

Corn and Soybeans

Outlook

Monthly Newsletter

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Planting intentions revealed!

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The USDA's producer survey of US planting intentions for 2006/07 crop (released March 31st) revealed a drop in corn acreage by 4.6% from last year which is a decrease of 3.74 million acres to 78 million. Increased fuel and fertilizer costs along with record production this year had led to this three times decrease in acres than anticipated. Soybeans acres planting intentions hit a record 76.9 million acres up by 4.75 million acres from last year.

Since the release of this report, for the past three weeks, the markets shifted focus on the tightening in the corn market and higher stocks projections for soybeans. Lately, there was significant improvement in corn prices. Lower planting intentions of corn by US producers coupled with increase in the demand base bode well for improvement in corn prices. Where as for soybeans large supplies from current year and increased acres revealed in planting intentions had driven the prices down.

The final planted acres for 2006/07 numbers could be very well different than that are revealed in these intentions report for both crops as the market conditions are changing. In light of the changing market conditions (demand situation), stocks numbers and competition we may see changes in the above numbers when the actual plantings happen.

As we are currently into the planting season and later move into the growing season the commodity prices will experience significant variation with arrival of new information. This will lead to significant opportunities for locking in better prices for the producers using forward contracts, commodity futures and options hedges for new crop or keep storing the old crop.

Corn

The corn market is extremely sensitive to new crop developments as there is significant start in the planting across the nation with improved weather conditions. Even though the carry over stocks for the next season are looking higher than normal, the growing demand for corn and lower intended planted

acreage (as revealed in March planting intentions report) will leave the stocks to shrink if the weather remains normal during the growing season.

The weather conditions for plantings have improved and there is near 20%

completion of planting operations across the nation.

With enough dry days ahead to plant and swift progress in plantings across the country the corn market will see seasonal decline in prices in the short run.

Cash Markets

WI cash prices are averaging at \$1.94 per bushel. Across many of the WI cash markets the cash prices are ranging from \$1.90 to \$2.20 per bushel. National corn cash index is at \$2.04.

Seasonally, the market tends to peak in early April, working lower through mid-May along with the planting progress. As the planting weather is good the weather premium is disappearing from the corn market. The market may see some decline in cash prices in the coming few weeks.

Futures Markets

The May (nearby contract month) contract finished at \$2.34 (see fig.1). The next nearby, July contract closed at \$2.48 cents per bushel. Where as, the harvest time contract, December futures price ended at \$2.70 per bushel (see fig.2).

