



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN USE REMAINS LARGE**

Corn prices remain well supported in the face of the strong likelihood of expanded biofuels mandates and the need for a large increase in U.S. corn acreage in 2007. Soybean prices are receiving some support from the high rate of consumption and the expectation of reduced U.S. acreage in 2007.

The President's call for the production of 35 billion gallons of alternative liquid fuels production by 2017 is likely to be actively pursued by Congress, insuring strong demand for corn based ethanol production. Current mandates call for 7.5 billion gallons of renewable fuels production by 2012. The Renewable Fuels Association (RFA) update of January 25 indicated that 111 ethanol plants are currently in operation with capacity to produce 5.44 billion gallons. RFA also reported that capacity is being expanded at 7 of those facilities and another 78 facilities are under construction, representing additional capacity of 6.22 billion gallons. Total capacity of nearly 11.7 billion gallons suggests that about 4.25 billion bushels of corn could be used for ethanol production as early as the 2008-09 marketing year. That is double the USDA's projection of use for the current marketing year.

The pace of U.S. corn exports and export sales also remains brisk. The USDA reports that 856 million bushels of U.S. corn were exported during the first 20 weeks of the 2006-07 marketing year, 17 percent more than during the first 20 weeks of the 2005-06 marketing year. Unshipped sales as of January 18 were reported at 480 million bushels, compared to outstanding sales of 292 million bushels a year earlier. For the year, USDA expects exports to be only 103 million bushels more than exported last year.

There may be some additional slowing of domestic feed use of corn as a result of higher prices. USDA estimates indicate that feed and residual use of corn during the first quarter of the 2006-07 marketing year was 3 percent less than the record level of use in the previous year. The latest weekly USDA reports show some slow down in the number of broiler eggs set (3 percent) and broiler chick placements (1 percent). The January *Cattle on Feed* report showed placements into feedlots during December 2006 were 9 percent less than in December 2005.

The pace of soybean consumption is well above that of last year. The Census Bureau estimates that the domestic crush of soybeans from September through December 2006 totaled 615.4 million bushels, 24.7 million bushels, or 4.2 percent larger than the crush in the same four months last year. The year-over-year increase in December was 5.3 percent. Consumption of soybean meal, domestic and export, during the first quarter of the 2006-07 marketing year was estimated at 11.05 million tons, 4.1 percent more than consumed a year earlier. The pace exceeds the USDA's 3.3 percent projected increase for the entire year. Soybean oil consumption in the first quarter of the year totaled 5.273 billion pounds, 10.4 percent more than consumed last year. For the year, the USDA projects a 7.5 percent increase. Even with some slow down in livestock production, the soybean crush for the entire year may exceed the current USDA projection of 1.78 billion bushels.

Exports of U.S. soybeans during the first 20 weeks of the 2006-07 marketing year were estimated at 564 million bushels, 21 percent more than exported in the first 20 weeks of the 2005-06 marketing year. As of January 18, the USDA estimated that 262 million bushels of soybeans had been sold for export, but not yet shipped. Unshipped sales a year earlier totaled only 166 million bushels. Shipments plus outstanding sales of 826 million bushels are nearly 30 percent larger than the total of a year ago. The USDA currently projects an 18 percent increase in exports for the year. Exports during the last half of the marketing year will be influenced by the size of the South American harvest. The USDA currently projects that crop at 3.89 billion bushels, 140 million larger than the record harvest of 2006. The largest year-over-year increase is expected in Argentina. Weather and crop conditions remain generally favorable in Brazil and Argentina.

The biggest factor looming in both the corn and soybean markets is the magnitude of planted acreage, and therefore production potential, in the U.S. in 2007. The USDA will survey farmers in March and release a *Prospective Plantings* report on March 30. A large increase in corn acreage is anticipated due to high prices and a favorable price ratio relative to soybeans. Much of that increase is expected to come from soybeans, but reduction in acreage of other crops is also anticipated. Downside risk in corn and soybean prices appears limited until more is known about the 2007 crop.

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