



WEEKLY OUTLOOK



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WHAT ARE CORN AND SOYBEANS WORTH?

On May 12, the USDA released the first projections of supply, consumption, stocks, and average price for the 2005-06 corn and soybean marketing years. These projections provide a starting point for evaluating supply and demand developments as they unfold over the next year.

The first projections for the 2005-06 U.S. corn marketing year were a bit negative for price prospects. Using the March corn planting intentions and an average yield about 2 percent above trend value, the 2005 crop is projected at 10.985 billion bushels. That projection is 822 million smaller than the 2004 crop, but 425 million larger than the expected level of consumption during the current marketing year. For the year ahead, the USDA projects a very modest 110 million bushel increase in consumption of U.S. corn. Feed and residual use is expected to decline by 150 million bushels due to increased use of nongrain feed ingredients and to a decline in "residual" use from the high level of the current year. Use of corn for ethanol production is expected to grow at a much slower rate next year (7 percent) than during the current year (20 percent), so that the use of corn for all food, seed, and industrial purposes is expected to grow by 110 million bushels, or 4 percent.

U.S. corn exports during the year ahead are expected to increase by 150 million bushels over the disappointing shipments of the current year. Consumption of corn outside the U.S. is expected to increase by only about 0.5 percent (88 million bushels), but the U.S. is expected to increase export market share at the expense of China and South America.

Stocks at the end of the 2005-06 marketing year (September 1, 2006) are projected at 2.54 billion bushels, an increase of 325 million bushels from the expected level of stocks at the end of the current marketing year. The projected stocks-to-use ratio is 23.8 percent, compared to 21 percent this year, and 9.4 percent last year. The 2005-06 marketing year average farm price of corn is projected in a range of \$1.55 to \$1.95, down from the \$2.00 to \$2.10 level expected for this year. At the close of trade on May 13, the futures market was offering a 2005-06 marketing year average price near \$2.12, \$.37 above the midpoint of the USDA's projected price range. The midpoint of the USDA's projected price range is near the projected price based on the relationship between ending stocks and price during the period 1998-99 through 2003-04. That projection, using USDA supply and consumption forecasts, is \$1.78. On the other hand, the market price is near the average

projected by the relationship between stocks and price during the period 1989-90 through 1997-98. That projection is \$2.19.

Using March planting intentions for soybeans and a projected yield of 39.9 bushels per acre (based on 1978-2004 regional trend analysis), the USDA projects the 2005 U.S. soybean crop at 2.895 billion bushels. That projection is 246 million smaller than the 2004 crop and 8 million bushels smaller than expected use during the current marketing year. For the year ahead, the USDA projects a 40 million bushel increase in the domestic soybean crush, driven by a 2.5 percent increase in both meal and oil consumption. Exports are expected to increase by 25 million bushels.

Stocks at the end of the 2005-06 marketing year are projected at 290 million bushels, 65 million less than expected inventories at the end of the current marketing year. The year ending stocks-to-use ratio is projected at 9.8 percent, compared to 13.6 percent this year, and 4.6 percent last year.

The 2005-06 marketing year average from price of soybeans is forecast in a range of \$4.70 to \$5.70, compared to the average of \$5.65 expected this year. At the close of trading on May 13, the futures market was offering a 2005-06 marketing year average price near \$5.86, \$.66 above the mid-point of the USDA's forecast price range. Using USDA's supply and consumption forecasts and the relationship between stocks and price during the period 1989-90 through 1997-90, the 2005-06 marketing year price would be expected to be near \$6.16, \$.30 above the current market. Using the relationship between stocks and price during the period 1998-99 through 2003-04, the average 2005-06 marketing year price would be expected to be near \$4.70, equal to the low end of the USDA's projected range.

There appears to be ample opportunity for volatile corn and soybean prices over the next several months for at least two reasons. First, there will be ongoing uncertainty about supply and consumption that will generate the usual movement in prices. Second, there appears to be a fair amount of uncertainty about what corn and soybeans are worth for any given set of supply and consumption forecasts.

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