

Corn and Soybeans

Outlook

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Increase in production and ending stocks of corn and soybeans! *Dr. Rami Reddy, Associate Professor & Extension Economist, UW-Platteville*

The latest (January 12th, 2006) USDA world supply and demand report released for corn and soybeans indicated an increase in the production and ending stocks for both crops.

See the following table for corn and Soybean World supply and Demand summary.

World S&D Summary 01/12/05

Million metric tons						
	-----Corn-----			-----Soybeans-----		
Crop Year	04-05	05-06	05-06	04-05	05-06	05-06
Report Date	01/12	12/09	01/12	01/12	12/09	01/12
CARRYIN	103.74	126.63	130.97	35.68	42.09	44.90
PRODUCTION	708.32	677.65	683.51	215.33	221.71	223.02
TOTAL SUPPLY	812.06	804.28	814.48	251.01	263.80	267.92
FEED	466.32	464.53	465.60			
CRUSH				176.04	185.35	184.77
OTHER	214.77	221.02	220.62	30.07	30.34	30.00
TOTAL USE	681.09	685.55	686.22	206.11	215.69	214.77
END CARRYOUT	130.97	118.73	128.26	44.90	48.11	53.15

Note: corn one metric tonne = 39.3083 bushels, soybean one metric tonne = 36.7437 bushels.

World ending stocks for corn during the 2005/2006 were higher to 128.26 million tonnes from 118.73 million tonnes given in last month report. And for soybeans during the 2005/2006 year the ending stocks were higher at 53.15 million tonnes from 48.11 million tonnes given in the last month report. Ending stocks estimates of corn and soybeans in both World and US were high due to a big jump in production numbers.

Corn

From the crop production annual (2005) summary report of USDA, US corn for grain production is estimated at 11.1 billion bushels, up 1 percent from the November forecast but down 6 percent from the 11.8 billion bushels produced in 2004. The average U.S. grain yield is estimated at 147.9 bushels per acre, down 0.5 bushel from the November forecast and down 12.5 bushels from 2004. The 2005 production and yield estimates are the second largest on record, behind last year. Area harvested for grain, at 75.1 million acres, is up 2 percent from 2004.

The latest USDA World S&D report showed increase in supply of corn for both the US and China. China production was revised higher by 4 million tonnes to 134 million, which

prompted the USDA to lower the export forecast. China may emerge as an exporter this season.

From the latest grains stocks report released by USDA, US corn stocks were up 4 percent from December 2004.

Corn stocks in all positions on December 1, 2005 totaled 9.81 billion bushels, up 4 percent from December 1, 2004. Of the total stocks, 6.33 billion bushels are stored on farms, up 3 percent from a year earlier. Off-farm stocks, at 3.49 billion bushels, are up 5 percent from a year ago.

The corn market does not seem to have strong fundamentals that are pushing the prices upside. The technical action in the futures markets has become weak and the prices are in a downward slide.



Fig. 1: March corn daily futures prices (CBOT).

In the futures markets the speculative selling has intensified over the last week, driving the futures prices down. The nearby March corn futures prices are trading at \$2.05 levels. There is a downward momentum in price of corn that is acting in sympathy with other grains.

Corn cash prices in the state of WI ranged from \$1.65 to \$1.85 per bushel.

Producers are selling at a slow pace and this is keeping the basis levels firm across US and Midwest.

Last week export inspections, came in at 33.6 million bushels, which was above expectations. Cumulative shipments have reached 35.4% of the USDA forecast for the season as compared with 30% as the 5-year average for this time of the year.

World feed grains demand is still strong. The US needs to see some action of it. As of now, many buyers are buying the corn from competitors such as China,

and European Union due cheap prices relative to US.

Big production, stocks and reduction in the export numbers of US is a bearish development in corn market. However, the demand numbers were quite supportive with domestic demand projected at a high level with limited export potential.

Bird flu concerns and recent human death toll in Turkey and Indonesia are raising concerns and keeping pressure on corn prices.

