

U.S. Planted Acres: Corn Up 19%, Cotton Down 28%, Soybeans Down 15% and Wheat Up 5.5% Grain Markets Weaken

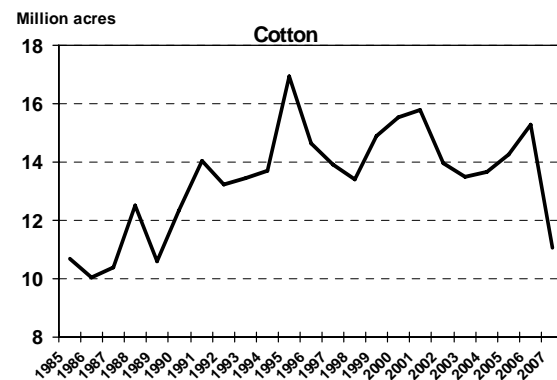
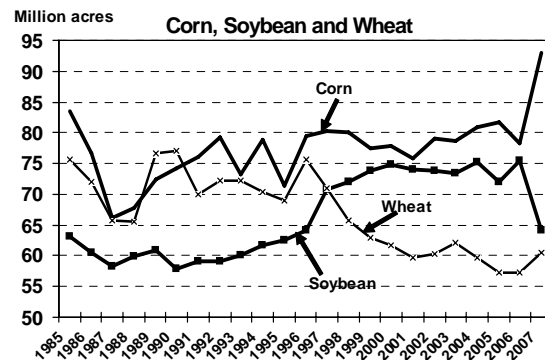
Jose G. Peña, Professor and Extension Economist-Management

USDA's highly anticipated acreage report, released on June 29, 2007, indicated that farmers planted 92.9 million acres of corn, up 18.6 from 78.327 million acres planted last year and up 2.4 million acres (2.7 percent) from 90.454 million indicated for planting in the initial March '07 planting intentions report. Corn plantings were the highest since 1944 when 95.5 million acres were planted.

All cotton plantings at 11.058 million acres were down 27.6 percent from 15.274 million acres planted last year and down 1.089 million acres from 12.147 million acres indicated for planting in March. Soybean planted acreage at 64.081 million acres were down 15.1 percent from last year's record high plantings. All wheat planted area at 60.505 million acres was up 5.5 percent from 2006 and up just slightly from 60.3 million acres intended for planting in the March '07 planting intention report. (See Figure 1 and Table 1).

While the market had generally anticipated an increase in corn production potential, the acreage report surprised the cotton market. Futures price bids for most corn contracts in the Chicago Board of Trade were volatile on the report release data. Weather forecasts, excellent crop progress and now increased plantings are the driving force for the market. After reaching \$4.15-\$4.25/bu in mid-June '07 for most corn futures

Figure 1: U.S. Corn, Soybean, Wheat and Cotton Planted Acreage



Source: USDA Prospective Plantings report, June 30, 2007

contracts, futures price bids for corn in the Chicago Board of Trade (CBT) gradually dropped to about \$3.30-\$3.50/bu for '07 contracts, \$3.63-\$3.95/bu for '08 contracts and \$4.00-\$4.08/bu for '09 contracts (as of 7-2-07).

After gradually increasing to the low 60's, futures price bids for cotton jumped to slightly above 64 cents for December '07 contracts in the New York Board of Trade, but weakened slightly to trade in the 63-64 cent range for most '07 contracts, 66 to 69 cent range for '08 contracts and the low 70 cent range for '09 contracts. While the 11.058 million acres planted to cotton is the lowest acreage since 1989 and prices would be expected to improve, huge carry-in stocks are keeping a lid on a significant market improvement. Market prices should improve when the surplus cotton disappears. The significant reduction in acreage planted may indicate improved prices for the next 2-3 season as more cotton acres may be diverted to corn.

