Focus On South America

grain outlook

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A number of factors continue to influence corn and soybean prices. One of the more important factors recently has been weather and crop conditions in South America, particularly in Argentina.

Argentina and Brazil are large exporters of soybeans and soybean products and Argentina is typically a large exporter of corn. Recently, Brazil has also exported large quantities of corn as production has exceeded domestic requirements. The size of those crops, then, has the potential to influence the export demand for U.S. corn and soybeans.

Last month, the USDA estimated the potential size of the 2009 Argentine soybean crop at 1.82 billion bushels. That estimate is about 120 million bushels larger than the 2008 crop, reflecting an 8 percent increase in acreage. The estimate, however, is about 37 million bushels smaller than the December estimate. It is generally expected that the actual size of the crop will be well below the January estimate, even with late season rain in some areas. Private estimates of the crop vary widely, but are generally in a range of 150 to 200 million bushels smaller than the January estimate. While Argentina could reduce year ending stocks of soybeans due to a small crop, exports of soybeans and soybean meal might also have to be reduced below current forecasts.

The USDA has estimated the size of the 2009 Brazilian soybean crop at 2.17 billion bushels, about 75 million bushels smaller than the 2008 harvest due to slightly lower average yields and unchanged acreage. Weather has been a bit more favorable in Brazil, although late season dryness did occur in some areas. Production may fall a bit short of the current projection, but quantities available for export are not likely to be significantly reduced.

In its January report, the USDA estimated corn production potential in Argentina at 650 million bushels, 60 million smaller than the December estimate and 170 million smaller than the 2008 harvest. While Argentina is not a large corn producer, much of that production is exported in most years. Last year Argentina exported 590 million bushels of corn. The USDA's current projection for this marketing year is 355 million bushels. Both the production and export projections are expected to be lowered in the February reports.

Last month, the USDA estimated 2009 Brazilian corn production potential at 2.03 billion bushels, 80 million bushels smaller than the December estimate and 280 million smaller than he 2008 harvest. Brazilian corn exports for the current year were projected at 375 million bushels, 100 million more than exported last year. Any further reduction in the crop estimate may also result in a smaller export forecast for the current year.

As outlined two weeks ago, U.S. soybean export sales have been very strong so far this year. That pace has begun to slow somewhat, as it typically does in front of the South American harvest. At this juncture there appears to be little risk of marketing year exports falling short of the USDA's projection of 1.1 billion bushels as South America production is threatened and China continues a strong pace of buying. Weekly shipments remain very large.

Some improvement in the dismal pace of U.S. corn export sales occurred in late January. Export sales exceeded 42 million bushels per week in the final three weeks of January. Weekly sales had not previously exceeded 38 million bushels and had averaged only 17.3 million bushels per week from October 23, 2008 through January 8, 2009. New sales need to average about 25 million bushels per week to reach the USDA projection of 1.75 billion bushels for the year. The pace of shipments still lags, however. Shipments need to average about 36 million bushels per week to reach the USDA projection. Weekly shipments have been above that level only three times this year, the last being in early October 2008. Shipments since December 2008, have been in the range of 22 to 33 million bushels per week. The recent increase in sales suggests that the pace of shipments will accelerate, but that has not yet occurred.

Following record world production of coarse grains, wheat, and soybeans in 2008, some problems have emerged for 2009. The most notable, as outlined here, is in South America, but dry conditions have also been noted in parts of China and Australia. Production issues will become increasingly important over the next three months. Δ