



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN PRICE PROSPECTS FAR FROM SETTLED**

Corn and soybean futures prices spiked to contract highs in early April, but declined significantly during the past two weeks. Volatile price behavior is likely to continue as market participants react (over react?) to each piece of new information.

For corn demand, the pace of exports and export sales will be the primary information available to the market between now and the release of the June 1 *Grain Stocks* report on June 30. As of April 15, accumulated exports since September 1, 2003 (according to the USDA *Export Sales* report) totaled 1.205 billion bushels, 21 percent larger than shipments during the same period last year. In addition, unshipped sales as of April 15 totaled 380 million bushels, 87 percent larger than outstanding sales of a year earlier. Export commitments (shipments plus sales) were 32 percent larger than commitments of a year ago. For the year, the USDA has projected a 26 percent increase in exports. Shipments for the final 20 weeks of the marketing year will need to average nearly 41 million bushels per week to reach the 2 billion bushel projection. Shipments have averaged only 35 million per week over the past 4 weeks and 38 million bushels per week over the past 8 weeks. New sales need to average only about 22 million bushels per week to reach the 2 billion bushel sales level.

On the supply side of the equation, the market will closely monitor weather, weather forecasts, and the USDA's weekly report of crop progress and crop conditions. In general, the 2004 planting season started early and has progressed rapidly. Forecasts by the National Weather Service for May through July paint a picture of generally favorable prospects for the corn crop. In addition to progress of the crop, the market will continue to speculate about the magnitude of planted acreage. The rapid planting progress has led to speculation that corn acreage will exceed March intentions. Some report expectations that acreage will exceed intentions by 2 to 3 million acres. The only increase in corn acreage from March intentions to the final acreage estimates since 1996 was in 2000. The increase totaled 1.67 million acres and was fully reflected in the USDA's June *Acreage* report. In fact, 2000 was the only year with a significant increase in corn acreage from March intentions since 1988. Small increases occurred in 1992 and 1994. The market may be expecting too large a change in corn acreage in 2004.

For soybean demand, the market will focus primarily on the pace of the domestic crush, the

magnitude of meal and oil imports, and estimates of the size of the South American crop. The needed adjustment in the pace of U.S. soybean exports and export sales has been made. The domestic market will not “run out” of soybeans, but the pace of use does have to slow considerably. Have end users made the necessary adjustments or will higher prices be required to stretch available supplies? Market opinion is divided, but recent price behavior suggests that prospects for reduced consumption, increased imports, and early harvest may be sufficient to meet needs without sharply higher prices. The size of the South American crop is more important for prospective demand for the 2004 U.S. crop. Export sales of the 2004 crop are record large. Two-thirds of those sales are to China and 20 percent are to “unknown” destinations that likely include China.

On the supply side, the market will follow the progress of the 2004 U.S. crop, as well as weather forecasts and weekly reports of crop conditions. There is some expectation that actual plantings will be smaller than March intentions. However, the switch to corn may be small and mostly offset by switching some intended cotton acreage to soybeans. The potential is for a large 2004 U.S. harvest and increased acreage in South America. Trend yields in both the U.S. and South America in the year ahead would result in an abundance of soybeans.

To date, the 2003-04 soybean marketing year has most resembled that of 1976-77 when the small crop of 1976 was recognized late and the rate of consumption did not slow until the middle of the marketing year. July 1977 futures peaked at \$10.64 in late April 1977. July 2004 futures peaked at \$10.64 in early April 2004. The sharp, rapid price decline of the summer of 1977 is not expected to be repeated in 2004, but trend yields would result in lower prices by harvest. Corn prices are expected to remain well supported, even with good yield prospects. The June 30 *Acreage* report will be important.

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