



WEEKLY OUTLOOK



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CROP MARKETS TO REMAIN UNSETTLED

With the U.S. corn and soybean harvest about complete and the size of those crops pretty well known, focus is now on a wide array of other factors, including U.S. winter wheat conditions, crop developments in the rest of the world, U.S. acreage prospects in 2008, and domestic and export demand.

On the supply side, there is growing concern about dry conditions in hard red winter wheat areas in the U.S. As of November 11, the USDA rated only 49 percent of the entire winter wheat crop in good or excellent condition, compared to 53 percent the previous week and 59 percent last year. A further deterioration in conditions was expected to be reported on November 19. In addition to the U.S. crop, there are also concerns about planting delays in India due to dryness and some uncertainty about the extent of frost damage to the crop in Buenos Aires, Argentina. Generally favorable conditions persist for much of Europe and China.

For corn and soybean production, most of the focus is on South America. The USDA has forecast 2008 harvested area of corn in Argentina at 7.4 million acres with production potential of just under 900 million bushels, equal to the size of the 2007 harvest. There is some uncertainty about frost damage to the crop in Buenos Aires, but the market appears to think the damage was minor. Upcoming precipitation appears to be favorable for crop development. Harvested area in Brazil is forecast at just under 35 million acres, with production potential of 1.97 billion bushels, slightly less than harvested in 2007. Growing conditions have been less than ideal, with some dryness in the north and excessive precipitation in the south, but production prospects remain generally in tact.

For soybeans, the USDA has forecast 2008 harvested area in Argentina at 41.5 million acres, 5.7 percent more than harvested in 2007. Production prospects are projected at 1.73 billion bushels, marginally below the size of the 2007 harvest. Acreage in Brazil is projected at 54.3 million, 6.3 percent more than harvested in 2007. Production is forecast at 2.28 billion bushels, 5.1 percent larger than the 2007 crop. At the projected level of production, the size of the 2008 South American soybean crop would not be large enough

to offset the reduction in the size of the 2007 U.S. harvest. The weather events described above will keep production prospects in limbo.

An increase in soybean acreage in the U.S. is being anticipated. Current price relationships, however, suggest that corn production remains very competitive to soybeans in many areas of the country. The size of the needed increase in acreage will not be known for several more weeks. While producers tend to make acreage plans early, some flexibility will be maintained into planting time. In 2007, for example, corn plantings exceeded March intentions by nearly 3.2 million acres and soybean plantings were nearly 3.5 million below March intentions.

On the demand side, domestic corn and soybean demand appears to be improving. While the number of cattle in feedlots with capacity of 1000 head or more was less than that of a year ago on November 1, placements into feedlots during October were 12 percent larger than placements in October 2006. Hog slaughter is currently record large and broiler production is expanding more rapidly than would have been anticipated with high feed costs. These developments should support feed consumption at very high levels.

The continuation of high crude oil prices, rising gasoline prices, and some recovery in ethanol prices bode well for corn demand for ethanol production and soybean oil demand for biodiesel production. After reaching a low of \$1.49 per gallon in late September, the average price of ethanol at Iowa plants was reported at \$1.77 on November 16. The calculated crush margin at those plants dropped to \$1.72 per bushel on September 28, but recovered to \$2.60 per bushel on November 16.

On the export side, focus continues to be on Chinese demand for soybeans and soybean oil and the potential for China to import corn. Modest sized crops along with surging livestock demand has resulted in concerns about food price inflation in China. With a relatively low valued U.S. dollar, China may address those concerns with larger imports of soybeans and soybean oil and reduced exports of corn. The questions tend to center around how much of the import buying has already been done.

Sustained weakness in corn, soybean, and wheat prices is not expected in the near term as supplies remain tight and demand is firm. Tight world stocks will continue to magnify the impact of production uncertainty into the foreseeable future. Volatility in energy and currency markets will also add to the volatility of crop prices. Risk has increased significantly.

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