



WEEKLY OUTLOOK



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CORN BALANCE SHEET GETS TIGHTER

The USDA's November forecasts of the size of the 2006 U.S. corn and soybean crops were smaller than expected. For corn, the smaller crop and high prices are expected to reduce feed and residual use to a three year low and to limit the year-over-year increase in exports.

The size of the 2006 U.S. corn crop is now forecast at 10.745 billion bushels, 160 million bushels below the October forecast and 369 million below the September forecast. The U.S. average yield is forecast at 151.3 bushels, 3.4 bushels below the September forecast. The largest reductions in yield and production forecasts came in Illinois, Indiana, and Iowa. The U.S. crop is expected to be 367 million bushels smaller than the 2005 crop and 1.062 billion smaller than the record crop of 2004.

The USDA's World Outlook Board reduced the 2006-07 marketing year forecast of domestic feed and residual use of corn by 50 million bushels. The forecast of 6.05 billion is 86 million below use of last year. The forecast of marketing year exports was also reduced by 50 million bushels. The forecast of 2.2 billion is 53 million bushels above exports of a year ago and would be the largest in 11 years. Chinese corn exports are projected at 157 million bushels, about 10 million more than exported last year. The Chinese corn crop is estimated at 5.59 billion bushels, about 105 million larger than the 2005 crop, but the increase is expected to be consumed domestically.

As of November 9, the USDA reported cumulative U.S. corn exports for the current marketing year at 430 million bushels, 19 percent above the total of a year ago. Last year, exports started slowly and then accelerated beginning in January 2006. For the week ended November 2, the USDA reported new export sales of 76 million bushels, with total unshipped sales as of that date standing at 455 million bushels, compared to 288 million on the same date last year. At 885 million bushels, shipments plus outstanding sales account for 41 percent of the USDA's export projection for the year. With the world wheat crop about 1.18 billion bushels (5.2 percent) smaller than the 2005 crop and world wheat consumption expected to drop by 300 million bushels (1.4 percent) the export demand for U.S. corn is expected to remain very strong over the next several months. The USDA's December 1 *Grain Stocks* report, to be released on January 12, 2007, will provide the first measure of the rate of domestic feed and residual use of corn. Large numbers of livestock being fed suggest a high rate of feed and residual use

during the first quarter of the marketing year.

The USDA projects corn inventories at the end of the current marketing year at 935 million bushels, or 7.9 percent of projected consumption. Based on the relationship between stocks and price in the relatively strong demand period of 1989-90 through 1997-98, a stocks-to-use ratio of 7.9 percent would suggest a 2006-07 marketing year average farm price of about \$2.77. The USDA projects an average price between \$2.80 and \$3.20. At the close of trade on November 10, 2006, the futures market implied an average farm price near \$3.25. The relatively high futures prices likely reflect a number of factors. Fundamental strength likely stems from expectations that the January corn production estimate will be smaller than the November forecast, lack of evidence that corn consumption has slowed in line with USDA projections, and the need to encourage a large increase in U.S. corn acreage in 2007.

The expectation of a smaller production estimate in January likely stems from the modest tendency for the direction of change in January to follow that of November. That relationship, however, is weaker than the relationship in November and October. In addition, changes in January historically have reflected the inclusion of administrative acreage data. That acreage data are now reflected in the October production forecast. In the case of the U.S. average yield forecast, there have been six years since 1975 in which the forecast declined in October and again in November. In those six years, the January estimate exceeded the November forecast twice and was smaller four times.

The 2006 U.S. soybean crop is now forecast at a record 3.204 billion bushels, 15 million larger than the October forecast, 141 million larger than the 2005 crop, and 80 million larger than the previous record crop of 2004. The U.S. average yield is forecast at 43 bushels, equal to the record of last year. The projection of the domestic crush during the current marketing year was increased by 5 million bushels, to a total of 1.78 billion. Year ending stocks are projected at 565 million bushels, or 18.3 percent of projected consumption.

Historical relationships between stocks and average farm price point to 2006-07 average farm price near \$5.45 with a stocks-to-use ratio of 18.3 percent. The USDA projects the average in a range of \$5.40 to \$6.40 and closing futures prices on November 10, 2006 implied an average farm price near \$6.25. The relatively high price of soybeans is most likely explained by the need for the soybean market to protect its 2007 acreage turf as corn prices move higher. In addition, soybean meal prices are supported by higher corn prices and soybean oil prices are being supported by expectations of rapidly expanding biodiesel production.

A change in the trend of higher corn prices would not be expected until there is some evidence of a slow down in consumption. Soybean prices will likely continue to follow corn prices.

Issued by Darrel Good
Extension Economist
University of Illinois