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Summary of Aug. 12th USDA Reports

USDA updated both its World Agricultural Supply and Demand Estimates and Crop Production reports on August 12th. These reports were highly anticipated by the market as they contain the first field-survey estimates for crop yields for the 2008 crops. USDA-NASS re-surveyed roughly 9,000 farmers in flooded areas to update acreage numbers and also increased the number of fields surveyed for the yield estimates from previous years.

Corn yield and production numbers were at the high end of pre-trade expectations. Projections are for 12.3 billion bushels of corn and 2.97 billion bushels of soybeans for the 2008 crop year. Pre-trade expectations were for 11.95 billion bushels of corn and 3 billion bushels of soybeans. Harvested area projections for corn and soybeans were increased from June estimates, by 400,000 acres for corn and 1.2 million acres for soybeans. National yields are estimated at 155 bushels per acre for corn and 40.5 bushels per acre for soybeans. If the projections hold, the 2008 crop would be the 2nd largest for corn and 4th largest for soybeans. Looking back at the historical performance of the USDA August estimates, final corn production has been above the August estimates in 14 of the past 20 years. For soybeans, it's 12 of the past 20 years. The confidence interval for both projections is plus or minus 11 percent.

On the demand side, corn feed demand is projected at 5.3 billion bushels, up 100 million from last month. Corn demand from ethanol is estimated at 4.1 billion bushels, up 150 million. Corn exports are held steady at 2 billion bushels. These changes result in projected ending stock for the 2008-09 crop of 1.1 billion bushels, up 300 million from last month. For soybeans, demand adjustments were small, with crush demand lowered by 15 million bushels and exports held steady at 1 billion bushels. 2008-09 ending stocks for soybeans are projected at 135 million bushels.

The wet spring and flooding had moved prices to record highs earlier this summer, but good growing conditions have dominated since the floods. The crop conditions reports since the floods have indicated improving corn and soybean crops over the summer. Recent prices reflect the improvement in the crops as prices have returned to at or below pre-flood levels. USDA estimates 2008-09 season-average prices around \$5.40 per bushel for corn and \$12.25 per bushel for soybeans. Last month's estimates were \$6.00 for corn and \$12.75 for soybeans.

These reports are bearish for corn and neutral for soybeans. We will likely see downward pressure on nearby CBOT corn prices. Other factors to watch are crude oil prices, down in recent days, and the dollar, which has been strengthening. If these trends continue, they will add to the downward pressure on the markets.

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