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US CROP BOOM NOT ENOUGH TO REBUILD THIN SUPPLIES

- USDA sticks to forecast of big crop, thin stocks
- Corn crop to be second biggest since 1944
- Soy crop to set a record
- Could take two years to rebuild stocks

BY CHARLES ABBOTT AND
CHRISTOPHER DOERING
ARLINGTON, VIRGINIA, FEB 24

HUGE U.S. CORN AND SOYBEAN plantings this spring will likely fail to refill razor-thin stocks enough to quell the

surge in grain prices, the U.S. Agriculture Department said on Thursday.

In updated forecasts for the world's biggest crop exporter, the USDA warned that it could take several years to restore inventories to comfortable levels. It mostly maintained earlier forecasts on how many

acres farmers would sow this spring, but said stocks at the end of the 2012 season would remain tight.

The U.S. government's forecasts are likely to fuel more concern globally that high prices could persist far longer than they did in 2008 when they hit record highs,

"THERE IS NO REASON FOR US TO TAKE THE FOOT OFF THE GAS."

as supplies remain too thin to cope with any further weather disasters.

"While it is often said the cure for high prices is high prices, even with additional supplies expected this year, it is likely that the tight stocks-to-use situation will not be entirely mitigated over the course of one or even two growing seasons," USDA Chief Economist Joseph Glauber told the department's annual outlook conference on Thursday.

The planting forecasts were unchanged from the department's projections made earlier this month, when it projected 92 million acres of corn -- the second largest since 1944 -- and 78 million acres of soybeans, a record amount. Analysts had expected the agency to trim both forecasts marginally.

LITTLE CUSHION IN US END STOCKS

THE GREATER SURPRISE was in projections for tight ending stockpiles for 2011/12. While both corn and soybean ending stocks will be higher than this year's levels -- with corn forecast to be the smallest since 1996 and soybeans amounting to a few week's supply -- they suggest very little cushion for unexpected shortfalls.

"It should be bullish all around even though the USDA stuck to their higher estimates than I probably would have done," said Jack Scoville, analyst for Price Futures Group.

"It seems to me they're implying some very strong demand here because the ending stocks estimates remain pretty tight, really across the board," he added.

USDA said 2012 corn ending stocks would rise by 28 percent to a still-thin 865 million bushels, and soybeans stocks by 14 percent to 160 million bushels.

But USDA cut its outlook from a forecast made earlier this month for corn stocks by 23 percent and soybeans by 16 percent for 2012.

Contributing to the slim stocks will be soaring exports, which are expected to rise \$9 billion this year to a record \$135.5 billion.

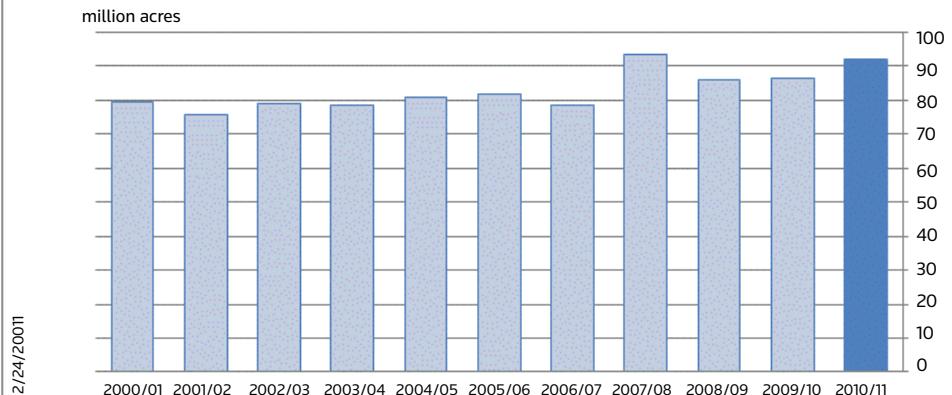
"Today there are 7 billion mouths to feed and many of them depend on American agriculture," Debbie Stabenow, chairman of the Senate Agriculture Committee, told the USDA's annual outlook conference.

China will become America's top export market, surpassing Canada. China is seen importing 60 percent of the world's soybeans and 40 percent of its cotton this year.

While the tight stocks figures were bullish, grain futures at the Chicago Board of Trade

U.S. corn plantings

U.S. corn plantings are forecast to be the second largest since 1944.

