



WEEKLY OUTLOOK



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FOCUS IN CORN AND SOYBEAN MARKETS SHIFTS AWAY FROM CROP SIZE

For the past six months, corn and soybean prices have been heavily influenced by the prospective size of the 2005 U.S. harvest. Now that crop size is pretty well known, other factors will have larger influence on prices. These include the rate of consumption of the 2005 crop, prospects for southern hemisphere crops, and expectations about the magnitude of planted acreage in the U.S. in 2006.

Little is known at this time about the pace of domestic corn consumption. Currently, the pace of corn exports trail the rate needed to reach the USDA's projection of total exports for the year. Through November 17, corn exports totaled about 402 million bushels (estimated from weekly inspections report). The total is almost identical to the total of a year ago. However, the USDA projects a 10 percent year-over-year increase in exports. Weekly shipments have averaged about 36.1 million bushels per week. To reach the USDA projection of 2 billion for the year, shipments from now through August 2006 need to average about 39 million bushels per week. Unshipped sales of 305 million bushels as of November 10 were 40 million less than on the same date last year. The pace of U.S. export sales has accelerated in the past two weeks, but the slow start is a source of concern. Over the next several months, the magnitude of competition from Chinese corn may be the determining factor in the size of U.S. exports.

Soybean exports during the first 11 weeks of the 2005-06 marketing year totaled about 257 million bushels, 73 million less than cumulative shipments at this time last year. Shipments are running 22 percent behind the pace of a year ago, while the USDA projects a decline of only 2.5 percent for the year. Unshipped sales as of November 10 were 60 million bushels less than those of a year earlier. While the USDA has already lowered the projection of U.S. marketing year exports by 40 million bushels, the current pace of exports and export sales are not encouraging. Two important keys to the magnitude of this year's export program will be Chinese demand and the size of the South American crop. Lagging sales to China account for much of the slow start to the U.S. export program this year. An additional factor that is growing in importance to world soybean meal demand is the spread of bird flu. A significant decline in poultry numbers would reduce the demand for feed, at

least in the short run. Poultry numbers can recover quickly, however, so the extent of potential demand weakness remains a source of considerably uncertainty.

A slow start to the planting season in South America, due to dryness in some areas; indications that Brazilian soybean acreage will decline; and the early discovery of Asian soybean rust in Brazil provided some support to soybean prices last month. Recent weather has been more favorable, however, and planting progress and early season crop prospects are generally favorable. The USDA currently projects the 2006 South American crop at 3.9 billion bushels, 370 million larger than the 2005 harvest. A crop of that size would contribute to an increase in world soybean inventory and keep prices under considerable pressure. The market will continue to monitor crop progress and crop conditions closely for any indication that yields could be adversely affected.

After the first of the year, the market will also focus more intently on likely changes in U.S. corn and soybean acreage in 2006. The USDA's estimate of winter wheat acreage to be released on January 12 will provide some insight into the likely total corn and soybean acreage in 2006. The mix of corn and soybean acreage will continue to be a subject of much interest. Some analysts have already made forecasts of likely acreage shifts. Forecasts are in a wide range, with some thinking that the sharp increases in costs could result in a 3 to 5 million acre increase in soybean plantings and similar decline in corn acreage. Others believe that acreage shifts will be much more modest as the increase in input costs have moderated and producers remain tied to crop rotations. It may be a little early to make an informed forecast about acreage since the market can still influence planting decisions. In addition, producers will want to monitor weather conditions to assess the potential of Asian soybean rust in 2006.

Over the next several weeks, corn and soybean futures may continue to trade in a fairly narrow range with cash prices benefitting from some continued strengthening of the basis. More significant price variability is possible after the first of the year, with South American crop conditions being of most interest.

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