



WEEKLY OUTLOOK



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USDA TO RELEASE PROJECTIONS FOR THE 2006-07 MARKETING YEAR

The USDA's monthly report of world supply and demand prospects will be released on May 12. For U.S. crops, this report will contain the first projections for the 2006-07 marketing year.

For the current marketing year, the report may contain some revisions for the projected level of consumption of corn and soybeans. In the case of corn, the rapid pace of exports and export sales since early January may result in a larger projection than the current 1.95 billion bushels. Exports are running about 9 percent ahead of last year's pace and unshipped sales as of April 20 were 23 percent larger than unshipped sales of a year ago. The pace of export activity is on track to reach about 2 billion bushels. A 25 million bushel increase in the export projection might be expected in the May report.

The rapid increase in the number of cattle placed in feedlots suggests that domestic feed and residual use could also exceed the current projection of 6 billion bushels. Similarly, continued expansion of ethanol production may result in domestic processing use of corn exceeding the current projection of 2.985 billion bushels. The June *Grain Stocks* report will provide the next opportunity to calculate the rate of domestic corn use. Whether or not these projection are changed in the upcoming report, the market appears to anticipate an eventual increase. Stocks of corn at the end of the current marketing year may be 100 to 125 million bushels less than the current forecast of 2.3 billion bushels.

For soybeans, the pace of exports and export sales suggest that marketing year exports will be near, or slightly below, the 900 million bushels projected by the USDA. Export commitments are about 21 percent smaller than those of a year ago, while the USDA export projection is only 18 percent smaller than last year's exports. The USDA projects the 2005-06 marketing year crush of soybeans at 1.72 billion bushels, 1.5 percent larger than the crush of a year ago. Through the first 7 months of the year, the cumulative crush exceeded that of a year ago by 1 percent. While projections of consumption may not be changed this month, the current pace of use suggests that use may be 20 million bushels less and year ending stocks 20 million bushels more than current projections.

For the 2006-07 marketing year, the USDA's projections of crop size will be based on March planting intentions, a projection of unharvested acreage, and an average yield based on an analysis of trend yields. Last year, for example, harvested acreage of corn was projected based on the relationship between harvested and planted acreage for the previous 6 years, excluding 2002. The yield forecast was based on the trend from 1960 to 2004, excluding 1988 and adjusted for 2005 planting progress. A repeat of that procedure this year might result in projections of harvested acreage of 70.9 million, an average yield of 149 bushels, and a crop of 10.565 billion bushels. The market may actually expect a larger crop, guessing that planted acreage will exceed intentions.

The USDA's projection of 2006-07 marketing year consumption of corn will be of equal interest to the projection of production. A large increase in ethanol use will likely be projected, along with a significant increase in exports and a small increase in feed and residual use. Projected use could be near 11.5 billion bushels, pointing to a year ending stocks of 1.35 billion bushels and an average farm price in a range centered on \$2.25 to \$2.30 per bushel.

For soybeans, the 2006 production forecast will start with March planting intentions. Last year, the projection of harvested acreage was based on the 5-year average planted to harvested acreage ratios by state. The average yield was based on an analysis of 1978 through 2004 regional trends. That process in 2006 should result in a very large production forecast, likely exceeding 3.2 billion bushels. There will also be more than usual interest in the forecasts of 2006-07 marketing year consumption of soybeans. Those forecasts will reflect expectations about soybean production in South America, Chinese soybean demand, and the impact of high fuel prices on expansion in bio-fuels production. It is hard to imagine, however, that the projections of use will exceed expected production, so that larger year ending stocks and a lower average price may be anticipated for 2006-07. The forecast price range may center on a value near \$5.25 per bushel. The market may expect a smaller crop than forecast, anticipating that planted acreage will be less than intentions. However, recent strength in soybean prices is not encouraging producers to reduce soybean acreage.

Current futures prices are forecasting much higher farm prices for the 2006-07 marketing year than will likely be forecast by the USDA next week. With December 2006 corn futures trading near \$2.73, and higher prices for later delivery, the futures market reflects a 2006-07 average farm price near \$2.65. November soybean futures near \$6.25, along with a positive carry in the price structure, reflects a 2006-07 average farm price near \$6.15.

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