

# Balancing Supply With Demand

The March 30 USDA report will take another look at usage (stocks in all positions) and include the first survey-based planted acreage intentions. The stocks report has been a subject of controversy among those at odds with USDA's ability, or lack thereof, to provide useful data. While recent reports show more variability, we are also talking about a 5-billion-bushel ethanol program and trying to figure out how a 13-billion-bushel crop disappeared. Like it or not, the world trades USDA's fundamentals.

Disappearance numbers for the second quarter of the 2011/12 marketing year should set in stone just how much corn, wheat, dried distillers' grains and other byproducts fed to animals were used in the first half of the marketing year. With a projected carryout near 800 million bushels, a 2% error on the estimated usage of nearly 10 billion bushels of combined feedgrains used for feed and ethanol is 200 million bushels, or a 25% swing in the projected carryover. A decrease in such usage suggests 1 billion bushels in ending stocks, which would demoralize the bulls in the marketplace. A revision to 600 million bushels means more price rationing is needed, spurring corn to \$7 or higher.

The amount of pipeline stocks necessary to keep domestic usage and exports humming has been disputed since 1995/96, when stocks ended the year near 350 million bushels but record prices were required to curb demand before harvesting another crop. Most think we need at least 850 to 950 million bushels to take us into a new corn crop without supply interruptions. A year ago, there were some who believed we would run out of corn by mid-August 2011. Actual ending stocks on Aug. 30 were more than 1 billion bushels, a far cry from expectations.

**From Bull to Bear.** As producers we should understand the price-positive effects from those of a bullish persuasion who believe we can't feed the world, that China will buy up supplies, or that regardless of global economics, people have to eat. I call it the second harvest. The first one is the fruits of my labors, and the second is that of the bullish speculator. My concern is that this same

speculator might become a market bear when final acres and yields are totaled. Here is why.

Last year, there were more than 10.4 million unplanted acres, mostly in the wet Northern Plains. Late-harvested soybean acres in Ohio that would have been followed by soft red winter wheat did not get planted. Odds favor that nearly 350,000 acres will go to corn in that state alone that might not have otherwise.

The 7 million prevented planting acres in the Dakotas will largely get planted to something this year, as will the 317,000 acres in Minnesota and 1 million acres in Montana. At press time, we have not yet compiled our client survey, which has provided a fairly accurate account of acreage allocations in the past. For example, in 2007 our survey was less than 100,000 acres off on corn and in 2011 it was less than 250,000 acres off. In 2007, we found that the trend was what was important. This year, it will be the magnitude of the change in the trend. I suspect the March 30 report will hold some surprises but likely not the full story until the revision on June 30. As a starting point, I am using the following assumptions to base my marketing decisions and price projections:

### 2012 Crop Year Totals

Assuming trend-line yields of 160-bu. corn and 42-bu. soybeans

Crop	2011	2012	Supply (billion bu.)	Ending Stock (Aug. 2013)
Corn	91.9	94.5	14.771	1.491
Soybeans	75.0	76.4	3.453	0.338

With normal weather we'll plant more of everything, perhaps 10 million more acres. A 2.5 million acre increase in corn and a 1.4 million acre jump in soybeans could be light when all is said and done. Of course, weather is the major determinant and the ultimate equalizer; however, if we plant 96 million acres of corn, as some think we could, a sub-trend-line yield will be sufficient.

Price is a great fertilizer—and the U.S. stands to solve the supply problem that began in July 2010. With austerity as the global buzzword, stable demand might be likely in a backdrop of rising supplies. ■

Jerry Gulke farms in Illinois and North Dakota and is president of Gulke Group Inc., a market advisory firm with offices at the Chicago Board of Trade. Gulke Group recently published *Technical Analysis: Fundamentally Easy*. For information, send an e-mail to [info@gulkegroup.com](mailto:info@gulkegroup.com) or call (815) 520-4227.

