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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Crop Prices Treading Water

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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Following wide swings in September and early October, the prices of corn, soybeans, and wheat have traded in relatively narrow ranges in the last half of October. Narrow trading ranges reflect the lack of new information and, in some cases, conflicting demand indicators.

Since October 12, December 2011 corn futures have traded in a range of about $.40, with a high near $6.65. That contract is now about $1.40 below the late August high. Basis levels remain generally strong and are at record levels for this time of year in some markets. Demand news tends to be mixed for corn. Ethanol production since September 1 has been near the level of a year ago, suggesting corn consumption in that market remains at record levels. Spot market margins for ethanol producers have increased sharply since reaching record low levels in June. Calculated margins are near the highs reached in 2007. Declining corn prices and higher ethanol prices have both contributed to the improved margins. Ethanol production looks to be large for the next two months, with more uncertainty in 2012 after the blender's tax credit expires.

The pace of feed use of corn is not known. Use should be supported by the large number of cattle on feed, but weekly placements of broiler-type chicks continue to run 6 to 8 percent under the level of a year ago. Considerable uncertainty about feed and residual use of corn has been created by the surprisingly low level of consumption implied for the 2010-11 marketing year and by the unknown level of wheat feeding. The December Grain Stocks report will shed more light on that issue.

U.S. corn exports are expected to be at a 9 year low of 1.6 billion bushels during the current marketing year, 235 million bushels less than exported last year. Exports are expected to be negatively influenced by the large supply of corn and wheat in the rest of the world. Exports need to average about 30.8 million bushels per week to reach the projected level. Export inspections during the first 8 weeks of the year averaged 27.3 million bushels per week. The Census Bureau will release an estimate of September exports on November 10. Export sales have been large so that cumulative export commitments stood at 806 million bushels on October 20, 25 million larger than commitments of a year earlier. China has purchased 78 million bushels of U.S. corn. That is equal to the USDA projection of Chinese imports from all origins this year. While the level of outstanding sales is encouraging, small sales in the week ended October 20 and recent announcements that several importers are buying corn from other sources has created some concern about the strength of export demand for U.S. corn.

Since October 12, November 2011 soybean futures have traded in a range of about $.75, with a high of $12.76. That contract is now about $2.70 below the late August high. Prices have been pressured by the slow pace of domestic crush, generally favorable weather conditions in South America, and a modest pace of exports. The USDA forecasts that exports this year will be 125 million less than the record of last year. The pace of exports and export sales are slow compared to the torrid pace of a year ago. Last year, two-thirds of U.S. exports for the entire year had been sold by late October, as China was a large buyer early in the year. Over 40 percent of the total marketing year exports were shipped in the first quarter of the year and only 7 percent in the last quarter of the year. While trailing last year’s pace, export commitments as of October 20 accounted for nearly half of the USDA’s projected exports for the year. That compares to the average of only 42 percent for the five years from 2005-06 through 2009-10.

Since October 13, December 2011 wheat futures at Chicago have traded in a range of about $.45, with a high of $6.53. That contract is now about $1.80 below the late August high. Prices have been pressured by large production in the rest of the world, forecasts of much smaller exports, and prospects of abundant year-end stocks. The USDA projects 2011-12 marketing year exports at 975 million bushels, 314 million less than exported last year. Exports during the first quarter of the year (June through August) were 30 million bushels larger than those of a year earlier. The USDA projection, then, implies that exports during the last three quarters will be 344 million bushels (33.6 percent) less than those of a year ago. As of October 27, cumulative export inspections were only 10.5 million bushels less than the total of a year ago. Outstanding sales as of October 20 stood at only 166 million bushels, 109 million less than sales of a year earlier. Exports are clearly slowing in the face of large foreign crops.

Crop prices received some brief support from the aversion of a financial meltdown in Europe, but concerns about global economic conditions continue. The USDA’s Crop Production report on November 9 will provide updated forecasts of the size of the U.S. corn and soybean crops. Unless those forecasts are lower than expected, crop prices may drift back to the lows established in early October.