

Corn and Soybeans

Outlook

A Bi-Weekly Newsletter

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This is the first edition of bi-weekly newsletter that focuses on corn and soybean markets situation in the nation and as well as in the state of Wisconsin. This report will cover the market action summary over the periods from May till now.

Focus on Grain Markets

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The production season for corn and soybeans from May till now can be characterized as volatile during summer months (May, June, and July) and most recently (August till now) with declining trend in the prices. Currently, the prices are low for both corn and soybeans. As harvest is progressing and expected to reach full scale in two to three weeks the market has not seen seasonal lows, yet. Historically, in a high production year, around this time of the year, prices will move sideways and later down as harvest nears completion in Midwest states.

From the beginning of production season information regarding farmers intentions of planted acres, weather situations such as drought conditions, pests and disease problems such as Asian rust, USDA crop conditions reports and world supply/demand estimates etc., have made grain markets volatile.

The most recent Hurricane, Katrina, had severely affected the trade flows and led to low prices for grains at various local markets.

The short-term fundamental outlook for soybeans and corn is weak. High carryover stocks, anticipated higher production in 2005/06 crop year, lack of storage, slower grain movement through export pipeline, and high energy prices are reasons for this bearish sentiment.

Fears of inflation, low dollar exchange rate, increase in use of soy oil for bio-diesel production, more ethanol and feed usage for corn, low world carryover stocks and high export demand, may support the prices.

After hurricane Katrina's effect, the latest weekly export sales reports are indicating return to normal levels and export movements are getting restored. As feared, there was not any significant loss of trade to competing countries such as Brazil and Argentina in the aftermath of hurricane.

Following the harvest, once the crop size is known, the prices react more to the demand side factors. This year the expectation is that the demand side will stay strong during the post-harvest season.

Summer months offered significant pricing opportunities for both old and new crops. In summer months (May, June, July and August) significant price rallies occurred and prices reached levels that provided several opportunities for producers to make cash or forward sales of old crop.

The harvest time futures price for corn (December contract) and soybean (November contract) reached their high levels. These summer price levels have given hedging and forward pricing opportunities for new crop. December corn futures prices have reached as high as \$2.70 levels in July and are currently trading around \$2.03. November soybean futures prices have reached as high as \$7.70 levels in late June and are currently trading around \$5.62. Cash prices were also strong during this same time period.

The focus in the next month, October, will be on the size of the corn and soybean crops. The USDA estimates peg the production at high levels. This means higher carry over stocks from 2005/06 into next year with low prices prevailing during this year.

Wisconsin corn production for 2005/06 year is estimated at 380.80 million bushels with an average yield of 136 bushels per acre. This crop is going to be 7.6% greater than previous year that has received an average price of \$2.00 per bushel.

For soybeans, WI crop production during this year is estimated around 56.52 million bushels with an average

yield of 36 bushels per acre. This crop is going to be 4.2% higher than previous year that has received an average price of \$5.20 per bushel.

Both the crops have matured early this year triggering early harvest. Due to early maturity, the quality of beans is going to be a concern this year. During 2005/06 harvest period, high energy costs and extremely low cash prices will subject many WI producers to cost-price squeeze.

Currently, the cash prices are low for both commodities. Corn cash prices are around \$1.35-\$1.45 at most of the local markets in WI. These prices are below the loan rate of \$1.88 for corn and most of the PCP's (posted county prices) are below this loan rate with significant LDP (loan deficiency payments) opportunities. Soybean cash prices are around \$4.95- \$5.05 per bushel.

In most of the WI markets, basis levels were weak compared to the historical levels. The basis is expected to become much weaker until the middle of the October. Post-harvest prices will follow a normal seasonal pattern with significant basis improvements. The distant futures prices are indicating to good storage returns.

Right now the best approach to market crops is to utilize LDP or non recourse loans for immediate cash needs and put the crops in storage. Wait till spring for the basis improvements. During storage period you should use hedging to protect storage returns.

Next bi-weekly report will come on Tuesday, October 4, 2005.