



WEEKLY OUTLOOK



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UPTREND IN CROP PRICES STALLS

Except for a brief retreat in early October, corn, soybean, and wheat prices were in a steady uptrend from June 30 through November 9. December 2010 corn futures increased about 70 percent, while January 2011 soybean futures and July 2011 wheat futures increased about 50 percent.

The fundamental reasons for the large price increases have been well chronicled. The factors include smaller than expected corn acreage in the U.S., declining U.S. corn yield prospects, a rapid pace of corn use for ethanol, a torrid pace of U.S. soybean exports, rising world vegetable oil demand, a significant decline in wheat production in Russia and Kazakhstan, and a very poor start for the U.S. winter wheat crop. LaNina weather conditions also raised some concern about southern hemisphere crops. In addition, overall demand prospects for U.S. commodities were supported by the declining value of the U.S. dollar and rising energy prices.

Corn prices experienced the sharpest rally due to the magnitude of the decline in U.S. production prospects and expectations of a sharp drawdown in inventories of U.S. corn by the end of the 2010-11 marketing year. The USDA currently projects those stocks at a 15 year low of 827 million bushels.

Soybean prices have been supported by the rapid pace of exports and export sales. The USDA now expects 2010-11 marketing year U.S. soybean exports to reach 1.57 billion bushels, 4.6 percent above the record exports of a year ago. Through the first 10 weeks of the marketing year, export inspections exceeded those of a year earlier by 25 percent. Shipments to China were up 49 percent and China accounts for 68 percent of all U.S. exports to date. Unshipped export sales as of November 4 were 12 percent larger than sales of a year ago. China accounted for 58 percent of those outstanding sales. Even with large exports, expectations were for generally adequate stocks of U.S. soybeans at the end of the 2010-11 marketing year. The projection of those stocks dropped sharply early last week, however, as the USDA lowered the expected size of the 2010 U.S. harvest and increased the forecast of exports.

Soybean oil prices have been supported by the projection of a second consecutive year of a 5 percent increase in world vegetable oil consumption and a further decline in world vegetable oil stocks. Domestically, soybean oil consumption for food is expected to be near that of last year, while exports are expected to decline by 20 percent. The USDA projects a 1.2 billion pound (72 percent) increase in soybean oil use for the production of biodiesel. Use declined sharply last year due to the expiration of the blenders' tax credit. To reach the USDA projection of 2.9 billion pounds, use will have to average 242 million pounds per month. Use during the last month of the 2009-10 marketing year (September 2010) totaled 98 million pounds.

Wheat prices have been supported by the nearly 6 percent decline in world wheat production and the expected decline in U.S. and world stocks. Those inventories, however, are expected to be at generally adequate levels. More recent concerns center on the poor condition of the U.S. winter wheat crop and whether Russian wheat production will rebound in 2011.

Prices of all three commodities declined sharply last week. The turn to lower prices was attributed to China's move to increase interest rates and presumably slow the rate of domestic economic growth. Such a slow down might reduce the rate of growth in Chinese demand for commodities of all types. Price weakness may have also reflected some moderation in supply concerns. The U.S. hard red winter wheat crop received some beneficial precipitation and the USDA increased its projections of some crops outside the U.S. Projections were increased for corn in China, soybeans in South America, and wheat in Argentina and Australia

There may also be growing concern about the ethanol blender's tax credit. If that credit is not extended, the pace of ethanol production could drop back to the mandated level. Finally, a private forecast that U.S. corn producers will increase plantings by nearly 5 million acres in 2011 reminded the market that high crop prices will induce a worldwide supply response next year.

While the uptrend in prices stalled last week, there is still a lot of uncertainty about crop supply and demand conditions. Uncertainty about Chinese corn demand, ethanol policy, energy prices, weather, and acreage may result in large price swings, but should provide good support for prices into the end of the year.

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