



# WEEKLY OUTLOOK



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## **SOYBEAN AND CORN PRICES NEED TO DIRECT CONSUMPTION AND ACREAGE**

Over the next three months, the prices of corn and soybeans have two major objectives. First, prices must allocate remaining old crop supplies to maintain at least pipeline stocks by the end of the current marketing year. Second, prices must direct spring planting decisions.

For soybeans, the USDA now projects that the combined total of domestic crush and exports during the current marketing year will reach 3.245 billion bushels. That is only 8 million bushels, or 0.25 percent, less than the total of last year. At the projected level of use, year ending stocks would total only 140 million bushels, or 4.2 percent of total use that includes seed, feed, and residual uses. Year ending stocks cannot be reduced much below 140 million bushels and still maintain pipeline supplies so total use cannot exceed current projections by a substantial amount.

During the first quarter of the current marketing year, soybean crush and exports totaled 1.063 billion bushels, 82 million (8.4 percent) more than during the first quarter last year. Use during the remainder of the year, then, will be limited to about 2.182 billion bushels, which is 90 million bushels (4 percent) less than use during the same period last year. The pace of consumption clearly needs to decline and that decline has been occurring. The National Oilseed Processor Association estimates the December 2010 crush by their members was 11.5 percent below that of December 2009. If the national crush was down 10 percent, the December 2010 crush was 17 million less than in December 2009.

Based on weekly export inspection figures, U.S. soybean exports from December 1, 2010, through January 6, 2011 were 40 million less than that of a year ago. The total of crush and exports since December 1, 2011, was 57 million bushels, or nearly 14 percent, less than the total of a year ago. Soybean consumption has slowed much more than the approximately 4 percent needed to ration current supplies. Consumption for the rest of the year needs to be only 33 million less than that of a year ago.

For corn, the USDA now projects 2010-11 marketing year consumption at 13.43 billion bushels. That is 364 million bushels, or 2.8 percent, more than consumed last year. At the projected level of consumption, year ending stocks will total only 745 million bushels, or 5.5 percent of consumption. Stocks cannot be reduced much below that level and still maintain pipeline supplies so total consumption cannot substantially exceed the current projection.

During the first quarter of the marketing year, corn consumption totaled 4.117 billion bushels. That is 253 million bushels, or 6.5 percent, more than consumed in the same quarter a year earlier. Use during the remainder of the year will be limited to about 9.313 billion bushels, which is only 111 million bushels, or 1.2 percent, more than consumed during the same period last year. Corn exports from December 1 through January 6 were 21 million bushels (15.4 percent) larger than during the same period last year. Ethanol use of corn was 55 million bushels (11.6 percent) larger than during the same period a year ago. Total non-feed use of corn since December 1 was 76 million bushels (13.6 percent) more than use of a year earlier. Depending on the rate of feed and residual use since December 1, it appears that total corn consumption during the rest of the year can exceed that of a year earlier by only about 35 million bushels.

It appears that soybean prices have increased enough to ration current supplies, but corn prices have not, although the demand for U.S. corn and soybeans will still be influenced by the outcome of South American production. It appears that the Argentine corn crop, and perhaps the soybean crop, could be smaller than the current USDA forecast, further increasing the export demand for both crops.

The prospects for both very tight year ending stocks of corn and soybeans and a continuation of strong demand implies that 2011 crops need to be large. More acreage of both crops in the U.S. may be needed to meet projected consumption levels at reasonable prices and to start rebuilding domestic stocks to a more acceptable level.

Planted acreage of all crops in the U.S. declined by 8.3 million acres from 2008 to 2010. At the same time, acreage enrolled in the Conservation Reserve Program declined by 3.4 million acres. These changes suggest that as much as 11.7 million acres of additional crop land (including double cropped acres) may be available for planting in 2011. Of that total 3.7 million has already been planted to winter wheat. Double cropped acreage of soybeans following wheat harvest could increase by 2 million acres, following a similar decline last year. That leaves 6 million acres for additional acreage of spring planted crops in 2011. Soybeans may not require any of that acreage due to increased double cropping. Assuming that corn consumption remains near the 13.4 million bushel level next year, that year ending stocks need to expand by at least 500 million bushels next year, and that the 2011 average corn yield is near the trend of 159 bushels, most of that 6 million acres needs to be planted to corn.

Based on the need to reduce the pace of consumption and to aggressively expand acreage, corn prices likely need to remain high in absolute terms and relative to other crop prices for an extended period.

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