

BALANCING CORN SUPPLY VERSUS USAGE

A common question this year concerning the upward price direction of corn has been: "How can the price of corn be so high with such a large crop?" A part of the answer lies in the year ending relationship between usage and ending stocks. For the most part, crop marketing years (Corn: Sept 01 – Aug 31) can be grouped into trended periods where ending stocks are either growing each year or declining. An excellent tool for measuring the tightness of ending stocks for any commodity is the "stocks to usage" ratio (s/u). This ratio is simply the marketing year's ending stocks (or carryout) divided by the year's usage (total demand).

In the attached Corn Supply and Demand Tables from 1988 through (projected) numbers for this and next year, some interesting patterns can be observed, particularly over the past ten years. After the drought reduced corn crop of 1995, when corn futures hit an all time record high in excess of \$5.00 per bushel (s/u 5.0%), corn ending stocks steadily increased over the succeeding five crop years to a stocks/usage ratio of 19.5% at the end of the 2000/01 marketing year. The stock building over that time frame sent corn futures from the all-time highs into an approximate trading range of \$1.80 to \$2.40 per bushel. Since the 2000/01 crop year, the stocks to usage ratio has been in a declining trend and prices have worked back to the upside accordingly.

Of course many factors contribute to the pattern of U.S. ending stocks: the amount of land planted and harvested each year, weather patterns and resulting yields, along with domestic and export demands. Corn demand for ethanol for example, has doubled to over 1.0 billion bushels in the U.S. over the past five years. World ending stocks and other global events will also effect the price of grain within the context of stocks to usage analysis.

The projected stocks to usage ratio for corn in the current 2003/04 marketing year is 8.3%. This would be the smallest ratio since the 1995/96 crop year. On May 12, USDA will begin projecting Supply and Demand for 2004/05 and from that report, the market will begin to debate the trend in ending stocks and the future direction of corn prices.

	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	USDA 4/08	EST. 04/05
Acres Planted	67,717	72,322	74,166	75,957	79,311	73,239	78,921	71,479	79,229	79,537	80,165	77,386	79,551	75,702	78,894	78,736	80,500	80,500
% Harvested	86.0	89.6	90.3	90.6	90.9	85.9	91.9	91.2	91.7	91.4	90.5	91.1	91.1	90.8	87.9	90.4	91.0	91.0
Acres Harvested	58,250	64,783	66,952	68,822	72,077	62,933	72,514	65,210	72,644	72,671	72,589	70,487	72,440	68,768	69,330	71,139	73,255	73,255
Average Yield	84.6	116.3	118.5	108.6	131.5	100.7	138.6	113.5	127.1	126.7	134.4	133.8	136.9	138.2	129.3	142.2	142.0	142.0
Carry-In	4,259	1,931	1,344	1,521	1,100	2,113	850	1,558	426	883	1,308	1,787	1,718	1,899	1,596	1,087	831	831
Production	4,929	7,532	7,934	7,475	9,477	6,338	10,051	7,400	9,233	9,207	9,759	9,431	9,915	9,503	8,967	10,114	10,402	10,402
Imports	3	2	4	20	7	21	10	17	14	9	19	15	7	10	14	10	10	10
Total Supply	9,191	9,464	9,282	9,016	10,584	8,471	10,910	8,975	9,672	10,099	11,085	11,232	11,639	11,412	10,578	11,211	11,243	11,243
Food/Ind.	1,275	1,337	1,354	1,434	1,493	1,571	1,672	1,592	1,671	1,785	1,826	1,892	1,936	2,026	2,319			
Seed	18	19	19	20	19	20	18	21	21	21	20	22	21	20	21			
F/S/I	1,293	1,356	1,373	1,454	1,511	1,592	1,690	1,613	1,692	1,806	1,847	1,913	1,957	2,046	2,340	2,555	2,700	2,700
Feed	3,941	4,396	4,663	4,877	5,297	4,702	5,485	4,708	5,302	5,481	5,471	5,664	5,842	5,864	5,558	5,800	5,900	5,900
Exports	2,026	2,368	1,725	1,584	1,663	1,328	2,178	2,228	1,795	1,504	1,981	1,937	1,941	1,905	1,592	2,000	1,900	1,900
Total Usage	7,260	8,120	7,761	7,915	8,471	7,621	9,352	8,549	8,789	8,791	9,298	9,515	9,740	9,816	9,491	10,355	10,500	10,500
Carry-Out	1,931	1,344	1,521	1,100	2,113	850	1,558	426	883	1,308	1,787	1,718	1,899	1,596	1,087	856	743	743
Stocks/Usage	26.6	16.6	19.6	13.9	24.9	11.2	16.7	5.0	10.0	14.9	19.2	18.1	19.5	16.3	11.4	8.3		

GRAIN AND COMMODITY Comments

SOYBEAN MEAL

While corn planting is being accomplished at a torrid pace, soybean planting has started in more of a typical manner. As of May 3, soybean planting was 12% complete, versus the 5 year average of 9%. As corn planting draws to a close, soybean planting should take off this week, however, most farmers have not been in a hurry due to temperatures dipping down into the low 30's in the past week. With corn's rapid planting pace, some analysts believe that soybean acreage could be down from the USDA's March estimate due to the early planting of corn, possibly transferring as much as 1 million acres from beans to corn. One reason for the rapid planting pace has been dry weather. While the month of March had reasonable rains, April has produced about 50% of average rains throughout the states of MN, IA, IL, NE, IN and WI. If this pattern persists, drought concerns will surface very quickly and the market will react immediately.

