



# WEEKLY OUTLOOK



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## **PRICES FOR 2008 CROPS MOVE TO NEW HIGHS**

Corn, soybean, and wheat prices continue to climb as market fundamentals remain generally constructive. Typically, there are both bullish and bearish market fundamental factors and the market must judge the net effect of those factors. Currently, there are few bearish factors to weigh against the combination of strong demand and supply concerns. Futures prices for the 2008 crops of corn, soybeans, and wheat all reached new highs in recent trading sessions.

Some of the supporting factors for corn were outlined last week. The case for strong domestic and export demand continues. Congress is considering energy legislation that would significantly increase biofuel mandates. While a cap on corn-based ethanol production may be included in that legislation, the cap would be well above current levels of production. A cap of 15 billion gallons, for example, would eventually require about 5.5 billion bushels of corn, compared to projected use for the current year of 3.2 billion bushels. Legislation being considered presumes heavily on the development of cellulosic ethanol technology that is economically competitive with corn-based ethanol. If that technology is slow in developing, corn-based ethanol demand will remain very strong as long as crude oil prices are high.

For soybeans, export demand remains robust as well. Through December 6, cumulative soybean export inspections totaled 345 million bushels, 35.3 percent of the total expected to be exported for the year. A year ago, 37 percent of the marketing year total had been shipped by the same time of the year. However, unshipped sales as of November 29 this year totaled 360 million bushels, 100 million larger than unshipped sales of a year ago. Outstanding export sales to China stood at 207 million bushels, compared to 100 million bushels on the same date last year. Some early season dryness in parts of Argentina and Brazil and the development of a strong LaNina weather pattern increase the concerns about the size of the 2008 South American soybean crop, particularly since combined acreage in Brazil and Argentina is estimated to be only 6 percent larger than acreage harvested this past year.

There is some evidence of a slow down in the use of soybean oil for the production of biodiesel. Use reached a high of 312 million pounds in August, declined to 210 million

pounds in September, and to 167 million pounds in October 2007. Consumption data from 2006 suggests that a seasonal decline in use during September, October, and November might be expected. However, the 47 percent decline in use from August to October this year compares to a 23 percent decline in 2006. High soybean oil prices makes biodiesel production less profitable, even as diesel fuel prices remain high. As soybean oil prices have stagnated over the last month, however, soybean meal prices have moved higher, primarily in conjunction with higher corn prices.

In mid-November, it appeared that the rally in wheat prices was over. It appeared that wheat acreage was on the rise world wide and the pace of U.S. wheat export sales slowed. Seemingly, high prices had accomplished the task of slowing the rate of consumption and motivating an increase in production. Dryness in the hard red winter wheat areas of the U.S., dry conditions in India and Pakistan, and a late season frost in parts of Argentina rekindled supply concerns. A smaller crop estimate for Canada was also released last week. In turn, those supply concerns resulted in a new round of export sales of U.S. wheat. Buying by India was especially noteworthy. As of December 6, the USDA reported export inspections for the year of 730 million bushels, 66 percent more than had been shipped last year. In addition, unshipped sales as of November 29 totaled 396 million bushels, 114 percent larger than unshipped sales of a year ago. With the 2007-08 marketing year just half completed, U.S. wheat export commitments have reached 90 percent of the USDA's projection of exports for the year. A year ago, commitments at this time of year accounted for 62 percent of marketing year exports.

At these lofty price levels, some temporary declines in prices might be expected, but there is little to suggest that prices will move significantly lower in the near term. More acreage of all three crops may be needed in the U.S. in 2008, and the prices of other crops are moving higher as well. In addition to more acreage, a favorable growing season is needed in 2008 to prevent another round of sharply higher prices. The persistence of high grain and oilseed prices will continue to put some upward pressure on retail food prices and intensify the debate about aggressive biofuel mandates.

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