



WEEKLY OUTLOOK



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CROP PRICE ROLLER COASTER TO CONTINUE

Corn, soybean and wheat prices have traded in a wide range since March. All indications are that price volatility will continue to be the norm for these markets.

December 2006 corn futures declined to about \$2.50 just before the USDA's March *Prospective Plantings* report revealing producer intentions to reduce corn plantings by 3.74 million acres. That contract raced to a high of \$2.88 in mid-May, but settled at \$2.6775 on June 9. November 2006 soybean futures traded above \$6.25 in early March, declined to \$5.85 following the USDA's report showing producer intentions to increase soybean plantings by 4.75 million acres, traded above \$6.35 in mid-May and settled at \$6.155 on June 9. September 2006 wheat futures at Chicago traded above \$4.00 in late February 2006, declined to near \$3.60 in late March, peaked over \$4.40 in late May and settled at \$3.89 on June 9.

The wide swings in crop prices have resulted from changing expectations about U.S. and world supply and consumption prospects. Increased speculative trading has also contributed to the price volatility. The picture painted by the USDA's June report of world supply and demand prospects, along with current weather patterns in the U.S., suggest that volatile price behavior is likely to continue, perhaps for an extended period of time. For the current corn marketing year, the USDA increased the projection of U.S. corn exports by 50 million bushels and lowered the projection of year ending stocks by the same amount. Year ending stocks are now forecast at 2.176 billion bushels, 250 million less than projected in January 2006. The estimated size of the 2005 Chinese corn crop was increased by 210 million bushels (4 percent). Most of that increase is expected to be consumed domestically, although the projection of year ending stocks was increased by 95 million bushels. No changes were made in the production or consumption forecasts for the 2006-07 U.S. corn marketing year. The projected size of the 2006 Chinese crop was increased by 120 million bushels. That crop is expected to be large enough to support a 3 percent increase in domestic consumption and to maintain exports at the same level as this year, about 155 million bushels. World and U.S. corn inventories are expected to decline sharply in the year ahead.

For the current U.S. soybean marketing year, the USDA lowered the projection of domestic crush and increased the projection of year ending stocks by 5 million bushels. No changes were made in the projection of production and use for the upcoming marketing year. The estimated size of the 2006 Brazilian soybean harvest was reduced another 30 million bushels, or 1.4 percent. For 2007, the USDA sees a 4.5 percent reduction in Brazilian soybean acreage, and a 1.4 percent reduction

in all of South America. Normal yields, however, would result in a 2 percent larger harvest in 2007. Current prospects are for a continuation of abundant world and U.S. soybean stocks.

For wheat, the USDA now forecasts the U.S. winter crop at 1.256 billion bushels, 59 million smaller than the May forecast and 235 million smaller than the 2005 harvest. The smaller crop is expected to result in a reduction in domestic feeding, exports, and year ending stocks. Production in the rest of the world is forecast at 550.5 million tons, 2.5 percent less than last year's production. A significant reduction in world wheat inventories is expected.

The rapid increase in corn consumption and declining U.S. and world inventories increase the importance of the size of the 2006 U.S. corn crop. Planted acreage in the U.S. is less than planted last year, although it likely exceeds March intentions, increasing the importance of the U.S. average yield. As indicated last week, the 2006 crop is in relatively good condition early in the growing season, with 71 percent of the crop rated in good or excellent condition as of June 4. However, current prospects for hot weather in western and southern growing areas along with areas of moisture deficits suggest that crop condition ratings and yield expectations may decline in the near term. It would not be surprising to see December corn futures challenge the contract high if yield concerns persist through the end of the month.

Soybean supplies are abundant, suggesting that prices might be less sensitive to early season weather and crop concerns, but that has not been the experience recently. Large speculative trading will likely keep soybean prices more volatile than suggested by large supplies. November soybean futures appear to be well supported above \$6.00 with some reluctance to trade above \$6.35. For now, a move above the recent trading range appears more likely than a move below that range. Downside price risk, however, is significant if the 2006 average yield is near trend value.

Considerable uncertainty still exists about the size of the U.S. winter wheat crop, spring wheat acreage and spring wheat production. In addition, early season export sales have been near the level of a year ago. While new highs in Chicago futures do not appear likely, some recovery from the recent decline is expected.

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