



Weekly Outlook: Corn and Soybean Consumption Coming Up Short

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Much of the corn and soybean market attention is appropriately focused on the prospective size of the 2011 U.S. crops and speculation about the USDA's August 11 Crop Production report. The size of these crops will obviously largely determine the magnitude of supplies available for consumption during the 2011-12 marketing year. The magnitude of old crop stocks on September 1 will also contribute to next year's supply. As the 2010-11 marketing year enters the final month, there are indications that both soybean and corn consumption will fall short of the most recent USDA projections.

For soybeans, the Census Bureau's crush report released on July 28 revealed that the June 2011 crush was 4.85 million bushels (3.8 percent) smaller than the crush in June 2010. The crush this marketing year has been below that of last year every month except for the first month of the year-September 2010. To reach the USDA projection of 1.65 billion bushels for the year, the total crush in July and August needs to just about equal that of last year. That does not seem likely.

The Census Bureau also provides the official estimate of soybean exports, but those estimates are currently only available through May 2011. The June estimate will be released on August 11. Through May, cumulative Census Bureau export estimates for the marketing year that began in September 2010 were almost identical to the cumulative USDA export inspection estimates. Assuming that relationship continues through August, export inspection estimates can be used to gauge official export progress. Through July 28, those estimates showed cumulative exports of 1.447 billion bushels. With just under 5 weeks left in the marketing year, additional shipments of 73 million bushels, or about 15 million per week, will be needed to reach the USDA projection of 1.52 billion bushels for the year. As of July 21, unshipped export sales for the current marketing year totaled 124 million bushels. Sales are large enough to meet the USDA projection, but actual shipments have averaged only about 6.2 million bushels per week for the last 8 weeks. A continuation of that pace would result in exports falling short of the USDA projection by about 43 million bushels. It now appears that total consumption of soybeans during the current marketing year will result in year ending stocks above the current USDA projection of 200 million bushels. Those stocks, however, will not be known until the release of the USDA Grain Stocks report on September 30.

For corn exports, Census Bureau cumulative marketing year export estimates through May 2011

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exceeded USDA export inspection estimates by about 36 million bushels. Assuming that difference is maintained through August, cumulative export inspections of 1.63 billion bushels through July 28 means that exports in August need to total 209 million bushels, or 43 million per week, to reach the USDA forecast of 1.875 billion bushels. Unshipped sales as of July 21 were reported at 264 million bushels, but weekly export inspections have averaged only 36 million bushels per week over the past 8 weeks. A continuation of that pace would leave exports about 36 million bushels short of the USDA projection.

Weekly ethanol production continues to exceed the levels of last year, but the pace of production has slowed. Production in the March-May quarter exceeded that of a year ago by 5.9 percent, production in June was up 4.7 percent, and production in July was up only 1.8 percent. To reach the USDA's projection of 5.05 billion bushels of corn used for ethanol production during the current marketing year, ethanol production in August needs to exceed that of last year by 10.5 percent.

Feed and residual use of corn during the June-August quarter will remain a mystery until the release of the September 1, 2011 Grain Stocks report on September 30. By most accounts, a large amount of wheat has been or will be substituted for corn this summer due to the low price of wheat relative to corn.

The slowdown in corn consumption and prospects for larger year-end inventories has resulted in some weakness in price levels, basis, and the September-December futures spread. In mid-June, September 2011 futures were still more than \$.45 higher than December futures. December futures are now about \$.03 higher than September futures. A rapidly maturing crop and prospects for more corn harvested in September has contributed to the weakness in September futures. However, the heat that has pushed the maturity of the crop also raises concerns about yield losses, particularly in those areas that received less than normal precipitation in July.

While the magnitude of year ending stocks will influence the supply of corn and soybeans for the 2011-12 marketing year, that impact will be dwarfed by the size of the 2011 crops. The extreme variability in planting date and weather conditions to date make it difficult to anticipate crop size. Increasingly, yield expectations are falling below projections in the USDA's July WASDE report. The USDA's first survey-based production forecasts will be released on August 11.