

AG-ECO NEWS

Vol. 22, Issue 22

Jose G. Peña

Professor & Ext. Economist-Management
July 5, 2006

U.S. Planted Acres: Corn Down 2.9%, Cotton Up 7.2%, Soybeans Up 3.9% and Wheat Up 1.1% Markets Improve

Jose G. Peña, Professor and Extension Economist-Management

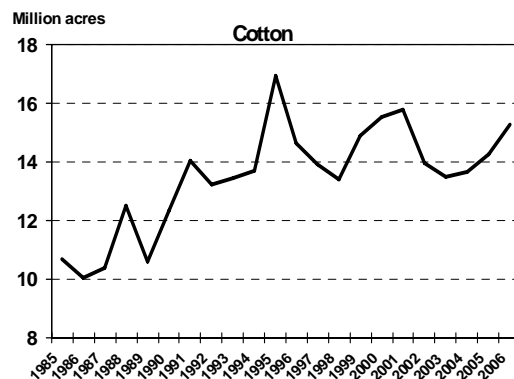
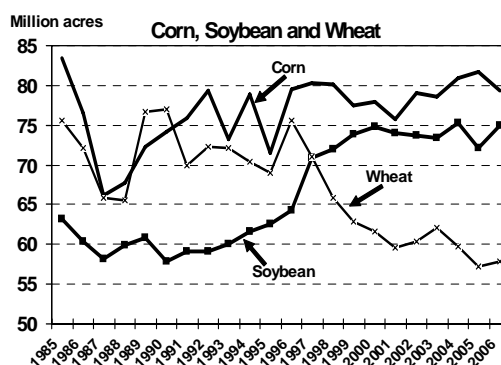
USDA's June 30, 2006 U.S. planted acreage report for 2006 indicated that farmers planted 79.366 million acres of corn, down 2.4 million acres (down 2.9%) from 81.759 million acres planted last year, but up 1.347 million acres from 78.0 million indicated for planting in the initial March '05 planting intentions report. Cotton plantings at 15.3 million acres were up 7.2 percent from 14.245 million acres planted last year and up 645,000 acres from 14.6 million acres indicated for planting in March. Soybean planted acreage at 74.9 million acres were up 3.9 percent from 72.142 million acres planted last year, but down 2.6 percent from 76.895 million acres indicated for planting in March. All wheat planted area at 57.9 million acres was up 1.1 percent from 2005. (See Figure 1 and Table 1).

The planted acreage report appears friendly to grain markets and neutral-to-slightly weak to livestock and cotton markets.

Corn

The June 30, 2006 estimate of planted acreage to corn is close to the 79.5 million acres planted in 2000 when national yields averaged 136.9 bu/acre and 9.9 billion bushels of corn were produced. Prices weakened significantly in 2000 as production exceeded consumption and ending stocks were accumulating. Consumption, however, has increased significantly since 2000. USDA's

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



Source: USDA Acreage report, June 30, 2006

latest estimate of consumption for the 2006/07 season in the June 9, 2006 supply/demand report at 11.645 billion bushels is up 1.9 billion bushels (up 19.6%) from total use of 9.74 billion bushels in 2000. Ethanol use now accounts for over 20 percent of USDA's June 9, 2006 production estimate of 10.55 billion bushels. USDA will probably adjust the 10.55 billion bushel, June 9, 2006, production estimate for the 2006/07 season in the mid-July supply/demand report, based on the additional 1.347 million acres planted over the March '06 planting intentions.

The market for corn had been showing some weakness since mid-June'06 as reports of improved weather conditions improved the production outlook. While USDA's June 30, 2006 corn acreage estimate at 79.366 million acres was about 431,000 acres above average pre-report trade guesses which had pegged planted acres at 79.8 million acres, price bids for corn, soybeans and wheat futures contracts have improved significantly since the planted acreage report was released.

Using USDA's June 30, 2006 estimate of corn acreage for harvest at 72.1 million acres and USDA's national average yield estimate of 149.0 bu/acre in the June 9, 2006 supply/demand report, production should approximate 10.74 billion bushels. This production estimate, together with USDA's June 9, 2006 estimate of carry-in stocks of 2.176 billion bushels, should bring supplies to about 12.9 billion bushels for the 2006/07 season, slightly above USDA'S June 9, 2006 of 12.7 billion bushels. Using USDA's June 9, 2006 estimate of total use for the 2006/07 season at 11.645 billion bushels would indicate that use will exceed production by about 0.9 billion bushels and endings stocks should approximate 1.3 billion bushels. While ending stocks may be up about 182 million bushels from USDA's June 9, 2006 ending stock estimate of 1.091 billion bushels, stocks will decrease about 41 percent from last year's ending stocks of 2.176 billion bushels.

