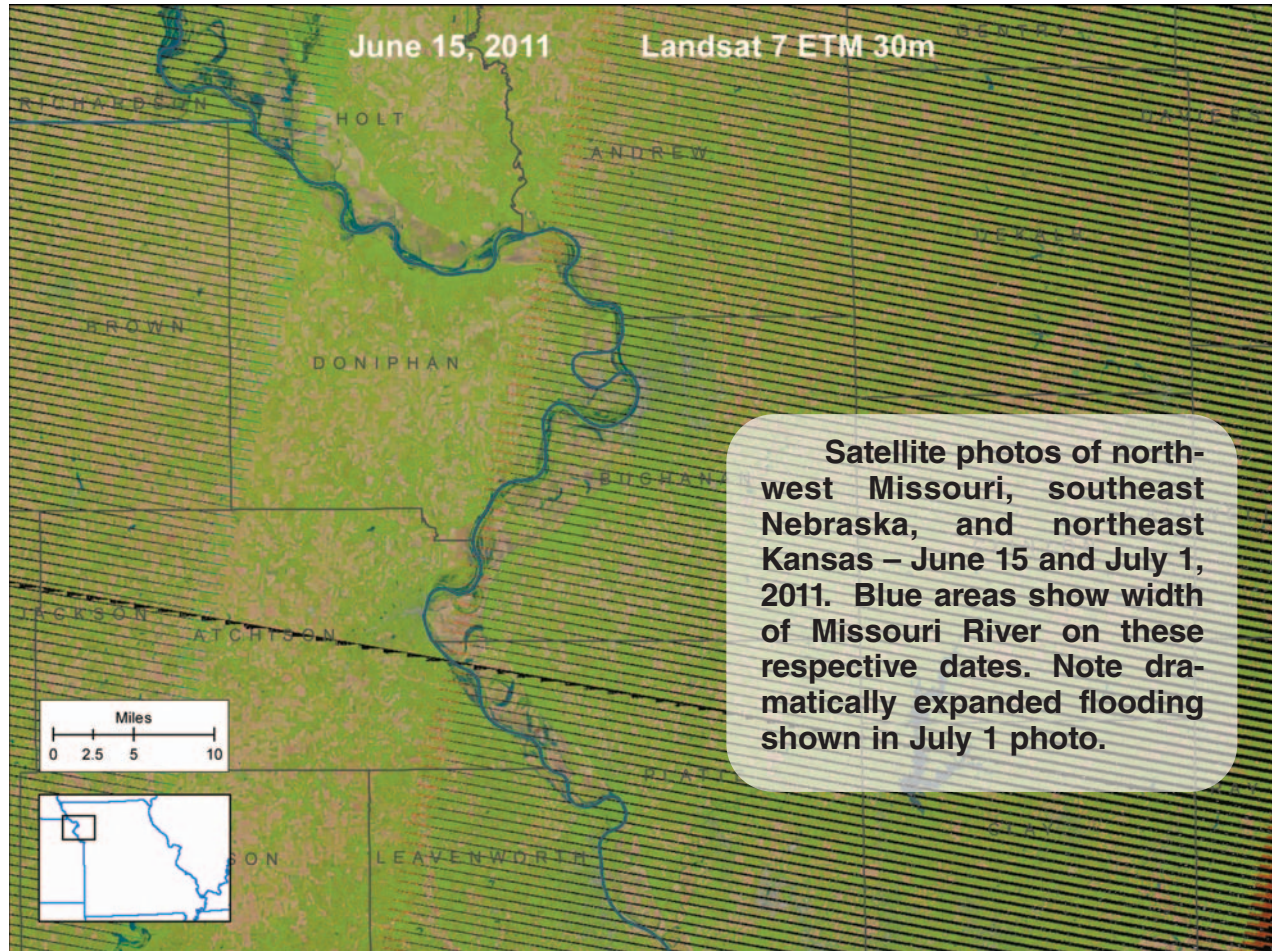
Caught in the swirling fog of events ...

The conclusion must be, in early July 2011, in view of all the major events swirling around the grain industry ... it's virtually impossible to make anything but educated guesses about future corn prices.

Two things are for sure:

1) Acreage flooded or otherwise impaired by flood waters this summer will not produce any grain this year. Earlier this year, the American Farm Bureau Federation estimated that some 3.5 million acres of crop land had been flooded – primarily along the Ohio River and the lower Mississippi River and their tributaries. Neither AFBF nor USDA has publicly issued any estimate for impaired crop acreage in the Missouri River watershed. Perhaps such estimates are hard to precisely define, because of potential future failure of weakening levies.

2) USDA's estimates of increased corn acreage for the June 30, 2011 report, which sealed data collection on June 17, when compared to the late May data, completely failed to register flooded acreage that was hit by the Missouri River flooding. Just look at the accompanying June 15, 2011 and July 1, 2011 Landsat maps on this page. The expanded blue areas in that satellite map of Iowa's northwestern corner (7/1/11 vs. 6/15/11) represent the Missouri River's flooding.



Vegetation Drought Response Index Complete

June 27, 2011

