



WEEKLY OUTLOOK



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PRODUCTION EXPECTATIONS TO WEIGH ON CORN AND SOYBEAN PRICES

Prices for the 2010 corn and soybean crops experienced some weakness immediately following the March 31 USDA reports, but made substantial gains in the following two weeks. That rebound appears to be ending.

December 2010 corn futures traded to \$3.75 following the *Grain Stocks and Prospective Plantings* report, but traded to a high of \$3.95 last week. November 2010 soybean futures traded to a low of about \$9.08 following those reports, but were \$.60 higher late last week. Prices turned lower at the start of this week. While much of the day-to-day chatter in these markets centers on the so called outside markets--energy, currencies, and financials, the most important price factor now is prospective crop size.

For corn, expectations for the size of the 2010 U.S. crop are likely getting larger. There is some expectation that planted acreage will exceed intentions reported at the end of March. Favorable spring weather and rapid planting progress raise expectations that producers will plant more corn than intended in early March. This year, a relatively dry April may have allowed much needed field work to be finished, resulting in more corn acres than planned. In addition, there has been a tendency for actual planted acres of corn to exceed March intentions in recent years. Intentions were exceeded in 5 of the past 6 years, with 2008 being the exception. However, acreage exceeded intentions only 6 times in the past 10 years and only 8 times in the past 20 years.

It is not clear how producers will respond to lower prices of corn. December 2010 futures were near \$4.15 in early March, but are now below \$3.90. On the other hand, November soybeans futures are higher now than anytime in March. December corn futures are below the spring price guarantee for crop revenue insurance and November soybean futures are above the guarantee.

Yield prospects for the 2010 corn crop also remain favorable early in the growing season. Our crop weather models reveal a yield penalty for planting corn late (after

May 10). Widespread late planting likely resulted in a substantial yield penalty in the eastern Corn Belt in 2009. For now, it appears the U.S. crop will be planted in a very timely fashion, resulting in negligible yield penalties in 2010. In addition, the National Weather Service forecast is for generally benign summer weather conditions. Some market analysts believe that the current volcanic activity in Iceland could also lead to favorably cool summer weather in some parts of the northern hemisphere. However, that volcanic activity is much smaller than historic episodes that have influenced summer weather. The timing and magnitude of the weakening of the current El Nino may have some influence on summer weather as well, but correlations are not strong. The relatively dry conditions in April could have some minor negative influence on corn yield potential. That impact, however, may be offset by the generous amount of precipitation from last fall through March 2010.

Expectations for the 2010 soybean crop are not as well defined as those for corn. In general, an increase in corn acreage from intentions would lead to expectations of fewer soybeans acres. In 8 of the last 10 years, the difference between March intentions and actual soybean acreage was in the opposite direction of the difference in corn acreage. The exceptions were 2008 when acreage of both crops exceeded intentions and 2001 when acreage of both crops was below intentions. The magnitude of change in 2010 is difficult to anticipate since planting decisions will be influenced by decisions for a number of other crops. In addition, the magnitude of total planted acreage of all crops could deviate from March intentions. Soybean yields are most heavily influenced by July and August weather. At this juncture, there is no reason to expect the 2010 U.S. average yield to be below trend.

If favorable planting and early growing season weather conditions persist, as forecast, corn and soybean prices could experience some on-going weakness. More volatility would be expected as the crops approach the critical part of the growing season in July.

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