WEEKLY OUTLOOK

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CROP PRICES REMAIN FIRM

Corn and soybean prices continue to trade in a relatively wide range, but are currently near the highs of the past 10 weeks. Basis levels have weakened some as harvest accelerated.

The average cash price of corn in central Illinois peaked at $3.83 on October 22, declined to $3.41 on November 6, and stood at $3.62 on November 13. That price had dipped under $3.00 in early September. The average cash price in central Illinois was $.28 under December futures on November 13, compared to about $.15 under four weeks earlier. Corn prices have been supported by ongoing harvest delays as well as expectations that demand for corn-based ethanol will remain strong in the months ahead. Ethanol prices have moved sharply higher since late September, supported by very favorable blending margins. Reduced imports of Brazilian ethanol and some exports of U.S. ethanol have contributed to those margins. The EPA ruling on increasing the limit on blending from 10 percent to up to 15 percent will be important for determining domestic market size moving forward. It appears that the self-imposed deadline of December 1, 2009 for making that decision will not be met.

The level of corn export sales in recent weeks has been disappointing. Sales averaged only 16.3 million bushels per week for the four weeks ended November 5. Sales need to average well over 30 million per week in order to meet the current marketing year export forecast of 2.1 billion bushels. Weekly export inspections averaged 26.5 million bushels per week during the five weeks ended November 12. Shipments now need to average nearly 42 million bushels per week through August 2009 in order to reach the current USDA projection.

The jury is still out on the likely level of feed and residual use of corn this year. Some analysts believe that the generally poorer quality crop will result in higher rates of corn feeding, while others believe the poorer quality will lead to higher levels of feeding of other ingredients, particularly soybean meal. Initially, the large supply of low priced corn screenings might result in at least a normal rate of corn feeding per animal. It is still almost two months before the December 1 corn stocks estimate will be available. That estimate will allow a calculation of feed and residual use of corn during the first quarter of the 2009-10 marketing year.

The average cash price of soybeans in central Illinois dropped below $9.00 in early October, peaked at $9.96 on October 21, and stood at $9.635 on November 13. The average cash price on November 13 was $.29 under March 2010 futures, compared to about $.11 under three weeks ago. Soybean prices have been supported by a rapid pace of exports and export sales. Through November 5, export commitments (exports plus outstanding sales) stood at 68.5 percent of the total exports projected for the marketing year. For the four weeks ended November 5, new sales averaged about 31 million per week. To reach the USDA projection, new sales now need to average about 10 million per week. For the five weeks ended November 12, USDA export inspections averaged 55.8 million bushels per week. Shipments need to average about 23 million per week for the rest of the year to reach the USDA projection. The Census Bureau estimate of September 2009 exports was about 5 million bushels above the USDA estimate, indicating that USDA estimates may lag Census Bureau numbers this year, as has been the case in recent years. Export demand for U.S. soybeans will be concentrated in the first half of the marketing year and is expected to drop sharply with the availability of the South American harvest.

The domestic soybean crush was extremely small in September, but the National Oilseed Processors Association estimates showed a sharp rebound in October. The October 2008 crush estimate exceeded that of a year ago. Part of the increase in crush reflects a lower yield of both oil and meal from this year's soybean crop. In addition, the larger crush resulted in a sharp increase in soybean oil stocks. If confirmed by the Census Bureau crush estimate, the October crush figure suggests that the 2009-10 marketing year crush could exceed the current USDA forecast. At this juncture, however, the larger crush seems to reflect lower product yield more than an increase in consumption.

Prices of corn and soybeans have also been supported by a low valued U.S. dollar and strength in the financial markets. A low valued U.S. dollar may result in importers being able to pay a higher price for U.S. commodities, but there is no historical statistical relationship between the value of the U.S. dollar and the volume of marketing year exports.

Corn and soybean prices may be well supported in the near term by another round of harvest delays. Strong demand for corn for ethanol may also provide longer term support. At some point, however, the soybean market may suffer from a very large South American harvest.

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