WEEKLY OUTLOOK

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THE WEATHER MARKET BEGINS

For the next four months, prospects for the U.S. corn and soybean crops will be the dominant fundamental factor influencing prices. At the same time, the rate of consumption of the 2004 crops and speculative activity driven by developments in other markets, particularly the energy markets, will also have some influence on price patterns.

For corn, the 2005 planting season started early and planting progress has been very rapid, similar to the pattern of a year ago. However, freezing temperatures and problems with plant emergence in some areas will apparently require some replanting. Some of the benefits of early planting may have been lost by slow emergence, slow early growth, and replanting. However, the 2005 planting season will be generally very timely. Prospects for at least a trend yield are likely still in place.

For the most part, history suggests that corn yields are influenced significantly more by growing season weather than by planting season weather. Both early and late planted crops have resulted in average yields above and below trend value. Since 1996, the national average yield has been very near trend value every year except for the shortfall in 2002 and the record yield of 2004. This pattern is very rare. In the 20 years prior to 1996, national average yield were extremely variable relative to the trend value.

There will continue to be some uncertainty about the magnitude of planted acreage until the USDA releases its *Acreage* report on June 30. Last year, U.S. corn acreage exceeded the report of March intentions by 1.9 million acres, or about 2.5 percent. Opinion about actual acreage this year is divided. Early planting suggests some producers may have planted more acreage than initially intended, although the high costs of fertilizer and the favorable price of soybeans relative to corn suggests that there may be some reluctance to increase corn acreage at the expense of soybeans.

March planting intentions and an average yield of 145 bushels would produce a 2005 U.S. corn crop of 10.75 billion bushels and allow a reduction in stocks by the end of the 2005-06 marketing year. However, the crop would have to be about a billion bushels smaller to generate a tight supply situation.

For soybeans, it appears that the 2005 crop will be planted in a very timely fashion. However, yield and production uncertainty will persist into September because of the importance of late July and August weather conditions. In addition, the presence of Asian soybean rust and the potential for other diseases and pests to adversely effect yields will keep yield prospects unsettled. As a starting point, March planting intentions and an average yield of 40 bushels per acre would produce a corp near 2.9 billion bushels, keeping supplies large for another year. Production would have to be nearly 150 million bushels smaller to create a tight supply situation during the 2005-06 marketing year.

Speculative trading may continue to have a larger impact in the soybean market than in the corn market. For several months, soybean prices have exceeded the levels that would be forecast based on historical prices in years with similar levels of excess supply. The interest in soybean futures by fund managers tends to be explained by higher prices in other commodity markets, particularly energy markets, and more concern about inflationary pressures. Similarities to market conditions in the early 1970s have been noted. However, fundamentals of the soybean market are very different than in the early 1970s. In addition, soybean production is renewable every year so that prices have to respect the fundamental supply and demand conditions as they unfold.

Prospects for volatile corn and soybean prices over the next several months are reenforced by historical price patterns. To date, for example, December 2005 corn futures have had a trading range of $.66. The trading range for the December contract has been less than $.70 in only 6 of the past 32 years (19 percent of the years). November 2005 soybean futures have had a trading range of $1.305. Over the past 32 years, the trading range for the November contract has been smaller only 3 times, (9 percent of the years).

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