

Decisive Marketing

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What's Next?

It has been an unpredictable and possibly disappointing year for many producers so far. Although livestock producers were squeezed by high feed prices, the year began with optimism for crop producers with high prices and expectations for a very profitable year. Corn and soybean prices have set new record highs, but increasing fuel and other input costs along with planting delays, flooding, replanting and a crop that is uneven and well behind normal progress has dampened the optimism.

What's next? Where will prices go from here? Are the highs in? Should additional sales be made? These and other similar questions are on the minds of almost everyone involved in agriculture production.

It is not unusual for prices to begin declining at this time of year. December 2008 (new crop) corn futures have traded more than \$1.20 per bushel off of the highs set in June. Soybean prices continue to be supported, but are also lower than the prices achieved in late June. This would follow the typical seasonal price pattern. Prices for fall harvested crops often form a price peak in late June or early July before declining toward a harvest time price low.

The USDA's July supply/demand estimates suggested the potential for some slowing of corn demand due to high prices. Small reductions in estimated 2007-08 corn uses for feed and ethanol production added to projected old crop carryover. Old crop corn ending stocks are now estimated 1.598 billion bushels. New crop (2008-09) demand projections also suggest higher prices will lower use. Feed and export uses are expected to be less in the coming year and ethanol corn use projections were cut 50 million bushels (3.950 billion bushels) in the July estimates. The net result of all of these adjustments was an increase in expected 2008-09 corn ending stocks from the previous estimate of 673 million bushels to 833 million bushels. Although his remains a very tight corn carryover situation, the ending stocks estimates are increasing and this is usually negative to prices.

The USDA's current production estimates used the 87.3 million planted acres and 78.9 harvested acres from their June acreage report. These acreage numbers may be further adjusted due to flooded and prevented planting acres. Some analysts were surprised at the slightly lower July yield estimate of 148.4 bpa following crop condition reports showing improvements in crop condition. The net result was only a small change in total corn estimated 2008 corn production, now at 11.715 billion bushels. Addition cuts to yield projections and disappointing production could still complicate

the corn supply/demand situation and lead to higher prices.

Soybean supplies remain tight. New crop (2008-09) soybean use is expected to almost equal anticipated production. Soybean 2008-09 ending stocks are expected to increase by only 15 million bushels from the tight old crop carryover of 125 million bushels to 140 million bushels. This new crop ending stocks estimate is also down from the previous estimate of 175 million bushels and a change that is supportive to prices.

Other factors also impact corn and soybean prices. High energy prices contribute to weaker cash basis and impact the entire economy. The slowing economy is resulting in pressures for political solutions to these economic problems, some of which may have considerable impact on grain prices. Negative publicity for ethanol and its perceived impact on food prices increases the pressures to modify tax credits, tariffs or use mandates for biofuels that could impact grain biofuel demand. Questions about the role of speculators in the futures markets causing high energy and food prices has also attracted the attention of legislators. Political action that could cause funds to rapidly liquidate positions could have significant negative impact on prices.

So, what's next? No one, of course, really knows. However, at high price levels there is always significant downside price risk. Seasonal patterns and a number of market factors suggest lower corn/soybean prices are possible. But corn and soybean supplies will be tight even with good growing conditions for the rest of the growing season. The possibility of any yield reductions from hot/dry weather offer market price support and the possibility of more market volatility. Much of the crop is planted late and crop progress is well behind average. This increases the risk of early frost/freeze damage on a crop that needs all of the time it can get.

Although prices have slipped from their highs, new crop corn futures are at or above the top end of USDA's projected price range. New crop soybean futures prices remain well above the USDA's estimated price range. The USDA will provide the first surveyed look at 2008 production with the August supply/demand estimates. Along with changing weather forecasts, the market will anticipate the August supply/demand projections and react to them after they are released. These will all provide clues for what is next. With downside price risk, it will be important to watch market action for opportunities to add to pre-harvest sales or establish price protection on grain going into storage at harvest on weather rallies or new supply/demand information.