



Weekly Outlook: Crop Markets Reflect Both New and Missing Information

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Prices of corn, soybeans, and wheat continue to move erratically, reflecting both new information and the lack of some information. The markets are supplied with a steady flow of data on consumption in some markets, particularly the export markets and the ethanol market. Less frequent information is available about consumption in other markets, particularly the domestic feed market.

For corn, the available data point to a continuation of a high rate of domestic consumption and a slow pace of export shipments. In the case of soybeans, weekly export inspections have dropped below the level needed to reach the USDA projection of 1.55 billion bushels for the year ending on August 31. Inspections for the four weeks ended May 26 averaged 8 million bushels per week, compared to the 11.5 million average needed to reach the USDA projection. The domestic soybean crush pace continues to be slow, with the reported April crush at the lowest level for the month since 2004. For wheat, exports appear to be on pace to reach the USDA's projection of 1.275 billion bushels for the marketing year that ends today. Beyond the consumption data, longer term demand prospects continue to be influenced by varying indicators and opinions about prospects for economic recovery.

On the supply side, there is a constant flow of information about planting progress, world weather conditions, and crop conditions. That information does not always paint a consistent picture and the implications are subject to interpretation by market participants.

Outside the U.S., there are on-going concerns about the impact of dry weather on western European grain and oilseed crops and concerns about planting delays for Canadian grain and oilseed crops. In contrast, prospects are generally more favorable in China, India, and the Black Sea region. The focus on the supply side right now, however, is primarily on conditions in the U.S. Those conditions are highly variable and are highlighted by planting delays in the northern Plains, the upper Midwest, and the eastern Corn Belt. In contrast, planting has been timelier in large parts of the western corn belt. Dry conditions in the southern plains have posed an on-going threat to the winter wheat crop, while flooding has resulted in the loss of some crop land along the southern Mississippi River.

The USDA will continue to provide weekly data relative to planting progress, crop development progress,

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and crop conditions. Information relative to total planted acreage and acreage planted to individual crops is the most scarce. Considerable uncertainty about the magnitude of acreage of spring planted crops will persist for at least another month. Uncertainty about total planted acreage is magnified by the difficulty in estimating the amount of acreage that has been lost for the year due to flooding. In addition, it is difficult to evaluate how many acres, particularly of corn, will be lost to the prevented planting provisions of the crop insurance program. Several million acres were likely still not planted as of May 29. In addition to uncertainty about total planted acreage, the mix of crop acreage is also difficult to anticipate, with some intended corn acreage likely shifting to soybeans after the first week of June.

Upcoming USDA reports will provide some of the currently missing information for the crop markets. The June 9 Crop Production report will provide a new forecast of the size of the U.S. winter wheat crop. Updated forecasts of U.S. and world supply and consumption prospects will be released on the same date. We do not anticipate any changes in the projections for the 2010-11 or 2011-12 marketing years for U.S. corn. There is some chance of a small reduction in the projection of U.S. soybean consumption for the current marketing year. For wheat, changes for the 2011-12 marketing year will follow the new winter wheat production forecast.

The USDA's June 30 Grain Stocks and Acreage reports will provide the most important fundamental information for all three crops. Consumption data and a strengthening basis suggest that corn inventories are getting increasingly tight. The report of planted acreage may show some significant loss of total planted acreage relative to March intentions. The largest decline is expected for corn acreage.

While crop prices are high and have strengthened since mid-May, the response seems muted given the magnitude of production risk in the U.S. and other parts of the world. This is particularly true for corn. It is surprising that prices for the 2011 corn crop have not strengthened even more in an attempt to make corn planting as attractive as possible compared to planting other crops or leaving acreage idle.