



WEEKLY OUTLOOK



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PRODUCTION PROSPECTS WILL BECOME THE FOCUS IN CROP MARKETS

The steep rally in corn, soybean, and wheat prices that began last fall faltered over the past week. After moving to a high of \$5.85, December 2008 corn futures dropped about \$.45. The decline in wheat and soybean futures prices was even more dramatic. After topping at \$12.65, July 2008 wheat futures at Chicago lost \$2.10. The November 2008 soybean contract reached a high of \$14.73 before dropping about \$2.05 by early in the session on March 10.

In general, prices of these commodities, particularly corn and soybeans, have been very volatile since mid-January as the market reacts to new information in these markets, as well as the energy, currency, and financial markets. Prices are being influenced by a wide array of complex factors. Increasingly, however, the dominant factor will be production prospects in the northern hemisphere in 2008.

World wheat production reached a record 628.6 million tons in 2004-05 and remained large at 621.5 million tons in 2005-06. Production dropped to a 593.2 million tons in 2006-07 and reached only 603.6 million tons in 2007-08. For the year ahead, there is a general expectation that production will rebound due to increased seeded area, particularly in the European Union. For the U.S., winter wheat producers have reported an increase in seedings of only about 1.6 million acres, mostly soft red winter wheat. Spring wheat producers are expected to increase acreage following the 1.3 million acre cut last year.

In addition to increases in the northern hemisphere, production in Australia is likely to rebound from the extremely low levels of the past two years. Early projections by the USDA show prospects for world production to rebound to 645 to 655 million tons in 2008-09. Production at that level would allow some significant rebuilding of world wheat stocks and would result in a further decline in wheat prices.

For corn and soybeans, the immediate focus will be on production prospects in the U.S. The USDA will release its annual *Prospective Plantings* report on March 31. Expectations for corn and soybean planting intentions are in an extremely large range as analysts try to

anticipate how producers will respond to the combination of high commodity prices and escalating input costs. A decline in corn acreage and an increase in soybean acreage is expected, but the market will have an opportunity to influence final planting decisions. Last year, for example, area planted to corn exceeded March intentions by 3.15 million acres and area planted to soybeans was 3.51 million less than indicated in March.

Beyond acreage, growing season weather in the northern hemisphere will be very important in determining crop size. U.S. production has benefitted from unusually favorable growing conditions since 1996. While regional weather problems have been experienced, the widespread weather stress experienced in years like 1980, 1983, 1988, 1991, and 1995 have been avoided. Under current conditions of low stocks and strong demand, low yields in 2008 could create the need to reduce consumption beyond what is already occurring in the U.S. livestock industry.

A shortfall in corn production might be more problematic than a shortfall in soybean production. A small U.S. soybean crop and resulting high prices would likely result in a significant acreage response in South America. While the same could occur for corn, it is generally believed that Argentina, and particularly Brazil, have the capacity for a larger response in soybean production than in corn production. In 2007, for example, corn acreage was unchanged in Brazil and up 740,000 acres in Argentina. Soybean acreage increased by two million acres in Brazil and 2.2 million acres in Argentina.

While most of the focus on March 31 will be on the USDA's *Prospective Plantings* report, the *Grain Stocks* report might also hold some important information, particularly for corn. The December 1 *Grain Stocks* report showed a surprisingly small inventory of corn, implying a very large level of feed and residual use of corn during the first quarter of the 2007-08 marketing year. As a result, the USDA increased the forecast of feed and residual use of corn for the entire marketing year by 300 million bushels. The March stocks estimate will reveal if that forecast is still valid, or whether the 2007 crop might have been slightly over estimated.

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