AG-ECO NEWS

Vol. 25, Issue 27

Jose G. Peña

Professor and Ext. Economist-Management

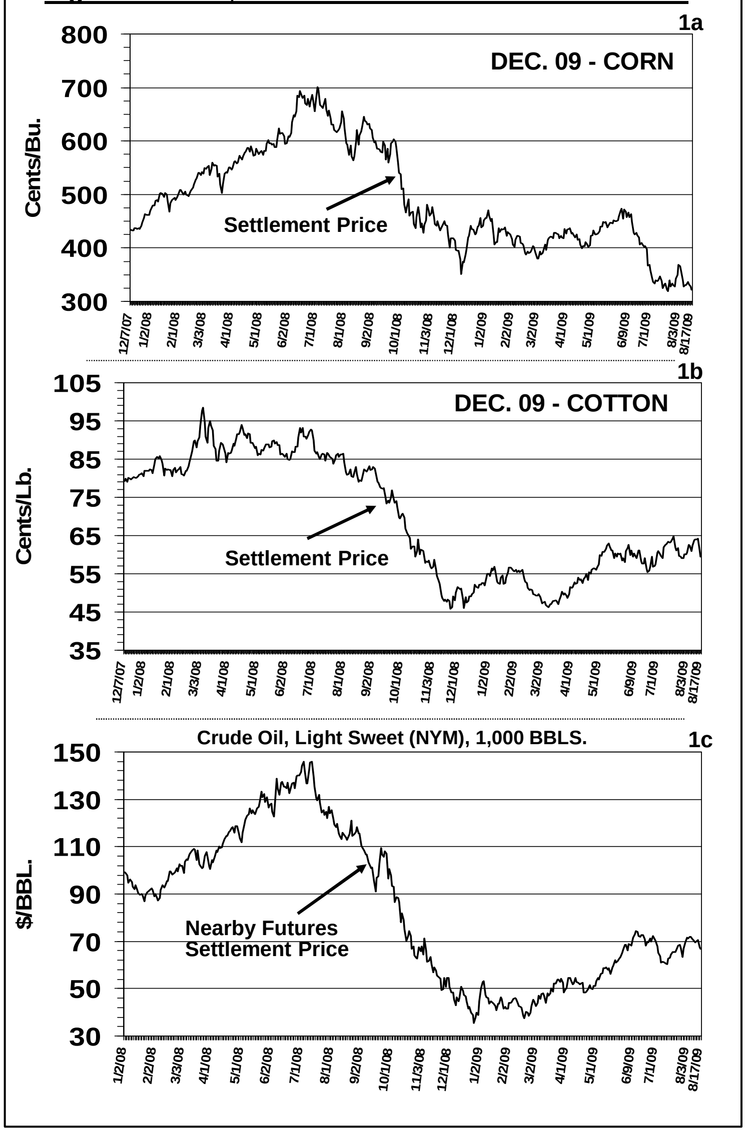
19 August 2009

Corn Market Weakens As USDA Forecasts Record Supplies; Cotton Remains Weak-to-Market Neutral

Jose G. Peña, Professor and Extension Economist-Management

After showing some temporary strength, the corn market weakened as USDA increased the production estimate and forecast record supplies of 14.5 billion bushels, up 134 million from the previous record in 2007/08. The cotton market has shown minor improvement recently, but can't seem to break the 65 cent barrier and generally remains market neutral. (See Figure 1) Commodity markets remain heavily influenced by currency, energy and financial markets and concerns over the world economy. The value of the U.S. dollar increased recently, making corn more expensive to importing countries, but soon-after weakened slightly as crude oil prices (high crude oil prices may increase ethanol use) increased.

Figure 1: Corn, Cotton and Crude Oil Futures Prices



December '09 corn futures finished at $3.216/bu. on Monday (08.17.09); down 6.0¢/bu. from Friday and down about $1.52/bu. from recent highs of about $4.73/bu. in early June '09. (See Figure 1b). Pressure from falling stock prices, lower crude oil futures, a higher U.S. dollar, weak exports, and good corn-growing weather all weighed on prices.

