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Weekly Outlook: Continued Weakness in Crop Prices

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Crop prices are heading to year-end on a weak note. Corn prices are near the level that existed in the first week of January and well below the late summer highs. Soybean prices are well below the level at the start of the year and at the lowest level since early October 2010. Prices of soft red winter wheat are at the lowest level since July 2010.

The USDA's monthly report of U.S. and world supply and consumption prospects, released on December 9, underscores the reasons for the current price weakness. The 2011 U.S. corn and soybean crops were the smallest crops in three years and the wheat crop was the smallest in 5 years, but foreign production of these crops was record large. The foreign coarse grain crop exceeded the previous record crop of a year ago by 7 percent, foreign wheat production was up by 7.3 percent, and foreign soybean production was 2.4 percent larger than the previous crop. Production prospects also remain favorable for the current southern hemisphere crops. Combined wheat production in Australia and Argentina is expected to be only about 2.5 percent smaller than last year's large output. Combined corn production in South Africa, Argentina, and Brazil is expected to be 11 percent larger than that of 2011, and South American soybean production is expected to increase by 1.5 percent.

Large crops in the rest of the world are having a negative impact on U.S. exports. U.S. wheat exports during the current marketing year that ends on May 31, 2012 are projected at 925 million bushels. That projection is 364 million bushels below the very large exports of the previous year that were generated by a small foreign wheat harvest in 2010. U.S. corn exports for the marketing year ending August 31, 2012 are projected at 1.6 billion bushels, 235 million below exports of a year ago and the smallest export total in 9 years. U.S. soybean exports are projected at 1.3 billion bushels, 201 million below the record of a year ago and the smallest total in three years. In addition, a reduction in U.S. soybean meal and oil exports is expected to result in a year-over-year decline in the domestic crush of 23 million bushels.

Weaker export demand points to slightly larger stocks of soybeans and wheat at the end of the year than at the start of the marketing year. Ending stocks of corn are expected to be 280 million bushels (25 percent) smaller than stocks at the start of the year. Increased planted and harvested acreage and a return to trend yields in the U.S. in 2012 would result in larger crops and prospects for a further increase in domestic stocks by the end of the 2012-13 marketing year. The potential increase in corn production is

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potentially very large. Planted acreage of 94 million, as currently being suggested by some, would result in acreage harvested for grain of about 87 million acres. A trend yield of 160 bushels would result in a crop of about 13.92 billion bushels, 1.6 billion larger than the 2011 harvest.

The slow pace of exports and prospects for adequate year ending stocks contributed to a lower forecast of the marketing year average farm price of corn and soybeans in the USDA's December WASDE report. The average farm price of corn is projected in a range of $5.90 to $6.90, $.30 below the November projection. The average farm price of soybeans is projected in a range of $11.70 to $12.70; $.90 below last month's forecast. Relatively low prices in September and October, particularly for corn, confirmed that substantial quantities were sold at lower prices before harvest and those sales contribute to the lower price forecast for the year. In Illinois, for example, the average price received by farmers for corn delivered in September and October 2011 was about $.40 below the average daily spot bid of country elevators during those two months. That difference implies that a substantial amount of corn delivered during those two months had been forward priced at lower levels.

Crop prices are expected to remain generally weak into the new calendar year, with some important support areas currently being tested. After the first of the year, South American crop prospects will take on more importance. The continuation of the La Nina weather pattern could result in less than ideal weather conditions in parts of Brazil and Argentina. History suggests that the corn crop would more likely be impacted than would soybean production. Prices will also take direction from USDA's January 12 reports containing the final estimates for the size of the 2011 U.S. corn and soybean crops, the estimates of grain stocks on December 1, 2011, and an estimate of winter wheat seedings.

[alert type="success"]This is the last issues of Weekly Outlook for 2011. The next issue will be released on January 3, 2012.[/alert]