Poor pastures and range conditions in Texas and Oklahoma have pushed more and more cattle into feedlots, needing supplemental feed, which will boost feed usage.

Removal of trade restriction by South Korea and Singapore over the past two weeks is favoring beef trade.

The crude oil prices are trading at higher levels and more ethanol plants are coming into production during 2006.

Soybeans

From the crop production annual (2005) summary report of USDA, Soybean production in 2005 totaled 3.09 billion bushels, the second largest U.S. soybean crop on record. This is up 1 percent from the November forecast but 1 percent below the record-setting 2004 crop. The average yield per acre is estimated at a record high 43.3 bushels, 0.6 bushel above the November forecast and 1.1 bushels above the 2004 final

yield. Harvested area is down 4 percent from 2004, to 71.4 million acres.

The USDA posted the second highest ending stock forecast in history for the US, and world ending stocks are expected to exceed the previous record high by about 8 million tonnes, which drive up world stocks to use ratio to 24.7% from 21.8% last year and 18.8% from previous year. World ending stocks for the 2005/2006 season were pegged at

53.15 million tonnes from 48.11 million tonnes last month. A jump in beginning stocks in Brazil, higher production and lower demand all led to the sharp jump in ending stocks.

US ending stocks projected at 505 million bushels, the second highest in history. The usage projected in the US for 2005/2006 season is expected to drop by 145 million bushels from last year. The new ending stocks number in US is the second highest in history and just 31 million bushels shy of 1985/86 record.

From the latest grains stocks report released by USDA, Soybean stocks were up 9 percent from December 2004. US soybeans stored in all positions on December 1, 2005 totaled 2.50 billion bushels, up 9 percent from December 1, 2004. Soybean stocks stored on farms totaled 1.35 billion bushels, up 3 percent from a year ago. Off-farm stocks, at 1.16 billion bushels, are up 15 percent from last December.



Fig. 2: March soybean daily futures prices (CBOT).

Soybean prices are on steady decline due to hefty stocks and improving weather conditions in the growing regions of the South America. Bearish long term fundamentals are pressuring soybean prices. Market is down continually for the past seven days and is still going in this direction.

In the futures markets the selling pressure has intensified over the last week due to weak fundamentals that

drove the futures prices down. The nearby March soybean futures prices are trading at \$5.66 levels which were at \$6.30 per bushel three weeks back.

Soybean cash prices in the state of WI ranged from \$5.10 to \$5.30 per bushel.

Soybean basis levels started improving and the export demand is coming as indicated in the last week's action. The futures prices went down following the

release of S&D report on January 12th that stated more than expected production and ending stocks. Due to less selling of producers, the cash prices held up which led to improvement in basis.

Latest, US soybeans, meal, and oil weekly export numbers came in just at about expected levels. Recent purchases made by China have provided some support.

Weekly export inspections came in at 18.7 million bushels, which was at the low end of expectations. Cumulative shipments have reached 42.7% of the USDA forecast for the season as compared with 53.2% as the 5-year average for this time of the year.

National Oilseed Processors Association (NOPA) crushed 142.2 million bushels of soybeans in December and this is viewed as slightly bearish. Oil stocks

level rose 1.829 billion pounds. Soybean meal exports in December for NOPA members totaled 417,437 tonnes, which is quite below the last month, November, and December 2004 numbers.

USDA projects, due to bird flu threat the US chicken exports will decline into the traditional export markets. The uncertainty associated with the bird flu is still a potential bearish force for the soybeans market.

Crop conditions improved in Argentina and Brazil with rains over last weekend. This pressured corn and soybean prices downwards. The price action seems weak in soybeans markets due to hefty production expectations from South America. This year the world looks to be in a position to have to absorb massive, record ending stocks and production. Unless there is significant production problems develop in South America this season will see low prices for soybeans.

Next bi-weekly report will come on Tuesday, February 7th, 2006.
