



WEEKLY OUTLOOK



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FOCUS ON CROP PROGRESS AND USDA REPORTS

Corn and soybean prices will continue to react to weather and crop conditions. In addition, two USDA reports to be released at the end of the month could have some influence on price.

The market will closely monitor the USDA's weekly reports of crop progress and crop conditions to assess yield potential of the 2004 corn and soybean crops. For corn, progress is well ahead of normal in many areas with tasseling well under way for the early planted crops. Some concern about yield potential stems from areas of excessive precipitation and a period of below normal temperatures. In addition, of course, the most critical part of the growing season is now unfolding. For soybeans, the most uncertainty about yield potential currently stems from the impact of too much precipitation in some areas.

For both corn and soybeans, the market will have significant interest in the USDA's June 30 *Acreage* report. In March the USDA reported producer intentions to plant 79.004 million acres of corn and 75.411 million acres of soybeans. There has been a general expectation that corn area exceeded March intentions and that soybean acreage fell short of intentions. It is argued that early planting and a spike in corn prices above \$3.00 drove the shift towards more corn. One prominent private firm has reportedly estimated that corn acreage exceeds March intentions by 2 million acres and soybean plantings are one million acres below March intentions. Such large shifts, particularly in corn acreage, have been rare.

In addition to uncertainty about planted acreage, the market will debate the magnitude of acreage lost to flooding and ponding. Until the August *Crop Production* report, the USDA will rely on producer reports of acreage to be harvested. Flooded areas will reduce harvested acreage, while ponded areas could influence either yield or harvested acreage estimates, or a combination of the two.

The USDA will also release the June *Grain Stocks* report on June 30. This report will contain an estimate of stocks of corn and soybeans as of June 1. Estimates for both

corn and soybeans will be important due to the relative tightness of stocks. However, there is particular interest in the estimate of soybean stocks for at least two reasons. First is the extreme tightness of stocks and indications that the pace of the domestic crush has not yet slowed enough to stretch old crop supplies until harvest. Second, the March 1 estimate of soybean stocks was larger than expected, implying an unusually low level of "residual" use of soybeans during the first half of the 2003-04 marketing year. That surprise raised questions about the actual size of the 2003 crop. In addition, the Census Bureau estimates of soybean exports in March and April were well above the USDA estimates, adding more uncertainty about the actual rate of consumption. The June 1 stocks estimate will give a clearer picture of the rate of use and provide additional evidence about the actual size of the 2003 crop. More importantly, the estimate will reveal the extent of the needed reduction in domestic processing use of soybeans for the rest of the summer.

Perceptions that current conditions point to a large 2004 U.S. corn crop, along with the recent slow down in the pace of export shipments, have resulted in a significant decline in December 2004 futures prices. That contract traded to the \$3.40 level in early April, about \$1.00 above the low in December 2003, but traded to \$2.76 on June 21. For the next few weeks, the crop condition reports should continue to reflect a high percentage of the crop in the good or excellent categories. It also appears that much of the crop will reach the pollination stage under generally favorable conditions. Such a scenario leaves only the June 30 *Acreage* report as a possible source of a near term recovery in prices. A failure of that report to show the expected increase in acreage would be a reminder of the on-going tightness in U.S. and world grain inventories and provide the basis for reversing the current trend of lower prices.

November 2004 soybean futures peaked near \$8.00 in late March and again in early April, about \$2.60 above the lows in September 2003, but traded near \$6.50 last week. With so much of the growing season remaining, uncertainty about crop size will continue to provide some opportunity for price recovery. Targets for that recovery, however, are generally well below the levels of early May.

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