



# WEEKLY OUTLOOK



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## **ASSESSING CORN AND SOYBEAN MARKET FUNDAMENTALS**

Corn and soybean prices continue to be supported by a broad range of fundamental factors. These include strong domestic and export demand and a fair amount of concern about the potential size of the 2008 crops in the U.S.

The Census Bureau reported the domestic soybean crush in April 2008 at 149.2 million bushels, nearly 3 percent larger than the crush of April 2007. Importantly, the estimate of the March crush was revised higher so that the cumulative crush during the first eight months of the 2007-08 marketing year exceeds that of a year ago by 2.7 percent. Crush during the last four months of the year needs to exceed year ago levels by only 0.3 percent to reach the USDA projection of 1.84 billion bushels for the year. It appears likely that crush will exceed that projection.

Prospects for domestic feed demand of soybean meal and corn are bolstered by the sharp recovery in hog prices outlined in last week's newsletter. Higher cash and futures prices may slow the rate of liquidation of the herd. In addition, as of May 1, the number of cattle on feedlots with capacity of at least 1,000 head was down only 1 percent from that of a year earlier. Placement of broiler eggs and chicks continues at a rapid pace, with broiler production over the next 10 months expected to be only 0.5 percent less than during the same time period last year. Feed demand for corn during the summer months, however, may be tempered by increased wheat feeding. The average bid for harvest delivered wheat in southern Illinois, for example, is currently only about \$.20 per bushel above the current spot cash price of corn.

Domestic demand for corn to produce ethanol also remains strong as current cash crush margins are solidly in the black. Higher ethanol prices and strengthening prices of distiller grains have offset the higher prices of corn and natural gas. A continuation of relatively high crude oil and gasoline prices would be supportive of continued strong demand even with a lower blender tax credit and reduced mandates. The current wholesale price of unleaded gasoline along with a \$.45 per gallon blender's tax credit, for example, would support ethanol prices \$.20 above current plant level prices. Higher fuel prices might also give a boost to soybean oil demand for biodiesel production. That use has declined sharply since the peak in August 2007, but the use of other fats and oils for biodiesel production

has increased sharply.

Soybean export demand remains brisk. Cumulative shipments through May 22, 2008 (38 weeks into the marketing year) were only one percent less than the total of a year ago, while the USDA is projecting a 2.5 percent decline for the year. Unshipped sales as of May 15 totaled 136 million bushels, compared to only 81 million on the same date last year. It is also significant that Census Bureau export estimates through March exceeded the USDA estimates by 30 million bushels. Last year, Census Bureau estimates through March were 30 million less than USDA estimates. Through March, then, the Census Bureau showed soybean exports exceeding those of a year ago by 39 million bushels. Continued strong demand from China, export interruptions in Argentina, and prospects of only a modest increase in soybean acreage in South America keep export prospects strong.

The pace of corn export shipments has slowed since mid-April. Cumulative inspections through May 22 exceeded year ago levels by 17 percent, in line with the 17.6 percent increase for the year projected by USDA. Unshipped sales as of May 15 totaled 503 million bushels, compared to only 381 million bushels a year earlier. In addition, Census Bureau export estimates through March exceeded inspections by 49 million bushels, compared to a margin of 25 million a year ago. While sales remain brisk, the pace of exports needs to increase to reach the USDA projection for the year of 2.5 billion bushels.

On the supply side, the focus will continue to be on the rate of planting and development of the U.S. crops. More than half the corn crop in Iowa, Minnesota, and Missouri will be planted after May 10 and more than half the soybean crop in most corn belt states will be planted after May 20. Late planting, slow emergence, and slow growth all raise concerns about yield potential. In addition, the late maturity of the soft red winter wheat crop in Illinois, Indiana, Missouri, and Ohio raises questions about the timeliness of soybean planting following the wheat harvest. A late wheat harvest might reduce acreage and/or yield of double-cropped soybeans in those areas.

Some suggest that corn and soybean prices have not been following fundamentals, but have traded outside markets like crude oil. However, energy prices are more fundamental to crop markets than ever before. Others have argued that crop prices have been inflated by increased speculation in the futures market. There is no hard evidence to support that argument. It is sufficient that corn and soybean markets have plenty of supportive fundamentals on their own.

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