



# WEEKLY OUTLOOK



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## **PRODUCTION NUMBERS ABOUT AS EXPECTED**

The USDA's August forecast of the 2005 U.S. corn and soybean crops were near the expected levels, but corn prices declined on prospects of adequate stocks. Soybean stocks are expected to be tighter and there continues to be more uncertainty about the actual size of the soybean crop.

At 10.35 billion bushels, the 2005 U.S. corn crop is projected to be 1.457 billion bushels smaller than the record crop of 2004, but marginally larger than the average pre-report guess. The national average yield is projected at a below-trend value of 139.2 bushels, down from the record yield of 160.4 bushels in 2004. The largest yield declines are expected in Illinois (down 55 bushels) and Missouri (down 63 bushels). With September 1, 2005 stocks of corn projected at 2.11 billion bushels, the supply of corn for the 2005-06 marketing year is projected at 12.47 billion bushels, 305 million less than the record supplies of a year ago.

The USDA's World Outlook Board lowered the projection of feed and residual use of corn during the year ahead by 100 million bushels, to a total of only 5.75 billion bushels. That projection is 400 million (6.5 percent) below projected use for the current year and below trend value. Apparent use of corn in that category this year is inflated by a likely over-estimate of the size of the 2004 U.S. crop, so a decline next year appears logical. However, the steep decline in the projection in the face of expanding livestock production was a bit surprising. Some of the expected decline in feed use of corn can likely be attributed to increased feeding of distillers dried grain. However, feed and residual use of other feed grains is also expected to decline by 59 million bushels (13 percent). The actual rate of use will not be known until the release of the December 1, 2005 stocks report in January 2006.

The World Outlook Board continues to project a 125 million bushel increase in exports and a 180 million bushel increase in domestic processing use of corn during the year ahead. Stocks of U.S. corn at the end of the 2005-06 marketing year are projected at an ample 1.9 billion bushels. The marketing year average farm price is projected in a range of \$1.80 to \$2.20, compared to an average for the current year of \$2.07. At the close of trade on August 12, the futures market projected a 2005-06 average farm price near \$2.20. While the USDA's production forecast may decline modestly in subsequent reports, the decline is not likely to be large enough to threaten the comfortable level of year-ending stocks.

The 2005 U.S. soybean crop is projected at 2.791 billion bushels, 350 million smaller than the record crop of 2004. That projection reflects a national average yield forecast of 38.7 bushels,

about 1.3 bushels below trend value and 3.8 bushels below last year's record yield. Year-over-year yield declines are expected to be largest in Illinois (down 11.5 bushels), Kansas (down 9 bushels), and Missouri (down 14 bushels). Year-over-year increases in yields are expected in Minnesota (up 6.5 bushels) and North Dakota (up 9 bushels). With September 1, 2005 stocks of 300 million bushels, U.S. soybean supplies at the beginning of the 2005-06 marketing year are projected at 3.094 billion bushels, 165 million less than supplies of a year ago. The USDA's World Outlook Board projects a 20 million (1.2 percent) decline in the domestic crush and a 5 million bushel decline in exports of soybeans during the year ahead. The smaller crush projection reflects the expectation of a decline of 950,000 tons in U.S. soybean meal exports, even though meal consumption in major importing countries is expected to increase. South America, rather than the US, is expected to benefit from that increase.

Like corn, residual use of soybeans during the current year has been inflated by an apparent overestimate of the 2004 crop. Use in that category is expected to decline by 20 million bushels, to a normal level, during the year ahead. Stocks of U.S. soybeans at the end of the 2005-06 marketing year are projected at 180 million bushels, about 50 to 60 million above the minimum level that can be attained. The 2005-06 marketing year average farm price is projected in a range of \$5.50 to \$6.50, compared to the average of \$5.80 for the current year. At the close of trade on August 12, the futures market projected an average 2005-06 farm price of about \$6.25. Any reduction in the U.S. crop forecast in subsequent reports would result in expectations of a very tight supply situation for the year ahead, at least until the outcome of the South American crop is known. More normal yields in Brazil in 2004 could result in a crop more than 400 million bushels larger than the 2005 crop, more than offsetting the shortfall in U.S. production.

With new crop cash corn prices for harvest delivery near or below the loan level, there is little urgency in selling additional quantities. If the weak basis and large carry in the corn market persists into harvest, producers may want to consider storing as much of the crop as possible, establishing the LDP, and forward pricing for later delivery in order to capture the carry. Soybean prices are well above the loan rate and there is very little carry in the market. More aggressive sales of soybeans may be warranted as harvest approaches, particularly if the USDA lowers the production forecast in September.

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