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CORN AND SOYBEAN PRICES LOW ENOUGH?

The corn and soybean markets have rapidly incorporated expectations for large U.S. crops this year. As concluded last week, the markets appear to be expecting the USDA=s August 12 production forecasts to be near 10.8 billion bushels for corn and in excess of 3 billion bushels for soybeans. Forecasts from the private sector are in that range for corn, but a bit lower for soybeans.

Last week, December 2004 corn futures managed to trade $.12 above the contract low of $2.25, suggesting that the potentially large crop has been fully reflected in the sharp price decline over the past several weeks. There are also some late season crop concerns that could prevent yields in some areas from reaching the lofty levels expected even a week ago. It is not unusual for corn prices to reach a low just before or during the harvest period in years with large crops. Prices appear to be following that pattern this year, with basis behavior likely to determine the timing of the seasonal low in cash prices.

Once the market is satisfied that it has accurately reflected crop size, focus will quickly turn to the pace of consumption. Domestic use of corn is expected to continue to increase, driven primarily by increased production of ethanol. Feed and residual use of corn should be supported by profitability in the livestock sector and expansion in broiler production. Current conditions suggest that total domestic consumption of corn could increase by more than 125 million bushes during the 2004-05 marketing year.

There is also optimism about prospects for U.S. corn exports during the year ahead, even though exports this summer have been disappointing. Relatively low corn prices and reduced competition from Chinese corn exports could fuel an increase of 150 million bushels in U.S. corn exports for the year. Early season export sales are not a good predictor of exports for the year, but recent price declines have apparently triggered some large sales of corn for delivery during the 2004-05 marketing year. As of July 29, the USDA reported that 130 million bushels of corn had been sold for export during the upcoming marketing year. New crop sales a year ago totaled 103 million bushels. The year-over-year increase is to unknown destinations.

It now appears that even with a very large crop this year, U.S. inventories of corn will not increase to a burdensome level. With a sound demand base, production will need to be large again in 2005, and beyond. This scenario suggests that corn prices could recover significantly during the 2004-05 marketing year, particularly during the next production cycle beginning in the spring of 2005. This would be consistent with historical patterns in years with large crops. In central Illinois, for example, harvest lows in the cash price have often been followed by a spring/summer high. That seasonal increase has not been less than $.45 and typically exceeds $.60.

The situation for soybeans is a bit more complicated than for corn. While the market has clearly factored in a large crop, prospects for use during the 2004-05 marketing year are clouded. Domestic use of soybean meal and oil should rebound from this year's decline due to more abundant supplies, lower prices, and livestock profitability. Exports of soybeans and soybean products will be strongly influenced by the size of the soybean crops in South America in 2005 and by the purchasing decisions of China. As of July 29, the USDA reported U.S. soybean export sales for the 2004-05 marketing year at 153 million bushels, compared to new sales of 218 million bushels at the same time last year. China has purchased 76 million bushels for delivery next year, but has not made any new purchases since January.

The South American soybean planting season is approaching, with expectations of expanding area in Brazil. A return to more normal yields in 2005 would result in a very large crop and provide additional competition for U.S. soybean and soybean product exports.

Soybean prices have often demonstrated the same price pattern as corn in large crop years, with harvest time lows and spring/summer highs. The recovery in central Illinois cash prices under that scenario has not been less than $.60 and typically exceeds $1.00. The question is whether prices will actually establish a marketing year low in the fall of the year. There is some chance that prices will find additional pressure later in the year if a large South American crop actually materializes.

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