

Corn, Cotton and Soybean Markets Weakened But Regained Some Strength Dry Conditions, High Energy Costs and Stocks Build-up Influencing Markets

Jose G. Peña, Professor and Extension Economist-Management

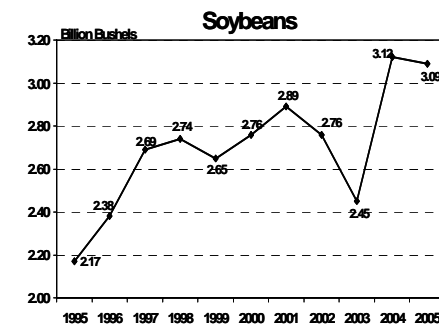
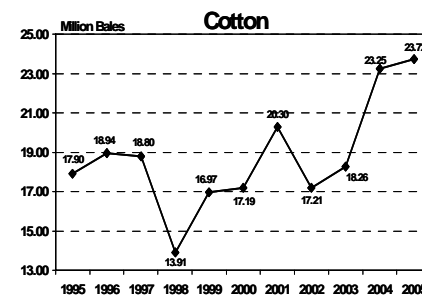
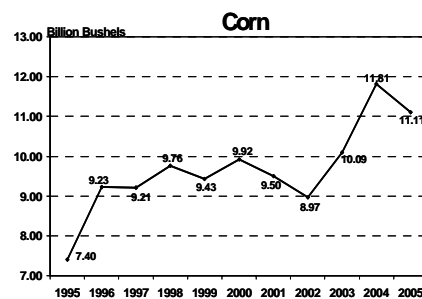
After showing some strength during February-early March, as the drought intensified and could delay plantings, corn, cotton and soybean market weakened. The weakening was probably influenced by recent rains, high energy costs and continued indications of large carry-over stocks. Markets took a slight up-turn, this past week and appeared to be showing signs of strength.

While recent rain had some short term market influence, the continuing drought, high energy costs, and their effect on planting intentions, appear to be contributing to the mixed market signals. High energy costs could cause reduced corn and increased soybean plantings.

Futures price bids showed some strengths during February-early-March, after weakening since USDA's September 12, 2005 forecast of the 2005/06 corn, cotton and soybean crops as the second largest on record. Cotton production was subsequently adjusted to the largest crop on record. (See Figure 1). While use estimates have increased, two years of record high production has caused stocks to gradually build-up and weaken markets. USDA's March 10, 2006 supply/demand report shows an 11.2%, 7.6% and 120.7% increase in 2005/06 season's ending stocks of corn, cotton and soybean, respectively, over the 2004/05 season.

While prices for almost everything have increased recently, markets for most agricultural commodities have

