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Slight Adjustments in November

The November updates for USDA's World Agricultural Supply and Demand Estimates and Crop Production reports were released on Nov. 10th. The markets were expected relatively minor adjustments and that's what the reports showed. Acreage for corn and soybeans was held fixed at last month's levels. The national corn yield was moved 0.1 bushels, to 153.8 bushels per acre. This lowers expected production to 12.02 billion bushels, still the 2nd largest corn crop on record. The national soybean yield was lowered to 39.3 bushels per acre, down 0.2. The yield adjustment lowers expected production to 2.92 billion bushels. This would be the 4th largest soybean crop, behind the 2004-06 crops.

Looking at the state-level data, Iowa's expected production is the same as last month, 2.15 billion bushels of corn and 441.6 million bushels of soybeans, as yields were held constant at 172 bushels per acre for corn and 46 bushels per acre for soybeans. For corn, eight states saw a yield boost, including Illinois (up 2), Minnesota (up 1), and North Carolina (up 5). Nine states saw a yield decline, including Ohio (down 7), Georgia (down 5), and the Dakotas (down 3 each). For soybeans, yields were raised in Illinois, Indiana, Missouri, and 5 other states. Yields declined in 12 states, led by Louisiana (down 4) and South Dakota (down 3).

USDA also firmed up some of the numbers for the 2007 corn crop. Corn imports were increased by 2 million bushels, while corn exports were raised by 1 million. Corn feed use was decreased by 25 million bushels, while corn use for ethanol was increased by 26 million bushels. The combined changes left 2007 ending stocks at 1.624 billion bushels.

There were a few adjustments on the demand side for 2008. Corn use for livestock feed and ethanol were held steady at 5.3 billion bushels and 4 billion bushels, respectively. Corn export demand was lowered to 1.9 billion bushels, down 50 million from last month. The export reduction was driven by slower export sales and increased competition in the export market. Ending stocks for 2008 are projected at 1.124 billion bushels, up 36 million from last month. This puts the corn stocks-to-use ratio at 9%, well below the 1990-2006 historical average of 15.2%.

On the soybean side, export demand was held steady at 1.02 billion bushels, but domestic crushing was lowered 15 million bushels to 1.745 billion bushels. Ending stocks are projected at 205 million bushels, implying a stocks-to-use ratio of 7%. This is also well below the 1990-2006 historical average of 10.8%. The reduction in crush brought soybean oil production down 170 million pounds and soybean meal production down 344 thousand tons.

The price outlook was lowered across the board. The season-average price for corn is projected at \$4.40 per bushels, down 35 cents from October. For soybeans, the season-average price is estimated at \$9.85 per bushel, down 60 cents. Soybean oil prices are down 6.5 cents per pound and soybean meal prices are down \$5 per ton.

The futures markets continue to react strongly to news outside of agriculture. News of a Chinese stimulus plan helped boost the markets over the weekend. Crude oil prices and U.S. dollar values are still key indicators. Worldwide, corn production is projected to be a bit higher as production increases in Europe and Russia are enough to offset declines in the U.S. and Argentina. Global soybean projected production was lowered 50 million bushels with Brazil experiencing the biggest decline. Recent Brazilian government statements indicate that soybean area is down due to tightening credit and higher input costs.

Both the corn and soybean futures markets are showing some price strength into the summer. Based on Nov. 7, 2008 prices, the December to July carry for corn was approximately 42 cents per bushels, while the November

to July carry for soybeans was 37 cents. Recent state average basis levels were -31 cents for corn and -62 cents for soybeans. The corn basis is actually a bit stronger than the 2000-05 average, while the soybean basis is roughly 18 cents below the 2000-05 average. The Nov. 7th Iowa average corn and soybean prices were \$3.45 and \$8.59 per bushel, respectively. Holding the futures fixed and assuming that the July basis return to the 2000-05 averages (-28 cents for corn and -21 cents for soybeans) implies average Iowa prices of \$3.89 per bushel for corn and \$9.28 per bushel for soybeans. These prices suggest returns to storage of 44 cents per bushel for corn and 69 cents per bushel for soybeans. But figuring storage charges of 0.14 cents per bushel per day and interest charges based on 6% for eight months leads to storage costs equal to slightly above the storage returns. So while the price strength is there, storage costs are high enough to make paper ownership of the crop, for example through futures, look relatively more attractive.

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