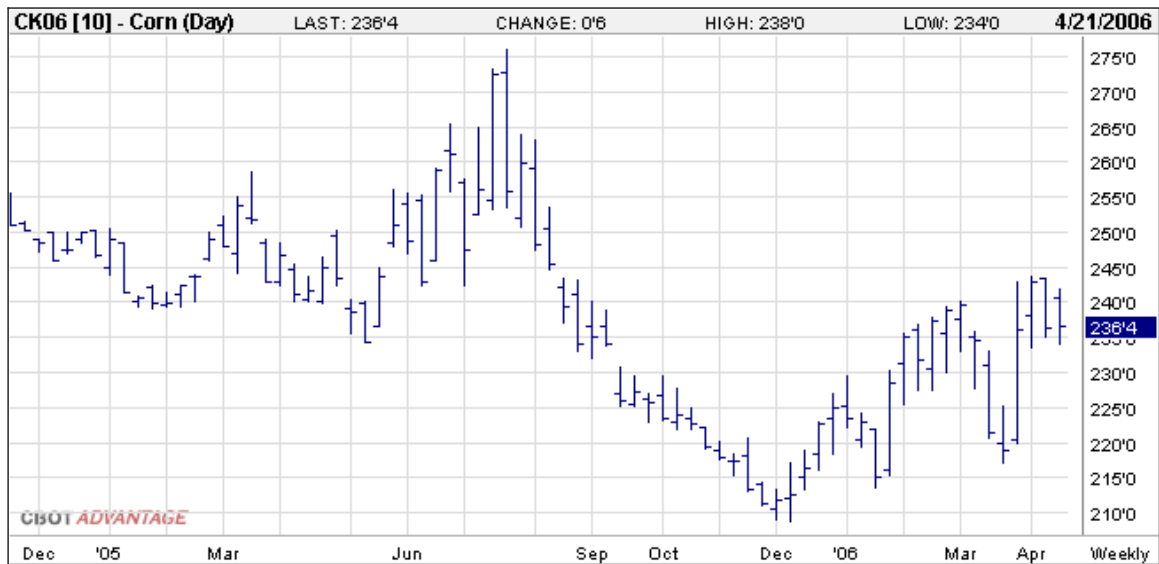


Figure1: May corn weekly futures price (CBOT).

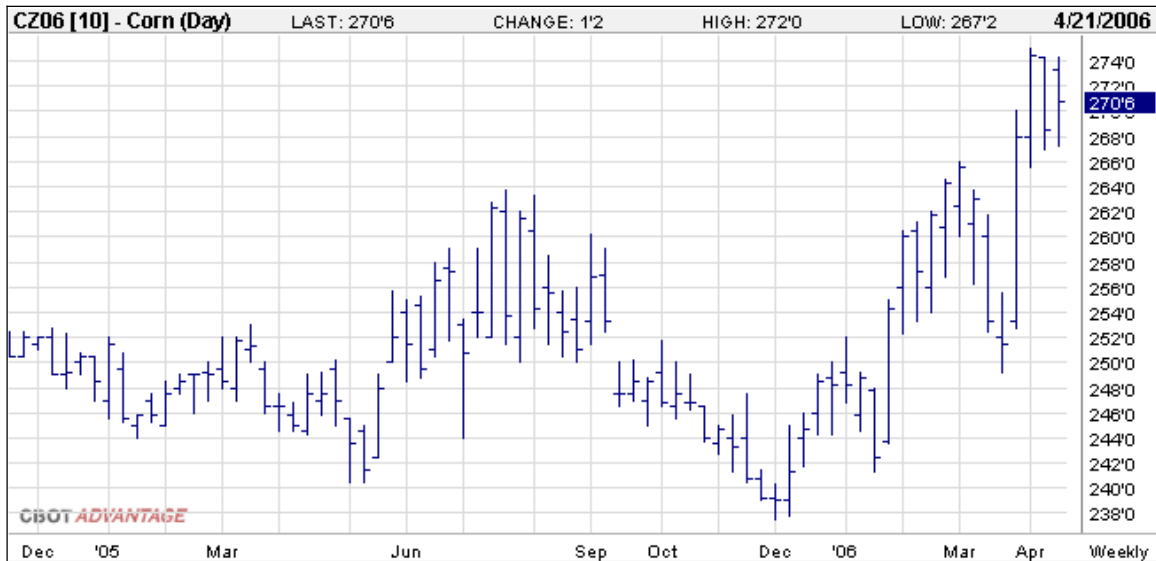


Figure2: December corn weekly futures price (CBOT).

As the new crop futures (December) are trading in the \$2.70 ranges, there are opportunities provided by the market to lock-in a better price for coming crop using a futures hedge. The futures market is showing a carry to deferred contracts (meaning that deferred prices are higher than the nearby). Unless a producer is strapped for cash there is no reason to panic, the market is paying to store grain.

Basis

Nearby basis levels across the nation were steady and were 32 cents lower the nearby May contract. Gulf region basis was steady to firm with improved exports and reduced barge freights.

Farmer's focus on planting is keeping country movement slow and basis levels are firming as a result. Demand from the processing and export sectors has made the basis levels to improve all across the nation.

Seasonal tendencies are for basis to weaken after planting. Late summer basis rallies only happen in tight supply

situations and it is not going to happen this year due to hefty stocks.

