



WEEKLY OUTLOOK



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CORN AND SOYBEAN PRICES REFLECT LARGER CROP

Corn and soybean prices continue under pressure as harvest progresses. The market is anticipating that the USDA's October production forecast will be larger for both crops.

The USDA's October production forecasts will be released on October 12. The average trade guess reported is for the October soybean production forecast to be about 150 million bushels larger than the September forecast. The corn production forecast is expected to increase by 220 million bushels, although guesses are in a wide range for both crops. A soybean crop of just over 3 billion bushels would require an average yield of about 41.6 bushels per acre, 2 bushels above the September forecast. Last week's USDA report of crop conditions showed 56 percent of the U.S. soybean crop in good or excellent condition. Based on the historical relationship between the percent of the crop rated good or excellent in the last report of the season and the trend adjusted average yield, current crop conditions point to an average yield of 40.7 bushels per acre.

A corn crop of 10.86 billion bushels would require an average yield of just over 146 bushels per acre, based on the September forecast of harvested acreage. That yield is 2.8 bushels above the September forecast. Last week's crop condition report showed 55 percent of the corn crop in good or excellent condition. The historical relationship between season ending crop ratings and trend adjusted yields point to a 2005 average yield of about 142 bushels per acre. That is below the USDA's September forecast.

A soybean crop of 3 billion bushels would result in year ending stocks of about 310 million bushels, based on the USDA's September forecast of soybean consumption of 2.95 billion bushels during the current marketing year. A larger crop and lower prices, however, might generate a higher rate of domestic consumption than currently forecast. Use of 2.97 billion bushels and year ending stocks of 290 million bushels would result in a year ending stocks-to-use ratio of 9.76 percent. The relationship between the year ending stocks-to-use ratio and the marketing year average farm price has been extremely variable over the past 7 seasons. On average, a stocks-to-use ratio of 9.76 percent suggests a 2005-06 marketing year average farm price of about \$4.90 per bushel, but confidence in that

forecast is low due to the extreme variability in recent years. The market is currently trading about \$.50 above that level.

A corn crop of 10.86 billion bushels, would result in year ending stocks of about 2.29 billion bushels, based on USDA's September forecast of consumption during the current marketing year of 10.695 billion bushels. The forecast of domestic consumption, however, may increase based on strong feed demand and increasing ethanol production. Consumption of 10.8 billion bushels and year ending stocks of 2.182 billion bushels would generate a year ending stocks-to-use ratio of 20.2 percent. The relationships between the year ending stocks-to-use ratio and the average marketing year farm price of corn has been quite strong over the past 7 seasons. Based on that relationship, a year ending stocks-to-use ratio of 20.2 percent projects to a 2005-06 marketing year average farm price of about \$1.90 per bushel. That is equal to the mid-point of the USDA's September forecast of average farm price. The market is currently trading about \$.10 above that average.

If the 2005 corn and soybean crops are as large as expected, cash prices will likely remain under pressure through harvest and beyond. Basis levels will likely remain weak until storage and transportation issues are resolved. Futures prices will also have difficulty rebounding due to the relative large premiums for deferred contracts. Cash corn prices remain well below the Commodity Credit Corporation (CCC) loan rate and loan deficiency payment (LDP) remains very large. The USDA's October production forecast will likely determine if prices will move even lower. Last year's contract low for December futures was \$1.91 so there appears to be further downside price risk if the USDA confirms a much larger crop. There is, then, some risk in establishing the LDP on unpriced corn in storage. The LDP has just turned positive for soybeans in most areas. Cash prices near the loan rate means there is little incentive to price stored soybeans at the current time, unless the forward bid more than covers the cost of storage, as lower prices will be offset by a larger LDP.

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