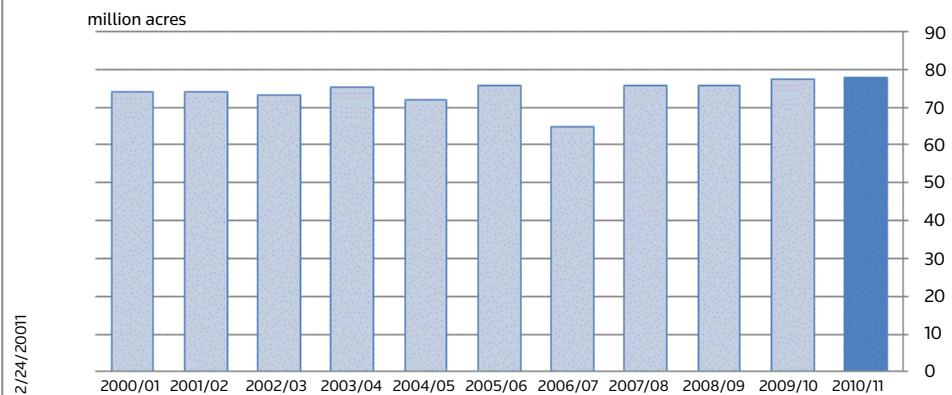


Source: USDA
Graph/Lisa Shumaker

 **REUTERS**

U.S. soybean plantings

U.S. soybean plantings are forecast to reach a record high



Source: USDA
Graph/Lisa Shumaker

 **REUTERS**

fell on Thursday as investors continued to liquidate positions and seek safer havens on concerns over the turmoil in the Middle East. Wheat fell 2 percent, corn nearly 1 percent while soybeans were only slightly lower.

CORN FOR ETHANOL AT RECORD HIGH

ETHANOL MAKERS ARE expected to consume a record 5 billion bushels of corn this year, or some 36 percent of the harvest.

Despite criticism that using food for fuel was driving up prices and contributing to thin stockpiles, Agriculture Secretary Tom Vilsack told the conference the government had no intention of scaling back on ethanol.

"There is no reason for us to take the foot off the gas," Vilsack told the conference. "This is a great opportunity for us because we can do it all, make no mistake about it."

Tight global commodity stockpiles have pushed food prices higher, contributing to political unrest in countries with high poverty rates and unemployment.

Former U.S. President Bill Clinton struck a more cautionary tone on ethanol. "We have to become energy independent but we don't want to do it at the expense of food riots," Clinton said in the keynote address.

In the United States, food prices are forecast to rise a sharp 3.5 percent this year