TABLE 1. ACRES PLANTED TO SELECTED CROPS

| COMMODITY | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | % CHNG | % CHNG |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|--------------------|-------------------|----------|--------------|
| | | | | | | | | | March ¹ | June ² | Mar/June | 2006/June 07 |
| CORN | 77,431 | 79,545 | 75,752 | 79,054 | 78,736 | 80,930 | 81,759 | 78,327 | 90,454 | 92,888 | 2.7% | 18.6% |
| SOYBEANS | 73,780 | 74,871 | 74,075 | 73,758 | 73,404 | 75,208 | 72,142 | 75,522 | 67,140 | 64,081 | -4.6% | -15.1% |
| ALL WHEAT | 62,814 | 62,529 | 59,617 | 60,358 | 61,700 | 59,674 | 57,229 | 57,344 | 60,303 | 60,505 | 0.3% | 5.5% |
| Winter | 43,431 | 43,348 | 41,078 | 41,735 | 44,945 | 43,350 | 40,433 | 40,575 | 44,505 | 45,136 | 1.4% | 11.2% |
| Durum | 4,035 | 3,937 | 2,910 | 2,909 | 2,915 | 2,561 | 2,760 | 1,870 | 1,990 | 2,225 | 11.8% | 19.0% |
| Other Spring | 15,348 | 15,244 | 15,629 | 15,714 | 13,840 | 13,763 | 14,036 | 14,899 | 13,808 | 13,144 | -4.8% | -11.8% |
| ALL COTTON | 14,873 | 15,517 | 15,769 | 13,958 | 13,480 | 13,659 | 14,245 | 15,274 | 12,147 | 11,058 | -9.0% | -27.6% |
| UPLAND | 14,584 | 15,347 | 15,499 | 13,714 | 13,301 | 13,409 | 13,975 | 14,948 | 11,855 | 10,760 | -9.2% | -28.0% |
| PIMA | 290 | 170 | 270 | 244 | 179 | 250 | 270 | 326 | 292 | 298 | 2.1% | -8.6% |
| SORGHUM | 9,288 | 9,195 | 10,252 | 9,580 | 9,420 | 7,486 | 6,454 | 6,522 | 7,109 | 7,765 | 9.2% | 19.1% |
| PEANUTS | 1,535 | 1,537 | 1,541 | 1,358 | 1,344 | 1,430 | 1,657 | 1,243 | 1,197 | 1,187 | -0.8% | -4.5% |
| OATS | 4,670 | 4,477 | 4,403 | 5,005 | 4,601 | 4,085 | 4,246 | 4,168 | 4,029 | 3,860 | -4.2% | -7.4% |
| HAY/2 | 63,160 | 59,854 | 63,511 | 64,497 | 63,342 | 61,916 | 61,649 | 60,807 | 63,056 | 61,789 | -2.0% | 1.6% |
| TOTAL | 307,551 | 307,525 | 304,920 | 307,568 | 306,027 | 304,388 | 299,381 | 299,207 | 305,435 | 303,133 | -0.8% | 1.3% |

1/Intended plantings in March 30, 2007 as indicated by reports from farmers.

2/Acres planted as indicated on June 29, 2007 by reports from farmers.

Source: Agricultural Statistics Board

Corn

The June 29, 2007 estimate of corn planted acreage at 92.888 million acres, a 63 year high, would imply that prices would weaken. While futures prices have weakened from recent price highs, the market remains strong.

Consumption has increased significantly since spring 2006 and is sustaining a strong market. USDA's latest estimate of consumption for the 2007/08 season in the June 11, 2007 supply/demand report at 12.465 billion bushels is up 940 million bushels (up 8.2%) from total use of 11.525 billion bushels in 2006. Ethanol use now accounts for over 27 percent of USDA's June 11, 2007 production estimate of 12.46 billion bushels.

Increased plantings and excellent crop progress may be influencing the recent market weakness. USDA's Crop Progress report of July 2, 2007, indicated that 13 percent of this year's corn crop is silking, compared to a five year average of nine percent. Also, 73 percent of the crop was rated good to excellent, compared to 68 percent last year at this same time.

Using USDA's June 29, 2007, estimate of corn acreage for harvest at 85.48 million acres and USDA's national average yield estimate of 150.3 bu/acre in the June 11, 2007 supply/demand report, production should approximate 12.8 billion bushels. This production estimate, together with USDA's June 11, 2007 estimate of carry-in stocks of 987 million bushels, should bring supplies to about 13.8 billion bushels for the 2007/08 season, slightly above USDA'S June 9, 2007 estimate of 13.4 billion bushels. Using USDA's June 11, 2007 estimate of total use for the 2007/08 season at 12.465 billion bushels would indicate that production will exceed use by about 373 million bushels and ending stocks should approximate 1.36 billion bushels, up 38 percent from this past last season's endings of 987 million bushels.

While fundamentals probably support a stronger market response, keep in mind that USDA's June estimate of use includes the use of about 3.4 billion bushels of corn for ethanol production. About one-third to 40 percent of this corn will be recycled into livestock feed, which influences the corn market.

While the estimate ending stocks may be up 38 percent from last season, a stocks-to-use ratio of about 11 percent would support a continuing strong corn market. Weather will continue as the driving force behind the market.

Cotton

USDA's, June 29, 2007 acreage report was bullish to the cotton market. Price bids for cotton futures markets improved slightly on the report release date, but weakened slightly on Monday (7-2-07) as huge carry-in stocks are keeping a lid on a major market improvement.

All cotton plantings for 2006 are expected to total 11.058 million acres, (Upland 10.76 million; Pima 298,000) down 27.6 percent from 15.274 million acres planted last year. The report surprised the industry as trade was expecting acreage in the range of 12.1-12.2 million. The 11.058 million acres is the smallest acreage planted since 1989 when 10.586 million were planted.

Upland acreage is expected to total 10.76 million acres, down 27.6 percent from last year. Lower upland planted acres are estimated for nearly all states with the largest decline in Texas, at 1.40 million acres below 2006. Large decreases in acreage also occurred in the Southeast and Delta regions.

Adjusting the estimate of acres planted by the historical harvested-to-planted ratio would indicate that about 9.79 million acres of upland cotton will be harvested. Using this estimate of cotton acres for harvest and USDA's national average yield estimate of 820 pounds/acres in the June 9, 2007 supply/demand report would indicate production at about 16.7 million bales, down 12.4 percent from USDA's June estimate of 18.8 million bales. Using USDA's June estimate of use at 21.9 million bales would indicate that use will exceed production by 5.2 million bales, dropping the ending stock estimate to a more manageable 4.6 million bales.

USDA's August supply/demand report, which is based on actual surveys of growers, will be critical to future market situation.