Figure 1: U.S. Corn, Cotton and Soybean Production



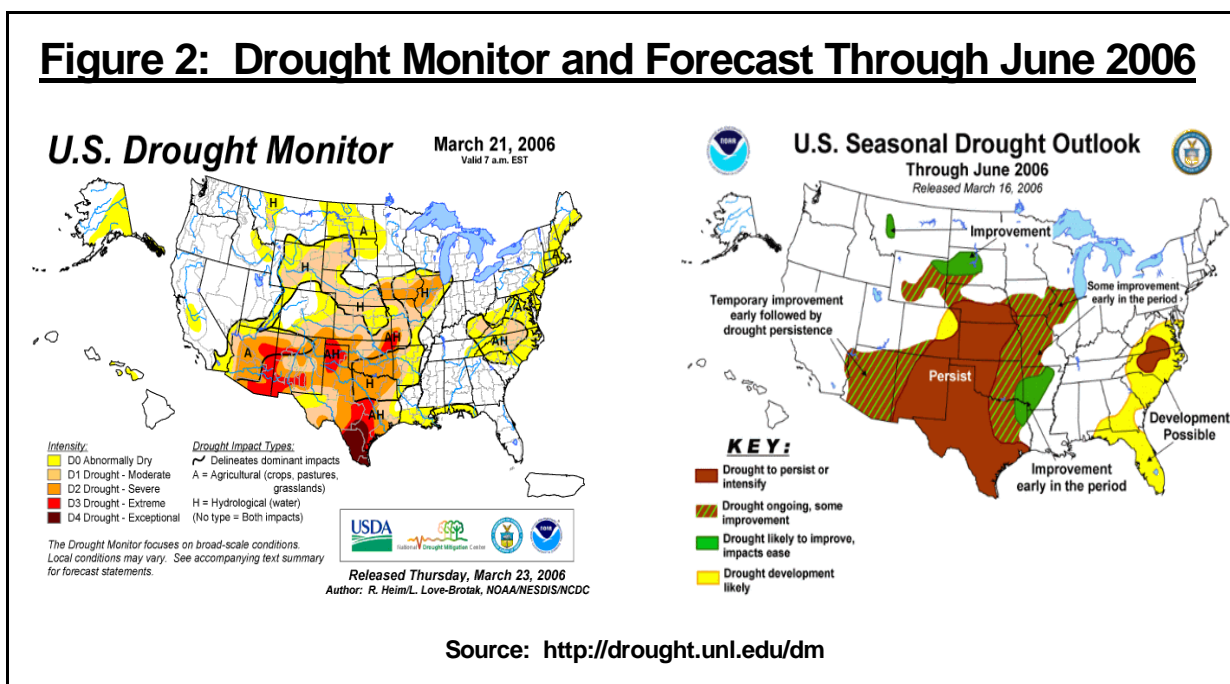
Source: World Agricultural Supply and Demand Estimates (WASDE)

remained weak. And, while increased input costs will increase costs of production, the recent acceleration of inflation should help improve prices for agricultural commodities. The recent increase in food prices may boost prices for agricultural commodities.

Dry Weather Forecast

While some recent rain has been recorded, future weather reports and USDA's planting intentions report, due out on March 31, 2006, should have a relatively strong influence on the market.

The recent cold spell brought some snow and rain to portions of Texas and the U.S. corn belt, but much more rain will be needed to sustain drought recovery. Light to moderate precipitation continued to boost soil moisture levels across the corn belt, but largely missed the Panhandle area of Texas and parts of Oklahoma. So, while recent rains made a slight improvement to moisture conditions in the corn belt, conditions remain very dry in the most productive Central U.S. region. USDA's most recent seasonal drought outlook through June '06 only shows a very slight improvement in parts of the U.S. corn belt. (See Figure 2). Markets will remain weather driven. While a third year of large crops appears unlikely, large carry-over stocks appear to be holding major market rallies in-check.



Corn

Last week's improved weather conditions have impacted corn prices. Rain across the Corn Belt helped alleviate concern over dry soils causing corn prices to sacrifice some weather premium gained during February-early March '06. But, prices made a slight up-turn this past week.

While the estimate of domestic use remained unchanged from last month's estimate, USDA March 10, 2006 supply/demand report decreased the estimate of U.S. corn stocks by 50 million bushels due to increased exports. USDA's

2005/06 season's 11.112 billion bushel corn production estimate, the second highest on record, has remained unchanged since USDA's January 12, 2006 Supply/Demand report. The market has adjusted to this, apparently, firm estimate, USDA's March 10, 2006 projected price range for the 2005/06 corn crop was up 10 cents from last month to about \$1.85 to \$2.05 per bushel.

The 2006 Agricultural Outlook Forum, which met in Washington D.C. during February 16-17, 2006, forecast that new corn crop plantings for the 2006/07 season will decrease by 1.26 million acres from last year and production should drop to 10.8 billion bushels, down 300 million bushels from this past season's estimate of 11.112 billion bushels. The Agricultural Forum estimates that ending stocks should drop to a more manageable 1.726 billion bushels and prices should improve. (See Table 1).