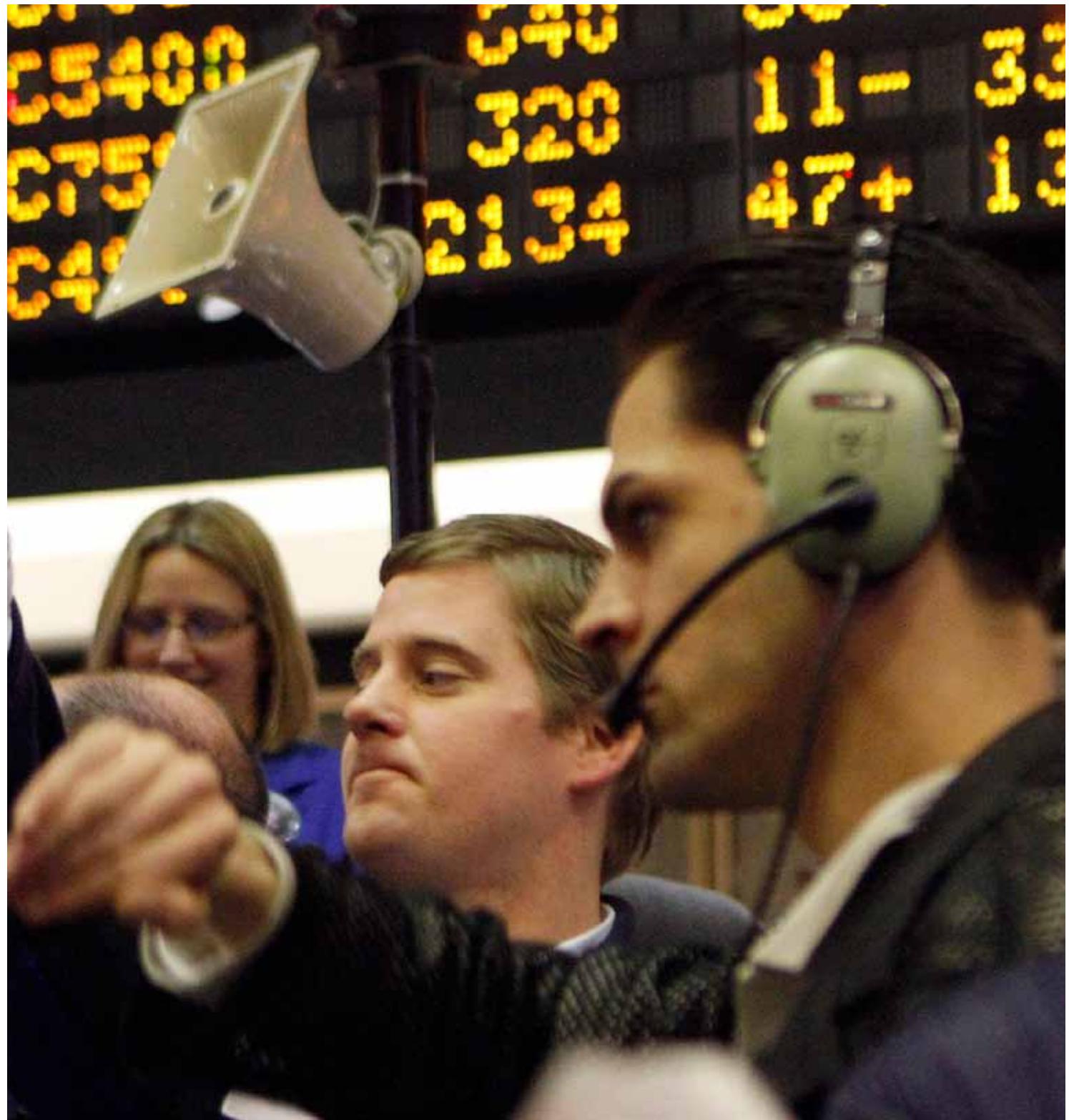
-- nearly double the overall inflation rate. "We're keeping an eye on this but I would suggest that as a result of what we went through in 2007 and 2008 we are better prepared to respond as a country and as a globe," Vilsack said.

But some analysts caution a bad crop in the United States would change everything.

"There are speculators involved... but we've had the perfect storm over the last two years, and if we don't have a great crop this year in the United States, we are going to have

an even bigger storm." said Pete Nessler, president of the brokerage FCStone LLC.

(Additional reporting by Michael Hirtzer; Graphics by Emily Stephenson; Writing by Russell Blinch; Editing by Lisa Shumaker)



Traders in the Corn options pit at the CME Group signal orders shortly before the closing bell in Chicago, February 11, 2011. REUTERS/FRANK POLICH

FORECASTS FOR US CROPS IN 2011

FACTBOX

U.S. FARMERS WILL PLANT massive corn and soybean crops this spring but it could still take more than two years to rebuild depleted stockpiles and quell the recent volatility and surge in grain prices, the U.S. Agriculture Department

said on Thursday.

USDA maintained its forecast for U.S. farmers to plant the second largest corn crop since 1944 and plant a record amount of soybean acres at its annual Outlook forum Thursday near Washington.

For a copy of Chief Economist Joseph Glauber's speech at the Outlook Forum, click: <http://r.reuters.com/bab38r>

For a copy of the USDA baseline projections released Feb. 14, click: <http://r.reuters.com/kak98h>

PLANTINGS

	OUTLOOK	BASELINE	2010/11
Corn	92	92.0	88.2
Soybeans	78	78.0	77.4
Wheat	57	57.0	3.6
Upland cotton	N/A	12.8	10.77
All cotton	13.0	N/A	10.97
Rice	2.88	3.30	3.64
TOTAL*	255	255.3	245.2

(millions of acres)

* Eight major crops of wheat, corn, barley, sorghum, oats, soybean, rice and upland cotton

PRODUCTION

	OUTLOOK	BASELINE	2010/11
Corn	13.73	13.755	12.447
Soybeans	3.345	3.355	3.329
Wheat	2.08	2.215	2.208
Upland cotton	N/A	19.3	17.82
All cotton	19.5	N/A	18.32
Rice	206.5	232.6	243.1

(Billions of bushels for corn, soybeans and wheat.

