

Agricultural Outlook Forum 2001

Presented: Friday, February 23, 2001

REFCO GLOBAL RESEARCH PERSPECTIVE ON USDA OUTLOOK FORUM  
FORECASTS FOR '01/02 U.S. CORN & WHEAT SUPPLY/DEMAND

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**Highlights of Mr. Feltes' remarks by subject matter are as follows:**

**General Overview:** The backdrop for grain/oilseed price discovery in '01/02 is framed by slowing global GDP growth, delayed PRC WTO entry, large US free stocks of grain, above trend '01 South American row crop yields and a substantially improved winter moisture flow (vs. last year) over the central US. Some markets are beginning to discount likelihood of trend or higher '01 US yields as evidenced by modest fund shorts in wheat and soybeans. Thus stage is set for a bullish surprise if summer weather adversity strikes just as bulls were vulnerable last year to LH May rains which reduced drought fears. Spec capital will amass quickly (particularly with dot.bomb on Wall Street) if US food supply is threatened. Furthermore, we suspect that end users have far less forward coverage on today than last year. Nonetheless, there are ample old crop supplies of grain & oilseeds thus choppy/lower trade is probable until/unless crop adversity strikes this summer. CZ & SX calendar year highs were posted by March every year since 1996 except 2000 when May highs reflected concern over drought.

**2001 Weather & Crop Outlook:** Dry autumn 2000 US palmer index ratings in the Delta and Missouri Valley have improved while moisture ratings across most of the HRW belt have been upgraded to "above normal". Western IA, southeast NB and northeast KS are the only prime Midwest growing areas in need of additional pre plant soil moisture recharge. The two major underpinnings of the spring 2000 bull market in grains, drought fears and steadily increasing estimates of US CN/BN demand, are noticeable absent in 2001. Southern Oscillation forecasters, who based on a fading La Nina correctly forecasted a more harsh 00/01 US winter with the coldest temps frontloaded in Nov/Dec, are indicating likelihood of a cooler and wetter than normal Spring/Summer in the US. This pattern, if realized, fits with our data on US planting dates which suggest low odds of posting 3 successive years of early US corn planting. Summer US Midwest rainfall was below average in 5 of last 6 years suggesting that the US is overdue for a wetter than normal growing season. The corn market may initially react positively to a wet spring induced loss of additional corn acres. But years with wet springs and low final corn yields are rare. Bottom line--the US Great Plains and Midwest are poised with much better moisture reserves than last year but are not so wet, as yet, as to suggest prolonged planting delays. The grain markets will assume trend or higher '01 US yields until/unless weather events suggest otherwise.

**USDA Track Record: February Outlook Forecasts vs. Final:**

**Corn--** USDA has underestimated final new crop corn stocks at the Feb Outlook Forum in 4 of the last 6 years including the 177 mil bu underestimation of 9/01 US corn stocks at the Feb 2000 Outlook Conference. USDA overestimated final corn demand at the Feb Outlook Forum all years from '95-'98 by 380-550 mil bu although '01/02 US corn demand is currently 245 mil bu more than USDA forecasted at the February 2000 Outlook Forum. Final US corn yields have exceeded USDA's February Outlook Forum yield forecasts in each of the last 3 years.

**Soybeans**—USDA has overestimated final new crop soybean stocks at the February Outlook Forum in each of the last 6 years including the 220 mil bu overestimation of 9/01 US soybean stocks at the February 2000 Outlook Forum. USDA overestimated final US soybean yield at the February Outlook Forum in 4 of the last 6 years including the 1.9 BPA overestimation of the final 2000 yield. Contrary to trade perceptions, USDA has overestimated final US soybean demand in each of the last 3 years at the February Outlook conference. Most of the error in overestimating final soybean stocks at USDA's February Outlook Forum is due to overestimation of production.

**Wheat**—USDA has underestimated final new crop wheat stocks at the February Outlook Forum in 5 of the last 6 years including the 53 mil bu underestimation of 6/01 US wheat stocks at the February 2000 Outlook Forum. USDA February Outlook Forum estimates of US wheat demand are typically quite accurate but their February Outlook forecasts of US wheat yield have fallen well short of final US wheat yields in each of the last 4 years. Chicago May wheat has consistently traded lower following release of USDA's February Outlook Forum forecasts of US wheat stocks with price erosion ranging from 3.5-12 cents/bushel on the 4<sup>th</sup> trading day following February release of the new crop wheat balance tables in 8 of the last 9 years.

