

Focus On South American Weather, USDA Reports



grain outlook

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Corn and soybean prices declined sharply in mid-November and remained at the lower level through mid-December. From mid-December through early January, the cash price of corn in central Illinois increased by \$0.78 while the cash price of soybeans increased by \$1.21 per bushel.

One of the factors that has contributed to higher prices is adverse weather in parts of Argentina and southern Brazil during a critical phase of crop development. Periods of extremely high temperatures and well below average levels of precipitation in December have threatened both the corn and soybean crops in those areas. The adverse weather followed very favorable weather conditions in November. The weather pattern in those areas has been similar to that of 2008-09 when corn and soybean production was substantially reduced in Argentina. Some beneficial rainfall in the dry areas is expected this week, but the forecast calls for a return of hot, dry weather next week. It is difficult to assess potential corn and soybean production in Argentina and Brazil, but the pattern of production estimates in 2008-09 might provide some guidance.

In early December 2008, the USDA judged 2009 corn production potential in Argentina at 710 million bushels. The final production estimate was nearly 17 percent smaller at about 590 million bushels. The 2009 Brazilian corn crop was forecast at 2.1 billion bushels in December 2008, but actual production was nearly 5 percent less at 2 billion bushels. In early December 2011, the USDA forecast the 2012 Argentine corn crop at about 1.14 billion bushel. If production is eventually reduced by 17 percent, as it was in 2009, the crop would come in at about 950 million bushels. Similarly, the USDA has projected the 2012 Brazilian corn crop at about 2.4 billion bushels. If production is reduced by 5 percent, the crop would total about 2.3 billion bushels.

A 2012 South American corn crop that is 290 million bushels smaller than the current forecast would likely lead to larger U.S. corn exports in both the 2011-12 and 2012-13 marketing years. In December 2008, the USDA projected 2008-09 marketing year U.S. corn exports at

1.8 billion bushels. Exports were 49 million bushels larger than the forecast, equal to about 22 percent of the reduction in the size of the South American crop from the December 2008 forecast. This year, USDA projects U.S. corn exports at 1.6 billion bushels. A 290 million bushel reduction in the size of the South American crop could boost U.S. exports by as much as 65 million bushels. The increase, however, might be smaller due to the abundance of feed grains and wheat in the rest of the world.

For soybeans, The USDA projected the 2009 Argentine crop at 1.855 billion bushels in December 2008. Production totaled only 1.175 billion bushels, nearly 37 less than the December projection. The size of the Brazilian crop was forecast at 2.168 billion bushels in December 2008, but came in about 2 percent smaller at 2.124 billion bushels. In December 2011, the USDA projected the 2012 Argentine soybean crop at 1.95 billion bushels and the Brazilian crop at 2.755 billion bushels. Reductions similar to those of 2009 would result in crops of 1.23 billion bushels and 2.7 billion bushels, respectively. Production would be 775 million bushels below the current projection.

In 2008-09, U.S. soybean exports totaled 1.279 billion bushels, 229 million larger than the USDA's December 2008 projection. The increase equaled 31 percent of the reduction in the size of the South American crop. For the current marketing year, the USDA projects U.S. soybean exports at 1.325 billion bushels. Exports would be 240 million bushels larger if they increased by 31 percent of the potential shortfall in South American production. Exports will not be that large since the expected shortfall in South American production is less than 775 million bushels and particularly since U.S. supplies are not large enough to support exports at that level.

The USDA will update the projections of South American corn and soybean production on January 12. The final estimates of the size of the 2011 U.S. corn and soybean crops and the estimate of December 1, 2011 stocks of those two crops will also be released on January 12. The estimate of corn stocks will be especially important as it will reflect any changes in the production estimate and the rate of feed and residual use during the first quarter of the marketing year. The trade is expecting a smaller production estimate and a relatively small inventory number.

The level of corn and soybean prices over the next 7 weeks will be extremely important. The average price of December 2012 corn futures and November 2012 soybean futures during February will establish the price guarantee for crop revenue insurance products. It now looks as though those prices will be well supported. Δ

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