

September 1 Stocks: Positive for Bean Prices, Slightly Positive for Corn

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The soybean complex this week received updated supply-demand information that points to slightly higher harvest-time and season average prices than previously anticipated. USDA's Sept. 30 grain stocks report verified earlier indications that the 2004 U.S. soybean crop was slightly over-estimated. The U.S. average soybean yield for 2004 was lowered 0.3 bushels per acre, and total production was reduced from the previous estimate by 17 million bushels. August soybean crushings were 3.6 million bushels above previous expectations. However, the July crush figure was revised down 0.7 million bushels from last month's preliminary figure. With this new information, the "residual use" of soybeans for the 2004-05 marketing year is still a little higher than anticipated. "Residual use" reflects handling losses as soybeans are moved through the marketing system, and possible statistical errors. The current residual number hints that another small reduction in the 2004 crop estimate is possible at a later time.

Bean Stocks

The Sept. 1 U.S. soybean stocks were placed at 256 million bushels. That's 30 to 35 million bushels below many private analysts' expectations and down from USDA economists' projections of 295 million bushels earlier this month. Last year's September 1 U.S. stocks were an unusually low 112 million bushels. U.S. soybean yields for the 2005 soybean crop are expected to increase in the Oct. 12 crop report. Smaller than expected carryover stocks will offset about 1/2 bushel per acre of any yield increase.

Increase in Iowa Old-Crop Grain Supplies vs. One Year Ago

The stocks report confirms earlier indications that grain storage space is likely to be tight this year. Total Iowa corn and soybean old-crop stocks on September 1 were estimated to be 299 million bushels larger than one year earlier. The September crop forecast placed this year's potential statewide production at 151 million bushels less than last year. That reflects a forecast decline in the state's corn crop of 106 million bushels, along with a 45 million bushel decline in soybean production. Yield reports so far hint that the final crop numbers could be larger than currently indicated. The current production forecast shows total Iowa grain supplies this fall to be about 148 million bushels larger than last fall, when many elevators were forced to store corn in outside piles. Large supplies almost certainly will keep the corn and soybean basis depressed for the next several weeks. The soybean basis may recover some in the first month or two after harvest, but the corn basis may remain depressed into at least December in the western half of the state.

Soybean Price Impacts

Our price forecasting model indicates these changes, not including any changes in October and November crop estimates, should add about 15 cents per bushel to the season average soybean price. Without further changes in crop estimates, we would expect the August 31, 2005 U.S. soybean carryover stocks to drop to about 160 to 170

million bushels, slightly less than a three weeks supply. Declining carryover stocks will make winter, spring and summer 2006 soybean prices more sensitive to weather and Asian rust concerns than previously anticipated. However, the prospects for slightly higher prices than previously anticipated plus this year's surprisingly good Midwest soybean yields may bring increased soybean plantings in 2006. Extremely high natural gas prices (about double last winter's level) and sharp upward pressure on nitrogen fertilizer prices likely will encourage farmers to shift some corn acres to soybeans next spring. The outlook for nitrogen fertilizer costs is much more uncertain than usual. Natural gas is the key raw material for producing nitrogen fertilizer.

Corn Stocks

U.S. September 1 corn carryover stocks were placed at 2.112 billion bushels, more than double the 958 million bushels a year earlier. Corn stocks were closer to expectations than soybeans. USDA September 12 projections placed the 9/1/05 carryover at 2.125 billion bushels. The corn stocks reflect a very high feed and residual use from March through August, with the marketing year indicated corn feed, seed and residual use up 6.7% from last season. Feed use is not measured directly by USDA, but is combined with residual use, which like soybeans includes a possible statistical error term. A sizeable part of the increase in feed and residual use likely was corn that deteriorated in outside piles in the western Corn Belt during the last eight months. With better quality maintenance in grain stored from this year's crop, the residual use may decline next year.

Supply-Demand Projections

Our latest corn and soybean supply-demand projections are shown on our Web site, <http://www.econ.iastate.edu/faculty/wisner/>, in the upper right-hand column. Column B represents the USDA September 12 crop forecasts and our projections of potential use, carryover stocks and prices for the year ahead. We have also added a very early and tentative set of projections for the 2006-07 marketing year, assuming normal weather. One very uncertain element in next year's supply projections is the impact of high natural gas prices on nitrogen fertilizer costs and corn acreage. We have projected a modest decline in corn acreage for 2006. Depending on winter temperatures and the trend in natural gas prices in the next several months, corn acreage could decline a bit more than we are currently projecting. Also note our corn utilization projections for 2006-07, with the rapid expansion in corn processing for ethanol.

