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CORN AND SOYBEAN CROP FORECASTS INCREASED AGAIN

The USDA's November forecasts of the size of the 2004 U.S. corn and soybean crops are larger than the October forecasts. The larger crops are expected to lead to even larger increases in year ending stocks.

The U.S. corn crop is now forecast at 11.741 billion bushels, 128 million bushels larger than the October forecast. The U.S. average yield is forecast at 160.7 bushels per acre, 1.8 bushels above the October forecast. Yield forecasts were unchanged to higher for all the northern states were harvest is later than normal. On the consumption side, the USDA increased the forecast of domestic feed and residual use of corn by 25 million bushels and reduced the forecast of exports by an equal amount. Year ending stocks of corn are projected 1.819 billion bushels, the largest in four years.

The projection of feed and residual use of corn, at 6.075 billion bushels, is 5 percent larger than use during the 2003-04 marketing year. The first look at the rate of use in that category will come with the December 1 *Grain Stocks* report to be released on January 12. The reduction in the projection of U.S. corn exports reflects the relatively slow start to this year's export program. The projected size of this year's Chinese corn crop was increased by about 155 million bushels, but the USDA did not increase the projection of Chinese exports. Those exports are expected to total about 155 million bushels, down nearly 50 percent from exports of a year ago.

The U.S. soybean crop is now forecast at 3.15 billion bushels, 43 million bushels larger than the October forecast. The U.S. average yield is forecast at 42.6 bushels per acre, 0.6 bushels above the October forecast. The yield forecasts were unchanged to higher for all major soybean producing states except Minnesota and North Dakota, where the projection dropped by two bushels per acre. On the consumption side, the USDA lowered the projection of 2004-05 marketing year exports by 15 million bushels. Year ending stocks are projected at 460 million bushels, the largest in 18 years.

The USDA now projects the 2004-05 marketing year average price of corn in a range of $1.70 to $2.10 per bushel. The midpoint of that range ($1.90) is consistent with the average price during the large crop years of 1998-99 through 2001–02. The average for those four years was $1.90, in a range of $1.85 to $1.97. The relationship between year ending stocks and the marketing year average price over the past six years points to an average price this year of $1.99, based on USDA's forecast of use and ending stocks. The current market is consistent with this forecast. Based on average prices received by producers in September and October and closing futures prices on November 12, the market current reflects a marketing year average price of $2.00 per bushel. The futures market reflects monthly average prices (based on a three year average basis) ranging from $1.84 this month to $2.18 in August 2005. All in all, there is a lot of consistency among the forecasts of the season's average price for corn.

No such consistency exists for soybeans. The USDA forecasts the 2004-05 marketing year average price in a range of $4.55 to $5.35. The midpoint of that range ($4.90) is well above the average price during the large crop years of 1998-99 through 2001-02. The average for those four years was $4.62, in a range of $4.38 to $4.93. Year ending stocks as a percentage of use during those four years ranged from 7.1 to 13.4 percent, compared to the 16.4 percent projected for this year. The relationship between year ending stocks and the marketing year average price of soybeans over the past six years points to an average price this year in the low $4.00 range. The average price will not be that low because nearly one-third of the crop has already been priced at an average of $5.25. Based on that average and the closing futures prices on November 12, the current market reflects a marketing year average price of $5.15 per bushel.

So why the big difference between the current market price of soybeans and the much lower calculated "value" of soybeans based on the forecast of large surpluses? The answer is soybean oil. The average price of soybean meal during the 1998-99 through 2001-02 marketing years was $163 per ton. The current price (Central Illinois, 48 percent) is $150 per ton and the USDA projects the marketing year average in a range of $145 to $175 per ton. In contrast, the average price of soybean oil in those four years of large crops was $.165 per pound, the current price is about $0.23, and the USDA projects the marketing year average price in a range of $.215 to $.245 per pound. The relatively high price of soybean oil does not reflect a short supply situation. World oilseed production is expected to be 15 percent larger than last year's output. Soybean oil prices, then, reflect prospects for very strong demand for vegetable oils and only a modest increase in world stocks of oil. However, world stocks of oilseeds are expected to increase sharply, implying an abundance of oil. The rate of consumption of U.S. soybean oil will determine if soybean prices can maintain the recent strength.

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