



Weekly Outlook: Anticipating Crop Prices in 2012

Darrel Good

Department of Agricultural and Consumer Economics

University of Illinois

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Crop prices during 2011 were influenced by a wide range of factors that resulted in extremely large trading ranges. The price patterns, however, were very different for corn, soybeans, and wheat. As the year ends, thoughts turn to likely price levels in 2012.

December 2011 corn futures started the year near \$5.50, with the higher trend that began near \$4.00 in July 2010 still in place. The trend continued, although erratically, reaching a peak near \$7.80 in late August. Prices have declined sharply since then, with the December 2011 contract currently only about \$.30 higher than at the start of the year.

January 2012 soybean futures started the year just below \$13.00, with the higher trend that began near \$9.50 in July 2010 still in place. The price of that contract traded between \$12.50 and \$14.00 through mid-August, peaked at \$14.74 in late August and then plummeted to \$11.00 in late November. That contract is currently trading near \$11.40.

December 2011 wheat futures at Chicago were also trending higher at the start of the year. The higher trend started near \$6.00 in July 2010, with the price near \$8.50 in early January 2011. The price of that contract peaked near \$9.70 in mid-February and is now just over \$6.00, about where the price rally began in July 2010.

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For corn, it appears that 2012 will begin with a continuation of weak export demand. While China has purchased 95 million bushels of U.S. corn and Mexico has bought more U.S. corn than a year ago, total sales are lagging the relatively slow pace needed to reach the USDA projection of 1.6 billion bushels for the marketing year. For the four weeks ended November 24, sales averaged 10.4 million bushels per week, compared to the average of 18 million needed. Abundant supplies of wheat and feed grains in the rest of the world are providing stiff competition for U.S. corn. The current year is ending with very strong demand for corn for ethanol production, but demand after the first of the year is much more uncertain due to the expiration of the blenders tax credit. Longer term, the rate of growth in corn based ethanol production will likely be limited due to peaking renewable biofuels mandates and limited production capacity. Domestic feed demand for corn remains uncertain until the USDA's quarterly stocks estimates are released, but consumption could exceed the very low forecast.

For soybeans, the current pace of consumption is below that needed to reach the USDA projection for the marketing year. The domestic crush during the first two months of the marketing year was about 9 percent less than in the same period last year, while the USDA projects a 1 percent decline for the year. Weekly export sales have fluctuated widely, but are running well below the level of a year ago. The outcome of the South American harvest will be important for demand for U.S. soybeans in the last half of 2012. Prospects there still remain generally favorable.

For wheat, exports are on pace to reach the very small projection of 975 million bushels for the marketing year. The small U.S. wheat crop is finding considerable competition from large supplies in the rest of the world. Prospects remain for abundant U.S. wheat inventories at the end of the marketing year.

As pointed out last week, harvested acreage of U.S. crops in 2012 could exceed that of 2011 by several million acres. The increase would come from fewer prevented plantings, less abandonment, and a decline in CRP enrollment. A return to trend yields in 2012 in combination with more acreage would result in much larger crops. At this juncture, the largest year-over-year increase in production might be expected for corn.

While export demand for U.S. crops looks to be weak early in the year, demand in the last half of 2012 will depend to some extent on the magnitude of production in the rest of the world. Some decline in northern hemisphere coarse grain and wheat production from the record levels of 2011 would not be surprising, but the South American corn crop is expected to be much larger. A decline in total foreign grain production could give U.S. exports a boost. A bigger issue for export demand, however, may be the state of world economic and financial conditions. A slowdown in growth in Asian markets could be troublesome for demand, while broader European financial problems could be generally disruptive to commodity demand.

As always, there are so many unknowns that price prospects for the year ahead cannot be formed with a lot of confidence. Current prospects point to some further weakness in corn and, perhaps, soybean prices, but a price collapse is not expected. After the sharp decline this year, wheat prices look to be more stable in 2012.