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CROP PRICES REACT TO LATE SEASON WEATHER AND EXPORT ACTIVITY

December 2003 corn futures and November 2003 soybean futures declined sharply from mid-June to mid-July on the basis of good crop ratings and expectations of large crops. December corn futures dropped more than $.35 and established a new contract low just under $2.10. November soybean futures declined about $.70 and traded to the lowest level since March. The price decline in both contracts paused last week, establishing a narrow, sideways trading range for the week.

The halt to the recent price decline was generally related to some rethinking of potential crop size. High temperatures in western growing areas, in particular, raised concerns about corn, sorghum, and soybean crops. In parts of the eastern corn belt, excess precipitation was more of a concern. The 2003 corn and soybean crops are still expected to be large, but speculation of a corn crop over 10.5 billion bushels and a soybean crop near 3 billion bushels has faded. Some forecasters are calling for high temperatures to move into the corn belt during early August. The National Weather Service forecast for the first week of August shows prospects for below normal precipitation in most of the midwest and plains states. The USDA will release the first objective yield and production estimates for corn and soybeans on August 12.

The rapid pace of 2003 crop soybean export sales also contributed to the halt in the price decline. Through July 17, the USDA reported that 171 million bushels of U.S. soybeans had been sold for export during the 2003-04 marketing year. That represents 17.3 percent of the USDA's forecast of next year's exports. About 28 percent of the new crop sales have been to China and nearly 48 percent to unknown destinations, assumed to be China and/or the European Union. The reasons for the large, early purchases by China are not clear, but purchases are likely in reaction to lower prices and uncertainty about GMO policy after September. The market is trying to determine if the large purchases to date are an indication of larger than expected Chinese demand or mostly a change in pattern of purchases.

New crop corn export sales have been fairly routine. Cumulative sales as of July 17 totaled 61 million bushels, or 3.3 percent of the USDA forecast of 2003-04 marketing year exports. Japan accounts for about 60 percent of those purchases.

The pattern of wheat prices has differed from that of corn and soybeans. September futures at Chicago declined about $.40 from early June to early July on the basis of expectations of a large U.S. crop. However, prices moved sharply higher in July, with September futures exceeding the spring high,. The sharp recovery in wheat prices reflected concerns about the U.S. spring wheat crop as high temperatures moved into the upper plains states and in anticipation of a robust export demand for U.S. wheat. Expectations of growing export demand for U.S. wheat stem from expectations of smaller crops in Europe, Russia, and the Ukraine and deteriorating crop conditions in Canada.

Through July 17, the USDA reported U.S. export commitments (shipments plus outstanding sales) at 259 million bushels, 14.5 percent above the commitments of a year ago. That increase is in line with the 13 percent increase in exports for the year projected by the USDA. Through July 17, however, commercial exports are trailing last year's pace by 2 to 6 percent, depending on the source of export estimates.

The USDA will update U.S. and world wheat production estimates on August 12. The estimate for the U.S. spring wheat crop is generally expected to be below the July estimate. However, that decline may be partially offset by another increase in the estimated size of the U.S. winter wheat crop. The Canadian crop estimate will also be watched with interest.

Corn and soybean prices for harvest delivery remain below the loan rate in many areas. Some producers have been inclined to price some of the new crop at prices below the loan rate, anticipating that prices would decline further into harvest. Weather and crop uncertainty suggest that there is significant risk with that strategy.

For wheat, the recent price increase has not resulted in a decline in spreads in the Chicago futures market, but has been accompanied by a weakening basis in some areas. In the west southwest district of Illinois, for example, the spot cash price of wheat increased by $.25 from July 3 to July 25, while September futures at Chicago increased by $.32. On July 25, the bids for January 2004 delivery in west southwest Illinois averaged $.29 over the spot bid, generally exceeding storage costs. The rapid post harvest recovery in wheat prices and the large carry in the market offer an opportunity for some January sales.

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