



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN PRODUCTION FORECASTS EXCEED EXPECTATIONS**

The USDA's September *Crop Production* report contained surprisingly large forecasts of the size of the 2005 U.S. corn and soybean crops. The corn forecast exceeded the average pre-report guess by 350 million bushels while the soybean forecast was 40 million larger than the average guess.

For corn, the USDA lowered the forecast of acreage harvested for grain by 50,000 acres (Missouri), but the yield forecast of 143.2 bushels was 4 bushels larger than the August forecast. The average yield forecast was lower or unchanged for 18 of the 33 states for which individual forecasts are made. However, yield forecasts were larger for many of the major corn producing states. Of those states, the largest increase (11 bushels) came in Illinois. The average yield forecast for the U.S. is less than 2 bushels below trend value. The production forecast of 10.639 billion bushels is 286 million bushels larger than the August forecast.

On the consumption side, the USDA lowered the corn export estimate for the marketing year ended on August 31, 2005 by 15 million bushels, but increased the forecast of exports during the current year by 50 million bushels, to a 10 year high of 2 billion bushels. The forecast of feed and residual use of corn during the current year was increased by 75 million bushels, but may still be understated. Consumption of U.S. corn during the current marketing year is projected at a record 10.695 billion bushels. Still, year ending stocks are expected to remain large near 2.08 billion bushels. The USDA forecasts the 2005-06 marketing year average price in a range of \$1.70 to \$2.10 per bushel.

The harvested acreage forecast for soybeans remained at the August level of 72.184 million acres. The U.S. average yield forecast was increased to 39.6 bushels, 0.9 bushels above the August forecast. The average yield forecast was unchanged or lowered for 20 of the 29 states for which individual forecasts are made. The largest increase (4 bushels) came in Kansas. The yield forecasts were increased by 2 bushels for Illinois, Missouri, and Ohio. The 2005 soybean crop is now forecast at 2.856 billion bushels, 65 million larger than the August forecast.

On the consumption side, the USDA increased the estimate of domestic crush for the marketing year just ended by 10 million bushels, but lowered the export estimate by 5 million bushels. For the

current marketing year, the forecast of domestic crush and exports were increased by 15 and 20 million bushels, respectively. The increases reflect, in part, a smaller production forecast for Brazil. The USDA now expects soybean acreage to decline modestly in Brazil (3.7 percent). For all of South America, soybean acreage is expected to decline by 1.2 percent. However, a return to normal yields in 2006 would result in a much larger crop than harvested in 2005. The USDA projects South American production at 3.9 billion bushels, about 70 million below the August forecast, but 370 million larger than the 2005 crop.

The USDA expects the inventory of U.S. soybeans at the end of the 2005-06 marketing year to be fully adequate, at 205 million bushels. That production is 25 million bushels larger than the August projection and about 75 million above the minimum pipeline stocks. The USDA sees the 2005-06 marketing year average farm price in a range of \$5.15 to \$6.05, about \$.40 lower than projected last month.

While the final crop sizes may differ from the current forecasts, it appears that U.S. and world corn and soybean supplies will remain fully adequate for another year. Marketing decisions for corn will be centered around the use of the Commodity Credit Corporation loan program. In central Illinois, for example, the average cash price on September 9 was about \$.20 below the loan rate, but the loan deficiency payment (LDP) exceeded \$.40. Establishing the LDP and selling corn directly out of the field would result in a net price well above the loan rate. Those opportunities may dwindle as corn prices decline further, particularly if the differentials to calculate the posted county prices are adjusted. Premiums for January delivery in central Illinois averaged about \$.20 above the current spot cash price. For low cost storage situations, establishing the LDP and forward pricing corn for later delivery might also be considered.

Pricing decisions on soybeans are more difficult. Prices have declined sharply in recent weeks, with further declines possible as harvest progresses. Prices, however, remain above the loan rate and the premiums for later delivery are not as large as for corn. Unless the U.S. crop forecast declines in October, potential for near term price recovery in soybeans is limited, although basis levels should improve after harvest.

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