Millions of bales for cotton and million cwt for rice)

EXPORTS

	OUTLOOK	BASELINE	2010/11
Corn	2.0	2.000	1.950
Soybeans	1.575	1.575	1.590
Wheat	1.15	1.150	1.300
Upland cotton	N/A	15.0	N/A
All cotton	15.0	N/A	15.75
Rice	111	121.0	116.0

(Billions of bushels for corn, soybeans and wheat. Million of bales for cotton and million cwt for rice)

END STOCKS

	OUTLOOK	BASELINE	2010/11
Corn	0.865	1.127	0.675
Soybeans	0.160	0.190	0.140
Wheat	0.663	0.718	0.818
Upland cotton	N/A	3.1	N/A
All cotton	2.9	N/A	1.90
Rice	40.8	50.9	52.8

(Billions of bushels for corn, soybeans and wheat. Million of bales for cotton and rice million cwt)

BIOFUELS

	OUTLOOK	BASELINE	2010/11
Corn for ethanol	5.0	4.875	4.950
Soyoil for biodiesel	3.350	3.100	2.900

(Corn in billions of bushels; soyoil in billions of lbs)

(Compiled by Lisa Shumaker and Charles Abbott)



REUTERS/JOHN SOMMERS II

FOOD PRICES REACH 2008 LEVEL

- US food prices to rise 3.5 pct in 2011
- Higher commodity, energy prices drive the increase
- Food prices could challenge 2008's 5.5 pct rise

BY CHRISTOPHER DOERING

WASHINGTON, FEB 24

U.S. CONSUMERS COULD SEE food costs spiking to levels seen during the food crisis of 2008 as higher commodity and energy prices force companies to raise prices on products lining grocery store shelves, the Agriculture Department said on Thursday.

Food prices are forecast to rise a sharp 3.5 percent this year -- nearly double the overall inflation rate. The lion's share of the increase is expected in the second half of 2011 when the recent uptick for commodities, such as corn and soybeans, makes its way through the food system. Just last month, USDA forecast an increase of 2.5 percent in 2011.

Food prices soared to 4 percent in 2007 and rose to 5.5 percent a year later -- the biggest increase since 1990 -- as stockpiles ran low around the world.

Volatile agriculture and energy prices could help food prices challenge those levels in 2011, said USDA economist Ephraim Leibtag at the department's annual Outlook Forum.

"Given that it's still earlier in the year, I'm prone to be conservative on the side of the forecast," said Leibtag. "It's a possibility. I wouldn't be shocked but I'm not predicting it now."

FOOD INFLATION COULD LEAD TO RIOTS

GLOBAL FOOD INFLATION, the result of growing demand for food and tight commodity supplies following catastrophic storms and droughts in leading agriculture producers such as Russia and Australia, is a growing worry for world leaders.

World Bank chief Robert Zoellick said last week global food prices have reached "dangerous levels," and warned they could complicate fragile political and social conditions in the Middle East and Central Asia.

It would be a stark similarity to 2008 when



Missouri corn and soybean farmer Neal Bredehoeft shows a sample of BioTech seed corn, which is sold by the kernel instead of the sack, bushel or pound at his century-old family farm outside Blackburn, Missouri April 8, 2010. **REUTERS/DAVE KAUP**

soaring food prices sparked food riots and led to political instability in some parts of the world, including Haiti and Egypt.

Agriculture Secretary Tom Vilsack said the United States and other global producers are "better prepared to respond" to rising food prices after the run-up in 2007 and 2008. "We're keeping an eye on this," he said.

In its new forecast, USDA said food will rise partly due to higher costs for meats, poultry and fish, which make up 12.5 percent of total food spending. Overall, costs for these items are forecast to rise 4 percent compared with 3 percent forecast last month.

Prices for fruits and vegetables, which account for 8.4 percent of food spending, also will rise 3.5 percent, an increase from 3 percent forecast in January. Cereals and bakery products were increased to up 4 percent from 2.5 percent, and sugar and

sweets up 3 percent from 2.5 percent.

