WEEKLY OUTLOOK

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MIXED SIGNALS FOR CORN AND SOYBEAN PRICES

Corn and soybean prices have been very "jumpy" following the USDA's August *Crop Production* report. Factors thought to be important for prices have provided very mixed signals for price direction.

On the production side, there seems to be a fair amount of skepticism about USDA's forecast of production potential. Some argue that both acreage and yield forecasts are too optimistic. USDA's expanded survey coverage for the August report should make the acreage estimate a bit more accurate than usual. Still, harvested acreage reflects intentions and with more than a normal amount of late planted and re-planted crops, as well as unplanted areas, estimates could change. On the surface, the USDA estimates seem to capture the effect of abandoned acreage. In Iowa, for example, the difference between planted acreage of corn and acreage harvested for grain was 350,000 acres last year, but is forecast at 800,000 acres this year. In Illinois, the difference was 150,000 acres last year and the forecast for this year is 400,000. For soybeans, the differences in planted and harvested acreage in 2007 were 30,000 and 50,000 acres for Iowa and Illinois, respectively. The differences this year are forecast at 200,000 and 150,000, respectively.

The August U.S. average yield forecast for corn is very consistent with crop condition ratings in early August and with forecasts based on our crop weather models. The August U.S. average yield forecast for soybeans was well below that indicated by crop condition ratings and our crop weather models, perhaps reflecting the lateness of the crop. Regional yield forecasts within states appear to be very consistent with weather patterns to date. In Iowa, for example, average soybean yields are expected to be lower than in 2007 in each of the nine crop reporting districts. For corn, average yield is expected to be higher than that of last year in the northwest district and substantially lower in the east central and southeast districts. In Illinois, both corn and soybean average yields are expected to be well above the 2007 averages in the southern two crop reporting districts where drought was an issue last year. Yields of both crops are expected to be sharply lower in the east crop reporting district where flooding was more widespread this spring.

While August has been on the dry side in large areas of Illinois and Indiana, the September U.S. average yield forecast for corn will likely remain above our trend estimate of 151 bushels. Yield forecasts may remain high after that if some late season rain is received in the dry areas and if the crop reaches maturity without a widespread killing frost. Soybean yield prospects are more difficult to anticipate, particularly since the August forecast was lower than suggested by other indicators. Parts of the eastern corn belt have been dry in August, but much of the Delta has received beneficial precipitation. The crop is more vulnerable than corn to late season disease and insect pressure and cooler weather in August may have hampered development.

While production uncertainty has and may continue to provide some support to corn and soybean prices, demand concerns are beginning to weigh on prices. Declining energy prices and a sharp drop in ethanol prices mean that the breakeven corn prices for ethanol producers are now much lower. Prospects of large world supplies of feed wheat and a strengthening U.S. dollar suggest that U.S. corn exports could continue to be a little sluggish. Liquidation of livestock numbers may slow, but liquidation that has already occurred may slow domestic feed demand as well. The slowdown in the pace of the domestic soybean crush and a more abundant world vegetable oil situation are also indications of potential demand weakness. Soybean oil prices have declined by about 25 percent since the first of July. Emerging concerns about slowing world economic growth also translate into expectations for slowing export demand for U.S. commodities and further weakness in energy prices.

Recent history has been one of growing demand for U.S. commodities, tight U.S. and world stocks of feed grains and wheat, sporadic production problems, and record high prices. With record large feed grain, wheat, and soybean crops expected for 2008-09 and some cracks forming in the demand picture, prices may take on a weaker tone. Prices are expected to remain relatively volatile as both production and demand uncertainty persist. In addition, prices are not expected to return to the average level experienced in the period 1973 through 2006. However, with the much higher level of production costs for 2009, prices below the early August lows of $4.50 for corn and $11.50 for soybeans would begin to substantially reduce operator returns, particularly for those with relatively high land costs.

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