



Weekly Outlook: Corn and Soybean Prices – Mission Accomplished?

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In our newsletter of January 18, it was suggested that corn and soybean prices had the dual objectives of allocating old crop supplies so as to maintain pipeline supplies at the end of the year and directing spring planting decisions. Specifically, prices needed to ensure an increase in corn acreage and to maintain soybean acreage at the 2010 level.

For soybeans, the declining pace of both the domestic crush and exports, along with the prospects for a large increase in double-cropped acreage in 2011, suggested that soybean prices had increased enough by mid-January to accomplish the dual price objectives. That conclusion was reinforced by the improving condition of the Brazilian soybean crop and prospects for a record harvest in 2011. The USDA confirmed prospects for a record large Brazilian soybean crop last week. Soybean prices increased another \$.40 from January 18 to the peak on February 9. Since then, May 2011 soybean futures have declined about \$1.30. The decline in November 2011 futures has been only slightly less.

For corn, the conclusion in mid-January was that prices would need to remain very strong to slow the pace of consumption and to motivate a large increase in planted acreage. May 2011 corn futures increased nearly \$.60 from January 18 to the peak on March 4. December 2011 futures increased about \$.40 to the much earlier peak on February 11. Corn prices have declined sharply since early March and are now back to the level of mid-January. The rapid decline suggests the market believes that corn prices have accomplished their objectives. The likelihood that old crop consumption has been slowed enough comes from two perspectives. First is the macro-perspective. Recent world events are seen as a threat to the fragile economic recovery that is underway. Political unrest in North Africa and the Middle East has pushed crude oil and gasoline prices nearly 15 percent higher in the past month. Those higher prices could slow economic growth and curb commodity demand, including demand for agricultural commodities. Now, the devastating earthquake and tsunami in Japan may challenge the Japanese and world economies, pointing to the possibility of a further slowdown in global demand growth.

The second perspective of corn demand comes from the flow of information relative to the pace of consumption. During the first half of the 2010-11 marketing year, ethanol production, and presumably the amount of corn used for ethanol production, was 15 percent larger than during the same period last year.

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Last year, however, ethanol production was relatively small during the first half of the corn marketing year and accelerated rapidly in the last half of the year. Year-over-year increases in ethanol production will be much smaller for the last half of the 2010-11 marketing year. Still, use during that period needs to be only 2.3 percent larger than use of a year ago to reach the USDA projection of 4.95 billion bushels of corn used for ethanol production.

The pace of corn exports has also been slow enough that the USDA projection of marketing year exports of 1.95 billion bushels is not expected to be exceeded. While the pace of corn export sales accelerated during the 5 weeks ended February 24, the pace of shipments remains generally slow. Cumulative marketing year export inspections through March 10 were about 10 million bushels less than the total of a year ago. In addition, Census Bureau estimates of corn exports through January were only 26 million bushels larger than cumulative inspections. Last year, Census estimates through January exceeded inspections by 63 million bushels. Like last year, exports will have to increase rapidly in the last half of the year in order to reach the USDA projection for the year. That pace may now be threatened by the situation in Japan, although not much is known about damage to total port capacity, transportation infrastructure, or the livestock industry. Japan is the largest importer of US corn and as of March 3, 116 million bushels of corn sales to Japan had not been shipped.

Finally, corn prices have been pushed lower by ideas that producers have already made plans for a large increase in corn acreage in 2011. Some are projecting planted acreage above the USDA expectation of 92 million acres and even above our calculation of a needed 93 million acres. These expectations of large corn acreage underscore the importance of the USDA's March 31 Prospective Plantings report.