USDA's large August corn production forecast surprised the market which was expecting lower average yields, lower production, but higher ending stocks. (See Table 1). USDA's August corn yield forecast, based on a combination of producer surveys and objective yield data collected in 10 states, is 4.6 bushels above the trend yield for 2009 and only 0.4 bushels below the record yield of 2004. But, now since large crops tend to get larger as the crop matures, there is some expectation that the yield forecast will increase in subsequent crop production reports.

TABLE 1: Corn Production Estimte

	July	August	Avg. Trade Guess	% Change
Yield (bu./ac.)	153.4	159.5	157.1	-1.5%
Production (bil. bu.)	12.290	12.761	12.472	-2.3%
Ending Stocks (bil. bu.)	1.550	1.621	1.701	4.9%

Corn is making excellent progress. USDA's Crop Progress report of August 17, 2009 indicated a good-to-excellent crop condition rating of 68 percent, the highest rating since 2004. But, this year's crop progress is behind the five year average with silking at 96 percent versus 97 percent last year and a five year average of 98 percent. The dough stage was at 40 percent versus 46 percent last year and a five year average of 64 percent and the dent stage was at nine percent versus 12 percent last year and a 26 percent five year average. Since a significant part of this year's crop was planted late, this slight delayed development may increase the frost risk for part of the crop.

Cotton futures price, while significantly higher than early March '09 lows, appear to be trading sideways in the low 60's. (See Figure 1b). December '09 prices were off on Monday (8.17.09) to close at about 59.4 cents, down about 5.6 cents from Thursday (8.13.09) of about 64 cents.

Near-by crude oil futures prices have been showing some weakness during the last few days, dropping slightly on Monday (8.17.09), to close at \$67/barrel, down about \$3.50/barrel from last Thursday (8.13.09). (See Figure 1c)

Corn

USDA's first survey based crop production forecast for 2009, released on August 12, 2009, estimates corn production for 2009/10 at 12.761 billion bushels, up 471 million from last month's estimate and up five percent from last year, but two percent lower than 2007's record crop. Based on conditions as of August 1, national yields are expected to average 159.5 bushels per acre, up 5.6 bushels from last year. If realized, this will be the second highest yield on record, behind 2004, and production will be the second largest, behind 2007. Forecasted yields are higher than last year across the central Great Plains and western Corn Belt where mild temperatures and adequate soil moisture supplies provided favorable growing conditions.

U.S. corn supplies are projected at a record 14.496 billion bushels, up 134 million from the previous record in 2007/08. Total use at 12.875 billion bushels was increased by 350 million bushels from last month's estimate, despite reduced prospects for livestock production, feed and residual use. Total use will exceed production by 114 million bushels, drawing down stocks to 1.621 billion bushels, down 99 million from last year, but up 71 million bushels from last month's estimate. The 2009/10 marketing-year average farm price was projected at $3.10 to $3.90 per bushel, down 25 cents on both ends of the range, compared with $4.00 to $4.10 per bushel for the 2008/09 season.

Cotton

This month's first survey based cotton forecast for the 2009/10 cotton was virtually unchanged from last month, with slightly larger beginning stocks offsetting marginally lower production. Production was lowered 43,000 bales as harvested acres were estimated at 7.8 million, reflecting abandonment of 14 percent, but the yield per harvested acre, at 816 pounds was increased slightly from last month's estimate of 805 pounds. Domestic mill use, exports, and ending stocks remained unchanged from last month. The forecast range for the marketing-year average price received by producers was narrowed by one cent on each end to 49 to 59 cents per pound.

Appreciation is expressed to Dr. Jackie Smith, Ext. Economist-Management for his contribution to and review of this article.