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CORN AND SOYBEAN CROPS ARE HUGE

The USDA's October forecast of the 2004 U.S. corn and soybean crops exceeded most expectations. It now appears that prices of both commodities could remain below the CCC loan rate for an extended period.

At 11.613 billion bushels, the U.S. corn crop forecast is 652 million larger than the September forecast and 1.5 billion larger than the record crop of 2003. The forecast of corn acreage harvested for grain, at 73.311 million, is 66,000 below the previous forecast. The U.S. average yield is forecast at 158.4 bushels, 9 bushels above the September forecast and 16.2 bushels above last year's record yield. The average yield forecast declined from September to October for only one of the 33 states for which USDA makes forecasts (Oklahoma). Large increases were registered for many states, with both Illinois and Iowa yield forecasts at 180 bushels.

The large corn crop is expected to result in a record level of domestic feed and residual use of corn. The USDA forecasts use in that category at 6.05 billion bushels, 200 million above the September forecast, 269 million above last year's use, and 186 million above the record use of 2001-02. Domestic food and industrial use of corn is forecast at 2.77 billion bushels, the same as forecast last month and 195 million more than use of last year. Finally, exports during the current marketing year are forecast at 2.075 million bushels, 175 million more than shipped last year, but 25 million below the September forecast.

Year ending stocks of corn are projected at 1.691 billion bushels, 733 million larger than stocks at the beginning of the year (September 1). That projection reflects the largest year ending inventory since 2000-01. The USDA projects the marketing year average price in a range of $1.75 to $2.15. Based on the relationship between year ending stocks and average farm price over the past six years, the USDA's year ending stocks forecast suggests a marketing year average price of $2.00. At the close of trade on October 11, the futures market reflected a marketing year average price of $2.00, assuming a three year average basis and five year average monthly marketing percentages. It appears, however, that prices may have to be lower than implied by year ending stocks in order to encourage livestock producers to use nearly 5 percent more corn this year than was used last year. December 2004 futures will trade to new contract lows and may test the 1999 and 2000 lows near $1.85.

At 3.107 billion bushels, the 2004 U.S. soybean crop forecast is 271 million larger than the September forecast, 653 million larger than the 2003 crop, and 216 million larger than the record crop of 2001. The forecast of harvested acreage, at 73.99 million, is 335,000 larger than the previous forecast and 1.015 million above the previous record of 2001. The U.S. average yield is now forecast at 42 bushels per acre, 3.5 bushels above the September forecast, 8.1 bushels above the 2003 average, and 0.6 bushels above the previous record established in 1994. Again, only Oklahoma has a lower forecast yield than reported in September.

The USDA expects the larger crop (and lower prices) to result in more consumption of U.S. soybeans than forecast last month. Use for all purposes is projected at 2.82 billion bushels, 62 million above the September forecast and 295 million above last year's use, but 113 million below the record consumption of 2001-02. U.S. soybean exports are forecast at 1.025 billion bushels, 25 million above last month's projection. The increase reflects the 55 million bushel reduction in the forecast of the 2005 Brazilian crop.

Year ending stocks of U.S. soybeans are projected at 405 million bushels, 215 million above last month's projection and the largest since 1986-87. The USDA projects the marketing year average price in a range of $4.70 to $5.50. At the close of trade on October 11, the futures market reflected a marketing year average price of $5.30, assuming a three year average basis and five year average monthly marketing percentages. Based on the relationship between year ending stocks and the average farm price over the past six years, the USDA's ending stocks forecast of 14.4 percent of use suggests a much lower average price. An average more in line with that of 1999-2000 through 2001-20002 seems more likely. That three year average was $4.52. That average seems too low in relation to the current market, but suggests that there is considerable downside price potential unless the South American crop runs into trouble.

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