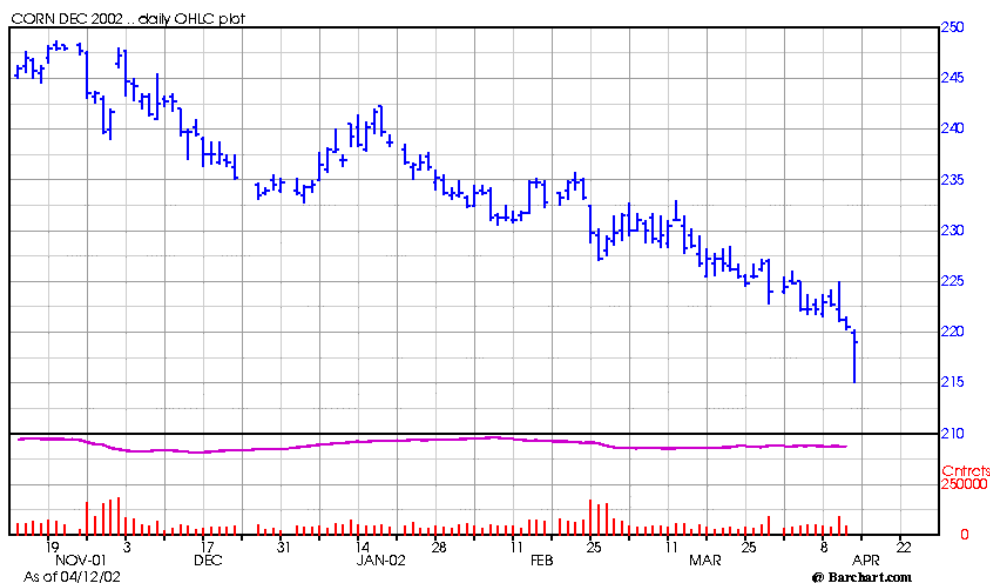




Grain Marketing Outlook Monthly Update



Corn Market: Still Waiting for Good News

The corn market has **continued to weaken** throughout the last month as the increased acreage has continued to weigh on the market. The prospective plantings survey released in late March reported an increase in intended corn plantings of 3.3m acres, to 79m. Driven largely by lower energy costs, but also by the uncertainty over the 2002 soybean loan rate, it was fully expected that we would see an increase in corn acres, although the size of the increase was **somewhat larger than expected**. The USDA World Agricultural Supply and Demand Estimate (WASDE) was also **not supportive** to the corn market. Ending US corn stocks were revised upwards (by 25m bu) due to the larger than expected stocks in the March stocks report; a mild winter dampened feed demand more than expected. Global coarse grains stocks were also revised up slightly, as global production projections were raised by 3m tonnes. Increases in demand mostly offset the production, so that global ending stocks were only raised by 70,000 tonnes--basically no change.

As for the state of the new crop, corn belt plantings were about **on schedule** in the 8 April report. Wet weather since then should produce some slowdown in plantings, as many producers report trouble getting machinery in their fields, and the prospects for significant drying over the coming 2 weeks appear mixed.

The structure of the futures market is also of note. Currently the **net short speculative position** is very large in CBOT corn futures. Although this does put short-term pressure on prices, in the longer-term, it is the beginning of the summer rally, as the shorts must unwind those positions at some point. If bullish information does enter the market, then **short-covering can produce quick movement** higher. I don't see any reason to expect that to occur just yet, but the possibility does exist.