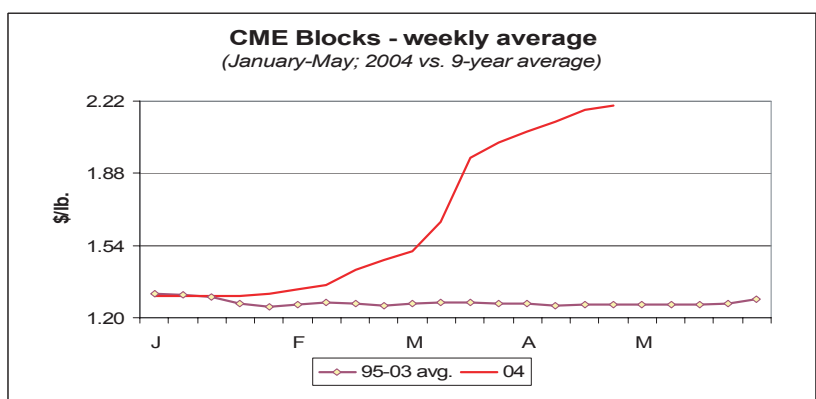
The main driver to the soybean market during the past month has been the continued deterioration of the South American crop. Current estimates look for the Brazilian and Argentinean crops to dip to 50 and 32.5 million metric tons respectively. This is down significantly from early crop forecasts of 60 and 38 million metric tons respectively. The reductions have been a result of drought conditions that have reduced yields by as much as 50% in the state of Rio Grande do Sul and 35% in the state of Matto Grasso do Sul. This compares to crop sizes of 51.5 and 35.5 million metric tons last year. It is important to remember that planted acreage was increased 15% this year, but the total crop size is projected to be down 3.5%. The reductions in the South American crop should lead to very strong soybean exports for the U.S. during the Oct-March period of the 04/05 crop year. With strong exports, soybean values should remain strong throughout the year.

CLASS III MILK

Milk production in the 20 major States during March totaled 12.8 billion pounds, down 1.8% from March 2003. Production in California was 3.1 billion pounds, down 0.6% from March 2003. Production per cow in the 20 major states averaged 1,656 pounds for March, 10 pounds below last year. Production per cow in California was 1,810 down 40 pounds from March 2003. Milk cow numbers in the 20 major states was 7.71 million head, 96,000 head less than March 2003 and down 2,000 head from February 2004. The number of milk cows in California was 1.7 million head up 27,000 head from March 2003 and up 3,000 head from February 2004.

Milk futures have been on a wild ride. The record increase in open interest has brought volatility with it. After working \$7.00 cwt higher since the first of the year, milk futures have dropped \$2-\$3.00/cwt in a week. Speculative liquidation (profit taking) has been the main force driving prices, but some concern is around that any surge in spring milk production could allow the cheese and butter manufacturers to increase production.

Traders will continue to monitor monthly milk production reports as we move into the summer months.



WHOLE COTTONSEED

Old Crop

Little of any new news. Values have been very flat the past month as supply and demand have reached a point of general equilibrium. Higher milk prices seemingly continuing to urge optimum levels of whole seed in the ration. With this in mind, and with generally tight supplies, barring a collapse of the CBOT futures market, it appears as though values will stay firmish. We are still of the opinion that we will not see any Australian seed imported into the West Coast this crop year. □

New Crop

Even though new crop prices are well above the upper reaches of historical levels, there continues to be modest trading. Planting conditions are reportedly good nationwide, and it appears as though the crop has gotten off to a good start. □

ALMOND HULLS

Almond Hulls have reached the low 100's HTV for both old and new crop. The market peaked in mid-April and, in concert with the grains, has gone quiet since then. The new crop market rally was driven by the dairies scrambling to get something/anything bought. Hullers were reluctant, yet happy sellers on the rally. These are historical highs for April new crop prices. This new crop buying frenzy has pulled the old crop prices up as well, though it has been far less robust in the old crop.

The prognosis is mixed. Nobody in their right mind would step out and say this market is going to fall apart. However, about once every 4 years the spot market backs up in late Spring and prices take a tumble. The million dollar question: "Is this going to be one of those years?"

Bearish Factors: Ample old crop inventories, apparently large new crop on the trees (crop estimate on May 10), potential early new crop harvest, and the middle market appears to be slightly long and continues to sell "cheap" spot loads.

Bullish Factors: Demand, demand, demand! Competing commodity values.

To summarize, aggressive new crop buying has abated, though prices have not dipped, and the market will probably see strong support as long as the grains and other markets continue to stay firm. The subjective crop estimate will be released on Monday, May 10. Look for a number in the 1.1 billion range. □

CORN

The planting season is off and running. As of May 2nd, corn was 63% planted nationally, versus the five year average of 40% and last year's 47%. The states of Nebraska, Iowa and Minnesota (where most of the corn fed here in our area originates) were a collective average of 65% planted versus the five year average of 46%. Timely rains have reduced the driest areas of the corn belt. The upcoming weather forecast suggests that we will continue to see good planting progress.

The need for a good start to corn planting and favorable growing weather for this year's corn crop cannot be emphasized enough. The current estimate of 79.0 million planted acres would result in approximately 72.3 million harvested acres. USDA is forecasting current year demand for corn at 10.355 billion bushels. If we have an equal amount of corn demand next year (04/05) we will need the fall crop to equal 10.355 Bbu also in order to maintain an already tight corn carryout. Questions remain: "Will we see a few more acres planted to corn than projected and will we get the kind of corn yields we need for a large crop (142 bushels/acre)?" Look for increasing price volatility in corn as we move through the critical growing season.



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