All eyes on China

By ARLAN SUDERMAN

W E've heard it before: China eventually will need to import U.S. corn because it can’t produce enough to meet its rising need for food and meat. There have been numerous predictions over the years that the beginning of China’s involvement in the U.S. corn market was inevitable, but those predictions fell flat each time.

The very fact that these predictions get so much attention says something about the significance that corn exports to China will have on the corn market in the long term. Yet the country’s emergence as an importer of U.S. corn has been difficult to predict because its stocks remain a mystery.

China actively bought corn from its farmers in 2009 to shore up prices and provide economic stimulus to rural areas. Short-term reserves reached 400 million bushels, but its normal reserves are a matter of national security.

Talk of Chinese business first emerged this spring when a major Chinese feed firm began seeking import licenses for U.S. corn, while reportedly also looking for freight from the U.S. Gulf and taking long (bought) corn positions on the Chicago Board of Trade.

China immediately began auctioning off corn from its reserves, which was quickly snapped up, with little downside pressure on local prices. The activity reflected strong demand for corn created by China’s rapidly expanding livestock industry as its emerging middle class demands more protein in its diet. This is what some local sources believe will eventually make China a significant buyer of U.S. corn. The thought is very politically distasteful to its government, but purchases of U.S. corn have been made.

Broader perspective

Corn prices struggled through much of the past six months because traders were focused on large domestic stocks. They found some support this spring because money managers began to focus on the broader picture, of which China is a part. Global stocks are rather snug in terms of “days of use.”

Eventually, either prices must reach high enough levels for a long enough period of time to spur broader global production, or the rest of the world will need to increase its dependence on U.S. supplies. That, in turn, would be expected to reduce U.S. stocks. Add in the potential for the U.S. EPA to increase the ethanol blending cap from its current 10% up to 15%, and you have the makings of some opportunities that are attractive to investors.

China may not return for more corn, and EPA’s announcement may prove disappointing. Yet, the possibilities should create sufficient volatility to provide good pricing opportunities over the next several months, particularly if adverse weather raises its head. However, this is still not a time to be greedy, especially in a world wrought with financial turmoil and the possibility of another bumper corn crop at hand.

Your primary objective in this environment is to lock in prices that allow you to be in business in 2011, while hopefully also growing farm equity.

The aforementioned volatility should provide those opportunities to do so, with better opportunities likely coming over the next several years as the world economy recovers.

Key Points

- Global corn stocks remain tight despite large U.S. supplies.
- A favorable decision from EPA on ethanol blends would help.
- China corn imports would reshape market fundamentals.

Fine-tuning, upgrading mobile sites

By WILLIE VOGT

T HE Web-enabled smartphone isn’t everywhere in the country these days, but if you’ve made the move to a BlackBerry, Droid, iPhone or some other such tool, consider visiting mobileFarmProgress.com and picking the local version for your state magazine.

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