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WEEKLY OUTLOOK

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PROJECTIONS FOR 2005-06 MARKETING YEAR TO BE RELEASED NEXT WEEK

The USDA's World Agricultural Outlook Board will release its monthly report of world and U.S. supply and demand conditions on May 12. For U.S. crops, the report will also contain the first projections for the 2005-06 marketing year.

For the 2004-05 marketing year, only small changes are expected in the projections of use and year ending stocks of U.S. corn and soybeans, following more significant changes last month. In the case of soybeans, the large domestic crush during March and the current strong pace of exports may result in slight upward revisions in projections of consumption. With only about 18 weeks left in the marketing year, weekly U.S. export shipments need to average about 6 million bushels per week to reach the current USDA projection of 1.08 billion for the year. (This calculation is based on exports to date as reported by the Census Bureau through February and by the USDA through April 28). Weekly shipments averaged 15.4 million bushels in May, but will decline as importers turn to South American soybeans. The issue of the size of the 2004 U.S. crop raised by the USDA's March *Grain Stocks* report will not likely be addressed until the release of the June 1 or September 1 *Grain Stocks* reports.

The projected size of the current South American crop will also be of interest. Last month, the USDA lowered the expected size of the Brazilian crop by about 8.5 percent and the forecast could be lowered slightly in the May report. The forecast of the Argentine crop is expected to be unchanged to slightly higher.

In the case of corn, potential changes in the projections of consumption during the current marketing year are not likely to alter the bottom line of large year ending stocks. Weekly corn exports need to average about 33.5 million bushels per week form May through August 2005 for the marketing year total to reach the current USDA projection of 1.8 billion bushels. That compares to the average rate to date (adjusted by Census Bureau estimates) of nearly 35 million bushels. Even if exports are slightly larger than the current projection, year ending stocks will be abundant.

For the 2005-06 marketing year, projected crop size in next week's report will be based on planting intentions as reported in the USDA's *Prospective Plantings* report and an adjusted trend yield. Adjustments to trend yields will be based on analysts perceptions of current planting and crop conditions. An average yield of 145 bushels per acre for corn would result in a 2005 crop projection near 10.75 billion bushels. A crop of that size would require use of U.S. corn next year to increase by about 200 million bushels (about 2 percent) above the projection for the current marketing year in order to reduce stocks by the end of the 2005-06 marketing year. An increase in projected use is likely and the first forecasts for the 2005-06 marketing year are expected to show a modest reduction in year ending stocks.

An average yield of 40 bushels per acre for soybeans would result in a 2005 crop projection of about 2.9 billion bushels. That is just about equal to the projected level of use during the current marketing year. As with corn, then, the first projections fo the 2005-06 marketing year for soybeans are likely to show a modest reduction in year ending stocks.

The May projections for the 2005-06 marketing year will be the starting point from which the market will judge further developments during the growing season. Weekly reports of planting progress and crop conditions, as well as weather and weather forecasts will shape the judgement about potential crop size and will influence the direction of price. The incidence of soybean rust and other crop diseases and pests also hold the potential for significant price impact.

For now, the corn market is fairly confident of a large crop in 2005, with December 2005 futures establishing a new contract low on May 2nd . Harvest delivery cash bids are hovering near the loan rate in many areas. New crop pricing opportunities will be limited until prices move well above the loan rate, likely requiring a crop concern at some point in the growing season.

On the other hand, November 2005 soybean futures are closer to the upper end of the trading range that spans from $5.20 to $6.505. Cash bids for harvest deliver are well above the loan rate, forcing a decision about how much of the new crop to sell. The more attractive soybean prices relative to corn prices is driven in part by the greater uncertainty surrounding the soybean market – South American crop size, Chinese demand, and U.S. production potential. Soybean prices also appear to be more influenced by speculative trading that are corn prices. While soybean prices may continue to be volatile and eventually provide higher price opportunities for selling the 2005 crop, some consideration should be given to protecting the downside risk.

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