

Corn and Soybeans

Outlook

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Are we there yet!

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The question, are we at the lowest point or not with regards to prices for corn and soybeans? The answer is...not yet. When will we see the lowest price and when the markets will turn-around? The answers are not so clear.

With the harvest near completion for both the crops across the nation and with reliable estimates of total production for US 2005 crop available, the markets are still in bearish tone due to lack of demand supporting factors.

The US supply picture became clear with major harvest of corn and soybeans reaching near completion in the nation. Now the attention is mostly shifted to the demand side and crop production factors in South America.

Looking at the demand picture, livestock feed, food stuff usage in US is fairly uniform even though there will be modest increase in livestock numbers. Domestic use is fairly consistent with increase in ethanol production projected that will increase the usage of corn. Most of the variability comes from the export side of the demand equation.

Even though the export activity is reported at normal to above normal for past two weeks in soybeans and corn, at the time of this writing there are no good signs of improvement in some demand side factors.

Big supply and lack of confidence in demand will leave the markets in downward trend for sometime. Fundamental forces of demand have to kick in full force to make the markets turn-around.

Corn Market Action

From the latest WASDE report (Nov 10th), the outlook for U.S. Corn is for increased production, higher domestic consumption, larger stocks, and lower prices. The crop estimate for 2005

production for corn is at 11.032 billion bushels (the second largest crop on record). There was an increase of 75 million bushel in corn use for ethanol production that will boost food, seed and

industrial use by the same amount. Corn ending stocks were up and is 207 million higher than the last year ending stocks.

USDA projected price range for 2005/06 corn is \$1.60 to \$2.00 per bushel, which is lower when compared with \$2.06 for 2004/05.

Lack of demand support because of improved weather situation in South America and China exporting its surplus will keep the prices for US corn low.

In futures market following the release of WASDE report on November 10th there was a jump in the nearby futures prices as the market expectations were on par with the released numbers but the enthusiasm did not last long. Lately, due to bird flu fears, export of corn by China and lack of demand support factors sent the futures prices low and are currently trading at contract lows (see figure 1 below). Corn nearby futures (December month) are trading at their contract low prices of \$1.91.



Figure1: December corn daily futures price (CBOT).

The latest weekly crop progress report shows that US corn harvest is 95% complete. WI corn harvested for grain is at 85% complete even though some wet weather has delayed the harvest progress in some northern counties. This harvest progress rate is well above last year's progress and also four years average. Yields are better than expected for corn.

In most of the Wisconsin markets the cash bids are in \$1.45 to \$1.55 range.

Close to the river terminals the cash bids are higher at \$1.65 to \$1.75 range.

From the latest export reports (November 17th) the corn numbers came strong. Weekly US export sales for corn came in at 1.496 million metric tonnes, which was above trade expectations. Cumulative sales have reached 33.5% of the USDA forecast for the season as compared to 35.3% on average over the last five years. This picture is looking good.

Across the nation the basis levels started firming as there is some evidence of producer selling. The basis levels in Midwest states are steady to higher as many producers are withholding the sales. The basis is 30 to 35 cents below nearby December futures price. The basis is expected to improve.

News of bird flu related human death toll in China prompted the grains markets to go lower. There are fears in the corn market that China may remain as active exporter of corn in the world markets. The tone of the market is still bearish and the end users are not in a hurry to make the purchases.

Bird flu might temporarily slow US corn exports but the flu is unlikely to reduce

US exports over the next year. Production and export activity of major competitors such as Argentina, China and Brazil will have major influence on the price moves.

Improving weather in South America and continued export competition on the world market by China has left the market still in bearish tone.

The emerging trade dispute of Canada with US over corn trade is another bearish development. Canada claims that there is evidence that corn growers in Canada are hurt with US unprocessed corn imports and it wants to conduct full investigation about this matter in the coming weeks.

Soybeans Market Action

From the latest USDA (WASDE) report the soybean production is forecast at 3.043 billion bushels. Most of this increase was attributed to better than expected yields. Soybean oil production, consumption, exports and stocks are all raised in the latest USDA report.

From the export reports, soybeans exports are lagging behind due to lower-than-expected sales and shipments, particularly to China and EU-25. Cumulative export sales have reached just 37.4% of the USDA forecast for the entire season as compared to 54.2% on average for this time of the year over the last five years. Meal exports have been

better than the weak export pace seen in soybeans. The USDA already lowered the export forecast by 40 million bushels in last week's supply/demand update and it also indicated the lower Brazilian crop for next year.

U.S. season-average soybean prices for 2005/06 are projected at \$4.95 to \$5.75. Soybean meal prices are projected at \$155 to \$180 per short ton and oil price at 22 to 25 cents per pound.

In the futures markets, the November soybeans futures contract has expired this month at \$5.90 (see figure 2).



Figure2: November soybean daily futures price (CBOT).



Figure3: January soybean daily futures price (CBOT).

The current nearby January 2006 contract is trading at \$5.70 per bushel (see figure 3).

WI soybeans harvested is 97% complete. This rate is well above last year's progress and also four years average. Yields are reported average. In most of the Wisconsin markets the cash bids are in \$5.15 to \$5.35 range.

Soybean basis values were stronger as harvest is complete and many producers are holding on to the beans. Over the past few weeks the interior basis levels have been climbing higher. With soybean processors capturing excellent crush margins there is an increase in processing activity that led to the basis levels to become firm.

Improving weather conditions with rains in Argentina and northern Brazil is considered as a bearish factor for soybeans.

Decrease in crude oil prices has further weakened the prices of soybean complex. With the lowering crude oil prices that is trading at \$56 a barrel, the bio-diesel production with soybean oil may see a setback.

The soybean meal use as animal feed will receive a setback from bird flu spread. Recent WHO (World Health Organization) report states that more outbreaks of flu are expected in China both for poultry and humans. This may keep the prices for soybean-complex low.

The exchange rate fluctuations will influence the export activity and a weak dollar will make the US grains more competitive in the world markets.

The controversies in exchange rates markets with China's currency valuation at question may affect the world grain trade during this marketing year.

It is important to watch the import/export reports, currency movements, changes in foreign policy as it relates to imports and exports, weather in growing regions of world such as Argentina and Brazil.

Besides all the above bearish factors mentioned in this report, there are still enough reasons to being optimistic about the corn and soybean markets. As of now, US producers have stored much of both crops. For corn the LDP's have been excellent this year and are providing farmers to meet cash flow requirements. The basis levels are firming in the domestic sector as there is good demand coming from ethanol plants, feeders and other processors. The export market sales and shipments will return on pace to meet the USDA projections. The world ending stocks are low and emerging economies are projecting good GDP (Gross Domestic Product) growth rates. The fundamental demand factors will soon return to the markets to support the prices into the marketing year that will meet the expectations of many in the current market.

Next bi-weekly report will come on Friday, December 9, 2005.