Despite the recent pullback for some commodities such as wheat, soybeans and corn remain near a 2-1/2 year high. Oil surged to 2-1/2 year highs near \$120 a barrel on Thursday as the revolt in Libya choked exports but prices later eased as Saudi Arabia assured European refiners it could fill any supply shortfalls.

Energy is used for everything from producing, transporting and making packaging for food.

RETAILERS FACE HIGHER INPUT COSTS

BIG COMPANIES HAVE had to adjust to higher raw material costs. Kellogg Co, the world's largest breakfast cereal company, and consumer goods giant Unilever have boosted prices on many of their products to offset rising costs for ingredients such as grains and sugar.

Grocers are doing what they can to keep prices low, as they do not want to turn off shoppers already feeling pressure from higher gasoline costs and the generally bleak economy.

Leibtag said the willingness of retailers to absorb price increases and not pass all of them onto consumers is, for now, helping keep prices below their 2007 and 2008 levels.

"We do have risks of higher inflation, but retailers are facing a bigger challenge in 2011," he said. "We're coming off of a recession where everyone is more concerned about their prices, their budget, their spending."

Wal-Mart Stores Inc, which is the largest U.S. grocer, said on Tuesday it would work with suppliers to keep costs down as much as possible, and only pass along price increases when necessary. Wegmans Food Markets has said it will freeze prices on 40 products through 2011.

(Additional reporting by Jessica Wohl in Chicago; Editing by Lisa Shumaker)

WORRIES ASIDE, US HAS "FOOT ON THE GAS" ON ETHANOL

- Record corn-for-ethanol use as stockpile dwindles
- "We can do it all" -- food, fuel, feed, says Vilsack
- Bill Clinton warns of "the cost of food riots"

BY CHARLES ABBOTT
WASHINGTON, FEB 24

THE UNITED STATES "can do it all" -- turn more corn into ethanol without running short of food, Agriculture Secretary Tom Vilsack said on Thursday, as oil prices soared and the government raised its forecast of food price increases this year.

"There is no reason for us to take the foot off the gas," said Vilsack, referring to biofuels at a two-day Agriculture Department conference on the outlook for this year's crops. "We can do it all."

A record 5 billion bushels of corn will be used to make ethanol in the marketing year opening on Sept 1, up slightly from this year, said USDA. It also forecast food prices will rise 3.5 percent this year -- double the U.S. inflation rate.

Former president Bill Clinton, who spoke shortly after Vilsack, said there were stark trade-offs in using crops to make fuel. They affect the food supply in other nations as well as decisions around the world on where to grow crops.

"I think the best thing to say is we have to become energy independent but we don't want to do it at the cost of food riots," said Clinton. "The more biofuels we grow here, the less crops we have to put on the international market."

Vilsack said biofuels are an important component to U.S. energy security that also boost rural employment and income. A 2007 law guarantees a rising share of the motor fuel market to ethanol, peaking at 15 billion gallons from 2015. Production is running at 13.5 billion gallons a year now.

U.S. farmers are capable of growing enough corn to meet rising demand for food, fuel, livestock feed and exports, he said. This year's corn crop is projected for a record 13.73 billion bushels, up 10 percent from last year. Corn supplies are expected to be tight for one or two more years, however.

Clinton suggested annual reviews of

2011 outlook: Corn for ethanol

U.S. corn production and use estimates, released Feb. 24 at USDA's Agricultural Outlook Forum



Source: U.S. Agriculture Department

Reuters graphics/Emily Stephenson

REUTERS

02/24/11

supplies to assure there will be "good food at affordable prices," to maximize energy independence and to prevent climate change but did not say who should carry out the reviews.

Analyst Gary Blumenthal of consultants World Perspectives said biofuel use reduces U.S. grain exports and "certainly is incentivizing production elsewhere."

"The inequity in the situation is biofuel is a mandated market," Blumenthal said. "You're not allowing food to compete fairly with fuel" in buying supplies.

Dan Glickman, agriculture secretary during the Clinton era, said "by and large, it (ethanol) has a positive impact" on the economy and was only a small factor in food prices. Glickman said Clinton did not suggest government rationing or grain.

Some 4.95 billion bushels of corn are forecast to be turned into ethanol in the year ending Aug 31. Joe Glauber, USDA chief economist, said usage would rise marginally in the new year because ethanol is saturating

the market at the 10 percent blend that is standard.

