WEEKLY OUTLOOK

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MID YEAR FOR CORN AND SOYBEANS

March 1 marked the midpoint of the 2005-06 marketing year for corn and soybeans. At this time of year, the market traditionally begins to change focus from the rate of consumption of the old crop to prospects for acreage and production of the new crop. That will likely be true this year as well, particularly since old crop supplies of both crops are large.

While the focus is shifting to new crop production prospects, old crop consumption rates and general demand prospects will still have an influence on price. For corn, consumption and demand prospects are generally very favorable. The level of weekly export sales dropped off during the week ended February 23, but was extremely large during the previous six weeks, averaging 59.4 million bushels per week. Japan has accelerated its rate of purchases, Chinese exports are slowing, and dry weather in Argentina has significantly reduced the size of the crop there. U.S. exports for the current year may exceed the USDA projection of 1.85 billion bushels and the potential exists for a significant increase in exports during the 2006-07 marketing year. The rapid expansion of bird flu raises some concerns about near term world feed demand. However, if bird flu results in a permanent reduction in world poultry production, an increase in red meat production might eventually be required, resulting in increased feed consumption in the long term. Domestic demand prospects also remain strong due to increasing livestock production and expanding ethanol production. These developments should support increased corn consumption well beyond the 2005-06 marketing year.

For soybeans, midyear is characterized by a continued slow pace of U.S. exports and export sales, prospects for a record large South American crop, escalating domestic oil stocks, and concerns about the near term implications of bird flu for soybean meal demand. Through February 23, U.S. exports plus outstanding sales lagged last year's total by 22 percent. For the year, the USDA projects a decline in exports of 17.5 percent. With the growing season coming to an end, most observers believe that the South American crop will be record large, with more uncertainty about the Argentine crop than the Brazilian crop. U.S. soybean oil stocks at the end of the most recent reporting month, January 2006, were estimated at 2.477 billion pounds, nearly 60 percent larger than stocks of a year ago. Stocks were at the highest level since August 2002.

The USDA's March 1 *Grain Stocks* report, to be released on March 31, will provide an opportunity to gauge the rate of corn and soybean consumption during the second quarter of the 2005–06 marketing year. At this juncture, it appears that U.S. corn consumption and demand prospects are stronger than prospects for U.S. soybeans.

For the new crop, the focus will be on the USDA's *Prospective Plantings* report to be released on March 31. Most analysts are on record with expectations of a decline in corn planting intentions and an increase in intentions for soybeans. The debate generally centers around the magnitude of the changes. Acreage of spring planted crops, however, could deviate from intentions due to escalating spring wheat prices; potential for abandoned hard red winter wheat acreage to be replanted to other crops; changes, if any, in price relationships of spring planted crops; and spring weather conditions.

Spring weather conditions will also set the tone for 2006 yield expectations for corn and soybeans. The persistence of moderate to severe drought conditions in parts of Illinois, Iowa, and much of the southern Plains increases concerns about yield potential. As usual, forecasts of summer weather conditions are not consistent at this time.

Through the first half of the 2005-06 marketing year, the weighted U.S. average farm price of corn is estimated at $1.89, very near the midpoint of the USDA's forecast of the average for the year ($1.90). The average overnight spot cash bid of corn in central Illinois has ranged from a low of $1.635 (October 18, 2005) to $2.14 (March 4, 2006). The range of $.505 is at the low end of historical experience. New highs in the spot cash price are certainly possible, particularly if weather concerns persist into the spring.

For soybeans, the weighted U.S. average farm price during the first half of the 2005-06 marketing year is estimated at $5.73, well above the midpoint of the USDA's forecast of the average price for the year ($5.50). The average overnight spot cash price of soybeans in central Illinois has ranged from $5.15 (October 10, 2005) to $6.055 (January 4, 2006). That price was at $5.685 on March 4, 2006. The range of $.905 is very low by historical standards. The range has been less than $1.10 only twice in the last 32 years. A new high in the spot cash price would require some significant concern about the 2006 U.S. crop. On the other hand, a favorable growing season could result in a new low in that cash price.

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