



WEEKLY OUTLOOK



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FOCUS ON USDA REPORTS

Several USDA reports with implications for corn and soybean prices will be released over the next four weeks. Markets will obviously react to other developments, but these reports will provide important fundamental information that will be helpful for refining price expectations.

The monthly *Cattle on Feed* report to be released on December 22 and the quarterly *Hogs and Pigs* report to be released on December 27 will be important for assessing domestic feed demand for corn and soybean meal. The rate of placement of cattle into feedlots and the production intentions of hog producers will be of particular interest. Those estimates will reveal whether producers have responded to the sharply higher feed prices and lower livestock prices of the past two months.

Four reports will be released on January 12, 2007. These include the annual *Crop Production* report, the quarterly *Grain Stocks* report, the monthly *World Agricultural Supply and Demand Estimates* report, and the annual *Winter Wheat Seedings* report. The production report will contain the final estimates of the size of the 2006 corn and soybean crops. Historically (1970-2005), there has been a small positive relationship between the change in the production forecasts in November and the change in January. The smaller forecast for corn and larger forecast for soybeans in November this year suggests the market may be anticipating a smaller corn and larger soybean estimate again in January. The primary focus should be on the eastern corn belt, where wet conditions and delayed harvest may have negatively affected production. Because of strong demand and prospects for dwindling U.S. and world stocks, the production estimate for corn will be especially important.

The report of December 1 inventories of corn and soybeans will provide additional information about the rate of domestic use of those crops. Again, the report will likely be more important for corn as it will allow the calculation of the first quarter feed and residual use. The market is aware that corn exports have been large and that domestic processing use of corn is expanding rapidly, but this report will provide the first look at the largest component of use. For the 2006-07 marketing year, the USDA projects a 1.4 percent decline in domestic feed and residual use. The report will indicate whether livestock

producers have started adjusting to tighter margins or whether that adjustment is yet to be made.

The monthly update of world supply and consumption projections will reflect new information in the *Crop Production* and *Grain Stocks* reports and will reflect any other important developments around the world. Following the larger corn production forecasts for South America and the larger soybean production forecast for Argentina this month, the market will be especially interested in the January projection for these crops. In addition, any changes in prospective Chinese corn exports or soybean imports would be important.

The estimate of winter wheat seedings will clearly be important for wheat price prospects, but may have strong implications for corn and soybean prices as well. It is expected that the report will show a large increase in seedings of hard red winter wheat due to the relatively high prices experienced during the fall seeding season. Expectations for soft red winter wheat are mixed. Anecdotal information suggested that producers in the eastern corn belt and southeast intended to increase acreage in response to high prices. The focus may be on Indiana, Ohio, and Kentucky to see if the wet fall weather had an impact on seedings. The magnitude and location of winter wheat seedings will have implications for spring-planted crops, particularly for the challenge to increase corn acreage by at least 10 percent in 2007.

Corn and soybean prices began their march higher in mid-September. The average cash price of corn in central Illinois reached a low of \$2.09 on September 12 and a high of \$3.67 on November 30. That price stood at \$3.455 on December 15. For soybeans, the low of \$5.045 was established on September 6 and the high of \$6.60 was reached on November 30. That price was at \$6.38 on December 15. The price for both crops appears to have moved into a more sideways to lower trend for now as little new fundamental information is flowing into the market place. That will change over the next few weeks as USDA reports are released and as the South American growing season progresses.

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