

Corn and Soybeans Outlook

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Swift harvest progress and quiet downward markets

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The big harvest, higher than expected yields, lack of storage space with depressed cash prices will characterize this harvest season.

From the latest agricultural prices report released by USDA, October all farm products index of prices received by farmers decreased seven points from September. The crop index is down 11 points while the livestock index is unchanged. Producers received lower commodity prices for corn, soybeans, eggs and broilers. The corn price is at \$1.74 per bushel, is down 16 percent

from last month and 40 cents below October 2004. The soybean price, at \$5.44 per bushel, decreased 33 cents from September and is 12 cents below October 2004.

Following, are the two graphs that show the prices received by farmers for corn and soybeans in USA from 1996 till now.

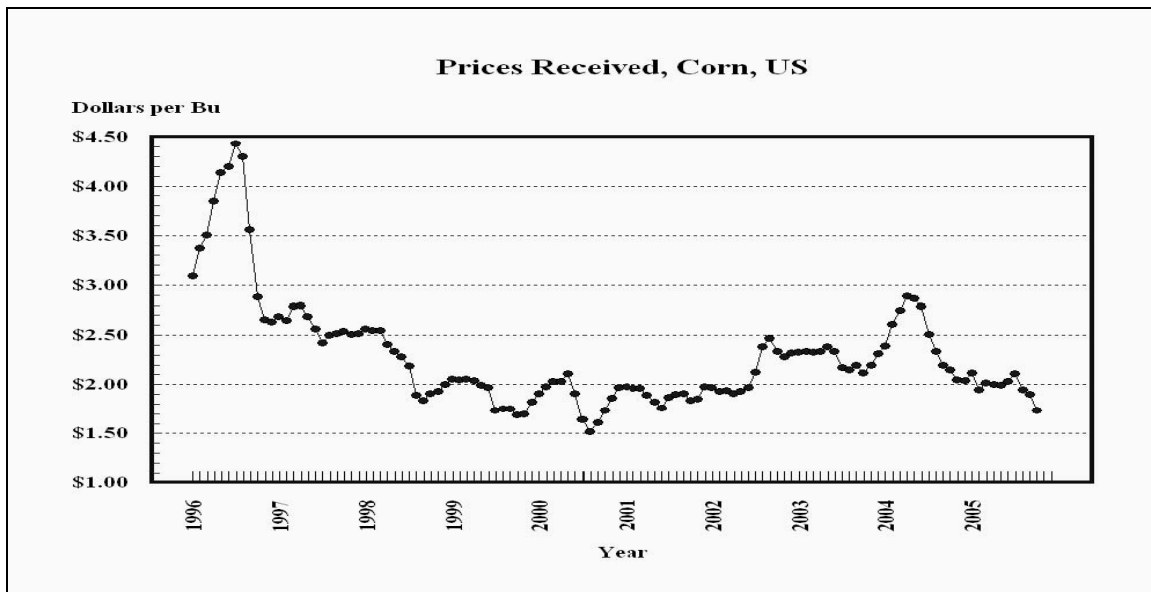


Figure 1: Prices received, corn, USA (source: NASS, USDA)

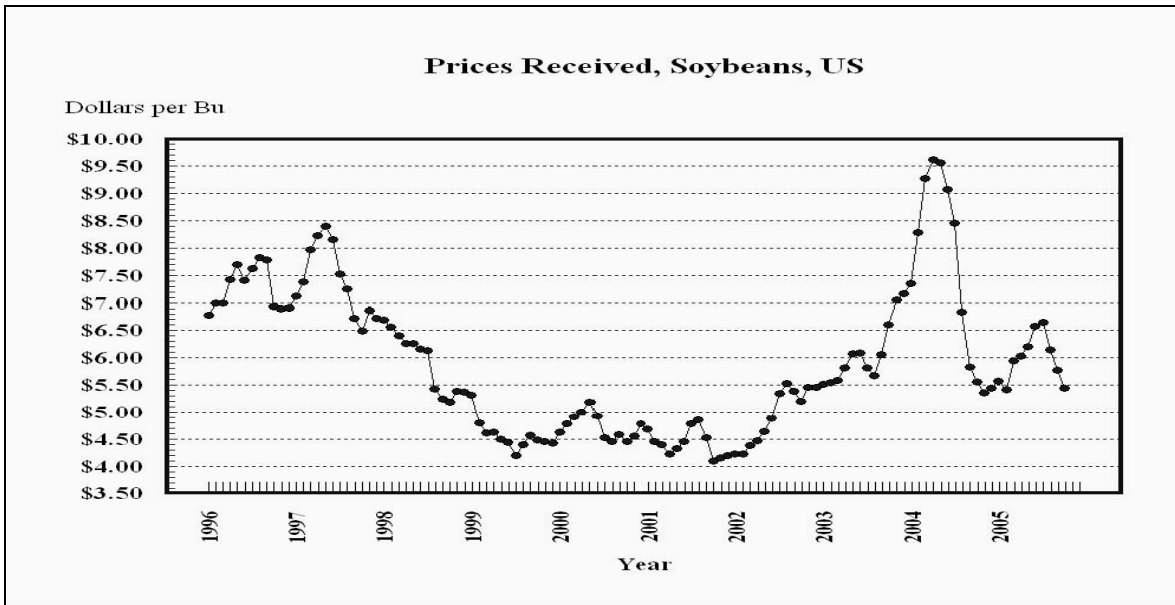


Figure 2: Prices received, soybeans, USA (source: NASS, USDA)

Corn

Corn harvest is 80 percent complete across the nation and weather for next week is going to be dry and warm. This will allow harvest progress towards the finish. This year harvest progress is well ahead of average for the last five years.

