



## Weekly Outlook: Beyond the October Production Forecasts for Corn and Soybeans

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At 10.706 billion bushels, the USDA's October forecast of the U.S. corn crop was about 100 million bushels larger than the average trade guess and about equal to the September forecast. The October soybean forecast, at 2.86 billion bushels was about 90 million bushels larger than the average trade guess and 126 million larger than the September forecast. Prices of both commodities increased immediately after the forecasts were released.

The positive response to what appeared to be neutral to negative production forecasts suggest that the market had priced in the risk of even larger production forecasts. In addition the USDA forecast year ending stocks of both commodities to be near pipeline levels, and smaller than expected in the case of corn. In the case of soybeans, the projection of marketing year consumption was increased by 150 million bushels. Some interpreted the increase as a reflection of stronger demand than had been previously forecast. However, the USDA also lowered the projection of the marketing year average farm price by \$0.75 per bushel, in a range of \$14.25 to \$16.25. It is unlikely that underlying soybean demand is much different than forecast last month. Instead, the increase in the supply of soybeans (shift in the supply curve) should result in the supply and consumption equilibrium occurring at a higher level of consumption and a lower average price than projected last month. The projection of corn consumption was reduced by 100 million bushels, acknowledging that total consumption will be limited by the small crop and smaller than expected stocks of old crop corn. The projection of the marketing year average price was reduced by only \$0.10 from the September forecast, in a range of \$7.10 to \$8.50.

The USDA will release new yield and production forecasts on November 9. Some variation from the October forecasts should be expected, with history suggesting a slightly lower yield forecast for corn and a slightly higher forecast for soybeans. In the previous 30 years, for example, the U.S. average corn yield forecast declined in September and again in October, as it did this year, in 7 years. The November yield forecast was below the October forecast in 5 of those 7 years. The decline in the forecast ranged from 1.5 to 7.2 (1993) bushels, and averaged 3.2 bushels. In 4 of the 5 years with a lower yield forecast in November, the yield estimate was even lower in January. For the two years that saw a yield increase in November, the increases were very small, 0.4 and 0.1 bushel.

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In the previous 30 years, the forecast of the U.S. average soybean yield declined in September and increased in October, as was the case this year, in 7 years. In 6 of those 7 years, the November yield forecast exceeded the October forecast. The average increase was 0.5 bushel, in a range of 0.2 to 0.9 bushel. The final yield estimate released in January was above the November forecast in 4 of those 6 years. The January yield estimate was above the October forecast in all 6 years.

In addition to the new yield forecasts, there will be some interest in the forecast of the acreage of corn harvested for grain in the November USDA report. The October report forecast acreage harvested for grain at 87.721 million acres, 9.225 million less than acreage planted for all purposes. That difference (mostly silage) is above the previous 5-year average of 7.2 million acres, but less than the 9.467 million acres in the comparable drought year of 1988 and the 11.082 million acres in 1980. Widespread reports of corn abandoned or harvested for silage this year had resulted in the expectation for the difference between acreage planted and harvested for grain to be larger than the current forecast.

While the November production forecasts will provide a clearer picture of the availability of corn and soybeans, prices will now take direction primarily from the ongoing rate of consumption. Those patterns were detailed in last week's newsletter. The strong pace of soybean exports and export sales continue and the corn export program remains weak. For corn, however, considerable uncertainty about the pace of feed and residual use will persist until the December 1 stocks estimate is available in the second week of January. It seems unlikely that the pace of feeding has yet been reduced to the level forecast by the USDA. Consumption in that category is forecast at only 4.15 billion bushels, 412 million below the official estimate for the past year. However, last year's consumption is likely understated due to the availability of larger than normal quantities of new crop corn. Similarly, part of the consumption that will be reported during the current year may have been used last year. Prices of both commodities should be well supported until rationing has been confirmed.