The Farm Bill remains **mired in conference**. After four weeks (six including the Easter break), **few of the contentious issues** have been tackled. As of this writing, the conferees were still negotiating the loan rates, target prices,

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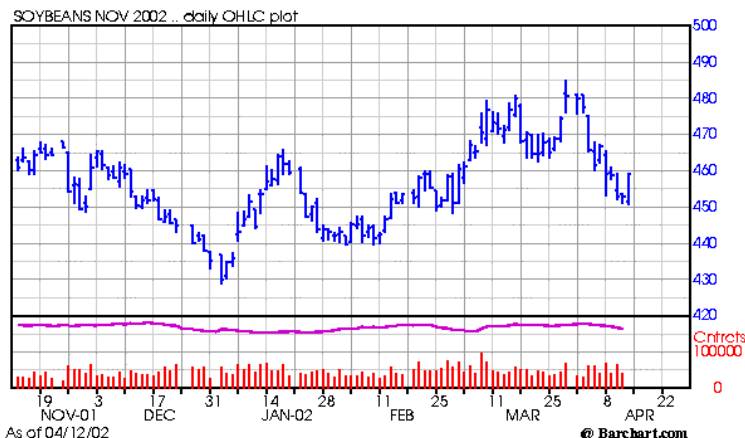
Soybeans: Good times over for now?

A little bit of bad news goes a long way in bull markets. At the beginning of April, a witch's brew of concern over the possible **end of Chinese purchases of US 'beans**, poor weather shifting plantings from corn to beans, and the export performance of Brazil and South America sent prices **down 25c in a matter of six days**. The market already seemed a little ahead of itself, and sentiment turned very quickly. The net result is a soybean market that, although nervous, seems to be **at a reasonable price level**.

The USDA reports were almost completely **neutral to the soybean markets**. Although there were many revisions, both domestically and globally, they all almost completely offset one another in terms of stocks to use ratios. The net result was that soybean and meal carryout is unchanged, and soyoil is almost unchanged. For an already fragile market, I think that it **bodes well that prices held firm** on these USDA releases. Barring any major negative news, we should be near the bottom for springtime weakness. The one vulnerability is if fields do stay wet in the corn belt, more farmers may switch to soybeans. This doesn't seem very likely, but it is a possibility.

The most surprising tidbit in the WASDE is the USDA decision to leave the estimate of **Brazilian production at 43.5m tonnes**. Almost every other agency has an estimate closer to 42m tonnes. Subtracting the 1.5m tonnes puts the year-end stocks to use ratio at 9.7%, fully 0.5% lower. The market has somewhat priced this in, although if the USDA does revise this number to the 42m tonne level next month, it should provide marginal support.

Otherwise, many of the **same comments**



for the corn market apply to the soybean market. Prices are currently in a spring slump, with traders waiting to see how the Farm Bill loan rates shape up and whether they will apply to this year's crops. I have been told by someone who should know that even a **June 1 passage** (i.e. President Bush's signature by June 1) does not preclude implementing the new levels. Obviously, planting decisions will have already been made, but such a scenario might provide some cheery news to the agricultural community. However, if you are still haven't finally, once and for all made up your mind on your acreage this year, be very cautious about factoring in the new rates.

With old crop beans so far below their loan rate, there **doesn't seem to be much reason to hold unpriced beans**. If you really need/want some marketing excitement, sell the beans, take the LDP & buy calls. As the market is still a bit nervous, I would definitely recommend **selling any priced beans** as well. Your time is now likely better spent **paying attention to agronomics than economics**.

Supply and Demand Tables

The supply and demand tables are now available in Adobe Acrobat format from

<http://aede.osu.edu/programs/outlook>
with the grain marketing newsletter.

Subscription Information

The grain policy and outlook newsletter is now distributed electronically. If you would like to receive an email notifying you that a new version has been published, send an email to roberts.628@osu.edu.

