



WEEKLY OUTLOOK



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CROP MARKETS REACT TO SWINE FLU

In the first trading session following the announcement of incidences of swine flu in Mexico and the United States, corn, soybean, and wheat futures declined sharply. Market participants reportedly are concerned that the threat of swine flu will reduce pork demand, stimulating further liquidation of hog numbers and result in reduced feed demand.

Such a negative reaction is typical with episodes that create so much uncertainty. Russia reportedly announced restriction on pork imports from Mexico and selected origins in the United States. Restrictions by other importers would not be surprising. Health experts indicate that swine flu is not transmitted to humans through properly prepared pork. The hope is that the initial knee jerk reaction will be followed by more thoughtful responses. The extent of reported cases of swine flu will be important in determining the depth of demand worries.

In the meantime, a number of other fundamental factors continue to influence crop prices. For soybeans, the Census Bureau reported that the domestic crush during March totaled 144.7 million bushels, 7.2 percent smaller than the crush of a year earlier. During the first 7 months of the 2008-09 marketing year, the domestic crush has totaled 987.1 million bushels, 9.6 percent less than crushed during the same period last year. For the year, the USDA has projected the domestic crush at 1.635 billion bushels, 9.2 percent less than the crush in the previous marketing year.

Soybean exports and export sales remain robust as Chinese buying remains strong in the face of a smaller South American crop, particularly in Argentina. USDA's weekly export inspection report show cumulative marketing year exports through April 23 at 1 billion bushels. During the first 6 months of the marketing year, Census Bureau estimates of soybean exports exceeded USDA estimates by 42 million bushels. If that margin persists, exports during the last 18.5 weeks of the marketing year need to total only 170 million bushels to reach the USDA's projection of 1.21 billion. As of April 16, unshipped export sales were reported at 148 million bushels. It appears that exports will reach or perhaps exceed the USDA projection.

For corn, cumulative export inspections through April 23 totaled 1.08 billion bushels. During the first half of the marketing year, Census Bureau corn export estimates exceeded USDA inspection estimates by 35 million bushels. If that margin persists, exports during the final 18.5 weeks of the year need to total 585 million bushels (31.5 million per week) to reach the USDA projection of 1.7 billion bushels. As of April 16, unshipped export sales were reported at 388 million bushels. New sales need to average about .5 million per week. That increase in the weekly rate of shipments and sales over the past month are encouraging and suggest that the USDA projection is reachable.

The more troubling development for corn are the developments in California that could limit the growth of ethanol consumption in that state. While decisions are not final, the initial indication is that California's calculation of the indirect land use implication of corn based ethanol increases the "carbon footprint" of ethanol and makes it less attractive in reducing carbon emissions in the state. Any restriction on ethanol use would not occur in the near term, but raises concern about longer term ethanol demand in California. Lower crude oil and gasoline prices currently being experienced also provides a tone to ethanol demand.

On the supply side, corn planting remains slower than normal and weather forecasts suggest rain delays will continue into early May. The market has been slow to show concerns about the slow pace of planting. The lack of concern stems in part from the apparent lack of production loss from late planting (and replanting) in many areas last year. A year ago, however, the corn crop benefitted from nearly ideal weather conditions in July and a favorable growing season that continued well into September.

The large number of factors influencing the corn and soybean markets suggests that prices will likely continue to be very volatile, but extremely difficult to anticipate. For the 2009 crop, pricing decisions can still be anchored to the spring price guarantees for crop revenue insurance. Spikes well above those guarantees provide an opportunity for some small sales.

Issued by Darrel Good
Extension Economist
University of Illinois