



# WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**DECEMBER 8, 2008**

## **ARE CROPS UNDERVALUED?**

Corn, soybean, and wheat prices continue to be pressured by negative economic news. Confirmation that the unemployment rate continued to increase in November and crude oil prices near \$40 per barrel pushed cash corn prices to the lowest level in more than two years and soybean prices to the lowest level in about a year and a half. The cash price of soft red winter wheat dropped to a two and one-half year low.

Specific demand indicators for corn and soybeans remain mixed. There was rare good news for corn demand last week. From December 2 through December 4, the USDA announced export sales to Mexico totaling about 23 million bushels, with most to be delivered during the current marketing year. The Chinese government announced that it would buy an additional 200 million bushels of corn for the strategic reserve. Export sales of corn to destinations other than Mexico, however, remain very soft. For the week ended November 27, the USDA reported new sales to all destinations totaled only 15.2 million bushels. New sales over the past six reporting weeks averaged only 16.2 million bushels. To reach the USDA projection of 1.9 billion for the year, new sales need to average about 29.5 million bushels per week for the remaining three quarters of the year.

Corn demand is also receiving some modest support from ethanol prices which have not declined nearly as rapidly as gasoline prices. The average price of ethanol at Iowa plants was quoted at \$1.48 per gallon on December 5. The price at those locations is about \$.20 lower than in mid-October, while wholesale gasoline prices have declined by about \$.70. Prospects for hog prices to maintain 2008 levels in 2009 are also slightly supportive for feed demand. That optimism is partly offset by weakness in cattle prices and general pessimism about meat demand if economic performance continues to weaken.

The USDA will update world production and consumption forecasts on December 11. The projection of use and year-ending stocks of U.S. corn will not only be important for the current marketing year, but have implications for the amount of corn acreage that may be needed in 2009. The current projection of year ending stocks and ideas that consumption will likely increase in the 2009-10 marketing year has suggested the need to increase corn plantings by four to five million acres in 2009. A slower rate of use and larger ending stocks

would imply that a smaller increase will be needed.

For soybeans, China continues to aggressively buy U.S. soybeans, but the over all sales pace slowed during the most recent reporting week. New sales for the week ended November 27 totaled only 13.2 million bushels, following an average of about 29 million during the previous two weeks. The USDA will release a new forecast of the likely size of the 2009 South American crop on December 11. That forecast will have some implications for likely competition for U.S. soybeans in the export market during the last half of the marketing year. Reports on December 11 will also contain updated projections for the 2008-09 marketing year ending stocks in the U.S. The level of those stocks will have implications for soybean acreage requirements in the U.S. in 2009. Stocks over 200 million bushels and a return to a trend yield in 2009 would warrant a 1.5 to two million acre reduction in U.S. soybean acreage in 2009.

For U.S. wheat, prospects of a larger crop estimate for Russia, a stronger U.S. dollar, and a lower export tax in Argentina all point toward weakening export demand. The USDA will report winter wheat seedings on January 12, 2009. Seedings of soft red winter wheat are expected to be down following the sharp increase in 2007. A decline in soft red winter wheat production in 2009 would allow some reduction in the large inventory expected for the end of current marketing year.

The ability of the stock market to close higher on December 5 following poor economic news is a little encouraging. Recessionary pressures will likely continue, but the biggest impact on crop prices may have already occurred.

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