WEEKLY OUTLOOK

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CORN AND SOYBEAN CROPS ABOUT AS EXPECTED

The USDA's September forecasts of the size of U.S. corn and soybean crops were larger than the August forecasts and about as expected. Forecasts of consumption during the year ahead were also increased, resulting in little change in the forecast of average prices.

The U.S. corn crop is now forecast at 11.114 billion bushels, 138 million larger than the August forecast, almost identical to the size of the 2005 crop, and 693 million smaller than the record crop of 2004. The U.S. average yield is forecast at 154.7 bushels, 2.5 bushels above the August forecast, 6.8 bushels above the 2005 average, and 5.7 bushels below the 2004 record. The projection of harvested acreage for grain is at 71.841 million, 250,000 below the August forecast and 3.266 million less than harvested last year. The month-over-month decline in the harvested acreage forecast was all in South Dakota.

As expected, the estimate of exports during the year ended on August 31, 2006 was increased by 50 million bushels, to a 10-year high of 2.15 billion bushels. September 1, 2006 stocks are forecast at 2.012 billion bushels. That inventory will be estimated in the USDA's September *Grain Stocks* report to be released on September 29. For the current marketing year, the USDA increased the forecast of U.S. corn exports by 100 million bushels, to a 17-year high of 2.25 billion bushels, reflecting a small month-over-month increase in the projection of world consumption and small declines in the projection of exports from the Ukraine and the European Union. With domestic consumption forecast at 9.665 billion bushels, total consumption is expected to reach 11.915 billion bushels, 690 million above the record consumption during the year just ended. Year ending stocks are projected at 1.22 billion bushels, 12 million less than projected last month. The 2006-07 marketing year average farm price is projected in a range of $2.15 to $2.55, the same as projected last month and well above the average of $1.99 for the past year. The projected ending stocks-to-use ratio of 10.24 percent suggests a marketing year average price of $2.36. At the close of trade on September 11, the futures market appeared to be trading an average farm price for the current marketing year of about $2.45.

The 2006 U.S. soybean crop is now forecast at 3.093 billion bushels, 165 million larger than the August forecast, about equal to the 2005 crop, and only 31 million less than the record crop of 2004. The U.S. yield is forecast at 41.8 bushels per acre, 2.2 bushels above the August forecast, but 1.5 bushels below the record yield of 2005. The highest average yields this year are expected in Indiana and Nebraska (50 bushels), followed by Iowa (49 bushels), and Illinois (48 bushels).

The USDA estimates that the domestic crush during the year just ended totaled 1.74 billion bushels, 15 million larger than the August forecast. Exports for the year are estimated at 945 million bushels, also 15 million larger than the August forecast. September 1 stocks were thought to total 485 million bushels. Ending stocks were large, but the current estimate is 85 million bushels less than the forecast of just three months ago.

For the current marketing year, the USDA expects the domestic crush to increase by 25 million bushels to a record 1.765 billion and exports to increase by 180 million bushels, to a record 1.125 billion bushels. The large export projection reflects expectations of a large increase in imports by China and small declines in exports from South America, even though the 2007 South American soybean crop is projected to be slightly larger than the 2006 harvest. Even with a sharp increase in consumption, U.S. soybean stocks on September 1, 2007 are projected at 530 million bushels. The USDA projects that 2006-07 marketing year average farm price in a range of $4.90 to $5.90. The projected year-ending stocks-to-use ratio of 17.37 percent suggests an average farm price near $5.60. At the close of trade on September 11, the futures market appears to be trading an average farm price near $5.45.

With both the corn and soybean futures market currently reflecting fundamental value, price reaction to the September reports may be small. The market will now wait for the October report to confirm crop size. Over the past 36 years, there has been a tendency for the corn production forecast to increase in October following an increase in September. There is a similar, but smaller, tendency for the soybean production forecast. However, with improving crop condition ratings, the market will likely expect a larger soybean production forecast in October. With prospects for corn inventories to decline significantly this year and the need for U.S. producers to plant more corn in 2007, cash prices are expected to move significantly higher over the next several months. The best chance for a recovery in soybean prices is with a threat to the South American crop. Longer term, however, soybean prices may have to work higher to attract more acres into production in South America.

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