

# Corn and Soybeans

## Outlook

A Bi-Weekly Newsletter

Date: Oct. 18, 2005

Vol. 1 No. 3

### October crop production report: No big surprises

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The USDA's October 12, 2005 crop production report forecast the corn production number at 10.9 billion bushels with an average yield of 146.1 bushels per acre. This is going to be the second largest crop on record. Yields are better than expected in many parts of USA. The drought conditions prevailed during much of the July and August months did not cut much into the overall yields. This is either due to drought resistance in the crops planted or good management practices.

USDA's soybean production is forecast at 2.97 billion bushels and yield is expected to average at 41.6 bushels per acre. Good weather such as below-

normal temperatures, adequate moisture during August and early September were beneficial to the crop during the final stages of crop development. However, in October crop report USDA made acreage updates for soybeans with down 903,000 planted acres from August report and down 914,000 acres from forecast harvested acres from September.

The USDA's final production estimates are on par with the private estimates (see table 1). The only surprise is that the harvested acres number was reduced with increased yields forecasted for soybeans.

	F.C.Stone	Allendale	Informa Economics	USDA October, 2005 report	USDA September, 2005 report	USDA 2004 production
<b>Corn</b>	<b>10.98 billion</b>	<b>10.969 billion</b>	<b>10.970 billion</b>	<b>10.9 billion</b>	<b>10.639 billion</b>	<b>11.8 billion</b>
<b>Soybeans</b>	<b>3.105 billion</b>	<b>2.981 billion</b>	<b>3 billion</b>	<b>2.97 billion</b>	<b>2.856 billion</b>	<b>3.14 billion</b>

Table1: USDA & Private firms estimates of crop production (billion bushels).

The production estimates provided by private firms, just within one week prior to the release of USDA estimates, were close to the USDA's Oct 12<sup>th</sup> report estimates. There were no major surprises in the numbers. Technically, the markets were in oversold condition due to prevailing bearish sentiments prior to release of USDA crop production report. With the neutral to slightly positive report, there was strong reaction in the grains futures prices on October 12th. Especially, nearby futures prices of soybeans went up by 30cents to settle at \$5.85-\$5.90 ranges from \$5.58. This sharp rally was sustained over the week for soybeans and currently the November futures are trading at \$5.89. Historically, price reactions following crop production reports for corn and soybeans is high.

From world agricultural supply and demand estimates of USDA released October 12, the outlook for corn during 2005/2006 is for increased production, higher domestic consumption, larger stocks and lower prices.

### **Crop progress**

Latest (Oct 17<sup>th</sup>) crop progress report states that corn harvested is at 49%, one percent higher than five years (2000-2004) average of 48% in all of the major corn producing states. This is 6% above the corn harvested about the same time last year, 2004, which is at 43%.

Wisconsin corn harvest progress is at 38% which is well above five years average of 20% and last years progress at 12%.

Nations soybeans harvest is at 76% which is well above last five years average of 67% and last years average of 69%.

Wisconsin soybean harvest progress is at 72% which is well above five years average of 54% and last years progress at 53%.

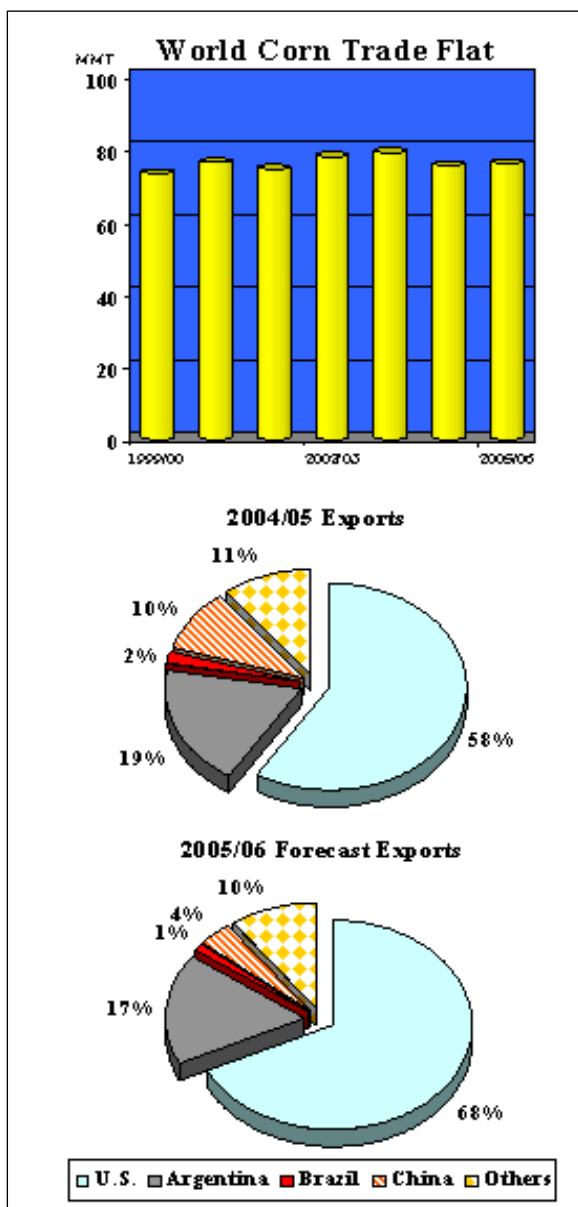
### **Corn & Price Action**

Corn is now set to move toward harvest season lows. Following the crop production report corn prices moved slightly up in sympathy to other grains prices especially with wheat but within two days started retreating back. Now the corn prices are trading in a narrow range.

