



# WEEKLY OUTLOOK



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## **ANTICIPATING NOVEMBER USDA REPORTS FOR CORN AND SOYBEANS**

On November 10, the USDA will release new forecasts of the size of the 2005 U.S. corn and soybean crops and revised consumption forecasts for the 2005-06 marketing year. There is some expectation that revisions will result in larger projections for year ending stocks of both crops.

While the U.S. average yield forecasts for both corn and soybeans were increased in September and October, another small increase in November would not be surprising. Reports of high yields in many areas of the midwest persisted through the end of harvest. In addition, there is a strong historical tendency for larger yield forecasts in October to be followed by even larger forecasts in November. In the 35 years from 1970 through 2004, the USDA's October soybean yield forecast exceeded the September forecast 18 times. In those 18 years, the November forecast was higher than the October forecast 15 times, unchanged once, and lower twice. For corn, during that same 35 year period, the October average yield forecast exceeded the September forecast 21 times. In those 21 years, the November forecast was larger than the October forecast 19 times, unchanged once, and lower once.

On the consumption side, there is some concern about the slow start to the pace of U.S. soybean exports this year. Through the first 57 days of the 2005-06 marketing year, the USDA reported cumulative soybean export inspection of 155 million bushels, compared to a total of 198 million at the same time last year. For the year, the USDA has projected a 12 million bushel increase in U.S. soybean exports, to a total of 1.115 billion. The slow start is worrisome even though it is early in the season. In addition, unshipped sales as of October 20 stood at only 218 million bushels, compared to 316 million at this time last year. The slow pace of exports and export sales to date reflect a slower buying pace by China. As of October 20, total export commitments of U.S. soybeans to China stood at 112.5 million bushels, compared to 165.6 million at the same time last year. In addition to the pace of sales to China, U.S. export prospects will be influenced by the development of the South American crop. Early weather conditions there have been less than ideal, with areas of dryness and areas of excessive moisture.

The pace of the domestic soybean crush is about as projected. The September 2005 crush of 133.2 million bushels is 7.9 percent of the projected marketing year crush of 1.695 billion. That percentage is near the average in previous years of ample soybean supplies. There are also concerns about the early pace of U.S. corn exports. Export inspections through the first 57 days of the marketing year were reported at 280 million bushels, about 9 million bushels ahead of last year's pace. Inspections generally lag exports reported in the USDA's weekly *Export Sales* report. Through October 20, inspections lagged those estimates by nearly 6 million bushels. Last year at this time, the lag was about 12 million bushels. Depending on the source of estimate, cumulative exports are about equal to those of a year ago. However, unshipped sales as of October 20 stood at only 281 million bushels, 55 million below outstanding sales of a year ago. For the year, the USDA projects corn exports at 2 billion bushels, an increase of 185 million bushels from that of the past year.

The rate of domestic feed and residual use of corn cannot be measured until the release of the December 1 *Grain Stocks* report in mid January. No change in the forecast for the 2005-06 marketing year is expected in the November report. However, there is a general expectation that corn used for ethanol production will exceed the current USDA projection. That forecast could be altered in any monthly report, based on ethanol production data.

Large supplies of both corn and soybeans will likely keep futures prices under pressure in the near term. December corn futures established new contract lows everyday last week and may test last year's low of \$1.91 if the projection of year ending stocks is increased next week. November soybean futures rallied \$.55 from the October 10 low of \$5.545, but have since dropped under \$5.65. A projection of larger year ending stocks could result in additional declines, but increasingly the market will be monitoring weather and crop developments in South America for price direction.

Basis levels have improved in some areas. From October 18 through October 28, the average central Illinois corn and soybean basis strengthened by \$.09 and \$.18, respectively. Even with the slight improvement of the corn basis (and cash prices) loan deficiency payment (LDP) rates remain large, at \$.47 on October 31. Small LDP's have been available for soybeans on a few occasions. Additional LDP opportunities look likely. The price structure of both corn and soybeans still favors forward pricing some of the farm stored inventory.

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