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CORN AND SOYBEAN STOCK PROJECTIONS INCREASED

As expected, the USDA lowered the forecasts for U.S. corn and soybean exports during the current marketing year. As a result, the projection of year ending stocks was increased for both crops.

U.S. corn exports during the current marketing year are now projected at 1.9 billion bushels, 100 million less than projected last month, but 86 million more than exported last year. The reduction corresponded to an increase of 155 million bushels (3 percent) in the estimated size of the Chinese crop. Exports of corn from China during the current marketing year are projected at 235 million bushels, double the projection of last month, but 60 million less than exported last year. Year ending stocks of U.S. corn are projected at an 18 year high of 2.419 billion bushels. Projected stocks represent 22.5 percent of the projected consumption during the current marketing year. That stocks-to-use ratio would be the highest in 13 years. Stocks of corn, and total feedgrains, are expected to decline in most other surplus production countries, particularly in China.

The USDA did not change the forecast of the marketing year average farm price of corn. The average is expected to be in a range of $1.60 to $2.00 per bushel. The average price during the first quarter of the marketing year was very near the midpoint of that range. The average price received by farmers during September and October was relatively high, reflecting the delivery of crop contracted for harvest delivery at higher prices during the growing season. Based on a model that correlates the year ending stocks-to-use ratio to the average farm price, a year ending stocks-to-use ratio of 22.5 percent points to a 2005-06 average farm price of $1.84. Based on the average prices received during the first quarter of the year and current futures prices for the rest of the year, the market now reflects an average farm price for the year of $1.97. Current prices, then, seem a bit high based on the projected level of year ending stocks. Prices are likely being supported by a slow pace of selling by farmers, expectations of reduced acreage in the U.S. in 2006, and persistent reports of a higher than normal probability of a dry growing season in 2006. The market is currently offering an average 2006-07 marketing year average farm price of about $2.40.

U.S. soybean exports during the current marketing year are now projected at 1.02 billion bushels. That is 55 million bushels below the November projection and 83 million below the record exports during the 2004-05 marketing year. The USDA cited the current low level of U.S. export commitments (lowest since 1998) and ongoing competition from South America as reasons for the reduction. South American soybean exports during the current marketing year are projected at 1.4 billion bushels, about 37 million above the November projection and 180 million more than exported last year. Year ending stocks of U.S. soybeans are projected at a 19 year high of 405 million bushels. The projection of the year ending stocks-to-use ratio is at an 11 year high of 14 percent.

The USDA expects the 2005-06 marketing year average farm price of soybeans to be in a range of $5.00 to $5.70, similar to last month's projection of $4.95 to $5.75. The average price during the first quarter of the marketing year was near $5.70. Our model relating the year ending stocks-to-use ratio to average farm price suggests that ending stocks of 14 percent of use should result in an average farm price of $.5.05 per bushel. Based on the average cash price during the first quarter of the year and the current futures prices for the remainder of the year, the market reflects an average farm price of $5.80. On the surface, then, the current market appears to be a little over-valued. The recent price strength likely reflects the slow pace of selling by farmers, uncertainty about the South American growing season (both dryness and soybean rust), and some uncertainty about the U.S. growing season in 2006. The market is currently reflecting a 2006-07 average farm price of $6.00, even though many observers expect an increase in soybean acreage in the U.S. in 2006.

Corn and soybean futures prices moved higher following the USDA reports that contained larger projections of ending stocks. The price action suggests that the forecasts were well anticipated and that the market is now focusing on other factors. Still, the recent trading range for corn futures is not expected to be expanded. That would mean March corn futures trading between $2.00 and $2.20. The magnitude of the strength in soybean futures following the USDA report is more surprising. The recent trading range has seen January futures near $6.05. That level may soon be challenged again.

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