According to the World Agricultural Outlook Board, USDA report on world markets and trade, corn import demand is going to be stagnant this year. The feed usage is going to be low as many nations are importing meats and cutting the livestock production numbers. The expectation of outbreak of bird flu (Avian Influenza) pandemic is one of the greatest worries ahead for grain markets.

However, USA's market share is expected to increase 10 percentage points in corn trade due to diminished competition from China and Brazil with lower exportable supplies. Argentina is expected to produce smaller crop.

The 2005-2006 marketing year average farm price of corn is projected at \$1.65 to \$2.05 range, compared with \$2.06 for 2004/2005. At the time of this writing, the national corn index in at \$1.56 per bushel.



Source: USDA, World Agricultural Outlook Board

December corn futures prices and the spread between the March and May futures prices are offering wide carry.

As we are heading into the final few weeks of corn harvest, the corn production estimates will become more

reliable and we will see low prices in coming weeks.

In world corn trade, recently, China sold corn to South Korea and is trying to reduce its stocks by selling more to its neighbors. Now, this is putting pressure on prices in USA.

Restoration of grain movement through export terminals and demand returning back will give some strength to corn following the completion of this years big harvest.

Currently, WI spot market corn prices are in \$1.45-\$1.65 range.

### Soybeans & Price Action

Following the October crop production report the prices of soybeans jumped by nearly 30cents in the nearby November contract (See figure 1). Now the futures prices are at \$5.88 and it seems that soybeans have established a trading range with strong support levels at \$5.80.

USDA projects the U.S. season average soybean prices for 2005/2006 at \$5.00 to \$5.80, compared with last months projections of \$5.15 to \$6.05. Soybean oil prices are projected at 22 to 25 cents per pound. Soybean meal prices are projected lower at \$155 to \$185 per short ton. The national soybeans index in at \$1.56 per bushel.

WI spot market soybean prices are at \$5.00-\$5.50 range.



**Figure 1: CBOT November, 2005 soybean futures prices.**

The high prices for livestock complex with its strong seasonal and trend bode well for soybeans. Soybean oil prices are giving the momentum for the soybean complex as there is strong export demand for food and industrial uses of soybean oil.

Soybean meal demand is slacking and the prices are getting low due to low demand and fears of bird flu in some of the Asian countries.

The supply and demand for soybeans favors stronger prices in the months ahead. With 49% of the crop harvested in the nation the production numbers appear to be strong and also there is strong demand anticipated. The production estimates become more reliable as we harvest most of the crop. When the uncertainty about the production goes away, prices will respond more to demand factors and South American production.

South American planting progress and weather condition will dictate the market

from November till December. There is also growing concern about the planted acreage in South America for the upcoming crop.

Lately, positive news came in about the stronger than expected exports for Soybeans.

There is strong export demand from South Korea and Taiwan for Soybeans. Export demand is on par with the last year numbers. This strong export demand will support the Soybeans nearby futures at \$5.90's ranges once it penetrates through the resistance levels currently at \$5.88.

### Marketing Strategy

Currently, for corn the WI average cash prices are at \$1.57 per bushel and soybeans are at \$5.11 per bushel.

Corn basis levels in WI are weak due to high production, lack of storage and transportation problems. Corn harvest is almost at 38% complete in WI.

October, 17, 2005 Futures settle prices			
Corn		Soybeans	
Dec, 2005	\$2.03	Nov, 2005	\$5.91
Mar, 2006	\$2.16	Jan, 2006	\$6.03
May, 2006	\$2.24	Mar, 2006	\$6.10
July, 2006	\$2.31	May, 2006	\$6.15

The futures markets are showing a large carry with July 2006 at \$2.31 and above December 2005 by 28 cents. Extremely weak basis and poor cash prices suggest storing of as much crop as possible and collect LDP's when they are the greatest.

Currently, in most of the WI markets the LDP's are greater than 43 cents.

High carry over and world stocks combined with another record production of corn in USA will put the market in low ranges for quite some time. Basis will strengthen into the marketing year. Hence, storage will pay as higher prices will follow into the Fall/Spring time.

For soybeans when you see cash prices above your break-even prices sell at least 10% - 20% of total soybean production

to meet immediate cash needs. Rest should be stored and priced using a distant futures contract month or forward cash contracts at various price levels by selling 15%-20% of production at each level. Follow the market action closely, and pay attention to key report release dates and take advantage of price rallies.

The next crop production report is scheduled to be released on November 10<sup>th</sup>. Overall, as of now, the soybean price outlook seems promising with strong export demand and reduced competition.

**Next bi-weekly report will come on Tuesday, November 1, 2005.**