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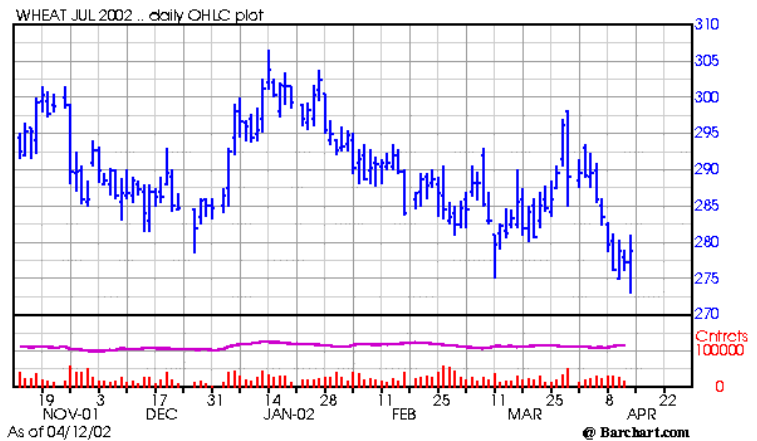
Wheat: SRW basis remains firm in face of Wheat Weakness.

The situation facing wheat is **little changed from last month**: the soft red market remains relatively tight, and questions about the condition of the hard red crop also persist, but without any hard evidence of yield problems, apathy has weighed heavily on prices.

The USDA WASDE reports **failed to provide support** to the broader wheat market. The US carryout is raised by 32m bushels due to "increased imports and reduced domestic use." The 32m bushels is equivalent to approximately 1.5% increase in stocks to use ratio. In the Fall, the carryout looked very positive, but revisions have continued to move it closer to the mid 30% range of recent years. The global carryout was also revised upwards, by 1.6m tonnes, or a 0.3% increase in stocks to use. Although the WASDE was certainly not devastating news, the wheat market was already vulnerable to downside moves.

The one bright spot of news from the WASDE was the downward **revision in SRW carryout**, returning to 66m bu, as in February, from the 74m bu estimated in March. The SRW spot market has remained quite tight overall, and the Ohio basis has been quite strong compared to previous years.

The big question facing the wheat market is the actual state of the crop in the Northern



Plains. As in prior months, everyone agrees that growing conditions have been poor, but there remains a great deal of **uncertainty about the impact of growing conditions on yields**. Judging by price behavior over the last few months, the market has chosen to remain completely unconcerned. Although I do not expect to see widespread losses, even a decrease of 1 bu in average yields could reduce stocks to use by 9%--which would spur a significant rally. I will be quite surprised if we don't see **opportunities to price wheat 15-20c higher** than current pricing in the months to come. Now is the time to sit on the sidelines.

Corn, continued.

and fixed payments, which are relatively easy to reconcile, as they appear in both bills and differ only in the payment levels. They have **yet to tackle dairy supports, packer ownership**, and country of origin labelling, among others, on which the House and Senate positions are quite far apart. The current betting on finishing the farm bill is that all bets are off. Some pundits have begun to express doubt that we will see a farm bill before late summer, while many legislators insist that they intend to finish by May 1. One item that has apparently been agreed is that **both base acres and yields** will be updated this year. Both bills contained provisions for updated acreage, but there was general doubt that yields would also be updated.

To summarize, we are caught in the midst of **seasonal weakness for new crop futures**. Forecasts are all based on trendline yields and assumptions about the number of acres planted and harvested. Corn has lacked any strong fundamental support all spring, and there seems

little prospect of any in the near future. If the weather doesn't cooperate, there is the potential for support from delayed plantings, although the higher prices would be traded for lower yields by most producers. Another possible scenario is that the fields remain wet and the farm bill progresses and the resulting loan rates and target prices are less favorable to corn and more favorable to soybeans than earlier expected. While providing support to the corn market, it would also be a Pyrrhic victory at best.

Marketing advice for corn growers? For the old crop, you are likely already **below the loan rate**. If you have already priced your corn, sell it. Holding priced corn now is a very dangerous game. If you haven't priced it, the loan rate will provide you downside protection, but unless you are very optimistic, it seems that the **chance of a significant increase in prices is muted**. For the new crop, we are still above the loan rate, but not by much. If you are feeling adventurous, these prices might be an opportunity to buy call spreads in the 2.10/2.20 region, but otherwise, I can't say that there is much exciting news or opportunity here.