Marketing Year Average Prices & CCPs

USDA released the marketing year weighted average prices received for corn and soybeans as of the week of Sept. 26. The U.S. corn marketing year average price was \$2.06 per bushel, one cent below our earlier projection. As a result, total Counter Cyclical Payments (CCPs) for 2004 corn are placed at 30 cents per bushel. Some farmers may have taken first and second advance payments that bring them above that level. If so, FSA will ask for repayment of the excess or more likely will deduct it from advance payments for the 2005 crop. The U.S. soybean marketing year average price was \$5.74 per bushel. That is well above the \$5.36 per bushel trigger level for CCPs, so that soybean farmers will not be receiving a CCP on last year's crop. If the marketing year average price is below the trigger, CCPs will be paid. Early indications are that 2005

crop corn will receive a CCP, but final crop estimates, export demand and next year's acreage and weather will be key influences on the size of the CCP.

Soy Oil Prices & Diesel Fuel

Soybean oil prices have been supported in the last few weeks by the announcement of several new soy diesel plants that are being built. High diesel prices will encourage increased use of soy diesel, as will new EPA rules next year that call for reduced sulfur content in diesel fuel. Economists consider soybean oil demand to be highly inelastic. Traditional users are not very price sensitive. When supplies are short, it takes a high price to persuade some users to reduce consumption. When supplies are large, it takes a large price decrease to encourage consumers to use more. For this reason, modest use of soy diesel may bring significantly higher soy oil prices at times, especially when the markets are worried about U.S. and/or South American production prospects.

Gulf Update

The Louisiana gulf ports and the Houston-Galveston grain ports are operating. Their capacity is restricted some by daytime-hours-only restriction for navigation. Shipments by port elevator for the week ended 9/22/05 and comparisons with a year earlier were as follows:

U.S. Major Grain Shipments, Late September 2005 & 2004 By Port Area						
	Louisiana	Houston	Pacific	Great	Total shipments	
	Gulf	Gulf	Northwest	Lakes	This marketing	
Week ending		Mil. Bu.			Year	Percent
						Change
22-Sep-05						
Corn	19.3	0.9	9	0	81.2	-23.2%
Soybeans	8.2	0	0	0	20	-29.6%
Wheat	2.3	2.3	10.3	3.5	306.7	-16.2%
Totals	29.8	3.2	19.3	3.5	407.9	-18.4%
					Total Last Mktg.	
23-Sep-04					Year	
Corn	33.2	0	6.6	0.6	105.7	
Soybeans	12.4	0	0	0	28.4	
Wheat	8.1	3.1	15.4	2.3	365.9	
Totals	53.7	3.1	22	2.9	500	

Shipments were restricted the week of 9/22/05 by early shut-downs of port elevators both in the New Orleans area and the Houston-Galveston port. Shipments should gradually increase in the next few weeks, barring problems from another hurricane.

There has been much talk of a weak Gulf corn basis placing the Corn LDP at risk. In Iowa, county LDPs are determined by the higher of the Louisiana Gulf or Kansas City prices. The Louisiana Gulf basis for corn was around 42 cents over nearby futures last week, before the shutdown for hurricane Rita. This week, it has been in the mid-30s. A year earlier, the Louisiana Gulf basis for corn was about 28 over, and soybeans were 44

over nearby futures. Last week, the soybean basis was 33 over. These and other historical data indicate the Louisiana corn basis has not been severely depressed in the last two weeks, compared with past basis levels. However, basis levels further up on the Mississippi, Illinois and Ohio rivers have been depressed by congestion on the river. The river market basis in eastern Iowa may strengthen a little as barge congestion diminishes and traffic on the lower Mississippi moves back to round-the-clock shipping. However, large supplies and a lack of grain storage space in the western 2/3 of the state appear likely to keep the eastern Iowa basis from making a sharp recovery during harvest. In central, northern and western Iowa, the large supplies appear likely to keep pressure on the corn basis into early winter, although some strength in the soybean basis probably will occur after harvesting is finished.