Markets Get Whipsawed

grain outlook

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December 2010 corn futures traded to a high of $5.235 on September 27 and closed at $5.05 on September 29. The surprisingly large USDA September 1 corn stocks estimate released on September 30 sent that contract to a low of $4.56 on October 4. Similarly, the November 2010 soybean futures contract traded to $11.295 on September 27, closed at $10.99 on September 29, and declined to $10.44 on October 4.

Price declines came to a halt with the release of USDA's October Crop Production report on October 8. That report contained a surprisingly small forecast of the size of the U.S. corn and soybean crops. The corn crop is now forecast at 12.664 billion bushels, 496 million smaller than the September forecast and 446 million smaller than the 2009 harvest. While the estimate of harvested acreage was increased by 258,000 acres, the forecast yield was lowered by 6.7 bushels, to 155.8 bushels. The decline from the September forecast was record large, eclipsing the 4.3 bushels of 1974 and the 4.5 bushels of 1995. Yield forecasts declined by 14 bushels in Illinois, 10 bushels in Indianan and Iowa, and 9 bushels in Missouri and Nebraska. The December 2010 futures contract traded to a high of $5.73 on October 11.

The 2010 soybean crop is now forecast at 3.408 billion bushels, 75 million smaller than the September forecast, but 49 million larger than the 2009 crop. The lower forecast this month reflected a reduction of 1.163 million in the estimate of harvested acreage and a 0.3 bushel reduction in the yield forecast. At 44.4 bushels, the 2010 average U.S. yield is still expected to be record large. The November 2010 soybean futures contract traded to a high of $11.89 on October 11.

In a separate report, the USDA lowered the estimate of feed and residual use of corn during the 2009-10 marketing year as a result of the larger than expected September 1 stocks estimate of September 30. For the current year, the forecast of corn exports was reduced by 100 million bushels, reflecting the anticipated impact of higher prices and increased competition from Argentina. Some had expected an increase in the forecast of Chinese imports of U.S. corn, but no changes were made in the projected corn balance sheet for China. The forecast size of the 2011 Argentine harvest was increased by 157 million bushels. The forecast of feed and residual use was increased by 150 million bushels, to a total of 5.4 billion. The USDA argued that apparent use during the first quarter of the year will be boosted by the early harvest that resulted in consumption of new crop corn before September 1. The argument is not entirely convincing. The combined estimates of feed and residual use of corn for the 2009-10 and 2010-11 marketing years appears too large. Use during the first quarter will not be revealed until the December 1 stocks estimate is released in early January. Some indication of feed use will be revealed in the monthly cattle on feed reports and the weekly reports of egg sets.

Stocks of corn at the end of the 2010-11 marketing year are forecast at a 14 year low of 902 million bushels, or 6.7 percent of projected consumption. We consider a 5 percent stocks to use ratio, as experienced in 1995-96, to be a minimum carryover level. The USDA expects the 2010-11 marketing year average farm price to be in a range of $4.60 to $5.40, well above the previous record of $4.20 during the 2007-08 marketing year.

For soybeans, the forecast of the size of the domestic crush during the current year was increased by 15 million bushels and the forecast of exports was increased by 35 million bushels. At 1.52 billion bushels, exports are expected to be 22 million bushels larger than in the previous year. While the USDA increased the projected size of the 2011 Brazilian harvest by 73 million bushels, South American production is still expected to be 276 million bushels smaller than the record harvest of 2010. In addition, China is expected to import 2.02 billion bushels of soybeans from all sources during the current marketing year, up from 1.855 billion last year. Stocks of U.S. soybeans at the end of the 2010-11 marketing year are projected at 265 million bushels. That is a comfortable level of stocks, but 85 million less than last month's projection. The 2010-11 marketing year average farm price is projected in a range of $10.00 to $11.50 so that the record of $10.10 during the 2007-08 marketing year may be exceeded.

Corn and soybean prices will now be influenced by expectations about the November production forecasts and the revealed rate of consumption. Chatter about acreage needs in 2011 has already begun, but is likely premature. The actual rate of consumption over the next six months and the size of the South American crops will have significant impacts on U.S. acreage needs in 2011. Early thinking is that more corn acres will be needed in 2011. The degree of acreage competition for spring planted crops will be influenced by winter wheat seeding decisions to be revealed in early January. Δ

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