

January Could Be Important For Crop Prices



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grain outlook

The USDA made relatively few changes in the projections of U.S. and world crop supply and consumption in the December report. Some had expected larger changes, particularly for U.S. corn, but there was no basis for that expectation.

For corn, the USDA increased the projection of current marketing year U. S. imports by 5 million bushels, to a total of 15 million, to reflect the record corn crop in Canada. The projection of U.S. year ending stocks was increased by 5 million bushels, to a total of 832 million bushels. That projection represents 6.2 percent of projected marketing year consumption. For the rest of the world, the estimate of corn production was increased by 0.6 percent for the European Union, 4.3 percent for the Ukraine, 6.5 percent for Canada, and 5.0 percent for India. Those increases were partially offset by a larger world consumption projection, resulting in a small increase in the projection of year ending stocks outside of the U.S., mostly in the European Union.

For soybeans, the USDA increased the projection of current marketing year U.S. exports by 20 million bushels, to a total of 1.59 billion bushels. The increase reflects the record pace of exports to date and the current large outstanding export sales of soybeans. The projection of year ending stocks was reduced by 20 million bushels, to a total of 165 million, representing 4.9 percent of projected consumption. For the rest of the world, estimated production was increased for Canada (10 percent) and the European Union (2.5 percent). The total increase amounted to only 15 million bushels. The projection of world soybean consumption was increased by 58 million bushels and the projection of marketing year ending stocks was reduced by 47 million bushels, or 2.1 percent. While these changes have very little price implication, the renewal of the biodiesel blenders' tax credit would be very supportive of soybean oil demand.

For wheat, the USDA reduced the projection of domestic consumption for food by 10 million bushels and raised the forecast of year-ending stocks by the same amount. Changes for the

rest of the world were a little more substantial. Production estimates were increased for Pakistan (5.75 percent), Canada (4.4 percent), and Australia (6.25 percent). The 55 million bushel increase for Australia was surprising given the recent extremely wet weather that has interrupted harvest. The world production estimate was increased by 133 million bushels and the projection of year ending stocks was increased by 155 million bushels, or 2.4 percent.

While the December USDA reports did little to alter the fundamental picture of the crop markets, the January reports will provide much more information. On January 12, the USDA will release the final estimates of the size of the 2010 U.S. crops. With small projected year ending stocks of corn and soybeans, modest changes in the production estimates could have a large price impact. The estimate of December 1, 2010 grain stocks will also be released on January 12. That report provides the most information for the corn market since it allows a calculation of domestic use during the first quarter of the marketing year. Based on weekly estimates of ethanol production, ethanol use of corn in the first quarter of the year was 16 percent larger than use of a year earlier. The likely extension of the blenders' tax credit for another year suggests continued robust demand for ethanol. The calculated feed and residual use of corn will also be important since there was some confusion surrounding the September 1 stocks estimate and whether or not significant quantities of 2010 crop corn were fed in August.

An estimate of winter wheat seedings will also be released on January 12. That report will not only be important for the wheat market, but will have implications for the amount of acreage available for spring planted crops and the potential for double cropping of soybeans in 2011. By mid-January, prospects for South American corn and soybean production and Australian wheat production will also be clearer. Corn and soybeans in South America will be in the reproductive and grain filling stages. Between now and then, the most interest will center on Argentina due to the significant shortfall in precipitation in important growing areas since mid-October. Finally, the potential for Chinese corn imports may also be clearer in another month.

The rapid pace of U.S. and world consumption of corn, soybeans, and wheat; prospects for relatively small year ending stocks; and unsettled weather partly influenced by the ongoing LaNina weather event seem to provide a very sound fundamental base for crop prices. Volatile, but generally high prices are expected to persist for an extended period. Δ

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