WEEKLY OUTLOOK

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LOOKING BEYOND HARVEST

One of the factors supporting corn and soybean prices in recent weeks is the delay in getting the crops harvested. Futures prices have moved sharply higher and basis levels have been unusually strong as supplies in the cash market are limited.

In addition to keeping cash market supplies tight, delayed harvest also increases the concern about yield losses and additional deterioration of overall quality of the crop. It appears that the market judges that yield loss to date has been minimal, but recognizes the potential for more significant losses in both quantity and quality as time passes. The next assessment of production potential will be available with the USDA's November *Crop Production* report to be released on November 10. Following that report, the final production estimate will be released in the second full week of January 2010.

The price implications of crop size will be determined by the strength of demand for corn and soybeans. It is the combination of crop size and demand strength that will influence the post-harvest price pattern and it is that combination that the market is trying to anticipate. The timing and magnitude of recovery in the economy of the U.S. and the rest of the world will be an important factor in determining general demand strength for corn and soybeans and other commodities. Prospects for income growth and lower unemployment rates would point to a recovery in demand for meat and a strong demand for feed ingredients. Similarly, higher energy prices would point to strong demand for biofuels. Similarly, lack of economic recovery would likely result in weak demand in each of these sectors.

As the marketing year progresses, the rate of consumption of corn and soybeans will be used as a measure of demand strength. The rate of consumption, however, needs to be evaluated in relation to the price level. A high rate of consumption at high price levels, for example, is an indication of strong demand. At the other extreme, a low rate of consumption at low prices is an indication of weak demand.

For soybeans, the pace of export sales remains very large. As of October 15, the USDA reported total export commitments for the current marketing year stood at 818 million bushels, 63 percent of the projected shipments for the year. A year ago, commitments totaled 470 million bushels, or 37 percent of eventual shipments. Aggressive buying by China accounts for the large year-over-year increase. The market will be watching for a slowdown in the pace of sales and will be evaluating South American production potential to determine the level of competition for U.S. soybeans during the last half of the 2009-10 marketing year.

The domestic soybean crush during September, the first month of the 2009-10 marketing year, was a t a 12 year low of 114 million bushels. A small inventory of old crop soybeans and delayed harvest of the 2009 crop may have limited availability for crush, but large crush margins during the month provided strong motivation for crushing more soybeans. Apparent consumption of soybean meal during September was also at a 12 year low while apparent consumption of soybean oil was at an 8 year low. Ample month end stocks of soybeans, meal, and oil at processing plants hinted of some weakness in meal and oil demand.

For corn, the pace of export sales has moderated, totaling only 9.2 million bushels during the week ended October 15. Total export commitments as of that date represented 31 percent of the USDA's current projection of exports for the year and were only 4.5 percent larger than commitments of a year earlier. New sales will need to average about 32 million bushels per week to be on pace to reach the USDA projection of 2.15 billion bushels for the year.

The economics of ethanol blending and production remain very robust, with all indicators pointing to a return to reasonable returns for ethanol producers even as corn prices have increased. Higher gasoline and ethanol prices have compensated for higher corn prices. Strong blending economics have resulted in higher ethanol prices as gasoline prices increased. Demand for ethanol is strong. The level of gasoline prices in relation to corn prices will be important in determining ethanol demand as the year progresses.

Feed and residual use of corn during the first quarter of the 2009-10 marketing year will be revealed in the USDA's December *Grain Stocks* report to be released in the second full week of January 2010. Low livestock prices, declining livestock numbers, and increasing production of distillers' grain all point to weak feed demand. Actual disappearance during the quarter will be influenced by residual use associated with harvesting, handling, and feeding a poorer quality crop.

While considerable price uncertainty will continue well after harvest, it still appears that the strong price response of the past six weeks allows producers to be more aggressive with harvest time sales.

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