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CORN AND SOYBEAN DEMAND PROSPECTS

The corn and soybean markets have had a week to absorb the surprisingly large USDA production forecasts. Attention will gradually shift to the rate of consumption of these large crops.

Prices have not come under as much pressure as anticipated when the production forecasts were released on October 12. December corn futures traded to a new contract low, but quickly rebounded and by the close on October 15 were higher than the day before the report was released. The average central Illinois overnight cash bid traded to a low of $1.735 on October 4 and again on the day of the report, but was $.04 higher on October 15. The lowest cash price to date is well above the lows seen in the low price years of 1997-98 through 2000-01. Lows in those years ranged from $1.45 to $1.665.

November soybean futures traded to a low of $5.06 on October 12, but that is well above the contract low of $4.83 established in early 2002. That contract settled at $5.14 on October 15. The average central Illinois overnight cash bid reached a low of $4.80 on October 12, but was at $4.865 on October 15. Again that low is well above the lows reached from 1998-99 through 2001-02. Those lows ranged from $3.875 to $4.295.

Given the size of the USDA production forecasts and the size of the projected year end inventories, corn and soybean prices have held up rather well. One reason may be that the market anticipates stronger demand than in previous years. That demand strength could be in the form of larger consumption at the projected price levels or a willingness of end users to pay higher prices for consumption at the projected levels. For corn, the USDA has projected increased consumption in all three categories of use: feed, industrial, and export. Few would question the potential for a significant increase in the amount of corn used for ethanol production. Livestock numbers and prices will provide some hint of the potential for feed use, but the first indication of the rate of use in that category will come with the USDA's December *Grain Stocks* report to be released in early January. For the most part, the market will focus on the rate of corn exports and export sales. Relative to the pace of a year ago, the pace of export inspections and new sales have started slowly. Inspections during the first 6 weeks of the marketing year were about 8 percent smaller than during the same period last year. Cumulative shipments reported in the weekly *Export Sales* report, however, have exceeded the inspection figures. Unshipped sales as of October 7 were 14 percent smaller than on the same date a year ago. New sales should be large over the next few weeks in response to the low prices now being experienced. Shipments will need to average about 41 million bushels per week through August 2005 for exports to reach the USDA projection of 2.075 billion for the year.

The USDA also projects an increase in domestic and export use of soybeans during the 2004-05 marketing year following the supply induced decline in 2003-04. There is general consensus that domestic use of meal and oil will recover to a trend level during the year. The focus will be on soybean and soybean product exports. Like corn, soybean shipments and sales started a little slower than the torrid pace of a year ago, but inspections were large for the week ended October 14 Cumulative shipments during the first 6 weeks of the marketing year were 15 million bushels (18 percent) larger than during the same period last year. Unshipped sales as of October 7 were 60 million bushels (16 percent) less than sales on the same date last year. The good news is that shipments and sales to China are larger than those of a year ago. The USDA has projected a 10 percent increase in soybean consumption in China this year and a 33 percent (205 million bushel) increase in imports from all sources. The European Union and Mexico are buying U.S. soybeans at a slower pace than that of last year.

In addition to monitoring the pace of U.S. soybean exports and export sales, the market's expectation of U.S. exports will be influenced by the potential size and progress of the South American crop, particularly the Brazilian crop. The USDA projects a 7.2 percent increase in soybean area in Brazil, but that is less than the 9.6 percent increase projected in September. Still, that increase in conjunction with normal yields would result in a 22.6 percent increase in Brazilian production in 2005. A more modest 11.4 percent increase is projected for Argentina. South American crops at the projected level would provide increased competition for U.S. soybeans and would lead to a significant increase in stocks in South America.

At current price levels, the soybean market does not appear to be fully reflecting South American production at the level forecast by the USDA. Reports of increased costs and more limited production financing in Brazil suggests that soybean area may be a bit less than forecast. With soybean rust having been a problem in Brazil the past two years, yield uncertainty may persist well into the growing season this year. The fate of that crop will determine if harvest price lows will hold or if new lows will be established later in the year. There appears to be more price uncertainty for soybeans than for corn.

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