CORN AND SOYBEAN SITUATION

T. Randall Fortenbery [1/]

Corn and soybean markets experienced significant volatility in the 2004/2005 marketing year. The combinations of drought, low river levels, export disruptions from hurricane Katrina, and better than expected yields all contributed to the volatility. As one might expect, the most attractive prices for both old crop and new crop occurred in the summer months when producers were most concerned with poor yields, and then fell quickly as the export pace was disrupted and actual yields came in well above initial expectations. Thus, while prices were quite attractive early in the production season, most producers were reluctant to market new crop grain, and ended up facing low prices and abnormally weak basis levels at harvest. Problems were compounded by a large carryover from 2004, resulting in significant strains on storage facilities and forced use of non-conventional storage strategies.

On the positive side, current USDA projections suggest another year of record corn demand. Feed usage for 2005/2006 is projected to be below year ago levels, but this is offset by a substantial increase in seed and industrial use. Ethanol use is expected to continue to increase, exceeding last year's corn contribution to ethanol production by 19 percent. With passage of the US Energy Bill in summer 2005, annual increases in corn used for ethanol will likely be sustained for at least the next 5 years.

Corn exports are also projected to exceed last year's level, and total 1.9 billion bushels. As of late December 2005 exports were on pace to match or exceed that level. In addition, USDA is expecting reduced export activity from South Africa, Argentina, and China this marketing year.

Wisconsin producers who were able to store their 2005 crop and collect the Loan Deficiency Payment (LDP) at harvest (harvest LDP's averaged about 40 cents per bushel in Wisconsin) have already enjoyed some significant price improvement. However, there are large challenges ahead. Current USDA projections for the 2006 carry-over are in excess of 2.4 billion bushels, several hundred million more than 2005 carryover. If this is realized, significant improvement in new crop corn prices for fall 2006 will be difficult to sustain without another significant weather scare during the production season. As of late December 2005, December 2006 corn futures were trading at about \$2.45 per bushel. With anything close to a 2006 10 billion bushel crop and the current 2006 carryout projection, this price will not hold through the 2006 harvest season. USDA is projecting the average US farm price for corn in 2005/06 to be about \$1.80 per bushel. This compares to an average US price of \$2.06 last marketing year.

Domestic demand for soybeans is expected to also be robust this year, but slightly less than 2005/2004. Crush is expected to consume about 1.7 billion bushels, an increase of almost 1.5 percent. However, both exports and seed and residual are expected to be below year ago levels.

[1/] Renk Chair Professor of Agribusiness, Univ. of Wisconisn-Madison.

The USDA (December 2005 estimate) is projecting an average US soybean price for 2005/2006 about $5.35 per bushel. This is a reduction of almost 40 cents per bushel over 2004/2005, and slightly below Wisconsin average cash prices that existed in late December 2005. One key to price activity in early 2006 months will be crop progress in Brazil and Argentina. While current projections are for increased production relative to year ago levels, actual production in each of the last two years has fallen well short of early projections. Both basis levels and futures prices suggest profitable soybean storage for Wisconsin producers in 2005/2006, but, as is usually the case, the risks associated with soybean storage are much higher than corn storage. If South American weather is favorable in the January/February period, soybean prices will have little upside. However, if, as has happened the last couple of years, early South American soybean projections prove overly optimistic, significant price improvement is possible.