



WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

FEBRUARY 8, 2010

SOUTH AMERICAN PRODUCTION PROSPECTS

The month long decline in corn and soybean prices has slowed and signs of a near term low have emerged. March soybean futures have held at the \$9.00 level that has provided support since May of 2009. March corn futures have not tested the low near \$3.20 established in September 2009 and appear to have established near term support in the \$3.50 area.

As is always the case, a number of factors will determine corn and soybean prices into the spring planting season. In the big picture, the anemic U.S. economic recovery and continued high unemployment rate are not encouraging for the demand side of agricultural markets. However, the rate of the domestic soybean crush remains large due to strong export demand for both soybean meal and oil. The rate of soybean exports and export sales remain large and the pace of new corn export sales is well above that needed to reach the USDA's marketing year projection. Domestic use of corn for ethanol production will continue to be supported by larger biofuel mandates and generally favorable returns for producing and blending ethanol. Consumption of U.S. corn and soybeans should reach, or perhaps exceed, USDA projections even as the domestic economy struggles.

On the domestic supply side, there is general anticipation that both corn and soybean acreage will increase in 2010 due to the large decline in winter wheat seedings and maturity of some Conservation Reserve Program contracts. Planting intentions along with spring weather conditions will shape the market's expectations for production in 2010.

One of the more important price factors is the likely size of the South American harvest in 2010. Brazil exports large quantities of soybeans and soybean products. Argentina exports modest quantities of soybeans and large quantities of soybean products. The size of those crops has a large influence on the demand for U.S. soybeans and soybean products beginning in April and continuing through March of the following year. The small harvest of a year ago is one of the factors that has supported the large increase in U.S. exports of soybeans and soybean products over the past year.

The USDA and others have projected a large increase in soybean production in South America this year. The USDA projects harvested area in the five countries of Brazil, Argentina, Paraguay, Bolivia, and Uruguay at 114.6 million acres, 11.6 million acres more than that of a year ago. The average yield in those 5 countries is projected at 41 bushels per acres, compared to 34.1 bushels last year. The USDA projects the 2010 South American harvest at a record 4.7 billion bushels, nearly 1.2 billion bushels larger than the 2009 harvest. A crop of that size would result in a slowdown in the rate of US exports beginning in a couple of months and continuing into the spring of 2011.

There has been some late season heat and dryness in southern Brazil and Paraguay. It is too early to tell if that pattern was severe enough or of long enough duration to alter production prospects. The USDA will continue to update production forecasts on a monthly basis, with the next release on February 9.

Argentina and Brazil have been the second and third largest exporters of corn (behind the U.S.) in recent years. The smaller corn harvest in both countries in 2009 has resulted in a sharp decline in exports, particularly from Argentina. For the current year, the USDA projects harvested acreage of corn in the two countries at 32.5 million acres, with only about 5 million acres in Argentina. Combined acreage is expected to be 2.9 million less than that of 2009. Corn production in the two countries is projected at 2.6 billion bushels, 94 million larger than the 2009 harvest. All of the increase is expected in Argentina due to improved yield prospects. The projected production, however, is about 575 million less than the large crop of 2008. South American corn exports should remain modest for another year, allowing the US to garner a larger share of the world market.

After the sharp decline of recent weeks, a modest recovery in corn and soybean prices is expected. The recovery, however, is not expected to push prices back to the early January level. That magnitude of increase would likely require some spring weather issues.

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