While fundamentals probably support a stronger market response, keep in mind that USDA's June estimate of use includes the use of about 2.2 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.

Also, on Tuesday, July 4, 2006, Canada confirmed the sixth case of Bovine Spongiform Encephalopathy (BSE), rumored during the end of June. Beef demand is strong and feeder supplies are tight this summer. This new, confirmed, BSE case may be affecting the cattle market and may have an indirect effect on the corn market.

Also, grain futures markets are heavily influenced by fund markets. While corn and soybean futures prices rallied on the report release date, grain futures markets may be influenced by the slower pace of other markets, especially those

markets that are heavily influenced by fund activities, such as energy and metals.

TABLE 1. ACRES PLANTED TO SELECTED CROPS

COMMODITY	1998	1999	2000	2001	2002	2003	2004	2005	2006		% CHNG Mar/June	% CHNG 2005/June 06
									March ¹	June ²		
	(x 1,000 Acres)											
CORN	80,187	77,431	79,545	75,752	79,054	78,736	80,930	81,759	78,019	79,366	1.7%	-2.9%
SOYBEANS	72,025	73,780	74,871	74,075	73,758	73,404	75,208	72,142	76,895	74,930	-2.6%	3.9%
ALL WHEAT	65,871	62,814	62,529	59,617	60,358	61,700	59,674	57,229	57,128	57,873	1.3%	1.1%
Winter	46,449	43,431	43,348	41,078	41,735	44,945	43,350	40,433	41,404	41,393	0.0%	2.4%
Durum	3,805	4,035	3,937	2,910	2,909	2,915	2,561	2,760	1,825	1,885	3.3%	-31.7%
Other Spring	15,617	15,348	15,244	15,629	15,714	13,840	13,763	14,036	13,899	14,595	5.0%	4.0%
ALL COTTON	13,393	14,873	15,517	15,769	13,958	13,480	13,659	14,245	14,634	15,276	4.4%	7.2%
UPLAND	13,064	14,584	15,347	15,499	13,714	13,301	13,409	13,975	14,300	14,940	4.5%	6.9%
PIMA	328	290	170	270	244	179	250	270	334	336	0.6%	24.3%
SORGHUM	9,626	9,288	9,195	10,252	9,580	9,420	7,486	6,454	6,483	6,282	-3.1%	-2.7%
PEANUTS	1,521	1,535	1,537	1,541	1,358	1,344	1,430	1,657	1,391	1,298	-6.7%	-21.7%
OATS	4,902	4,670	4,477	4,403	5,005	4,601	4,085	4,246	4,324	4,312	-0.3%	1.6%
HAY/2	60,016	63,160	59,854	63,511	64,497	63,342	61,916	61,649	61,478	62,697	2.0%	1.7%
TOTAL	307,541	307,551	307,525	304,920	307,568	306,027	304,388	299,381	300,352	302,034	0.6%	0.9%

1/Intended plantings in March 31, 2006 as indicated by reports from farmers.

2/Acres planted as indicated on June 30, 2006 by reports from farmers.

Source: Agricultural Statistics Board

Cotton

While price bids for cotton futures markets improved slightly on the planted acreage report release date, the report was bearish to the cotton market. The market was flat-to-weakening when this report was prepared on Wednesday (7-5-06).

All cotton plantings for 2006 are expected to total 15.276 million acres, up over million acres from 14.245 million acres planted last year. The report surprised the industry as trade was expecting acreage in the range of 14.2-14.8 million rather than the 15.276 million all cotton acreage reported. The 15.276 million acres is the largest since 15.5 million were planted in 2001.

Upland acreage is expected to total 14.94 million acres, up 6.9 percent from last year. Producers increased their acreages in all States except Mississippi, New Mexico, Arizona, and California. American-Pima cotton growers planted 336,000 acres, up 24 percent from 2005. California producers planted a record high 290,000 acres of Pima cotton, an increase of 60,000 acres from last year. While plantings to upland cotton in Texas at 6.4 million acres were up from 5.95 million acres planted last year, acres for harvest and average yields in Texas may be a lot lower than the historical ratio as a result of the recent extended drought in Texas.

According to Dr. Jackie Smith, Extension Economist-Management, even with the increased in planted acreage, new crop production may be only 20.4 million bales, down from 23.89 in 2005/06. Most of the decreased production will be in Texas. Carryover in the U.S. may drop to about 4.63 million bales, down 29.9 percent from this past season's ending stock estimate of 6.6 million bales

The expected decrease in U.S. stocks indicates a potential for higher prices this fall. According to Dr. Smith, while the mid-July update on the cotton situation, which is not based on actual surveys of growers, could have some influence the market, significant price bid changes to December futures contracts may wait for USDA's August supply/demand report, which is based on actual surveys of growers.