Table 1: Corn U.S. Supply/Demand

Item	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07 ¹
Planted Acreage (Mil. Acs.)	80.17	77.39	79.60	75.80	78.90	78.60	80.93	81.76	80.50
Harvested Acreage (Mil. Acs.)	72.59	70.49	72.44	68.77	69.32	70.94	73.63	75.11	73.20
Yield (Bushels)	134.40	133.80	136.90	138.20	129.30	142.20	160.36	147.90	147.70
Supply	----- Million Bushels -----								
Beginning Stocks	1,308	1,787	1,718	1,899	1,596	1,087	958	2,114	2,401
Production	9,759	9,431	9,915	9,503	8,967	10,089	11,807	11,112	10,810
Imports	19	15	7	10	14	14	11	10	10
Total Supply	11,085	11,232	11,640	11,412	10,578	11,190	12,776	13,236	13,221
Disappearance									
Feed and Residual	5,472	5,664	5,842	5,868	5,563	5,795	6,162	6,000	5,950
Food, Seed & Industrial	1,826	1,913	1,957	2,046	2,340	2,537	2,686	2,985	3,545
Exports	1,984	1,937	1,941	1,905	1,588	1,900	1,814	1,900	2,000
Total Use	9,282	9,514	9,740	9,819	9,491	10,232	10,662	10,885	11,495
Ending Stocks	1,787	1,718	1,899	1,596	1,087	958	2,114	2,351	1,726
Carryover/Use (%)	19.25	18.06	19.50	16.25	11.45	9.36	19.83	21.60	15.02
Average Farm Price (\$/Bu.)	1.94	1.82	1.85	1.97	2.32	2.42	2.06	1.95	2.15
¹ 2004/05 estimated; 2005/06 projected; numbers may not add due to rounding; 06/07 projection from 2006 Agricultural Outlook Forum, Interagency Commodity Estimates Committee, USDA. SOURCE: USDA/NASS/ERS/WASDE									

Cotton

While production and domestic mill use remained unchanged, USDA March 10, 2006 Supply/Demand increased the estimate of exports and lowered ending stocks relative to last month. Exports were raised 400,000 bales based on a forecast of higher imports demand by China.

While the estimates of ending stocks at 6.6 million bales was 5.7 percent lower than last month's estimate of 7.0 million bales, ending stocks are up 19.1 percent from last season's ending stocks of 5.54 million bales. This will keep a lid on a major market rally for the old crop.

Dr. Carl Anderson, Professor and Extension Specialist-Emeritus, estimates that new crop acres for harvest will decrease by close to 70,000 acres. The dry spell and other factors may reduce average yields by about 80 pounds per acre. This would mean that new crop production could drop to about 20.48 million bales, down 3.24 million bales (13.7 percent) from USDA's current 2005/06 season's production estimate of 23.72 million bales. While use could be slightly lower, reduced production could reduce stocks to a more manageable 5.21 million bales. (See Table 2). The new crop markets should improve.

Table 2: Cotton U.S. Supply/Demand

Item	02/03	03/04	04/05	05/06	06/07 ¹
Planted Acreage (Mil. Acs.)	13.96	13.48	13.66	14.20	14.40
Harvested Acreage (Mil. Acs.)	12.42	12.00	13.06	13.70	13.01
Yield ((lbs/ac)	666.00	730.00	855.00	831.00	750.00
Supply	----- Million Bales -----				
Beginning Stocks	7.45	5.39	3.51	5.54	6.60
Production	17.21	18.26	23.25	23.72	20.48
Imports	0.07	0.05	0.03	0.03	0.03
Total Supply	24.73	23.70	26.79	29.29	27.11
Disappearance					
Mill Use	7.27	6.22	6.69	5.90	5.80
Exports	11.90	13.76	14.41	16.80	16.50
Total Use	19.17	19.98	21.10	22.70	22.30
Unaccounted	0.17	0.20	0.15	-0.01	0.00
Ending Stocks	5.39	3.51	5.54	6.60	5.21
Ending Stocks/Use	28.12	17.57	26.26	29.07	23.36
"A" Index	---	---	---	---	---
Average Farm Price	44.50	61.80	41.60	*47.30	??
¹ Source: World Ag Supply/Demand Estimates, USDA, 3/10/06; Cotton: World Market and Trade Yearbook, 11/05 2004/05 estimated; 2005/06 projected * Average price for August – January 2006					

Appreciation is expressed to Drs. Carl Anderson and Jackie Smith for their contribution to and review of this article.