

# Crop Prices Get Another Green Light



## grain outlook

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Corn and soybean prices have moved steadily and sharply higher since harvest of the 2007 crops. The average spot cash price of corn in central Illinois reached a high of \$4.61 and soybean prices reached a high of \$12.33 on January 11. December 2008 corn futures traded to \$5.13 and November 2008 soybean futures reached a high of \$12.45 on the same day.

High prices have resulted from a combination of demand and supply factors. A continuation of high crude oil prices along with larger biofuels mandate in the new energy bill support prospects for increased ethanol production. Expanding hog numbers in the U.S. has kept feed demand strong. A short world wheat crop, a weak U.S. dollar, and concerns about food price inflation have kept export demand for U.S. corn and soybeans very strong. On again, off again concerns about the wheat crop in the U.S., India, and Pakistan, and fluctuating weather conditions in South America have also been generally supportive for prices. In addition, there is general agreement that the U.S. needs to expand soybean acreage and at least maintain corn acreage in 2008.

When prices rally so strongly, it is useful to keep a watchful eye for developments that might suggest a waning of the fundamental support for prices. The flurry of USDA reports released on January 11 certainly contained no indications of bearish developments. For corn, the USDA's final estimate of the size of the 2007 U.S. crop came in at 13.074 billion bushels, 94 million less than the November forecast. Harvested acreage was slightly higher than the November forecast, but the average yield estimate, at 151.1 bushels, was 1.9 bushels below the November forecast.

December 1, 2007 stocks of corn were estimated at 10.3 billion bushels, 1.33 billion larger than inventories of a year ago, but smaller than expected. The smaller than expected inventories suggest that feed and residual use of corn was record large in the first quarter of the 2007-08 marketing year and about 9 percent larger than use of a year earlier. For the year, the USDA increased the forecast of feed and residual use of corn by 300 million bushels, to 5.95 billion. Year ending stocks are projected at only 1.438 billion bushels, 359 million less than projected last month.

Corn exports continue at a record pace, with the Census Bureau estimate of exports during the first quarter of the marketing year coming in at 695 million bushels, 100 million larger than shipments of the previous year and 45 million larger than reported by the USDA during the quarter. With large unshipped sales on the books, exports may exceed the USDA's projection of 2.45 billion bushels for the year, further reducing year ending stocks.

For soybeans, the final 2007 U.S. production estimate of 2.585 billion bushels, reflecting an average yield of 41.2 bushels per acre, was essentially unchanged from the November forecast (down 9 million bushels). The projection of use for the year was unchanged, with year ending stocks now forecast at a meager 175 million bushels. December 1, 2007 stocks of 2.329 billion bushels were larger than expected and implies seed, feed, and residual use of soybeans during the first quarter of the year of only 38 million bushels, compared to 60 to 105 million in recent years. On the surface, this small disappearance suggests the 2007 crop may have been underestimated, but quarterly disappearance varies enough so that conclusion is likely premature.

Estimates from the Census Bureau indicate that the use of soybean oil for biodiesel production has slowed dramatically since August, raising a bit of a caution flag. However, the USDA kept its forecast of soybean oil use for biodiesel for the marketing year unchanged at 3.8 billion pounds, about one billion more than used last year. The USDA also lowered the forecast of the 2008 Brazilian soybean crop by about 55 million bushels, reflecting a slight reduction in the forecast of harvested acreage. The 2008 South American crop is forecast at 4.3 billion bushels, only 95 million larger than the 2007 harvest.

The new projections of 2007-08 marketing year use and year ending stocks of both corn and soybeans imply that very large crops are needed in 2008. Many have projected a sharp decline in corn acreage in 2008, but clearly the market cannot allow that to happen. In addition, an increase in soybean acreage may be needed. The USDA indicated that winter wheat seedings are up 1.6 million acres from seedings of a year ago. That is a smaller increase than expected and opens the door for more acres of spring crops than anticipated. Still, the difference is a small fraction of the increase in combined corn and soybean acreage needed in 2008. It is hard to over emphasize the importance of 2008 growing season weather. A legitimate threat to average yields could send prices much higher. In any event, strong demand, low stocks, and high prices will fuel the debate about releasing Conservation Reserve Acreage into crop production.

If there is a threat to high crop prices, it may eventually come in the form of some weakness in the U.S and world economies. For now, market fundamentals remain strong. △