

INTERNATIONAL MILLING DIRECTORY 2006 - MAIZE

MAIZE - choice of suppliers narrowing?

Maize prices were cheaper in first half 2004/05 after a record large US crop, along with big increases in EU, East European, FSU and Chinese output. The massive 83m tonne rise in world total output took it to a new peak of 706m tonnes - 26m tonnes higher than consumption which itself rose by an above-trend 33m tonnes - 23m in feed and 10m in food/industrial outlets (mostly down to higher use in ethanol fuel).

The increase in consumption in 2004/05 was led by the **USA**, where total demand increased by 12.7m tonnes, including about 9m in animal feed, the rest mainly into ethanol. Despite that robust growth, a record crop meant supply far exceeded demand. As exports failed to meet higher targets, US stocks more than doubled to almost 54m tonnes, their highest in many years.

Late in 2004, this slack supply was expected to press farmgate and futures prices much lower and talk of \$1.50/bushel corn was fuelling hopes of cheaper prices for overseas customers. However, US farmers used every means possible to hoard grain in the hope of a repeat of the high prices seen in early 2004, often improvising DIY storage to keep their grain off market. In the early months of 2005, this policy appeared to be working remarkably well and as supplies tightened and speculators began to buy into the grain futures markets, prices were kept well above the \$2/bu mark and export fob prices went from the low \$90's per tonne to \$140.

As the US planting season got underway in April, maize area was forecast to expand quite sharply on the assumption that many farmers would switch some of their land away from soyabeans to avoid extra costs incurred of spraying for rust disease (threatening the US bean crop for the first time this year). However, in the event, area expanded less than expected and a difficult growing season ensued, starting with unusually cold weather, followed by a period of intense heat and drought over much of the eastern corn belt (including 2nd-largest US corn producing state Illinois).

Despite these problems, better conditions in the eastern US should still enable it to turn in a 2005 crop of about 265m tonnes - about 35m less than last year's but, along with the large carry-in stocks from 2004/05, enough to keep the market well supplied.

This is just as well for consumers, as maize supplies from several other sources appear to be shrinking.

China, which has led an aggressive export campaign in recent years - and more or less set the relatively low values of maize in East Asia (the largest world import market), has now used up most of the vast surplus stocks it held five years ago, to keep its exports going while expanding its own feed demand for the grain. In fact with its stocks probably falling to a record modern low of about 26m tonnes in 2005/06, China may be hard pressed to export more than 2m or 3m tonnes, if that, compared with 15m tonnes only three years ago. Some analysts believe that, with its domestic demand running well ahead of its consumption, China may soon become a significant maize importer instead. In the past four years alone, China has added 11m tonnes to its maize consumption and, in the past ten years about 30m, mainly in feeds.

China's export pullback has much significance for the big Asian buyers like Japan, South Korea, Taiwan and others, whose bargaining power has been sharpened by their ability to purchase Chinese as well as US maize in the past - especially as the Chinese grain was usually at steep discounts of \$5, \$10, even \$15 per tonne at times (albeit often of lower quality too).

Less maize will also be available next season from the second largest exporter, Argentina, in sharp contrast to the past season, when a record crop enabled it to expand sales into many new markets in North Africa and Far East Asia, more than offsetting lower sales to its main customers within western Europe (where the maize crop expanded sharply). With profits from maize declining and soya demanding more land, the next Argentine maize crop is expected to dip by at least 2m tonnes - which may significantly reduce its export presence as well as its price-competitiveness.

Another secondary exporter, Brazil, expects a bigger maize crop in early 2006 but more is needed by its own rapidly expanding poultry feed industry while some of this will also go to rebuild stocks depleted by a small crop last season. South Africa, which sold more corn for export after a bumper crop this year, also expects a crop fall in 2005/06.

Although the EU starts 2005/06 with larger carryover stocks of maize from its bumper 2004 crop, some of this is expected to meet severe drought losses to Spanish feedgrain crops. The total EU crop will also be sharply lower in 2005 (down 6m tonnes), only partly offset by a 3m tonne increase in stocks carried in from last season.

Much smaller maize crops are also seen this season within the Former Soviet Union and East Europe, where total output could be as much as 9m tonnes lower. Some central/east European countries - which have large stocks from 2004/05 season - may be able to fill some of the gaps created by China and Argentina. However, overall, it seems the choice of maize suppliers continues to narrow, leaving the US a clearer run at markets and under less pressure to meet low bids from importers.

Against that, demand for maize may be slowing in the year ahead. In the US, feed consumption is expected to drop by a substantial 8m tonnes, though the decline in total US maize offtake is moderated by a rise of about 5m in industrial, mainly ethanol, demand. Demand is also expected to dip across Europe and in the FSU in response to lower crops.

Even so, world total maize demand will run well ahead of production in 2005/06, leading to a stock drawdown, currently forecast at almost 14m tonnes and a stock/use ratio of only 16.8% - about 9 weeks supply and the second lowest stock cover on record.

Fortunately for consumers, much of this decline takes place within countries holding fairly good stocks at the start of the season, few of them (apart from China) being regular large exporters. Indeed, in the US itself, stocks should remain fairly comfortable right up to the next (summer 2006) crop, enabling it to continue its leading export role without too much difficulty.

World maize import demand has shown no growth in recent years, largely because those countries expanding their consumption were doing so largely from larger domestic crops. At this stage, world maize trade is expected to continue fairly flat through 2005/06, taking some of the pressure off world fob export costs for this

grain. Demand into Southeast Asia has grown more slowly in recent years, restrained by the region's economic problems in the late nineties and, latterly by a succession of health scares including the SARS virus and bird flu outbreaks which led to slaughter of vast swathes of poultry flocks in many of the major Asian maize consuming countries. Another problem for the region in the past two years has been the rocketing cost of freight from the Americas - although transport has been getting cheaper in the late summer of 2005 as Chinese demand (a principal cause of vessel shortage) has slackened somewhat.

Summing up, the reduced competition from China and Argentina, means the US - which normally supplies up to two thirds of world maize supplies - will be required to expand exports in the year ahead and, perhaps, to price grain more on its own terms.

This suggests maize prices will be under less downward pressure in 2005/06 and, given lower world stocks, as the Northern Hemisphere planting season approaches next spring, price sensitivity to any weather upsets. Futures markets reflect this psychology already with a rough 16% increase in maize costs signalled by this time next year - though a significant rebound in US output next year could easily overrule that.