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WEEKLY OUTLOOK

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FOCUS SHIFTS BACK TO CROP SIZE

The cash corn and soybean markets reacted to the disruption of the Louisiana Gulf markets last week, with basis levels weakening in many tributary markets. With the USDA scheduled to release new corn and soybean production forecasts on September 12, the market focus has shifted back to crop size.

The September 12 production forecasts will reflect information available in late August and early September. That information includes data from a large survey of producers and data from objective yield surveys in selected states. The data gathered in the objective yield surveys depends on the maturity of the crop. For corn, kernel row length and ear diameter should be available from most survey fields. For corn in the dent stage, weight and moisture content of shelled grain can be collected. For mature corn, field and lab weight of ears as well as weight and moisture content of shelled grain can be collected. As of August 28, 61 percent of the U.S. crop was in the dent stage, but only 11 percent was mature. Data from a mature crop and from harvest results will be plentiful for the October report. Historically, the September forecast of corn production has differed from the January estimate by an average of 4 percent, while the October forecast has differed by an average of 2.4 percent. For November, the average error has been only 1.2 percent.

In general, private forecasters believe that the corn crop is larger than the USDA's August forecast of 10.35 billion bushels. Two of the most followed private estimates place the crop at 10.384 and 10.455 billion bushels, respectively. Early harvest results are extremely variable. The key to the final yield estimate will be the extent of pollination problems and average kernel weight. The warm, dry end of the growing season in some areas suggests that weights may be below average in those areas. The market should avoid getting too comfortable with the September production forecast.
Similar methodology is used to forecast soybean production in September. The objective yield survey will still rely heavily on counts of plants, nodes, branches, and pods. As of August 28, only 6 percent of the crop was mature enough to be dropping leaves. Data on weight of beans per pod and moisture content of the soybeans will be more abundant in the October forecast. The historical track record for the USDA's soybean production forecast is very similar to that for corn. The average error (1970 through 2004) has declined from 4 percent in September to 2.8 percent in October and to 1.5 percent in November. In each case, the January production estimate following harvest was used to measure the monthly errors.

Private estimates of the soybean crop released to date have tended to be larger than the USDA's August forecast of 2.791 billion bushels. Two of the most followed private estimates place the crop at 2.835 and 2.84 billion bushels, respectively. The average yield forecast of 39.3 bushels is 0.6 bushel above the USDA's August forecast, but about 0.5 bushels below the average suggested by the weekly crop condition ratings. The key to the average yield will be the average weight of soybeans per pod. In those areas where the growing season has ended on a warm, dry note, weights will likely be light, particularly in the upper nodes. In some instances it has been observed that those upper pods are blank or have only one bean. In areas that are ending the growing season under more favorable conditions, weight per pod should be near normal. A fair amount of uncertainty about crop size will persist until October.

Cash corn prices have declined below the CCC loan rate with loan deficiency payments (LDP) reaching $.37 in Illinois on September 6. Basis levels are generally weak in most markets and the spreads in the futures market are large. On September 2, for example, the average spot cash price of corn in central Illinois was $.535 under July 2006 futures. If the basis strengthens to a typical level of -$.15 by spring of 2006, the market is offering a premium of $.385 for corn stored for about 8 months. If these price relationships persist into harvest, producers may want to consider capturing the LDP at harvest and forward pricing (hedging) the crop for later delivery in order to capture the carry in the market. Given the low level of prices, some may also want to consider capturing the LDP and storing a portion of the crop unpriced. Where storage is not available (or is expensive) capturing the LDP and selling the crop out of the field might be considered. Currently, that strategy will result in a net price above the loan rate in some markets.

Soybean prices remain above the loan rate, basis levels are generally weak although a bit stronger than that for corn, and the spreads in the futures market are modest. Even so, there is some return to storage being offered by the market. The average cash bid in central Illinois for example, is $.49 under July 2006 futures. An improvement to -$.10 by spring suggests a $.39 return to storage over the next 8 months. If these price relationships persist, storing the crop under loan on the farm and forward pricing (hedging) for later delivery would capture a good deal of the carry. Selling some of the crop at harvest, storing some unpriced, and storing some hedged are the primary options. The portion of the crop allocated to each option will be influenced by the portion of the crop priced earlier in the year.

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