



# WEEKLY OUTLOOK



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## **USDA TO PROVIDE FIRST LOOK AT 2004-05**

In many years, prospects for consumption, year ending stocks and price of old crop corn and soybeans have generally been settled at this point in the marketing year and the market turns to new crop prospects for price direction. This year, however, the market must deal with considerable uncertainty about demand as well as prospects for 2004 crops.

The USDA will release its monthly update of U.S. and world supply and consumption forecasts on May 10. That report will contain the first projections of supply, consumption, stocks, and average price for the 2004-05 marketing year. For the current corn marketing year, the projections are expected to confirm prospects for record use and small year ending stocks. Weekly sales of U.S. corn for export during the current marketing year were generally large for the 7 week period ended April 22. Somewhat surprisingly, however, shipment of U.S. corn were relatively small during the three weeks ended on April 29. The market will be eager to see if the USDA alters the export projection from the current 2 billion bushel forecast.

Domestic use of corn remains well supported by expanding ethanol capacity and may be getting a boost from unexpectedly high hog prices. These higher prices offset much of the impact of higher feed prices, suggesting that hog producers may be slow to shrink the breeding herd. The projected size of the 2004 winter wheat crop and the impact on wheat prices may also have implications for the feed demand for corn during the summer months.

With prospects for small U.S. and world grain inventories at the end of the current marketing year, the market will be very sensitive to 2004 growing season developments. For the 2004-05 U.S. corn marketing year, it is expected that the USDA will project a large crop, but small year-ending stocks. Of major interest will be the projections for Chinese corn production and exports. The 2004-05 marketing year average price projection will likely exceed the projection for the current marketing year. Based on the average price in mid-April, and assuming that the 2003 crop has been marketed in a typical fashion, the average U.S. farm price received during the first 8 months of the 2003-04 marketing year was only \$2.37. With only about a quarter of the crop left to be sold, a continuation of prices at the current level would result in an average for the year near \$2.55.

For the current U.S. soybean marketing year, the USDA may tweak the forecasts of the size of the domestic crush and exports, but the most interest will be in the projection of marketing year average farm price. This projection will give some insight into what price levels the USDA expects to be required to stretch available supplies until harvest. Based on the average price in mid-April, and assuming a typical farm marketing pattern for the 2003 crop, the average price received through the first 8 months of the marketing year was about \$7.38. If price remains near the \$10 level for selling the last 20 percent of the crop, the average price for the year will be near \$7.90.

The size of the 2004 South American soybean crop will have larger implications for the 2004-05 marketing year than for the remainder of the 2003-04 marketing year. With the Brazilian harvest nearing completion, there is still considerable differences of opinion about the size of that crop. Opinions differ about both average yield and the magnitude of harvested acreage. Recent estimates from Brazil differ by more than 100 million bushels.

For the 2004-05 U.S. soybean marketing year, the USDA is expected to forecast a large crop, reflecting an increase in acreage and a trend yield; some increase in year ending stocks; and a lower average farm price than projected for the current year. Projections for the 2004-05 marketing year for the rest of the world will not be made until July. However, a projection of increased soybean area, trend yields, and record production in South American in 2005 would not be surprising.

The rebound in corn and soybean prices last week, following a sharp decline from contract highs, is an indication of how much uncertainty still remains for these crops. Prices are likely to continue to trade in a wide range as the 2004 growing season unfolds. Unless U.S. and world grain and oilseed production is extremely large, price volatility will continue for an extended period.

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