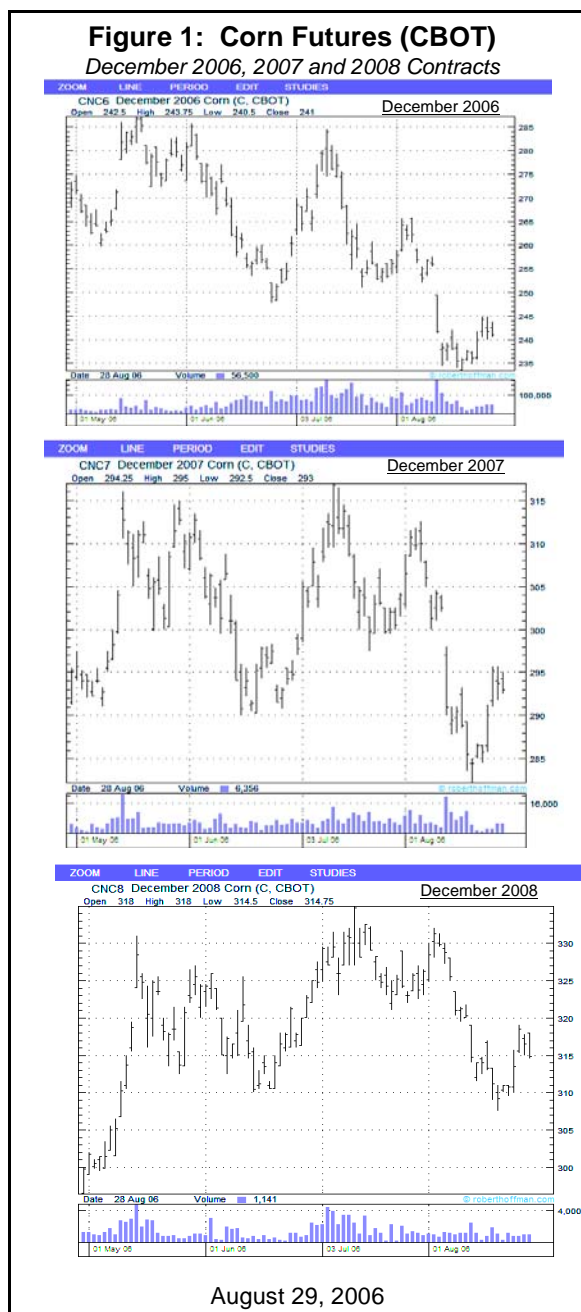


Markets Showing Signs of Improving After Weakening From July Highs USDA's Corn Production Forecast Up, Cotton Down Slightly *Jose G. Peña, Professor and Extension Economist-Management*

Grain markets were showing a slight recovery this past week after weakening from July's highs. Price bids for corn futures contracts in the Chicago Board of Trade (CBOT) had dropped \$0.40-\$0.50/bu from July '06 highs before the recent slight recovery. (See Figure 1).

USDA's August 11, 2006, first survey-based, corn production forecast for 2006 was bearish to the market. The report increased the corn production estimate by 236 million bushels from the previous month's trend yield estimate. Pre-report trade guesses were over 100 million bushels below USDA's forecast. The lower estimates were based on hot weather hampering crop development and reducing yield potential. It appears that weather conditions have improved since the early August USDA survey. Weather forecasts predicted excellent weather through the end of the growing season in a large portion of the corn belt.

USDA's August 29, 2006 Crop Progress report indicated that 57% of the U.S. corn crop was rated good-to-excellent compared to 52 percent at this same time last year. USDA's September 12, 2006 supply/demand report may show an even higher production estimates and may be critical to the direction of the market.



In terms of cotton, while USDA's August supply/demand report lowered cotton beginning stocks, production, exports, and ending stocks, cotton prices remain weak despite further indications of deterioration in the U.S. crop condition ratings, especially in Texas.

Corn

USDA's first survey-based forecast of corn production for 2006 at 10.98 billion bushels was up 236 million bushels from the previous month's projection. Total corn supply at 13.047 billion bushels, is up 1.8 percent from the previous month's estimate of 12.8 billion bushels, but down 1.4 percent from supplies of 13.237 billion bushels last year.

