



WEEKLY OUTLOOK



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WEATHER AND USDA REPORTS

Corn and soybean prices continue to reflect weather and crop conditions and that will be the case for another six to eight weeks. Price direction will also be provided by USDA reports to be released on August 11.

Corn and soybean crop condition ratings declined each week for the four weeks ended on July 23. As of that date, 59 percent of the corn crop was rated in good or excellent condition, compared to 53 percent on the same date last year. Further deterioration in crop ratings was expected to be reflected in the July 31 report, particularly for western growing areas, due to high temperatures and continued dryness in some areas. On July 23, 54 percent of the soybean crop was rated in good or excellent condition, the same as last year, with further deterioration expected to be reflected in the July 31 report.

The USDA's first forecast of corn and soybean yield and production potential will be released on August 11. That forecast will reflect farmer surveys (33 states for corn and 29 states for soybeans) and objective yield forecasts (10 states for corn and 11 states for soybeans). With the portion of the crop in either good or excellent condition in the upper 50 percent range for corn and the lower 50 percent range for soybeans, one would expect the August report to show prospects for at least trend yield. However, the subjective nature of the crop condition ratings means that it is not always a good predictor of yield potential. The August yield forecasts will provide the benchmark for the market to judge the potential impact of August weather on final yield estimates. Recent high temperatures and prospects for another round of heat in the second week of August will stress crops in areas of low soil moisture. The amount and coverage of precipitation in early August will be extremely important for yield prospects.

While the price impacts will likely be small, the USDA may also revise the forecasts of use and ending stocks for both crops for the current marketing year. For corn, the focus is on exports. For the year, the USDA currently forecasts corn exports at 2.1 billion bushels, 286 million more than shipped last year and the largest marketing year total since 1995-96. As of July 27, the USDA's weekly export inspection report indicated cumulative marketing year exports of 1.827 billion bushels. Through July 20, inspections trailed the export estimate in the *Export Sales* report by 58.2 million bushels. Through May, the estimate in the *Export Sales* report trailed the Census Bureau estimate by 2.9 million bushels. Exports through July 27, then, may have actually been near 1.888 billion bushels. If so, exports during the

last 5 weeks of the marketing year need to average 42.4 million bushels per week to reach the USDA forecast. With large unshipped sales and the recent average export pace of 46 million bushels per week, exports could be marginally above 2.1 billion bushels. Feed and residual use of corn may also exceed the current USDA forecast of 6.1 billion bushels due to poor pasture conditions in the west and high wheat prices. That forecast, however, is less likely to be revised in the August report.

For soybeans, the USDA currently projects the 2005-06 marketing year crush at a record 1.72 billion bushels, 1.4 percent larger than the crush of a year ago. Through the first 10 months of the marketing year, the crush totaled 1.447 billion bushels, 1.5 percent above the cumulative crush of a year earlier. Most of the year over year increase occurred in September 2005, but the total crush in May and June 2006 was 2.9 percent larger than that of a year earlier. Crush during the last two months of the marketing year needs to total only 272.6 million bushels to reach the USDA forecast, 1.2 percent more than crushed last year. It appears that the crush could reach 1.725 billion bushels.

Cumulative soybean export inspections through July 27 totaled 871 million bushels. Through July 20, inspections trailed the export estimate in the USDA *Export Sales* report by 5.3 million bushels. Through May, the estimate in the *Export Sales* report trailed the Census Bureau estimate by 9 million bushels. Exports as of July 27, then, may have actually been near 885 million bushels. If so, exports need to average only 4 million bushels per week during the final 5 weeks of the year in order to reach the USDA forecast of 905 million bushels. That is less than half the average of the most recent four weeks. With large unshipped sales on the books, it appears that exports could exceed the current USDA forecast by 10 to 20 million bushels.

December 2006 corn futures reached a contract high of \$2.88 in late May and traded down to \$2.52 last week. November 2006 soybean futures traded to \$6.40 in early July and down to \$5.92 last week. Prices of both contracts may continue to recover from the lows of last week under the influence of a high rate of consumption and uncertainty about crop size. A surprise in the August 11 reports or a significant decline in crop conditions may be needed, however, for prices to trade above the recent highs.

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