



WEEKLY OUTLOOK



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USDA TWEAKS SUPPLY AND CONSUMPTION PROJECTIONS

The USDA's June projection of world supply and consumption projections contained a number of changes from the May report. These forecasts, however, will likely take a back seat to unfolding crop prospects.

For corn, the USDA lowered the projection of U.S. exports for the current year by 50 million bushels to a total of 2.15 billion. That projection is 100 million bushels below the April forecast and about equal to exports of last year. Year ending stocks are forecast at 987 million bushels and the marketing year average price is expected to be between \$3.00 and \$3.10, compared to last month's expectation of \$3.00 to \$3.20. No changes were made in the projections of production and consumption for the 2007-08 marketing year. Stocks on September 1, 2008 are projected at 997 million bushels and the average farm price for the year ahead is forecast in a range of \$3.10 to \$3.70.

For soybeans, the USDA made no changes in the projections for the current U.S. marketing year. The pace of the domestic crush through April suggested that the projection for the year might be increased. Projections for the 2007-08 U.S. marketing year were also unchanged from May, except that the forecast of the marketing year average price was increased by \$.15, a range of \$6.65 to \$7.65. For soybean oil, the USDA increased the forecast of domestic use during the current marketing year by 50 million pounds even though the forecast of use for biodiesel production was reduced by 150 million pounds, to a total of 2.4 billion pounds. For the 2007-08 marketing year, soybean oil used for biodiesel production is forecast at 3.5 billion pounds, 300 million less than the May projection.

The estimated size of the recently harvested South American soybean crop was increased by 60 million bushels, resulting in a small increase in the projection of world stocks at the end of the current marketing year. First projections for the 2007-08 world marketing year include a forecast of a modest increase in South American soybean production in 2008. Most of the 100 million bushel (2.4 percent) increase is expected to occur in Brazil. The Chinese crop is expected to be about 20 million bushels smaller than the 2006 harvest and Chinese imports are expected to grow by 15 percent next year, to a total of 1.26 billion bushels. China is expected to account for 46 percent of total world imports during the 2007-08 marketing year.

For wheat, the USDA reduced the forecast size of the 2007 U.S. winter wheat crop by only 6 million bushels, to a total of 1.61 billion. At that level, production would be 311.6 million bushels larger than the 2006 harvest. Based on planting intentions, the 10-year harvested-to-planted acreage ratios, and a trend yield, the 2007 spring wheat crop is forecast at 558 million bushels, the same as the May projection. The forecast of 2007-08 marketing year U.S. wheat exports was increased by 25 million bushels, to a total of 1.0 billion bushels, 90 million more than the estimate for the year ended on May 31, 2007. The larger projection reflects expectations of deteriorating crop condition in the Ukraine. The forecast of that harvest was reduced by 131 million bushels (20 percent). Production and export prospects were increased for Argentina.

On the surface, the changes in the USDA projections released on June 11 might be interpreted as slightly negative for corn and soybean prices and supportive for wheat prices. However, prospects of declining world inventories of feed grains, wheat, and oilseeds in an era of rapidly increasing consumption will likely keep grain and oilseed prices well supported. Threats to production of any of the major crops has the potential to send prices sharply higher. On-going dry conditions in western Australia and the eastern U.S. are of particular importance. Crop condition ratings for the U.S. corn and soybean crops have started at extremely high levels. As of June 3, 78 percent of the corn crop and 71 percent of the soybean crop were rated in good or excellent condition. It is highly unlikely that ratings at those high levels can be maintained. Some deterioration in ratings are expected to be reflected in the report to be released on June 11. In addition, the lack of precipitation in the near term forecast for some of the driest areas is of some concern.

November 2007 soybean futures just traded to a contract high of \$8.80 and November 2008 futures have reached the \$9.00 mark. December 2007, 2008, 2009, and 2010 corn futures contracts are over \$4.00, with the deferred contracts reaching new highs. Prospects for extreme price volatility will make new crop corn and soybean pricing decisions very difficult, particularly for those in dry areas. Still, the high prices offer the potential for good returns in 2007-08.

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