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Weekly Outlook: Corn and Soybean Prices Continue to Struggle

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Corn prices have traded in a sideways pattern since mid-October, but are currently in the lower end of the recent range. Soybean prices have trended lower over the past month, with January futures now back near the early October lows.

Corn prices received little support from last week's USDA Crop Production report containing a lower forecast for the size of the U.S. crop. The U.S. average corn yield is projected at an 8 year low of 146.7 bushels, 1.4 bushels below the October forecast. The potentially positive price impact of that reduction was muted by USDA's judgment that feed and residual use of corn will only reach 4.6 billion bushels during the current marketing year, 100 million below the October forecast. The forecast is 192 million bushels below the surprisingly small estimate for the previous marketing year. The lower forecast for the current year was not offset by an increase in the projection for feed use of other grains. The projection of domestic soybean meal feeding was also reduced marginally. The lower projection of feed and residual use of corn reflects prospects for reduced broiler production as placements continue to run 6 to 8 percent below the pace of a year ago. Although not cited as a factor for the reduction, the recent slowdown in exports of distillers grain may boost domestic feeding of that product. The pace of domestic feed and residual use of corn will be revealed in the USDA's December 1 Grain Stocks report to be released on January 12. The experience of the past two years, however, suggests that the level of domestic feed and residual use may remain uncertain until the September 1, 2012 socks estimate is released.

Ethanol production during the first 10 weeks of the 2011-12 marketing year was about 2.2 percent larger than during the same period of a year ago. While uncertainty persists about ethanol demand and production without the blenders' tax credit in 2012, the current pace of production supports the USDA projection of 5 billion bushels of corn used for ethanol this year. Ethanol exports, particularly to Brazil, are a major part of the current increase in ethanol production. Those exports are vulnerable in the longer term if world sugar production rebounds and sugar prices moderate.

The USDA still expects U.S. corn exports during the current marketing to be at a 9 year low of 1.6 billion bushels. Exports have been less than 1.6 billion bushels only 6 times in the past 36 years. Through November 10, the pace of weekly export inspections continued to run well below the average pace needed to reach the USDA projection. The Census Bureau corn export estimate for September was not substantially larger than the USDA inspection estimate. The level of outstanding sales is larger than that of a year ago, but new sales were small in the latest reporting week ended November 3.

The USDA's November forecast of the U.S. average soybean yield of 41.3 bushels was 0.2 bushels below the October forecast and 2.3 bushels below the 2010 average. The forecast represents the lowest yield since 2008 and the second lowest since 2003. Like corn, the lower yield and production forecast generated little price strength due to a 50 million bushel reduction in the forecast of exports and a 35 million bushel increase in the forecast of year ending stocks. The pace of U.S. soybean exports remains well below that of last year. However, the anemic pace of new sales in the last two weeks of October was followed by large new sales in the week ended November 3. Production prospects remain generally favorable in South America, although USDA made a modest reduction of the forecast of acreage in Argentina and Paraguay. Those reductions were offset by larger yield forecasts for Brazil and Paraguay.

While futures prices for corn remain in a relatively narrow range, basis levels generally remain quite strong and at record levels for this time of year in some markets. Spreads in futures remain very choppy, with the December-July spread fluctuating between 18 and 23 cents. The apparent battle between current demand strength and expected weakness in 2012 continues. In contrast, soybean basis remains near typical levels and spreads are generally large. The January-July spread, for example, is near 30 cents, compared to only about 5 cents in early September. The weak basis and the relatively large carry reflect the generally weak demand situation.

For now, January soybean futures are holding just above the early October lows while December corn futures are well above the early October lows, but near the low end of the recent trading range. The recent sideways trading pattern might persist for an extended period, but the deterioration of market fundamentals suggests that prices could drift lower into the winter months.