The Environmental Protection Agency has approved a 15 percent ethanol blend for cars and light trucks made since 2000, about 60 percent of the fleet. The U.S. House (of Representatives) voted last weekend to block EPA from implementing E15 and to bar use of federal funds to install "blender" pumps that dispense up to 85 percent ethanol in fuel, but the Senate has yet to act on such legislation.

Corn grower and ethanol trade groups said Clinton was wrong. There is plenty of fallow farmland that could be used for biofuels without harming the environment and that petroleum is a bigger factor in food prices, they said.

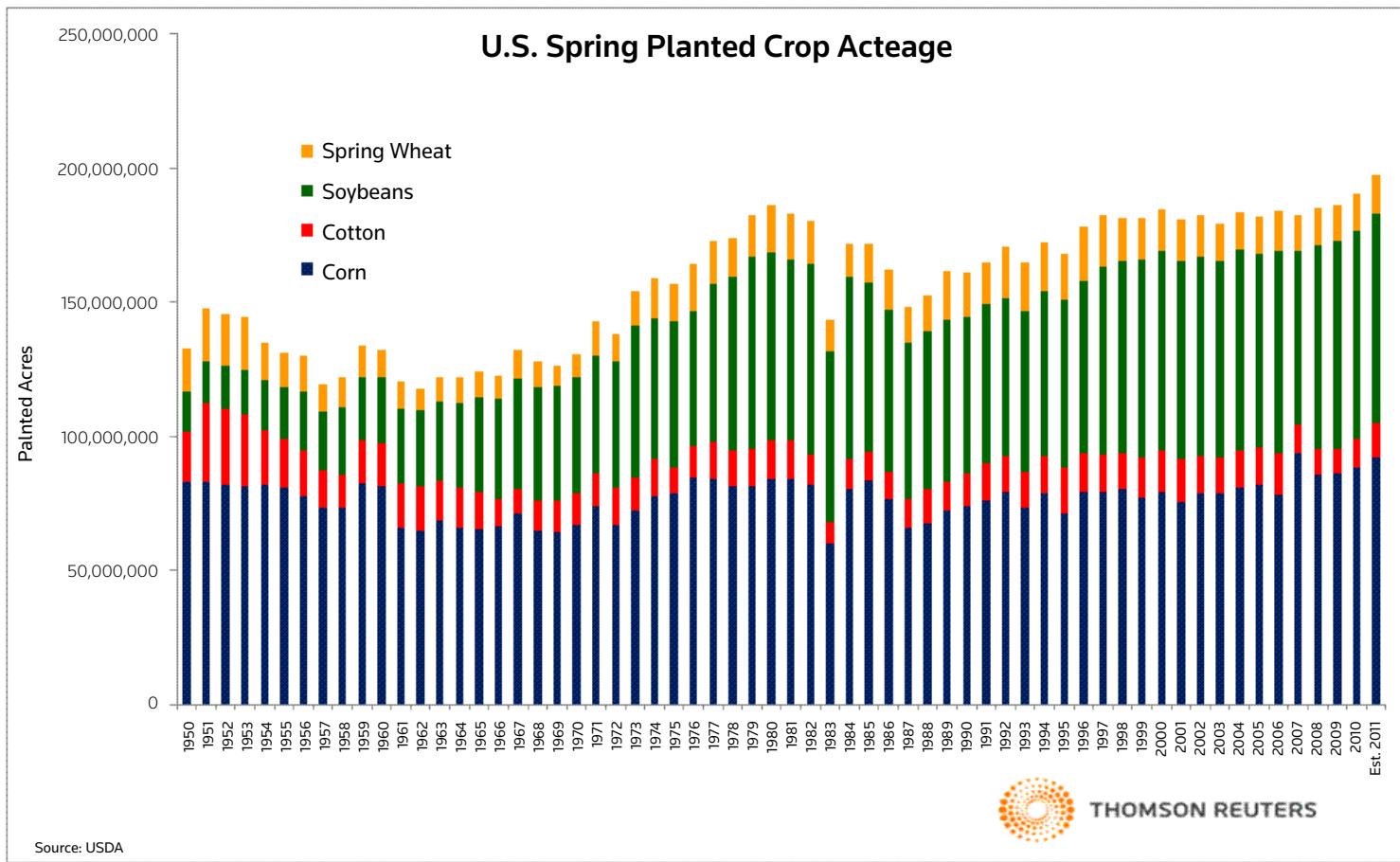
Oil prices rocketed above \$100 a barrel on Thursday due to unrest in the Middle East but retreated slightly. U.S. crude oil settled at \$97.28 a barrel after hitting its highest price since September 2008.

