

Corn and Soybeans

Outlook

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Higher ending stocks for corn and soybeans!

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Latest USDA's December supply and demand report released early Friday (Dec 9th), projected that there will be more corn and soybeans at the end of the year in US than previously estimated, and world ending stocks were also raised from the November estimates. The report is bearish and these massive stocks will result in lower prices for the season.

With two big corn and soybean crops in a row and reduced export sales the situation is still bearish for both crops. But lately some technical bounces in futures prices are seen in soybeans.

As the prices stay low many feeders and processors are encouraged by low feed costs and high crush margins. The export situation for soybeans and its products remain positive but negative for corn.

Corn Market Action

From the crop production report released December 9th, the average yield in US for corn per acre in 2005 is 148.4 bushels which is lower than record 160.4 bushels/acre in the previous year.

US ending stocks number was increased in the December 9th USDA world agricultural production report. Ending stocks for the 2005/2006 season were pegged at 2.419 billion bushels. As compared with 2.319 billion posted last month this increase reflects a cut of 100 million bushels in export projections, due primarily to increased corn exports from China and Ukraine. This is the highest ending stocks in 18 years and the highest stocks/usage ratio (22.5%) since the 1992/93 season.

World ending stocks for the 2005/2006 season were revised higher to 118.73 million tonnes from 114.21 million tonnes in last months report and from 126.63 million tonnes this past year.

China is expected to produce its third largest corn crop in 2005/06. The planted area this year is at a record 26.0 million hectares, up 2 percent from last year. Production is estimated at 130 million tons, similar to last year's crop with decline in yield by 2 percent from last year's excellent yield.

From the latest (Dec 8th) weekly export sales report, corn sales come in at 694,300 metric tons which is within the range of trade expectations. But more sales are needed to reach the USDA estimates.

China is exporting corn and the export volume was higher due to weaker internal demand because of the bird flu problem. The spread of bird flu in several countries and associated human death toll has kept the demand weak from major importers of corn.

From the latest and last weekly crop weather for the season issued for the state of WI, the corn harvest for grain is 90% complete with few acres remaining. There are few soybeans acres needs to be harvested in central and northern counties. Snow stopped reminder of the harvest activity and some acres will not be harvested soon as storage space is limited.

In WI cash markets the corn prices are falling in the range of \$1.45 to \$1.75 per bushel. With few more trading days remaining, December corn futures are trading at \$1.89 per bushel. The delivery of the corn in the futures markets is heavy for the past few days. The next nearby contract, March futures prices closed at \$2.03 and \$2.00 is acting as support level (see graph 1 below).



Graph 1: March 2006 corn futures prices (CBOT).

Continued large deliveries against the December futures and fears that bird flu will keep Asian demand weak pressured the market to new contract lows. The spread between the distant and nearby futures contract is increasing indicating to store the crop.

Corn basis levels have improved in many markets across the US as few producers are selling and inclement weather has kept the receipt of grain to minimum by elevators and processors.

Soybeans Market Action

From the crop production report released December 9th, the average yield in US for soybeans per acre in 2005 is 42.7 bushels which is slightly higher than 42.2 bushels/acre in the previous year.

The USDA pegged ending stocks for the 2005/2006 season at 405 million bushels. Ending stocks last year were 256 million. This is the highest ending stocks in 19 years and the highest stocks/usage ratio (14%) since the 1994/95 season. Soybean oil stocks were pegged at a whopping 2.329 billion pounds from 1.891 billion pounds last month and 1.699 billion pounds last year.

World ending stocks for soybeans for the 2005/2006 season were pegged at a new all-time record high of 48.11 million tonnes from 46.75 million tonnes last month and from 42.09 million tonnes this past season. The higher world stocks numbers came mostly from weaker demand outlook.

From the latest (Dec 8th) weekly export sales report, soybean sales come in at 1.072 million metric tones which was well above trade expectations. Soybean oil sales came stronger than expected range.

The export situation seems to be better for soybeans compared to corn situation. With low soy meal prices and with high margins, many feeders and importers are making sales. With boosted meal consumption the meal exports sales will be strong,

In WI cash markets the soybean prices are in the range of \$4.95 to \$5.35 per bushel. Nearby, January 2006 soybean futures are trading at \$5.68. The next nearby contract, March futures prices closed at \$5.78.

Soybean basis values were unchanged to slightly better as merchants compete for available supply and producers continue to hold soybeans off the market awaiting higher prices. Farmer sales were slow as many producers want even higher prices and some prefer to wait to sell until the new tax year.

USDA said competition from South American soybean exports will limit U.S. prospects, especially to EU and China. In weeks to come the strength in the bean market could be tied to weather conditions in Argentina and southern Brazil. Argentina crop areas look a bit dry but Brazilian crops are thriving with recent good rains.

With human death toll increasing due to avian flu and reports of spread of the disease in China and Thailand, this pandemic will have great effect on grain prices this year. There is wide coverage of bird flu by world media. It was estimated by private securities firm that a pandemic outbreak which spreads to the US would cause economic losses for the

first year at \$488 billion and a permanent economic loss of \$1.4 trillion to the US economy. Bird flu threat is clear and real. US Government and other agencies are prepared to deal with it.

The official US government website for information on pandemic flu and avian influenza could be found at www.pandemicflu.gov or visiting USDA website (www.usda.gov) will provide information on bird flu.

Next bi-weekly report will come on Wednesday, December 28, 2005.
