



WEEKLY OUTLOOK



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ANY CHANCE FOR A RECOVERY IN CROP PRICES?

The prices of corn, soybeans, and wheat remain under pressure a week after the release of the USDA reports revealing surprisingly large supplies. Soybean prices were declining before the reports were released, but March 2010 futures have declined an additional \$.40 in the past five trading sessions. March 2009 corn futures have declined about \$.50, and March 2009 wheat futures are down about \$.70.

Price declines have been larger than anticipated. The large decline suggests that the market has overreacted to the new information and/or that prices are reflecting additional factors. First, the late harvest suggests more uncertainty about the 2009 corn and soybean production estimates and the December 1 stocks estimates than would typically be the case. More clarity will be provided in March. For soybeans, marketing year supplies are estimated to be 322 million bushels larger than supplies of a year ago. However, stocks as of December 1, 2009 were only 61 million larger than stocks on December 1, 2008. The relatively small December 1 stocks estimates this year reflects the extremely large level of exports during the first quarter of the marketing year and a modest increase in the domestic crush. In addition, the calculated seed, feed, and residual use of soybeans during the first quarter of the marketing year was also very large, totaling 185.3 million bushels. That is double the disappearance of a year ago and 45 million larger than the previous record use in 2003. On the surface, the large disappearance suggests the 2009 crop may have been over estimated. That possibility cannot be confirmed until the March 1 stocks estimate is released.

Both the pace of exports (sales and shipments) and domestic crush remain at a rate above that required to reach the USDA's projection for the year. Both are expected to decline as the year progresses and the South American crop becomes available. Some areas of late season dryness in South America could result in a slightly smaller crop than currently projected. The rate of use, then, should be a supportive factor.

For corn, the estimate of December 1 stocks implied a 6.5 percent year-over-year increase in the domestic feed and residual use of corn during the first quarter of the year. The large increase is counter-intuitive given poor livestock margins and large increases in the availability of distiller's grains. The large level of use may also imply an

over-estimate of the 2009 crop. The uncertainty surrounding the production and stocks estimates due to the late harvest preclude conclusions at this point. In the mean time, the pace of new export sales and weekly shipments remain well below the pace needed to reach USDA's projection of marketing year exports.

For wheat, the projection of large year ending stocks was decidedly negative for near term price prospects. The pace of new sales and weekly shipments remain below the pace needed to reach even the extremely low level now being projected by the USDA. Fundamentally, the large decline in winter wheat seedings offers some opportunity for a recovery in prices during the 2010-11 marketing year. Harvested acreage, particularly of soft red winter wheat, could be even smaller than implied by the acreage estimates due to poor conditions in some areas. A much smaller harvest in 2010 could allow for a recovery in the soft red winter wheat basis that has been extremely weak for the past three years.

The large decline in winter wheat seedings may be problematic for corn and soybeans and other spring planted crops. The six million acre decline in winter wheat seedings along with additional acreage released from the Conservation Reserve Program opens the door for large increases in the acreage of spring planted crops. While a few more corn and cotton acres may be needed to accommodate the expected rate of consumption in 2010-11, a large South American harvest implies no need for more soybean acreage. Favorable growing conditions, then, could result in a surplus of one or more crops in 2010.

An additional concern for crop prices is the continued lackluster performance of the national economy and the persistently high unemployment rate. These factors do not bode well for demand prospects for agricultural commodities for food or fuel consumption. The lack of economic growth, along with emerging indications that Iraq could substantially increase oil production over the next several years, may prevent an increase in crude oil prices that would support the biofuels industry.

A recovery in crop prices cannot be ruled out, particularly as the new northern hemisphere growing season gets underway, but prospects are less encouraging now than just two weeks ago.

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