**Corn Outlook:** December corn will be well supported in \$2.40-\$2.45 area through planting amid shrinking '01 US corn area and near 10 bil bu '00/01 US corn demand base. USDA's February Outlook Forum forecast for 9/01 US corn stocks of 1.636 bil bu is 120 mil bu below the range of private sector analysts including Refco, FCC, FABRI, Sparks and a respected private consultant. Thus post Outlook corn prices should be well supported—particularly in view of USDA reducing '01 US corn area only 1.6 mil acres vs. trade expectations for a 2.0-mil acre cut. Producers are advised to start hedging new crop corn at \$2.65 futures as odds of '01 crop adversity are less than last year while slowing growth in global GDP reduces odds of demand exceeding expectations. Funds will likely reinstate modest fund long prior to March 30<sup>th</sup> acreage and stocks report but improved moisture base across US growing areas, large free stocks and slowing growth in '01/02 US corn demand base suggests that CZ highs could be in (as was the case every year since 1996) by May. Look for corn to gain on wheat during late winter/spring.

**Wheat Outlook:** Wheat lows are likely to be posted in June vs. September lows last year amid continued shrinkage in US and global wheat stocks in '01/02. Post harvest recovery will be limited, however, if 9/01 US corn stocks approach 1.7 bil bu. Note that 7/02 world wheat stocks, on paper, may dip below 100 mil tons to lowest absolute level since '76. But 7/02 wheat stocks held by major exporters-at trend '01/02 yields-will decline only nominally and still be 22 mmt above depressed levels in 95/96 that sparked record high wheat prices. WK has rallied during March in each of the last 4 years but has stalled out repeatedly between the \$2.85-\$3.00 level on weekly chart since June of 1998. Post harvest price strength will also be contained by slow growth in world wheat offtake driven in part by ample supplies of competitively priced feed grains. Wheat stocks held by China are a major unknown but what is known is that both public and private sector analysts have overestimated PRC wheat imports over the last 2 years. Advise buying KWN and selling WN. Also advise buying KWZ in mid June amid expectations for another 40-70 mil by reduction in 6/02 US HRW stocks to lowest level since 97/98. Estimate WN harvest low of \$2.55 amid belief that US winter wheat crop will emerge from dormancy in better shape than trade expects. USDA's February Outlook forecast for 6/02 US wheat stocks of 721 mil bu is only 34 mi bu less than trade expectations (and the trade is well aware that final US wheat stocks typically exceed USDA's February Outlook forecast).

**PRC:** PRC refrain from offering additional corn for export after April 1 has precluded new lows in corn but the trade remains skeptical and nervous regarding their export policies prior to their likely late

summer WTO entry. Could the 30-mmt decline in autumn 2001 PRC wheat & coarse grain stocks to lowest level in 7 years be prompting renewed concern over domestic food security? Or is Beijing simply waiting for a spring/summer rally in world corn prices to reduce their export subsidy? We suspect the later as informed private trade estimates of PRC grain stocks exceed USDA's estimates. The corn market is prone to assume that PRC corn exports will be reduced significantly upon WTO entry. But skeptics fear that WTO mandated elimination of PRC corn export subsidies would be replaced by direct producer payments that allow corn exports to continue legally unabated. Northeast China corn production, which rarely posts two bad years in succession, will continue to produce corn in excess of local needs. Thus we suspect that the corn market will view forecasts of '01/02 US corn exports in excess USDA Feb Outlook Forum forecast of 2.1 bu. with skepticism. Meanwhile, heavy PRC soybean imports will continue. PRC '01/02 soybean import tonnage in excess of USDA's current 8.6 mmt forecast is not nearly enough to offset swelling new crop soybean supplies in the US and S. America.

**Farm Policy Recommendations :** There is strong support within the Agricultural Commercial and Futures sectors for lowering the soybean loan rate to stem the increase in US soybean area that is occurring despite low prices. Furthermore, recommend extending 9 month loans to 14 months to alleviate late summer/fall price pressure resulting from surge in cash selling driven by convergence of loan maturities and harvest pressure. Suggest that additional interest costs incurred by USDA for 14 month loans be offset by limiting LDP on all commodities to 9 months storage (40 cents/bu). This plan would increase loan entries, ease harvest price pressure, reduce LDP payouts and force marketplace to pay more to pry grain under loan from farmer hands. Note also that increasingly large LDP payouts have prompted producers to become even more indifferent to market signals and therefore less likely to employ pro active risk management strategies that enhance returns in low flat price markets with attractive carrying charges.

**Richard J. Feltes** is Vice President and Director of Commodity Research at Refco. Feltes also serves as Senior Grain/Oilseed Analyst. Feltes joined Refco in October of 1984 from Conti Commodity Services, to amplify and target research support from Refco's expanding and increasingly diversified futures and options business. Rich is well known for his fact filled PowerPoint presentations on the outlook for agricultural prices. Feltes has authored numerous special reports, pamphlets and videos on grain/oilseed price direction. Refco's success in attracting numerous multi national food companies to its distinguished client base is due in part to Rich's insightful analysis of long term trends in grain prices. Feltes is an eleven-year veteran of Continental Grain Company (1973-1984). He spent three years as a cash merchant, and the balance as Senior Crop Scout responsible for estimating North and South American crop production. Feltes is a 1970 agricultural graduate of the University of Illinois and a 1972 MBA graduate of Southern Illinois University. He is a former Chairman of the University of Illinois' advisory committee on international agriculture.

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