

Corn and Soybeans

Outlook

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Decline in soybeans and optimism in corn markets

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The corn markets are moving in tandem with other grains markets that are declining, but there are good indications that corn market conditions will improve. In the soybean markets, the bearish fundamentals will increase pressure on prices as we are progressing into the heart of the South American harvest.

Corn

The monthly USDA supply and demand estimates report released on March 10th did not have any major surprises for the grains markets. USDA has cut the corn ending stocks number for the 2005/2006 year with increase in the disappearance of corn for commercial use and increased export demand. However, the world ending stocks number was increased in this report due to low projected usage of feed grains in the world. This is attributed to the spread of diseases such as bird flu.

Cash prices

In WI cash markets the prices are ranging from \$1.80 to \$1.95 per bushel. Across the US the national corn index is at \$1.87 (DTN).

There is slow movement of corn in the cash markets due to low prices and producers are expecting the prices to become firm by at least 10 to 15 cents more from the current levels before committing for more sales.

Futures prices

May 2006 corn futures contract (nearby) is trading at 224 cents per bushel. This contract has closed at its lowest level since January 4th.

Weakness in other grains markets such as wheat and soybeans is driving the corn prices low.

New crop contract, December 2006, corn futures closed at 255 cents per bushel. Major index funds are the buyers of new crop corn contracts and are driving the prices up. The setup for the coming year looks mostly supportive for corn prices due to steady growth in demand. The export demand and the commercial usage of corn is picking up.

The uncertainties regarding the next year's corn planted acreage, increase in the input prices, and forecast of the drought like conditions in the central and southern plains to continue until June by the national weather service is adding to this sentiment.



Fig.1: May 2006 corn daily futures prices (CBOT)

Basis

Across the nation the basis levels are improving with an average basis of 35 cents under the May contract. Of late, due to weakness in both cash and futures prices the basis levels remained steady.

Producer sales were minimal due to low cash prices and below the target price. Stocks at commercial elevators seem to be declining due to low farmers sales. The basis levels with the nearby contracts are steady while for the deferred contracts there is definite basis weakness.

Exports

The most recent weekly export sales for corn came in at 1.029 million metric tones. The cumulative export shipments have reached 71.8% of the USDA export projection for the marketing year as compared with 63.9% on average over the past 5 years. So far the export situation for corn seems to be good.

Ethanol & other factors

The ethanol production capacity likely to expand to 750 million gallons this crop year. Ethanol demand is strong, and demand is expected to grow in other industrial demand categories as well.

As the sugar prices have doubled in the past year there will be increased demand for high fructose corn syrup.

Corn polymer production will hit big as the crude oil prices are staying at higher levels. Recently, ADM announced to build a new plant in Clinton, Iowa which is the first commercial plant for PHA natural plastics. This plant will have an initial annual capacity of 50,000 tons per year, and will produce a new generation of high-performance natural plastics that are eco-friendly and based on sustainable, renewable resources.

Argentina’s corn production for 2005/2006 is pegged at 13.8 million

tones which are down from 20.5 million tones produced last year.

China demand for feed grains will continue into the next year and soon China will emerge as a major importer of feed grains.

On the bearish side, bird flu and mad cow related demand concerns persist. USDA is investigating third case of mad cow disease in Alabama. It has added to the slightly negative demand news. The feed usage is going to be low world wide due to the spread of animal diseases.

The weather conditions across the Midwest seem to be good with good soil moisture levels. Weather and growing conditions remain the major factors for the world's grains and oilseed markets for the next six to eight weeks as the Northern Hemisphere emerges from winter into spring and the Southern Hemisphere moves into fall and its harvest.

Bearish (large) supplies, improved planting conditions and technical weakness will keep the prices low for some time. But, assuming that the planted acreage will fall in the coming planting season, there will be trend line yields for next year, and usage stays strong we should start seeing higher prices for corn this summer that will lead into next crop season.

Producer actions

Those who have stored the corn should plan on selling the corn soon in the summer months either in May or June. Remember that we still have record supplies of corn due to good production this year.

Soybeans

USDA expect record world and US ending stocks for the 2005/2006 season. USDA has increased the projected ending stocks for soybeans by 10 million to record 565 million bushels in its latest supply and demand report. USDA also boosted its world soybean stocks number a bit further to 54.42 million metric tons from 53.83 million.

There is continued weakness in the exports of US soybeans and low feed usage across the world. The US crush of soybeans appear to be slowing in the face of record supply.

Cash prices

In WI cash markets the prices are ranging from \$5.15 to \$5.35 per bushel. Across the US the national soybean index is at \$5.26 (DTN). The prices are low and in some markets we are seeing the LDP level prices.

The cash fundamental for soybean market look bearish. In the coming weeks ahead the world cash markets will face downward pressure as the South American harvest hits the market with a record supply.

Futures prices

The nearby May 2006 futures prices closed at \$5.76 per bushel. There is serious weakness in the market as the prices in futures have crossed the technical support levels. Currently, May soybeans are trading at their lowest level since July 19th of 2005.

Many traders are bearish in the soybean markets with fundamentals supporting the fact with declining export demand

and increased supplies in the world market from the South American crop.



Fig.1: May 2006 soybeans daily futures prices (CBOT)

Basis

Slow producer selling in the US has kept the Midwest basis levels steady. In the weeks ahead the producers are expected to increase sales despite weak prices. Gulf basis was steady.

Exports

The weekly export inspections report showed soybean shipments at 28.88 million bushels. Cumulative shipments have reached 83.7% of the USDA export projection for the marketing year as compared with 89.8% on average over the past 5 years.

US soybean exports are expected to fall off soon. China has bought the US soybeans so far but this situation will change soon. China may shift its buying of soybeans from US to South American countries. Brazil soy exports will increase as indicated by the increased export registrations this year (6.47

million tonnes) compared to last year (4.05 million tonnes). This will put pressure on demand for US soybeans.

Other factors

Bird flu spread in European Union countries and identification of second case of bird flu in India will have a negative impact on meal demand.

World wide the poultry consumption had plummeted and Brazil's (largest chicken exporter) poultry production will drop by nearly 25% due to declining exports. Bird flu along with mad cow disease will have a significant impact on soy meal feed usage in the animal production.

Soy oil stocks are growing in USA to burdensome levels. By the end of February, the soybean oil stocks jumped to 2.316 billion pounds from 2.057 billion pounds at the end of January.

World wide the bio-diesel production will increase in the face of higher crude oil prices. But many countries are using the other oilseeds (such as rapeseed) for bio-diesel production.

The palm oil prices are declining that is boosting its usage as cooking oil in place of soybean oil. India, major importer of cooking oils, has lowered its tariffs on palm oil but not on soybean oil.

Increasing supply on the market from advancing South American harvest and weaker demand for US soybeans is pushing the soybean prices down.

Record high forecasts for US and world soybean ending stocks along with the potential dent in demand from bird flu

problems will keep the soybean prices low. If the projected planted acreage increases along with tend line yields, this would increase the supply next year with another record carry over stocks.

Producer actions

Even though, currently the soybean prices seem to be trading sideways at low price levels, following the next report release on prospective plantings and quarterly grain stocks on March 31st we will see a definite direction.

Producers should keep a keen eye on the market developments. Those with record storage of soybeans should pay attention to LDP's. The indicators point to the low price possibility.

Next monthly report will come on Thursday, April 20th, 2006.