



WEEKLY OUTLOOK



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CONTINUED VOLATILITY FOR CORN AND SOYBEAN PRICES

Twists and turns in market fundamentals for corn and soybeans continue to unfold. Uncertain prospects for the U.S. crops along with an evolving demand picture promise to keep prices volatile for some time.

The U.S. corn crop is off to a fast start, with planting generally occurring earlier than normal and early growth occurring under very favorable conditions. The market generally believes that planted acreage exceeded March intentions of 79.004 million acres and early talk has been about prospects for a record yield in 2004. A few whispers about prospects for an 11 billion bushel crop have been heard, based on forecasts of a generally favorable summer weather pattern. Now, however, the focus is on the current heavy rainfall patterns in parts of the northern corn belt and implications for crop loss and the need to replant in some areas. Excessive rain may have offset some of the potential benefits of early planting. Where precipitation levels have been more normal, crops remain in very good condition. The USDA will begin its weekly reports of crop conditions this week. Those reports will be followed closely in assessing yield and production prospects.

On the demand side of the corn market, exports are now back on the front page, but are providing mixed signals. The pace of new export sales for delivery during the current crop year remains robust. Unshipped sales as of May 13 totaled 385 million bushels, nearly 70 percent larger than outstanding sales of a year ago. The largest increase in sales is to "unknown" destinations. Those sales total 146 million bushels and the market is eager to see if any of those sales are to China. When added to actual exports, large outstanding sales mean that export commitments account for nearly 84 percent of the projected level of exports for the year. That is about equal to the level of commitments of a year ago.

The concern about corn exports is the recent slow pace of actual shipments. For the six weeks ended May 20, weekly shipments averaged only about 31 million bushels. To reach the USDA projection of 2.05 billion bushels for the year, shipments need to average about 46 million bushels per week for the final 14.5 weeks of the marketing year. Last year, the average for that period was 31 million bushels.

The U.S. soybean crop is also off to a quick start in most, but not all, areas. As of May 16, the USDA reported that 46 percent of the soybean area was yet to be planted. The immediate concern is that planting will now be delayed in areas of heavy rainfall and that some replanting may be required. Delays may alter early expectations for a trend yield in 2004.

For soybean demand, much of the recent focus has been on changing conditions in China. Last fall, China bought U.S. soybeans at an extraordinary pace. It was generally expected that strong demand in China would also result in a rapid pace of imports of South American soybeans. However, soybean meal demand has not been as robust as expected, Chinese crush margins have dropped sharply, and China has refused some shipments of Brazilian soybeans. At the same time, China has purchased relatively large quantities of U.S. soybeans for delivery in the 2004-05 marketing year. As of May 13, those sales totaled 74 million bushels. An additional 31 million bushels had been sold to "unknown" destinations, perhaps China. Eight-five percent of all current export sales for 2004-05 are to China or "unknown" destinations.

The immediate market reaction to excessive rainfall in some growing areas will likely be modest. In general, potential for large crops in 2004 is still in place. Hot, dry conditions in July and August are much more detrimental to production prospect than are wet conditions in May. Additionally, corn prices may be more responsive to early weather and crop conditions than soybean prices. It is still relatively early in the soybean growing season and there is time to recover from planting delays or replanting. In addition, an apparent softening of Chinese soybean demand and the likely increase in South American soybean area may moderate early concerns about the U.S. crop. For corn, however, significant flooding may have more production implications as the benefits of early planting are reduced in some areas. In addition, the demand picture for corn remains generally strong.

Both corn and soybean prices are expected to remain volatile and perhaps in a wide trading range during the remainder of the growing season. Such volatility will provide additional opportunities for pricing a portion of the 2004 crop.

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