



WEEKLY OUTLOOK



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DECLINING CROP PRICES – TOO MUCH TOO SOON?

Corn, soybean, and wheat prices have declined sharply following early April highs. Much of the decline last week was attributed to “technical factors”, but fundamental factors have changed as well.

July soybean futures peaked at \$10.64 in early April, declined to \$9.21, traded to \$10.36 on May 12, and settled at \$9.324 on May 14. November futures have followed a similar pattern, establishing a high near \$8.00 and settling at \$7.14 on May 14. So what has changed in the soybean market to warrant such a large and rapid price decline? Fundamentally, the pace of U.S. exports and export sales of old crop soybeans have slowed considerably, China has cancelled some imports of South American soybeans, the domestic crush rate is slowing dramatically, the 2004 U.S. planting season has been generally favorable, and the market seems to have a renewed awareness that U.S. imports of soybean products will likely occur this summer. In addition, the USDA’s May forecast of the size of the South American crop was not as small as expected and the first projections for the 2004-05 U.S. marketing year served as a reminder that a favorable growing season would result in a much larger supply of soybeans. Expanded acreage and a return to trend yields in South America in 2005 would also result in a return to abundant world supplies. The current situation of tight U.S. stocks and the need to reduce consumption of U.S. soybeans this summer has not changed. However, evidence that consumption is being reduced, along with the possibility of expanding production, represents a real shift in market fundamentals.

July and December 2004 corn futures peaked just over \$3.40 in early April. Settlement prices were near \$2.92 and at \$2.85, respectively, on May 14. The decline in corn prices occurred without a clear and significant change in market fundamentals, suggesting that the late March, early April price rally was premature. On May 12, the USDA increased the forecast of U.S. exports for the current marketing year, to a total of 2.05 billion bushels. The increase appears warranted based on the large outstanding export sales, but will require very large weekly shipments over the final 15.5 weeks of the marketing year. Based on the estimate of cumulative exports in the USDA’s weekly *Export Sales* report (which tracked Census Bureau estimates very closely through March), weekly shipments from now through August need to average 45 million bushels to reach the projection. Through the first 36.5 weeks of the year, weekly shipments were at that level only three times. The USDA’s initial projections for the 2004-

05 U.S. marketing year were as expected: a record crop, record consumption, a decline in year ending stocks, and a higher average farm price than received this year. The futures market is currently reflecting an average price for the 2004-05 marketing year very near the mid-point of the USDA's projected price range.

July wheat futures at Chicago peaked near \$4.30 in early April and settled at \$3.584 on May 14. The decline came without any significant changes in the fundamental picture, again suggesting that the earlier rally was not fully supported by market fundamentals. The USDA's forecast of the 2004 U.S. winter wheat crop of 1.55 billion bushels was very near the average trade guess. That forecast is 156 million bushels smaller than the 2003 harvest. However, the first world forecasts for 2004-05 indicated prospects for large increases in production in Europe, Russia, Ukraine, and India. A smaller crop is expected in China. A larger world wheat crop during the year ahead would likely result in a sharp decline in U.S. wheat exports. The USDA projects a decline of 195 million bushels, or nearly 17 percent, from shipment of the current marketing year.

For the next several weeks, corn and soybean prices will be influenced by the development of the 2004 U.S. crops. In addition, the rate of domestic consumption of soybeans and import developments for soybean products will also be important. With a favorable growing season and production near the level projected by the USDA, soybean prices will likely decline further. Even new crop prices, which are at a sharp discount to old crop prices have more downside potential. Those prices are still near the upper end of the range of the average farm price forecast by the USDA. Soybean prices could remain very volatile, however, with periods of sharply higher prices.

Corn prices should have less downside potential than soybean prices. Lower prices would likely come if the June 30 *Acreage* report shows that planted area is well above March intentions and growing conditions remain favorable. Wheat prices are more difficult to anticipate due to the influence of world crop conditions. A decline of July futures (Chicago) to the \$3.40 to \$3.50 area cannot be ruled out if world crop conditions remain favorable. Upside may be limited to the \$4.00 area.

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