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## CORN AND SOYBEAN PRICES REMAIN UNDER PRESSURE

Corn futures moved to new contract lows and soybean futures remained under pressure following the release of USDA reports on September 10. Those reports pointed to prospects for abundant world supplies for both commodities, although considerable uncertainty remains, particularly for soybeans.

The 2004 U.S. corn crop is now forecast at 10.96 billion bushels, 38 million larger than the August forecast and 847 million bushels larger than the record crop of 2003. The forecast reflects a national average yield of 149.4 bushels per acres, 0.5 bushel above the August forecast and 7.2 bushels above the record yield of 2003. As expected, the yield forecasts were smaller in September than in August for the northern tier of states where the crop is late and conditions have deteriorated. Yield forecasts were higher for Nebraska, lowa, Illinois, Indiana, and Ohio.

The USDA continues to forecast consumption of U.S. corn during the 2004-05 marketing year at a record 10.72 billion bushels. Exports are expected to show a year-over-year increase of 215 million bushels and corn used for ethanol production is projected to increase by 170 million bushels. Use at the projected level would result in year ending stocks of 1.2 billion bushels. The USDA projects the marketing year average farm price in a range of \$2.00 to \$2.40. The projected level of year ending stocks relative to total use points to an average price of \$2.25, based on historical relationships.

The 2004 U.S. soybean crop is now forecast at 2.836 billion bushels, 41 million smaller than the August forecast, 418 million bushels larger than the 2003 crop, and 55 million smaller than the record crop of 2001. It appears, however, that the 2003 crop was larger than the current estimate of 2.418 billion bushels. That estimate could be revised in the USDA's September *Grain Stocks* report to be released on September 30. The U.S. average soybean yield is forecast at 38.5 bushels per acre, 0.6 bushels below the August forecast, 5.1 bushels above the 2003 average, and 2.9 bushels below the 1994 record yield. September yield forecasts were below the August forecasts in Iowa, Michigan, Minnesota, Nebraska, North Dakota, and Wisconsin. The yield forecast was larger in 13 of the 29 states for which forecasts were made. Forecasts, however, were unchanged in Illinois, Indiana, and Ohio.

The smaller September soybean production forecast was accompanied with a 40 million bushel

reduction in the forecast of consumption of U.S. soybeans during the current marketing year. Stocks at the end of the 2004-05 marketing year are projected at 190 million bushels, the same as projected last month. The USDA forecasts the marketing year average farm price in a range of \$5.35 to \$6.25. The projected level of year ending stocks relative to total use points to an average price of \$5.45, based on recent historical relationships between stocks and average price.

Exports of U.S. soybeans during the 2004-05 marketing year are projected at one billion bushels. That projection is 115 million bushels above exports for the year just ended, but is 30 million below last month's projection and 64 million bushels below the record shipments during the 2001-02 marketing year. The lower projection reflects continued expectations for a large increase in South American soybean production in 2005 and a slight reduction in the projections of Chinese consumption and imports. China is expected to import 827 million bushels of soybeans from all sources in 2004-05. That is 206 million more than imported last year and about equal to the record imports of two years ago, but 18 million below last month's forecast.

The 2005 South American soybean crop is forecast at 4.15 billion bushels, nearly 22 percent larger than the 2004 crop and 20 percent larger than the record crop of 2003. The soybean area is expected to increase by 7.3 percent (10.3 percent in Brazil) and yields are projected at a more normal level than experienced in 2004. If that large crop materializes, there will be substantial competition for U.S. soybeans and a build-up in world stocks of soybeans by the end of the marketing year.

It appears that cash corn prices will make a seasonal low during harvest and will likely be below the CCC loan rate for a period in many areas. If consumption unfolds as expected, prices should increase modestly after harvest. The need for another large U.S. crop in 2005 could generate additional price strength in the spring of 2005 as the market tries to encourage more acres of corn and worries about the weather. There is considerably more uncertainty about soybean prices due to the uncertainty about Chinese demand and South American production. If South America avoids significant problems, soybean prices could continue to move lower in the winter and early spring of 2005. A repeat of last year's problems, however, would push prices higher. Ownership of soybeans beyond harvest appears more risky than ownership of corn, suggesting that options might be considered as a way to manage risk on a portion of the crop.

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