WEEKLY OUTLOOK

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GOOD DEMAND FOR CORN AND SOYBEANS, BUT IS THERE MORE?

The recent strength in crop prices has been lead by soybeans. The rapid pace of exports and export sales has been the primary factor supporting soybean prices, but a number of factors are influencing both corn and soybean prices.

As of November 26, 2009, the USDA reported that 473 million bushels of soybeans had been inspected for export, 118 million more than the total of a year earlier. As of November 19, 579 million bushels of soybeans had been sold for export, but not yet shipped. Outstanding sales on the same date last year totaled only 328 million bushels. The year-over-year increase in export commitments reflects much larger purchases by China. Total export commitments to China as of November 19 stood at about 614 million bushels, compared to 328 million on the same date last year. A slightly smaller soybean harvest in China this year, a much smaller soybean harvest in South America, and a policy of increasing inventories in China account for much of the year-over-year increase in Chinese demand for U.S. soybeans. The pace of Chinese purchases of U.S. soybeans is expected to remain strong over the next several weeks.

The domestic soybean crush in September 2009 was the smallest for that month since 1997, reflecting the small inventory of old crop soybeans and the late harvest of the 2009 crop. For October 2009, the Census Bureau reported a record large crush for the month, exceeding the previous record of 2006 by about 1.3 million bushels. Cumulative crush for the first two months of the 2009-10 marketing year is estimated at 276.4 million bushels, 600,000 bushels (0.2 percent) above the total of a year ago. The USDA has projected the 2009-10 marketing year crush at 1.695 billion bushels, 33 million (2.0 percent) larger than the crush of last year.

The apparent disappearance of soybean meal (domestic plus exports) during October totaled 3.637 million tons, 182,000 tons more than in October 2008. The larger disappearance this year may reflect some rebuilding of inventories at locations other than processing plants. The November figure will provide a clearer picture of the actual consumption pace. Apparent soybean oil consumption during October 2009 totaled a record 1.854 billion pounds, 44.5 million pounds more than during October 2008.

For corn, the sharp increase in ethanol prices since late September, along with the extremely late harvest, has provided support for prices. The average price of ethanol at Iowa plants, as reported by the USDA Market News, was $2.05 per gallon on November 27, compared to $1.51 on September11, 2009. The higher prices reflect favorable blending economics and have resulted in strong demand for corn by ethanol producers.

The pace of corn export sales and export inspections has generally been disappointing for much of the first quarter of the 2009-10 marketing year. The USDA has lowered the projection of marketing year exports by 100 million bushels since September. New sales need to exceed 32 million bushels per week to reach the current USDA export projection of 2.1 billion bushels. For the seven weeks ended November 12, new sales averaged less than 18 million bushels per week. However, new sales jumped to 48 million bushels during the week ended November 19 on the strength of large sales to Japan and Mexico. Japan is the largest and most consistent importer of U.S. corn, but the pace of sales to Japan has been slow so far this year. As Japan “catches up” on purchases, the U.S. sales pace should continue to improve.

While the late, slow harvest and a solid rate of consumption explain much of the recent strength in corn and soybean prices, those factors do not appear to explain all of the strength. The market is well aware, for example, that the pace of U.S. soybean exports and export sales will slow dramatically by the spring of 2010. The seasonal decline may be much sharper than normal due to prospects for record South American production. The lack of profitability in the domestic production of livestock and livestock products and the sharp increase in availability of distillers grains points to weak feed demand for corn and soybean meal. In addition, corn and soybean acreage in the U.S. will likely increase in 2010 as a result of fewer acres of wheat and expired Conservation Reserve Program contracts. The large carry in the corn futures market (8.5 percent from December 2009 to July 2010) and a positive carry in the soybean market in the face of a record South American crop in 2010, suggest the markets are anticipating a sizeable increase in the rate of inflation in 2010. Historically, the rate of inflation has not provided prolonged support for crop prices. Those prices must eventually reflect production, consumption, and inventories of the individual crops.

Issued by Darrel Good
Agricultural Economist
University of Illinois