



# WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**August 14, 2006**

## **SHARP PRICE REACTION FOLLOWING THE CROP PRODUCTION REPORT**

The USDA's August *Crop Production* report, released on August 11, showed larger corn production prospects and smaller soybean production prospects than generally expected. Prices declined sharply following the report as speculators apparently liquidated long positions.

The USDA's first forecast of the year placed the corn crop at 10.976 billion bushels, reflecting a national average yield of 152.2 bushels. The forecast was 136 million bushels smaller than the 2005 crop, but about 150 million larger than the average pre-report guess. The yield forecast is 4.3 bushels larger than the 2005 average and 8.2 bushels below the record yield of 2004. Large year-over-year yield increases are expected in Illinois, Indiana, Kentucky, Missouri, and Ohio. The Iowa yield is expected to equal that of last year and lower yields are expected in Kansas, Minnesota, North Dakota, and South Dakota. State yield prospects generally reflect the weekly report of crop conditions.

The World Outlook Board did not change projections of corn use for the current marketing year, although it appears that exports will exceed the projection of 2.1 billion bushels. For the 2006-07 marketing year, the projection of domestic feed and residual use of corn was increased by 75 million bushels and the projection of food and industrial use was increased by 5 million bushels. The consumption of U.S. corn for all purposes during the 2006-07 marketing year is projected at a record 11.815 billion bushels, 640 million above the projection for the current year, leaving year end stocks at 1.232 billion bushels. The projected year ending stocks-to-use ratio of 10.4 percent points to a 2006-07 marketing year average price of \$2.35, equal to the midpoint of the USDA's projected range of \$2.15 to \$2.55. Corn prices dropped sharply following the report, with December 2006 futures trading to a low of \$2.3725 in the overnight market on August 13, fractionally above the contract low established in November 2005. Spot and harvest bids declined to near the Commodity Credit Corporation loan rate in many markets.

The forecast of the 2006 soybean crop came in at 2.928 billion bushels, 159 million smaller than the 2005 crop and about 90 million less than the average pre-report guess. The U.S. average yield forecast of 39.6 bushels is 1.1 bushels below the USDA's calculated trend value and 3.7 bushels below the record yield of 2005. Large year-over-year yield declines are expected in the western corn belt, in the plains states, and in some southern states. The average yield in Illinois is forecast to be 2 bushels below the 2005 average while the projections for both Indiana and Ohio equal the 2005 averages.

For the current marketing year, the World Outlook Board increased the projection of soybean exports by 25 million bushels and the projection of the domestic crush by 5 million bushels. Still, year ending stocks are expected to be in surplus at 515 million bushels, or 18.2 percent of consumption. Projections of use for the 2006-07 marketing year were essentially unchanged, totaling 2.996 billion bushels. Stocks of U.S. soybeans on September 1, 2007 are projected at 450 million bushels. The year ending stocks-to-use ratio of 15 percent suggests a 2006-07 marketing year average farm price near \$5.65. That is within the USDA's projected range of \$5.00 to \$6.00.

While the soybean production forecast was smaller than expected, prices declined following the report. Spot cash prices dropped to the lowest level of the marketing year in some areas and November 2006 futures traded within \$.20 of the contract low established in February 2005. Large old crop supplies and prospects for the surplus to continue for another year likely deflated speculative interest in soybeans.

For wheat, the forecast production of all classes of wheat, at 1.801 billion bushels, was only 5 million less than the July forecast. Projections of use during the current marketing year were unchanged, but the projection of the 2006-07 marketing year average farm price was increased by \$.20, in a range of \$3.90 to \$4.50. The higher price expectation likely reflects the outlook for a much tighter world wheat supply situation. Production forecasts were lowered for Argentina, Canada, and the European Union while forecasts were increased for Russia and the Ukraine. World wheat production is expected to be 3.3 percent smaller than last year's crop, resulting in a decline in both consumption and year-ending stocks. Even so, wheat prices declined following the new projections.

Opinion seemed to be divided on where subsequent corn and soybean production forecasts will fall relative to the August forecast. For corn the prevailing attitude seemed to reflect the adage that "big crops get bigger". For soybeans, the private sector's expectations of crop size in August has tended to be closer to the final USDA estimate than has the August USDA forecast. If that tendency continues, a larger forecast might be expected in subsequent reports.

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