



WEEKLY OUTLOOK



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CROP CONCERNS, STRONG DEMAND SUPPORT CORN AND SOYBEAN PRICES

December 2009 corn futures have increased by about \$.65 per bushel from the early September low. November 2009 soybean futures have rallied more than \$1.00 per bushel from the low of earlier this month.

Higher corn and soybean prices have come in the face of larger USDA crop forecasts. In the *Crop Production* report released on October 9, the USDA forecast the 2009 corn harvest at 13.018 billion bushels, based on conditions around the first of October. That forecast is 63 million bushels larger than the September forecast, reflecting the potential for a record U.S. average yield of 164.2 bushels per acre. The yield forecast is 2.3 bushels above the September forecast, but the projection of harvested acreage was reduced by 713,000 acres. Acreage forecasts were reduced for a number of states, but the largest reductions were for Illinois (300,000) and Nebraska (250,000). The forecast of harvested acreage was increased for Kansas (270,000) and Texas (150,000). The largest month-over-month increase in state average yield forecasts was for Nebraska, up 9 bushels.

For soybeans, the 2009 harvest is now forecast at 3.25 billion bushels, about 5 million larger than the September forecast. The U.S. average yield is forecast at 42.4 bushels, 0.1 bushel above the September forecast. The projection of harvested acreage was reduced by 148,000 acres. The largest changes were in Illinois (up 300,000 acres) and Iowa (down 200,000 acres).

The U.S. corn yield forecast is about equal to the average of a forecast based on crop condition ratings and a forecast based on growing season weather. The U.S. soybean yield forecast is still lower than the forecast based on crop condition ratings and the forecast based on growing season weather. In a more "typical" year, yield forecasts of both corn and soybeans might be expected to increase in November. This, however, is not a typical year. Freezing temperatures this past weekend likely ended the growing season for late maturing crops in northern and western growing areas before full yield potential was reached. In addition, more widespread incidence of disease in both crops may reduce yield and quality potential. The November forecasts of yields are now more likely to decline rather than increase.

In addition to concerns about the size of the crops, prices have been influenced by strong demand in some sectors. For corn, the ethanol industry has experienced a substantial economic recovery. The economics of blending ethanol are very favorable, increasing the demand for and price of ethanol. Even with higher corn prices, ethanol production has moved solidly back into the black. The USDA did not increase the forecast of corn use for ethanol during the current marketing year, but many analysts believe there is potential for use to exceed the projection of 4.2 billion bushels. Part of that optimism may stem from the potential to export some ethanol.

The USDA did lower the projection of 2009-10 marketing year corn exports by 50 million bushels, but increased the feed and residual component by 50 million bushels. The year-over-year increase of 169 million bushels in feed and residual use appears generous in the face of declining livestock numbers and a large increase in distiller's grain production, even with reduction in feed use of other grains. Still, year-ending stocks of 1.672 billion bushels are not large and could be less if the crop is smaller and ethanol use larger than projected.

For soybeans, the demand strength has been in the export sector. The USDA now projects 2009-10 marketing year exports at a record 1.305 billion bushels, 25 million above both the September projection and actual exports of last year. Soybean export sales have been very large to date. As of October 1, the USDA reported soybean exports plus outstanding sales at 758 million bushels, 350 million more than commitments of a year earlier. China accounts for 61 percent of export sales to date. Like corn, the projection of year-ending stocks of U.S. soybeans, at 230 million bushels, is not large and could be less if the crop is smaller than currently projected.

On-going crop concerns could add to the recent price strength in both corn and soybeans. Higher prices probably should move producer pricing strategies to less storage and more harvest time pricing.

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