Projected feed and residual use was increased 75 million bushels, increasing the estimate of use to 11.815 billion bushels, up 0.8 percent from last month's estimate and above record use of 11.662 billion bushels in 2004. Ethanol production is now expected to consume about 2.15 billion bushels of corn, or about 19.6 percent of this season's entire U.S. corn crop.

The estimate of use at 11.815 billion bushels will exceed the 10.976 billion bushel production estimate by 835 million bushels, lowering the estimate of ending stocks to 1.232 billion bushels, down 14.4 percent from the previous month's estimate and down 40.3 percent from this past season's ending stocks of 2.062 billion bushels. (See Table 1).

The global outlook for 2006/07 corn season includes slightly lower supplies from last month. Increased U.S. corn production and Ukraine barley only partially offsets smaller EU-25 corn and EU-25 and Canada barley crops.

USDA's projected price range for corn is \$2.55 to \$2.65 per bushel, compared with last month's estimate of \$2.25 to \$2.65 and \$1.99 bushel for the 2005/06 season.

Cotton

USDA's August 11, 2006 first survey based projections for cotton for the 2006/07 season include lower beginning stocks, production, exports, and ending stocks. Production was forecast at 20.43 million bales, down 0.3 percent from the previous month, but down 14.5 percent from 23.89 million bales produced last year.

While the estimate of U.S. domestic mill use at 5.5 million bales remained unchanged from the previous month, the estimate of exports was reduced by 400,000 bales. The estimate of exports at 16.2 million bales was down 1.7 percent from last month's estimate and down 7.7 percent from 17.55 million bales exported last year. The estimate of total use at 21.7 million bales will exceed the production estimate by 1.3 million bales. Ending stocks are projected at 4.7 million bales, 21.7 percent of total use, which would be the tightest since the 2003/04 season. (See Table 1).

TABLE 1. US CORN AND COTTON SUPPLY ESTIMATES/1

	Corn					Cotton				
	2003	2004	2005 ¹	2006/07 ²	% CHNG	2003	2004	2005 ¹	2006/07 ²	% CHNG
	Million Bushels					Million Bales				
BEGINNING STOCKS	1,087	958	2,114	2,062	-2.5%	5.39	3.45	5.50	5.90	7.3%
PRODUCTION	10,089	11,807	11,112	10,976	-1.2%	18.26	23.25	23.89	20.43	-14.5%
IMPORTS	14	11	11	10	-9.1%	0.05	0.03	0.03	0.03	0.0%
TOTAL SUPPLY	11,190	12,776	13,237	13,048	-1.4%	23.70	26.73	29.42	26.36	-10.4%
DOMESTIC USE	8,332	8,844	9,075	9,665	6.5%	6.22	6.69	5.95	5.50	-7.6%
EXPORTS	1,900	1,818	2,100	2,150	2.4%	13.76	14.44	17.55	16.20	-7.7%
TOTAL USE	10,232	10,662	11,175	11,815	5.7%	19.98	21.13	23.50	21.70	-7.7%
ENDING STOCKS	958	2,114	2,062	1,232	-40.3%	3.51	5.50	5.90	4.70	-20.3%
AVG FARM PRICE ³	\$2.42	\$2.06	\$1.99	\$2.35	18.1%	\$0.618	\$0.416	\$0.478	N/A	N/A
USE-TO-SUPPLY	91.4%	83.5%	84.4%	90.6%	7.3%	84.3%	79.0%	79.9%	82.3%	3.1%
ENDING STOCK-TO-USE	9.4%	19.8%	18.5%	10.4%	-43.5%	17.6%	26.0%	25.1%	21.7%	-13.7%

¹ SOURCE: USDA/NASS/ERS/WASDE August 11, 2006 Supply/Demand Report

² 06/07 production estimated; use projected by 2006 Agricultural Outlook Forum, Interagency Commodity Estimates Committee, USDA.

³ Corn in bushels; Cotton in pounds.