



WEEKLY OUTLOOK



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FOCUS ON WEATHER AND CROP SIZE

Corn and soybean prices managed an impressive rally during the first half of July. That rally was initiated by smaller than expected June inventories and smaller than expected corn acreage revealed in USDA's June 30 reports. The rally was supported by strength in wheat prices that reflected declining wheat crop prospects in a number of important production areas.

Strength in corn and soybean prices late last week reflected concerns about the potential impact of the forecast for widespread and lingering high temperatures across the U.S. Updated forecasts for more widespread and abundant precipitation this week moderated some of last weeks' yield concerns. Most of the crop concern is centered on corn due to prospects for relative small stocks at the end of the current marketing year and prospects for a continuation of a high rate of consumption during the 2010-11 marketing year. Consumption next year is expected to be supported by increasing use of corn for ethanol production, although there is some concern about reaching the blend wall in early 2011. Most remain optimistic that the Environmental Protection Agency will approve a higher ethanol blend, at least for some vehicles, that would expand the potential market for mid-level blends. There is also concern that the \$.45 per gallon blender's tax credit for ethanol which expires at the end of this year will not be renewed, or more likely, will be renewed at a lower rate. Current price relationships in the ethanol and gasoline markets suggest that a lower tax credit rate would not reduce the incentive for blending. The concern would be that the price relationships change so that a lower tax credit rate would reduce those incentives. A case might be made for a variable tax credit rate that reflects changing price relationships and blending economics.

The other sectors of the corn market are expected to experience stable consumption patterns. The USDA currently forecasts non-ethanol processing uses of corn during the year ahead at 1.36 billion bushels, only 20 million bushels above the forecast for this year. Feed and residual use is projected at 5.35 billion bushels, 175 million less than the inflated projection for the current year resulting from the small estimate of June 1

inventories. U.S. corn exports during the year ahead are forecast at 1.95 billion bushels, equal to the forecast for the current year.

There is a fair amount of uncertainty about export demand for U.S. corn. Through July 15, the USDA reports cumulative export inspection during the current marketing year at 1.608 billion bushels. Through May, cumulative Census Bureau export estimates exceeded inspections by 77.7 million bushels. If that margin has been maintained, exports during the last 6.7 weeks of the year need to total 264 million bushels, an average of 39.4 million bushels per week, to reach the USDA projection of 1.95 billion bushels. Inspections over the 11 weeks ended July 15 averaged 40.8 million per week. It appears that shipments are on pace to reach the projection. Unshipped sales of U.S. corn for delivery during the current marketing year stood at 373.8 million bushels on July 8, well above that needed to reach the USDA projection. Export sales for delivery during the 2010-11 marketing year stood at a relatively small 101 million bushels as of July 8, including only 2.4 million bushels to China. Export sales for next year, however, could accelerate if world wheat production prospects continue to decline.

There is a little less concern about the U.S. soybean crop even with small inventories due to prospects for reduced consumption of U.S. soybeans during the year ahead and the 1.4 million acre increase in U.S. planted acreage this year. With a trend yield in 2010, the USDA expects 2010-11 marketing year ending stocks of U.S. soybeans to reach a four-year high of 360 million bushels. An average yield slightly below trend would still leave expected stocks at a relatively high level.

In general, expectations for the U.S. average corn yield this year have declined slightly, but are still relatively high. The wide range of yield expectations reflects the differing assessments of the impact of weather conditions to date and uncertainty about upcoming weather. Record or near record June rainfall in much of the Midwest may have had a negative impact on yield potential, but that is not accepted by all analysts. Even more subtle is the likely net impact of July temperatures slightly above average this year compared to the record or near record low temperatures of 2009. The USDA will release the first forecast of yields based on surveys and field observations on August 12. The price impact of that forecast could be significant.

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