



WEEKLY OUTLOOK



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CROP CONCERNS CONTINUE

For the second consecutive week, rainfall totals in dry crop areas of the eastern corn belt were disappointing, bringing additional crop stress and higher corn and soybean prices. The National Weather Service 6 to 10 day forecast continues to call for above normal precipitation amounts in most growing areas. The latest forecast, for the period June 11 through June 15, also calls for above normal temperatures in most eastern growing areas.

Much of the dry weather concern is focused on Illinois, where topsoil moisture was rated to be short or very short for 68 percent of the crop area for the week ended May 29. However, dry areas also persist in other areas of the eastern corn belt, in Missouri, and in the northern Delta. While subsoil moisture remains adequate in most areas, topsoil dryness is creating concerns about reduced plant photosynthesis, root damage, increased insect susceptibility, and, in the case of corn, adverse impact on ear formation. It is likely that crop conditions and yield prospects would improve significantly with near term precipitation, but forecasts do not favor precipitation for dry areas until late in the week.

The job of the market is to gauge the extent of yield loss by early season and current adverse weather conditions. The USDA's weekly report of crop conditions, released on Monday afternoon, will provide much of the input for that assessment. While the report provides a very subjective evaluation of crop conditions, it is extremely valuable for two reasons. First, it provides a weighted average picture of crop conditions across the entire production region that is not available from any other source. Second, the methodology for collecting and reporting crop conditions is consistent from year to year, providing a very useful evaluation of relative crop conditions.

For the week ended May 29, the USDA reported that 62 percent of the US corn crop was in either good or excellent condition, down one percentage point from the previous week's rating. A year ago, 68 percent of the crop was rated in good or excellent condition. The report for the week ended June 5 will contain the first comprehensive look at soybean conditions. Some states released crop condition ratings for soybeans last week, with Illinois showing 61 percent of the crop in good or excellent condition.

Crop condition ratings provide an incomplete and changing picture of yield potential, but are a useful barometer of yield potential. Over the past 19 years, there has been a generally strong relationship between the final crop condition ratings of the season and the US average yield. Using a trend adjusted yield, the percent of the crop rated good or excellent in the final report of the season has explained about 85 percent of the variation in US average yields over that time period. To expect trend yields in 2005 (about 145 bushels for corn and 40 bushels for soybeans), the final

report of the year needs to show about 68% of the corn crop and 58% of the soybean crop in good or excellent condition. Each one percentage point variation from those levels would suggest a 0.6 bushel higher or lower corn yield and a 0.2 bushel higher or lower soybean yield. As the season progresses, then, the average yield to be expected if current crop conditions persist can be calculated.

The disappointing rain event of the past weekend pushed November 2005 soybean futures above \$7. That contract has had a trading range in excess of \$.30 in the last three trading sessions, as precipitation expectations changed. December 2005 corn futures challenged the recent high of \$2.45, with a trading range near \$.10 since Thursday of last week. It appears that prices will be well supported as long as crop concerns persist. Even if near term weather conditions improve, uncertainty about summer weather patterns and the potential for soybean rust will provide opportunities for volatile prices later in the growing season.

While US weather and crop conditions will provide much of the direction for corn and soybean prices, USDA reports to be released on June 30 will provide some additional fundamental data. The June 1 *Grain Stocks* report will provide an update on the rate of domestic corn consumption and will shed additional light on the question of the size of the 2004 soybean crop. The *Acreage* report will provide closure on the debate about the magnitude of corn and soybean plantings, as well as acreage of other spring planted crops.

The weather market will continue to provide better than expected pricing opportunities for the 2005 corn and soybean crops. Continued price strength, along with a decent carry in the market, may also provide an opportunity to price some of the 2006 corn crop. The December 2006 contract is currently about \$.15 below the contract high of \$2.69. Historically, December futures have a track record of trading to at least the \$2.75 level. The inverse in the soybean market makes 2006 pricing opportunities less attractive for now.

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