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Weekly Outlook: Corn and Soybean Consumption

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With the USDA's October *Crop Production* report, corn and soybean supply forecasts for the 2011-12 marketing year are likely close to the final estimates. Prices will be primarily influenced by the current rate of consumption and expectations about consumption during the remainder of the marketing year. The actual rate of consumption will be revealed sporadically, and in some cases, slowly. Expectations about future consumption will likely vary widely.

For corn, the current supply forecast of 13.576 billion bushels is 606 million bushels smaller than last year's supply and the smallest supply in 5 years. Assuming that year-ending stocks will not be less than 5 percent of consumption, consumption of U.S. corn during the current marketing year will be limited to 12.93 billion bushels, 123 million bushels (about 1 percent) less than consumed last year. The USDA currently forecasts consumption at 12.71 billion bushels, 343 million bushels (2.6 percent) less than consumed last year. Exports are expected to be 235 million bushels (12.8 percent) smaller, feed and residual use is expected to decline by 103 million bushels (2 percent), ethanol and by product use is expected to decline by 20 million bushels (0.4 percent), and other food and industrial uses are expected to increase by 15 million bushels (1.1 percent).

At 1.6 billion bushels, U.S. corn exports are expected to be at the lowest level in 9 years due to increased competition from larger corn and wheat exports from other origins. The largest increases are expected for Russia, Kazakhstan, and Ukraine due to a 40 percent increase in production over last year's drought-reduced crops. To reach the USDA forecast of 1.6 billion bushels, U.S. corn exports need to average about 30.7 million bushels per week. Through the first 5 weeks of the marketing year, export inspections averaged only 28 million bushels per week. New export sales, however, have been relatively large. Those sales averaged 50.2 million bushels per week for the two weeks ended October 6. Sales of 10.3 million bushels to Mexico were reported on October 11 and sales of 35.4 million bushels to China and 11.5 million bushels to unknown destinations were reported on October 13. The weekly pace of new sales will have to average only about 17 million bushels to bring sales to 1.6 billion bushels.

Ethanol production during the first 5.5 weeks of the marketing year was about 1 percent larger than during the same period last year, suggesting that corn consumption for ethanol and by-product production is progressing at about the same pace as last year. Current ethanol production margins are large and ethanol consumption is supported by favorable blending margins and strong exports. Ethanol

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production is expected to remain above the pace of a year ago through the first quarter of the marketing year. There is some uncertainty about production in 2012 as the blender's tax credit expires.

Feed and residual use of corn remains under a cloud of uncertainty due to the extremely low level of consumption implied for the 2010-11 marketing year. The placement of broiler-type chicks was 8.3 percent below the level of a year ago for the two weeks ended October 8. Cattle-on-feed numbers are expected to fall below the level of the previous year beginning in early 2012. The continuation of record high hog prices, however, should result in stable hog numbers for an extended period. The pace of feed consumption will not be revealed until the December Grain Stocks report is released in the second week of January.

The supply of U.S. soybeans for the 2011-12 marketing year is estimated at 3.25 billion bushels, 205 million smaller than last year's supply. Consumption will be limited to the 3.13 billion bushels projected by the USDA, 150 million bushels (4.7 percent) below the consumption of a year ago. Almost all of that reduction (125 million bushels) is expected to be in the export market, reflecting increased competition from South American soybeans. The domestic crush is expected to decline by 13 million bushels, or 0.8 percent.

The Census Bureau has discontinued the monthly report of soybean crush so estimates will be based on monthly reports from the National Oilseed Processors Association. That report for September indicated an 11.7 percent year-over-year decline in the domestic crush. The pace will obviously have to accelerate in order to reach the USDA projection.

The pace of U.S. soybean exports and export sales are running well below the torrid pace of a year ago. China bought and imported large quantities of U.S. soybeans early in the marketing year last year. Shipments plus outstanding sales are currently about 25 percent behind the level of a year ago, but the gap is expected to narrow over the next several weeks.

Expectations about the strength of demand and the rate of corn and soybean consumption hinge on a combination of South American crop prospects and global economic conditions. Again, those factors will unfold over the next few months.

After the wide swings of the last three months, a much narrower trading range is expected for both corn and soybeans prices into the winter months.