Weekly crop progress report of USDA states that 57 percent of corn harvested in WI compared with 39 percent last year and 50 percent average for years 2000-2004.

Corn nearby futures price (see below figure: December 2005 corn futures contract, CBOT) is at its contract lows, going further down each day for the last six trading days. Last week, the December contract dropped below \$2.00 and is now at \$1.96 levels.



Some producer selling is evident in the corn cash market here and there in the corn-belt. Due to higher yields and no storage space some produces are selling some portion of their crop. The cash prices are low and the selling pressure will keep them there for some time.

In Wisconsin, from the latest WI agricultural statistical service report, harvest is in full swing across most of the state. Yields in the western half of the state have been reported as above average and above expectations. Farmers are letting the crop dry as much as possible in the field to save on drying costs.

In WI the cash corn prices are at an average of \$1.47.

In corn, export shipments for the week ended October 27 came in at 35.3 million bushels. This is still below the USDA projections.

The bird flu (Avian Influenza) problem around the world will continue to be seen as a negative factor for feed grain usage. But the fact remains why the prices are low at this time of the year is that we have a second record corn crop and huge carry over stocks to begin with.

Soybeans

Soybeans harvest was complete 92 percent across the nation. In soybeans the harvest is near completion with last few acres remaining to harvest and the production has reached its peak. From now on market focus will shift towards demand side and South American crop production.

Following the October crop production report, we have seen a sharp rally in Soybeans futures prices and witnessed futures prices at \$5.80 levels. But that was given up lately due to no bullish news and slow export demand.

Currently, nearby futures prices (November contract) are trading at \$5.68 levels. Soybean oil prices have dropped in response to the low crude oil prices in the world markets (crude oil prices dropped below \$60.00 per barrel). The meal prices are staying low due to more stocks level.

In Wisconsin, from the latest WI agricultural statistical service report, Soybean harvest was reported at 90 percent, higher than last year's 76 percent and the 5-year average of 83 percent. Soybean harvest is wrapping up in many areas. Yields have been reported as average in most locations.

In WI the cash soybeans prices are at an average of \$ 4.90.

Weekly export shipments were very good at 40.1 million bushels. That's nearly double what is needed each week to reach the latest USDA projection for the 2005-06 year, but it needs to be at that level now because U.S. exports drop sharply from March through the summer due to South American crop.

South American Crops

There was some beneficial weather in Brazilian soybean producing areas during the weekend, so crop prospects were enhanced a bit. The South American weather is looking good for planting with beneficial showers in Argentina and good moisture conditions

in Brazil. But the week prices and low exchange rate may discourage some producers to plant more. Already they are facing some economic hardships such as low credit availability and high input costs.

Exports situation

From the latest USDA October 27 weekly export news, soybean net export sales are at 842,000 metric tons which is 5 % below from previous week but 21% more than past 4 weeks. China is coming as a major buyer of soybeans followed by Japan and Taiwan.

Export net sales for corn are at 718,400 metric tons, which was 26% below previous week and 19 percent under prior four week average. Taiwan, Japan and Mexico were the major importers.

Export shipments for corn and soybeans for the last two weeks were low compared to the industry expectations and averages over the years. It has led to decline in futures prices. This situation is expected to become better in coming weeks.

Marketing Strategy

The basis levels are getting firm for both corn and soybeans with weakness gone across the nation due to buying support from processors and feeders. Corn LDP's are still attractive in many counties and producers are storing as

much as possible and taking these LDP's.

Continued strong profitability in pork and cattle production will provide some support to grains. Some buyers (feedlots, ethanol plants) are offering premiums for December delivery. It is a good idea to lock in a forward price to get these premiums and take LDP's by keeping the crop in storage until delivery.

Even though, basis levels are firming across the river terminals in Ohio and Illinois, upper Mississippi cash bids are still lower. The market will see its lowest price in the coming few weeks.

Expect the basis to firm (to become stronger) as we move into the marketing year. The global stocks are not abundant and there are expectations of low planted acres in South America for this crop year. Another thing to watch next week is for the private forecasters crop estimates release prior to the release of the USDA report on October 10th. If you have to sell, better to sell on key dates when the market's reaction will be the most and on sharp rallies that usually occur around these major report release or events.

Next crop production report was scheduled to be released on October 10, 2005. There will be some noise prior to the release of this report. Following this report release we get a clear sense of total stocks in USA for both corn and soybeans. So, keep in touch with the market for next few weeks.

Next bi-weekly report will come on Thursday, November 17, 2005.