(Reporting by Charles Abbott;
Editing by David Gregorio)

COLUMN

Gavin Maguire is a Reuters market analyst. The views expressed are his own. To get his real-time views on the market, please join the Global Ags Forum.

SKY-HIGH CROP ACREAGE TARGETS LIKELY A PIPE-DREAM: MAGUIRE



BY GAVIN MAGUIRE
CHICAGO, FEBRUARY 24

THE U.S. DEPARTMENT of Agriculture reiterated its projections for record high combined plantings of corn, cotton and soybeans this spring at its ongoing Outlook Forum, dealing a fresh blow to crop prices by



standing by its projections for potentially record high crop production in 2011.

But while record U.S. crop planting estimates are all well and good on paper - and certainly help dispel fears of continued food supply tightness - the likelihood of U.S. growers actually planting record amounts of each major crop is almost impossible in practice given the limited nature of effective arable land.

SPRING PLANTED CROPS SEEN AT A RECORD

THE USDA'S PLANTED acreage projections - first issued in its annual Baseline Projections report in early February and then reiterated at its Outlook Forum - call for a combined record of corn, cotton and soybean seedings this spring. High overall wheat production estimates also indicate an assumption that U.S. spring wheat acreage will at least avoid a reduction in 2011.

Should these projections ring true, major U.S. spring-planted crops would cover a record 197 million acres in 2011.

U.S. farmers would need to reverse the trend of declining U.S. arable land to achieve that high total. U.S. land dedicated to row crop production peaked in the early 1980s at more than 290 million acres, and has been on a downward heading since then, failing to top the 250 million acre mark for more than a decade. Total U.S. crop land, including land for vegetable production, pasture and range, has also declined from a record high of more than 387 million acres in 1981 to below 340 million.

Some productive land has been lost to urban sprawl. According to the USDA's Economic Research Service, the amount of U.S. land occupied by urban areas rose from roughly 25.5 million acres in 1960 to close to 60 million by 2002, and has kept rising. Urbanization in the Corn Belt - the country's most productive region - has risen from 3.8 million acres in 1960 to close to 8 million by 2002. Urbanized areas have also shown steep increases in the Northern Plains, the Delta States, the Southern Plains and in the Lake States, all at the expense of arable land.

IDLE ACRES, IDLE THREATS

LAND CONSERVATION PROGRAMS also have accounted for much of the decline in productive acreage, reducing overall acreage available for active duty. USDA data suggest that more than 30 million acres of potential cropland has been enrolled in reserve programs designed to replenish soil nutrient levels, preserve groundwater levels and offer wildlife habitats.

In theory, these idled acres represent potential productive capacity were they to be brought back 'on stream' and restored to active duty. In reality, however, most resides in areas not suitable for widespread row-crop production, or features challenging terrain that producers would rather not attempt to plant, tend or harvest (but would be happy to receive government payments for keeping reserved.)

In addition, many parcels of reserve acres currently double as bountiful hunting ground, which many growers would be reluctant to give up in favor of an additional field or two of row crops.

Strict reserve program rules also limit land usage flexibility. Many acres are locked into set conservation terms that last several years, and landowners have penalties for

early withdrawals.

