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LOOKING BEYOND THE CORN AND SOYBEAN HARVEST

The 2005 U.S. corn and soybean crops are larger than expected, given the nature of the growing season, and large enough to keep projected year-ending stocks at adequate to surplus levels. In the near term, prices will be influenced by the size of the USDA=s October and November production forecasts. Assuming that the crops are at least as large as currently projected, significant price recovery over the next 5 months will likely require a higher rate of consumption than currently projected or concerns about South American crops. U.S. weather and crop prospects will become a factor in the last half of the marketing year.

Domestic consumption of corn occurs in two categories, feed and processing. The rate of feed and residual use can be monitored based on the USDA=s quarterly *Grain Stocks* report. The first report for the 2005-06 marketing year is for December 1, 2005, but is not released until the second week of January 2006, at the same time that the final estimate of the size of the 2005 crop is released. Growth in domestic processing use is occurring only in the ethanol category. Monthly estimates of ethanol production provide an indication of the rate of use of corn in that category.

The most frequent data on consumption is in the export category. The USDA releases a weekly export inspections report and a weekly report of export sales. The Census Bureau releases a monthly report of exports, about 6 weeks after the end of the month. The market will tend to focus on the rate of corn exports to gauge whether exports will differ from the USDA=s marketing year projection of 2 billion bushels. Exports need to average 38.5 million bushels per week to reach that projection. Export inspections are currently available for the first 3 weeks of the 2005-06 marketing year and export estimates from the *Export Sales* report are available for just 2 weeks. Generally, the estimates in the *Export Sales* report are nearer the Census Bureau estimates than are the estimates in the inspections report. Shipments to date have been negatively impacted by hurricane damage and are not reflective of the demand for U.S. corn. A clearer indication of export demand comes from the weekly report of new sales. As of September 15, 361 million bushels of corn had been sold for export this year, with just over 53 million bushels of that total actually shipped. Sales this time last year totaled 375 million bushels. New sales need to average nearly 33 million bushels per week to be on target for shipments of 2 billion bushels. Sales over the last month have averaged 27.6 million bushels per week.

For soybeans, the market can monitor the rate of exports from the same reports as for corn. The USDA projects marketing year exports at a record 1.115 billion bushels. Through September 15, about 196 million bushels had been sold for export this year, with only 11.5 million bushels actually shipped. Sales need to average about 18.5 million bushels per week to be on track with the USDA projection. However, sales and shipments are much larger in the first half of the marketing year than the last half, due to the availability of South American supplies, so the weekly rate needs to be very large right now. Sales are currently fairly robust, averaging nearly 22 million bushels per week over the past month, but total sales are still running 30 percent behind the total of a year ago. The rate of domestic processing of soybeans is provided by the Census Bureau in monthly reports released about 3 weeks after the end of the month.

There is more uncertainty than usual with respect to the potential size of the upcoming South American soybean crop. Typically, annual acreage increases are anticipated for Brazil, with uncertainty centered around weather and yield. This year, however, most expect some decline in Brazilian soybean acreage and perhaps reduced levels of inputs due to poor economics B low soybean prices, high input costs, and an unfavorable exchange rate. The USDA and others will provide estimates of acreage over the next several months.

It is a little early to anticipate U.S. corn and soybean acreage and production for 2006, but the escalating costs of corn production have some analysts anticipating reduced corn acreage and increased soybean acreage. Given the level of anticipated year end stocks, some switch is probably needed. The market will assess needed acreage changes as the planting season approaches and price relationship will change to reflect that assessment. The USDA:s January *Winter Wheat Seedings* report will provide some indication of how producers may respond to higher production costs in 2006.

For corn, there is some confidence in a typical seasonal price pattern for 2005-06. That pattern would result in the lowest cash prices during harvest and the highest cash prices next spring/summer, with the majority of the increase coming in the form of basis appreciation. For soybeans, the likely seasonal pattern is not as clear. Prices will likely move lower as harvest progresses. Basis levels will likely strengthen after harvest, but the post-harvest price level will be influenced by the development of the South American crop.

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