



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN PRODUCTION PROSPECTS**

Based on the price reactions, the market was shocked by USDA's September forecast of the 2003 corn and soybean crops. November 2003 soybean futures moved to a contract high of \$6.30 on September 11 and settled at 6.23 on September 12. The \$.265 increase by the close on Friday, reflected a crop forecast of 2.644 billion bushels, 110 to 115 million less than reflected in the pre-report average trade guess. The September USDA forecast was 218 million bushels, or 7.6 percent, below the August forecast. That is one of the largest August to September reductions of the past 30 years, second only to the 308 million (16.7 percent) reduction of 1983. The U.S. average yield is projected at 36.4 bushels per acre, 3 bushels below the August projection and 1.4 bushels below the 2002 average yield. At the projected level, the 2003 yield will be the lowest since 1995.

Compared to the August forecast, September yield forecasts were much lower in Iowa, Kansas, Minnesota, Missouri, North Dakota, South Dakota, and Wisconsin. Yield prospects improved in Alabama, Kentucky, Mississippi, and Tennessee. Yield prospects in the eastern corn belt states changed little from August to September.

The smaller soybean crop will require a reduction in consumption of U.S. soybeans during the 2003-04 marketing year. The USDA expects that reduction to be accomplished by higher prices and a larger South American crop. The 2003-04 marketing year average farm price of soybeans is projected in a range of \$5.25 to \$6.15, compared to \$4.55 to \$5.55 projected last month and the \$5.50 average of 2002-03. The 2004 South American crop, which has yet to be planted, is projected at 3.573 billion bushels, nearly 200 million larger than the 2003 crop. The increase is expected to come from a 7 percent increase in soybean acreage and a modest 1 percent reduction in average yield.

December 2003 corn futures declined \$.14 following the release of the September production forecast of 9.944 billion bushels. The forecast was 120 million bushels below the August forecast, but 144 million larger than the average trade guess. The national average yield is projected at 138.5 bushels per acre, 1.4 bushels below the August forecast, but 8.5 bushels

above the 2002 average and only 0.1 bushel below the 1994 record yield. Compared to the August yield forecasts, yield prospects were unchanged to higher in the eastern and southeastern growing areas and lower in western and northern areas.

At 9.944 billion bushels, the 2003 U.S. corn crop will be large enough to meet expected domestic and export requirements, but will likely result in a further decline in year-ending stocks. The USDA projects the 2003-04 marketing year average farm price in a range of \$2.10 to \$2.50, \$.10 higher than the August projection. The 2002-03 marketing year average was \$2.30.

The market now awaits the October production forecast. Since 1970, there has been a very low correlation between the September change in the production forecast and the change in the forecast in October. That is, the direction and magnitude of the change in the production forecast in October 2003 cannot be predicted based on the change that occurred in September, particularly for soybeans. Opinions about potential changes in October vary sharply this year.

In addition to crop size, the market will also pay close attention to the rate of consumption, particularly soybean consumption. With soybean export sales off to a rapid start, the market will want to see evidence of a decline in overall consumption that is in line with the USDA projections.

The corn price decline following the September USDA *Crop Production* report has pushed harvest bids to near the CCC loan rate. Prices at such a low level, coupled with a modest carry in the price structure, suggest that storing the newly harvested crop unpriced is a low risk strategy. At risk is the cost of storage.

In contrast, soybean prices are well above the CCC loan rate. With half of the marketing window (pre-harvest) now passed, new crop soybean prices are at the highest level of the year. In addition, there is no carry in the price structure. This combination of factors is providing an opportunity to price a significant portion of the 2003 crop.

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