



WEEKLY OUTLOOK



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CORN AND SOYBEAN PRODUCTION PROSPECTS IMPROVING

Corn prices and, to a lesser extent, soybean prices have come under pressure over the past two weeks. The weakness started with the USDA's June *Acreage* report and continues as production prospects improve.

On July 11, the USDA released the monthly *World Agricultural Supply and Demand Estimates* report. For corn, that report confirmed trends revealed in the June 30 *Grain Stocks* report and general trade expectations. The forecast of feed and residual use of corn during the current marketing year was reduced by 100 million bushels, reflecting the larger than expected June 1 inventory as well as a 30 million bushel increase in projected feed and residual use of wheat this summer. The forecast of ethanol use of corn during the current year was reduced by 50 million bushels and the projection of other processing uses was reduced by 15 million bushels. In spite of a recent slowdown in weekly export inspections, the projection of 2007-08 marketing year exports was unchanged at 2.45 billion bushels. The unchanged forecast likely reflects the fact that Census Bureau export estimates through May exceeded the USDA's cumulative export inspections by 65 million bushels. September 1, 2008 stocks are projected at 1.598 billion bushels, 165 million above the June forecast.

For the 2008-09 marketing year, the U.S. average corn yield is forecast at 148.4 bushels, based on a linear trend from 1990 through 2007 adjusted for late planting and emergence and a smaller portion of harvested acreage in the corn belt. The forecast is 0.5 bushels below the June forecast. Production is forecast at 11.715 billion bushels. Consumption forecasts were little changed from June, with a 50 million bushel increase in feed and residual use and a 65 million bushel reduction in food and industrial use. Some believe that ethanol use of corn will not reach the USDA projection of 3.95 billion bushels, but margins have improved significantly as a result of the recent drop in corn prices. Year ending stocks are expected to be small at 833 million bushels, but 160 million larger than forecast last month.

Generally favorable weather in recent weeks and a forecast of needed precipitation in parts of the northern corn belt suggests that corn production prospects are continuing to improve.

Crop condition ratings along with our crop weather yield model suggest that the U.S. average yield could be 2 to 3 bushels above the USDA forecast if at least average weather conditions persist. The first yield forecast based on producer surveys and field observations will be released on August 12. Crop maturity is late enough the yields will be difficult to estimate. However, the adjustments, if any, to planted and harvested acreage estimates will be very important.

For soybeans, two changes were made in the projections of use during the current marketing year. Exports are now projected at 1.145 billion bushels, 35 million larger than the June projection. The larger projection likely reflects the ongoing strong pace of shipments and the fact that Census Bureau export estimates through May exceed USDA's cumulative export inspection estimate by 29 million bushels. The larger export projection was offset by a reduction in the projection of residual use. That use is now projected at -35 million bushels, further evidence that the 2007 crop was under estimated.

For the 2008-09 marketing year, the U.S. average soybean yield is projected at 41.6 bushels, based on 1989 through 2007 regional trend analysis adjusted for late planting and emergence. That projection is 0.5 bushels below the June forecast and when coupled with fewer acres revealed in the June *Acreage* report, results in a production forecast of 3 billion bushels. That forecast is 105 million below the June forecast. The projection of use during the 2008-09 marketing year was 67 million below the June forecast, but the projection of year ending stocks declined by 35 million bushels, to a total of only 140 million bushels.

Crop condition ratings and our crop weather model suggest that the U.S. average yield could be a bushel above the USDA projection if summer weather is near average and an early freeze is avoided. The lateness of the crop and extensive replanting, however, makes yield prospects very uncertain. The USDA's yield estimate in the August *Crop Production* report will be based on a very immature crop, but the acreage estimate will be important.

There is a lot of growing season left, but current crop and weather conditions suggest the possibility for further weakness in corn and soybean prices in the near term.

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