

## Short Crops and Low Prices?

Drought over much of the state of Missouri has many crop producers facing the possibility of a “worst case scenario” with short crops combined with low prices. It’s not just Missouri producers that are affected; a large part of Illinois and other surrounding states are facing the same situation with drought reduced crop production. However, good growing conditions in some western and northern Corn Belt states appear to offset a portion of the losses in drought areas. This year’s situation clearly demonstrates the importance of production and market risk management strategies.

***Will the corn crop get smaller?*** In spite of below trend line expected national average yields (139.2 bpa), USDA’s August supply/demand reports estimate that the large corn acreage (74.4 million harvested acres) will still produce the second largest corn crop on record at 10.350 billion bushels! Some analysts believe the high temperatures may have reduced yields more than has been accounted for in current USDA estimates, even in areas where the crop looks good. In previous years with reduced yields, USDA’s production estimates often continued to decline until final production was determined. Market participants will watch for whether dry weather damage is bad enough to cause a similar decline in production estimates this year. Most recognize that recent rains in previously dry areas aren’t likely to add any bushels, but they may stop further declines and are negative to prices.

Corn demand is strong, but carryover supplies are expected to remain large and continue to pressure prices. Carryover from the 2004-05 corn crop is pegged at 2.110 billion bushels and, coupled with the current production estimate, results in the second largest total corn supply in U.S. history. USDA projects total use at 10.570 billion bushels, which would be the second largest use on record, and it could increase because a few analysts believe USDA has underestimated potential feed use. While use is expected to exceed production projections and reduce ending stocks from current levels, the carryover is expected to remain large with 2005-06 ending stocks projected to be 1.900 billion bushels. Other positive price potential factors include world coarse grain and corn supplies that are the second lowest in 10 years. However, domestic ending stocks projections suggest corn supplies will be more than adequate for another year, regardless of what happens to production estimates in the next few months. The large carryover can be expected to limit the potential for significant price recovery until well into next year.

New crop (December) corn futures prices have slipped to near contract lows and produce expected harvest cash prices about mid-range of USDA’s projected prices (\$1.80 - \$2.20). Weak basis at many Missouri locations produces even lower new crop cash bids and prices that will trigger government program LDP (loan deficiency payments). The weak basis

and new crop carry (price premium) offered in March or May 2006 futures contracts are market signals to store. These market signals, along with expected strong demand, low harvest prices, and downside price protection offered by the LDP, suggest making plans to store corn at harvest.

***Soybean Uncertainty Continues.*** “The corn is done, but it’ll help the beans!” That comment was repeated over and over throughout north and central Missouri following the recent rains. Nearly everyone recognizes that the corn crop has suffered severe damage in the drought area of the Corn Belt, but the final outcome in soybean production still depends upon weather during the next few weeks.

USDA’s August production estimates lowered 2005 soybean yields from 39.9 bpa (July estimate) to 38.7 bpa. With a total harvested acreage of 72.2 million acres, soybean production is now estimated at 2.791 billion bushels, significantly less than last year’s record 3.141 billion bushels. 2005-06 soybean ending stocks are expected to decline to 180 million bushels. Although current supply estimates appear adequate, demand is expected to remain strong and leaves little room for further soybean yield reductions. USDA’s current projection for world soybean carryover remains at record levels. However, world supply estimates will be impacted by any further reductions in U.S. production and 2006 South American growing conditions.

Soybean price direction depends upon weather into crop maturity, final yields/production, demand, and prospects for 2006 South American production. This suggests that the market is likely to remain volatile until the South American crop appears to be made. Improved Corn Belt moisture conditions have pressured prices, which have broken through technical (chart) support near \$6.50. These factors have triggered speculative long liquidation (selling) in the futures market and turned the price trend down. Current November 2005 futures prices result in expected harvest time prices near the mid-point of USDA’s projected average farm price range (\$5.50 to \$6.50).

Soybean market signals are mixed. Weak basis suggests storing to capture basis gains, but lack of market carry in distant futures months does not signal market returns for storage. It will be important to keep marketing plans flexible as the soybean crop matures and actual production becomes better defined. Although the futures market is not offering storage returns, short term soybean storage may allow capturing basis gain and enable capturing speculative returns on price rallies in a volatile market, especially if the U.S. crop shows signs of further deterioration. Longer term storage carries more risk, since world supplies are projected to remain large and South American production is expected to rebound from the short crops of the past two years.

## **New LDP Form**

With current new crop corn prices low enough to trigger LDP on corn sold or delivered out-of-the-field, it is important to insure that the proper forms have been completed to insure LDP eligibility before beneficial interest (ownership) is lost. FSA is implementing a new form (CCC-633 EZ), designed to simplify the process. This will eventually become the only form used for the LDP process. ***However, for 2005 only, the old form CCC-709 also must be completed prior to sale or delivery of grain at harvest.*** Producers should check with FSA and insure that the forms are completed before harvest. Completing both the CCC-709 and page 1 of the new CCC-633 EZ at this time is probably a good idea.