USDA WASDE Preview: More supply tightening expected

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On February 9th, the US Department of Agriculture (USDA) will release its latest World Agricultural Supply and Demand Estimates (WASDE). This is an authoritative and well-regarded source of information for both US and global crops. There has been a trend of downward revisions to their estimates for Wheat, corn, soybean and cotton ending stocks for the 2020/21 marketing year in recent months. We expect more of the same this month.

1. Tightening supplies bode well for agricultural prices

Corn prices are trading at multi-year highs. While Wheat, soybean and cotton were also at multi-year highs in January, they have given up some gains in recent weeks. Reduced stock projections for all these agricultural commodities bode well for prices.

Each commodity has a different marketing year. The chart below shows the revisions for ending stocks for each commodity. Soybean and cotton have seen sizable revisions in recent months.

Source: WisdomTree, Bloomberg, USDA. Wheat marketing year runs from June to May. Corn marketing year runs from October to September. Soybean marketing year runs from September to August. Cotton Marketing year runs from August to July.

Historical performance is not an indication of future performance and any investments may go down in value.

2. Sources of the revisions

Soybean and corn revisions have largely been driven by increasing dryness in South America which has dented production there. China's increasing demand for US soybean has increased Chinese stocks, but overall world stocks have been revised lower.

Cotton stocks have been revised downward on account of falling US production and rising consumption in China and Turkey.

Wheat ending stocks forecasts in January 2021 were close to where the USDA started the marketing year, but have pared back in recent months after initial upward revisions. Production is still expected to reach

a 4-year high, but its scale has been revised downward. As we said in Wheat and corn continue a bullish run, export restrictions from Russia could contribute to global tightness in wheat availability.

3. Why we expect further downward revisions

South American dryness will mean that planting for ‘second-season’ corn crops will be delayed truncating the whole growing period.

Continued economic growth in China in particular is likely to drive demand for most agricultural crops higher, particularly soybean and corn.

Wheat export restrictions from Russia and Ukraine will leave global markets tight.

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