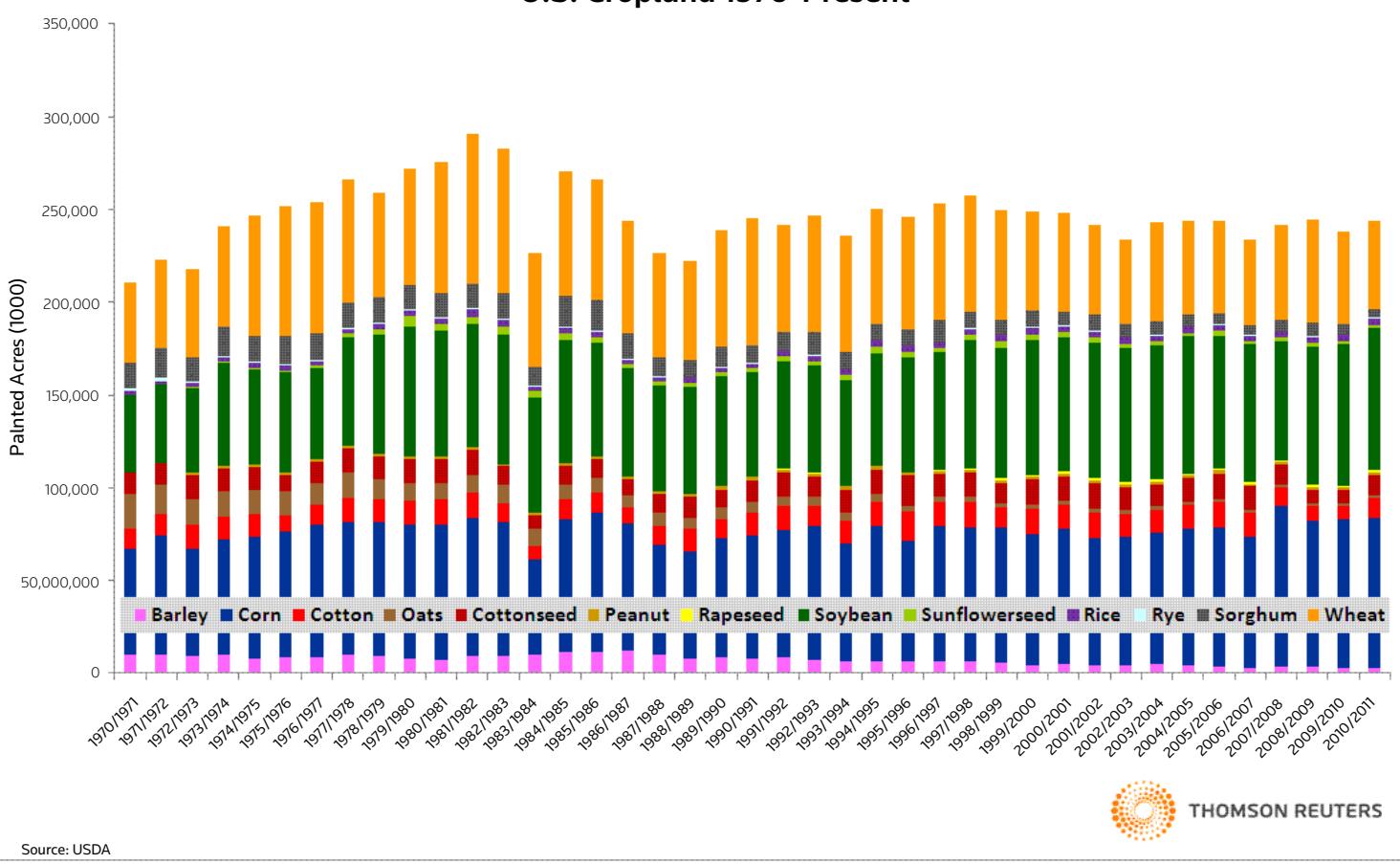
That said, rising prices have lured some idled areas back into productive contention, with an estimated 4.4 million acres coming out of the reserve program for 2011. Just over 1 million of those acres reside within the Corn Belt states of Iowa, Illinois, Nebraska, Kansas, Indiana and Missouri, and so potentially represent an expansion in corn or soybean acreage in that region.

However, given that the maximum total of additional acres taken from the conservation program is less than 5 million acres for the entire country, the impact of reserve acreage being restored to production should prove minimal on the production picture as a whole.

In all, USDA's projections for high planted acres of top U.S. crops may accurately capture the motivation of farmers to ramp up output in response to prevailing high prices of food commodities. But the finite nature of productive arable land in key growing areas should constrain overall seedings of each crop, and will likely result in U.S. growers undershooting the USDA's upbeat projections by the time planters stop rolling.

(Editing by David Gregorio)

U.S. Cropland 1970-Present





A field of corn is seen in Embrun, Ontario, October 16, 2010.
REUTERS/SHAUN BEST

COVER PHOTO: A field of corn is seen in Embrun, Ontario, October 16, 2010. Senior OECD (Organisation for Economic Co-operation and Development) (Ec) **REUTERS/SHAUN BEST**

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