Lots Of Uncertainty In The Corn And Soybean Markets

grain outlook

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The USDA's June projections confirmed prospects for extremely small year-ending U.S. stocks of soybeans. Those stocks are projected at 110 million bushels, or 3.6 percent of projected annual consumption. In addition, the Census Bureau estimate of soybean exports for April that were released last week shows exports continuing above the pace reported by USDA.

For the first 8 months of the marketing year, the Census Bureau reports soybean exports of 1.058 billion bushels, 34 million above the cumulative total of export inspections reported by USDA. Assuming that margin persists, as it did last year and in 3 of the past 4 years, exports need to average 10.2 million bushels per week during the final 11.5 weeks of the year to reach the USDA projection of 1.25 billion bushels. Inspections averaged 10.4 million for the three weeks ended May 11.

On the domestic side, the National Oilseed Processors Association reported a crush of 142.2 million bushels during May. That level of crush is about 5 million larger than anticipated. The Census Bureau will release official crush statistics for May on June 25, but it now appears that the crush for the year is on pace to exceed the USDA projection of 1.65 billion bushels. It is unlikely, however, that year ending stocks can be reduced much below the current USDA projection.

Even with the pace of consumption remaining relatively large, soybean prices declined sharply in the past few trading sessions. After reaching a high of first over $12.90, July futures declined to the $12.20 area in on June 15. Basis levels also weakened in many areas last week. After reaching about $.15 over July futures two weeks ago, the average spot cash price in central Illinois was $.02 under July futures on June 12. Recent price and basis behavior suggests that sufficient rationing of old crop soybeans has occurred. Such rationing, however, is not yet apparent in publicly available data.

Corn prices came under similar pressure in recent trading sessions. July 2009 and December 2009 futures declined about $.40 from the high reached early last week. Basis levels, however, remained generally firm, with the average cash bid in central Illinois at about $.15 under July futures on June 12. Prospects continue for adequate year ending stocks of corn, but the USDA reduced the projection of stocks at the end of the 2009-10 marketing year by 55 million bushels. Those stocks are projected at 1.09 billion bushels, or 8.7 percent of projected use. Compared to the May projection, USDA lowered the anticipated U.S. average yield for the 2009 crop by 2 bushels, to 153.4 bushels. Partially offsetting that decline was a reduction of 100 million bushels in the projection of feed and residual use of corn during the year ahead.

The very recent decline in corn and soybean prices appears to be in sympathy with a stronger U.S. dollar, some moderation in energy prices following the recent rally, and a weaker stock market. In addition, the market seems to be more comfortable with production prospects for the 2009 corn and soybean crops. Some much needed rainfall in the western corn belt has offset ongoing concerns about the late planted crops in the east. In addition, the coming warm up in the western corn belt is generally viewed as positive for crop development.

The potential size of the 2009 corn and soybean crops is far farm clear at this time. The most important part of the growing season is still to come. While the short term outlook for warmer weather is viewed as positive, an extended warm, dry period into July, as hinted to by some, would not be favorable. There is also lingering uncertainty about the magnitude of planted acreage of corn and soybeans. The USDA's June 30 Acreage report will shed further light on that issue.

All of the ingredients for volatile corn and soybean prices appear to be in place. These include tight stocks; fluctuating financial, currency, and energy markets; and large production uncertainty. Some uncertainty will be reduced over the next two months with the release of the USDA's June 1 Acreage and Grain Stocks reports on June 30 and the unfolding of growing season weather. Fluctuations in the so called outside markets, however, could continue for an extended period. Further shocks could be provided by developments in bio-energy and climate change policy.

Marketing the 2009 corn and soybean crops will be challenging, but opportunities to sell at more attractive prices will likely be available periodically over the next 12 months. Δ

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