



WEEKLY OUTLOOK



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UPCOMING USDA CROP REPORTS

The corn and soybean markets have been heavily influenced by Brazilian crop prospects and speculative trading activity. The USDA reports to be released on March 31 will bring the U.S. situation back into focus.

Two important reports will be released on March 31--*Grain Stocks* and *Prospective Plantings*. The *Grain Stocks* report will reflect the estimate of U.S. inventories as of March 1, 2005. In the case of corn, this report will provide an opportunity to assess the rate of domestic use during the second quarter of the 2004-05 marketing year, December 2004 through February 2005. In particular, the report will shed light on the rate of use in the feed and residual category. For the marketing year, the USDA projects feed and residual use at a record 6.075 billion bushels, 4.8 percent more than used last year. Use during the first quarter of the year, based on the estimate of December 1, 2004 stocks, was calculated at 2.182 billion bushels, only 0.7 percent more than used in the first quarter of the 2003 marketing year. First quarter use, however, does not always provide an accurate forecast of use for the year. First quarter use as a percentage of the total use for the year has varied by about 3 percentage points over the past 5 years. That is a small range by historic standards, but means that projections of use for the year based on first quarter use could have been off by 150 to 170 million bushels.

The feed and residual use of corn during the first half of the year has been a little better predictor of total use. Use during the first half of the year as a percentage of the use during the entire year has varied by about 2 percentage points over the past 5 years, but only 0.9 percentage point over the past 4 years. A March 1, 2005 corn stocks estimate in excess of 6.7 billion bushels would be strong evidence that projected feed and residual use for the year is too high.

For soybeans, the March 1 stocks estimate will be most useful in providing a check on the accuracy of the 2004 crop estimate. Domestic crush and export use is pretty well known based on USDA and Census reports. Residual use can vary significantly by quarter, but is generally consistent for the first half of the year. Based on estimates of crush and exports during the first half of the year, March 1 soybean stocks should be near 1.4 billion bushels. A smaller figure would imply that the 2004 crop was over estimated and vice versa.

In general, the market probably has more interest in the *Prospective Plantings* report than in the *Grain Stocks* report. Planted acreage of corn has varied considerably since acreage reduction programs were eliminated in 1996. Acreage was at only 75.7 million in 2001, but was at a 19 year high of 80.9 million in 2004. Soybean acreage jumped sharply in 1997, (to 70 million acres), peaked in 2001, declined slightly through 2003, but was a record 75.2 million in 2004. Wheat acreage increased in 1996 (to 75 million acres) declined to a 30 year low of 59.4 million in 2001, increased to 62.1 million in 2003, and declined to 59.7 million last year. The recent high in cotton acreage was nearly 15.8 million in 2001. Acreage has been between 13.5 and 14 million over the past three years.

For 2005, it is expected that producers will reveal inventories to plant more acres to corn and cotton and fewer acres to soybeans and wheat than in 2004. Winter wheat seedings have already been estimated to be 1.8 million acres less than in 2004. There is some difference of opinion about the magnitude of the changes, however, due to escalating input costs, uncertainty about soybean rust, and fluctuating crop prices. Final acreage may also differ from intentions depending on planting season weather and any further changes in crop prices.

If acreage changes are within expectations of 2 to 3 percent for corn and soybeans, the March 31 report should have little immediate impact on prices. A 2 percent increase in corn acreage and a 3 percent decline in soybean acreage combined with trend yields (about 145 bushels and 40 bushels, respectively) would provide adequate supplies for the 2005-06 marketing year. Without surprises on March 31, the next move in corn and soybean prices will likely be associated with expectations about average yields in 2005. Those expectations will begin to be formed by planting season weather and will be molded by weather and crop developments as the growing season progresses. Periods of concern will provide pricing opportunities.

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