Exports

The export numbers were solid for the corn trade. The weekly US corn export sales report states that the exports for the week came in at 1.103 million tones, which was way above trade expectations. Cumulative sales have reached 79.1% of the USDA forecast as compared to 71.5% on average over the last five years.

Other demand factors

As there is significant increase in the crude oil prices (above \$70 per barrel) in the global markets, worries of shortages and production problems due to geopolitical developments the interest in alternative energy sources had improved. Ethanol production and usage is expected to sky rocket in the years ahead. This is giving bounce to the corn prices as reflected in the distant futures contract prices.

China will play a dominant role as a corn demander in the years to come as they

are building corn processing facilities to turn grain into polyester and plastics. Given the enormous textile, corn sweetener and plastics needs for China along with high crude oil prices the corn demand should increase in the years ahead.

The domestic processing and feed use of corn is increasing. The placement numbers and cattle on feed numbers have increased in the latest USDA livestock report.

The global economic outlook report provided by IMF (International Monetary Fund) reported expanding world economies. This will give broad based demand for commodities.

The demand base for corn is also expanding rapidly. If the world and US supplies become tight, we will see higher prices in the year ahead.

Soybeans

The market fundamentals suggest lower prices for soybeans as world supplies will peak in just few weeks. Soon the massive South American crop will hit the market. There is a shift in the trade patterns due to South American competition.

The soybean oil prices have seen support due to increase in the world crude oil prices and with the assumption that more use of soybean oil for bio-diesel production.

Soybean meal consumption has increased due to animal feeding and reduced or discounted fears of bird flu across the globe.

Cash Markets

WI cash prices are averaging at \$5.20 per bushel for old crop and \$5.40 for

new crop. Across many of the WI cash markets the cash prices are ranging from \$5.20 to \$5.40 per bushel. The national soybean cash index is at \$5.33.

Cash sales are slow as farmers are starting spring fieldwork and prices remain below desired goals. Producers are sitting on record high stocks. As we move into the spring planting season, we may see drop in the prices once producers start sales.

Futures Markets

The May (nearby contract month) contract finished at \$5.69 (see fig.3). The next nearby, July contract closed at \$5.83 cents per bushel. The harvest time contract, November futures contract ended at \$6.04 per bushel.



Figure3: May soybean weekly futures price (CBOT).

From the above graphic (see fig.3, red line), you can see a steady downward trend in the futures prices. The May contract came down from \$7.40 to current \$5.65 levels since summer of 2005.

Basis

The basis levels were steady to firm in the Gulf export regions as the producer selling was slow. Basis levels across the country were slightly higher at 37 cents under the CBOT May contract. Domestic basis levels continue to creep higher as processors struggle to find enough available soybeans against tight farmer offerings. Farmers are busy in the fields due to good weather.

Exports

The exports situation for US soybeans is still weak. In the latest weekly export report the sales of US soybeans came in at 194,600 metric tones, which was below the low end of trade expectations. Cumulative soybean export sales have reached 89.2% of the forecast of the season as compared to 93.9% on average

over the last five years.

However, Soybean meal exports were reported strong and soybean oil exports are staying within the range of trade expectations.

So far, the export sales and inspections are on track to meet USDA projections despite the fact that South America is supposedly capturing most of the current export business.

South American crop situation

Brazilian harvest is progressing well due to dry weather and there is lower than expected crop in Brazil due to Asian rust damage. Brazil's Agricultural Research agency cut their production forecast by 1.50 million tones to 55.7 million tones. Argentina officials put their 2005/2006 soybeans to 40 million tones. In spite of Asian rust damage and reported short fall in production the South American crop production is still at a record high. US weak export news along with advancing South American harvest is putting pressure on the prices.

The historical track records of USDA on grain production and stocks reports are

due on April 28th, and next crop production report is due on May 12th.

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