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Weekly Outlook: Moving Forward after the October Reports in Corn and Soybeans

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The release of USDA's October reports created a rally in soybean prices that pushed November soybean futures prices to levels not seen since the end of July. Corn prices saw a much more muted response. The question is will the soybean rally consolidate as we move forward. Corn prices appear to contain a limited capability to generate upward price movements in the near term.

The October soybean production forecast of 4.431 billion bushels came in at the same level as the September production forecast. While the production level was the same, harvested acres increased 740,000 acres while national average yield declined by 0.4 bushels to 49.5. The reduction in yield level combined with the lowering of 2017-18 ending stocks by 44 million bushels, to 430 million bushels, provided the impetus for the price rally. The projections for 2017-18 marketing year consumption stayed at September levels with the ending stocks reduction being composed entirely of lower beginning stocks, at 301 million bushels.

The USDA will provide new yield and production forecasts on November 9. During the last 20 years, the forecast of the U.S. average soybean yield increased in September and decreased in October, like this year, in three years. In each of those years, the November yield forecast was smaller than the October forecast. The average decrease in November was 0.26 bushels with a range of 0.1 to 0.5 bushels. The final yield estimate released in January was below the November forecast once in those years. At this time, a drastic change in projected soybean yield for the 2017 crop appears unlikely.

The current information provides no clear indication of an increase in demand for soybeans higher than the current USDA projection. It is tempting to look at the decreases in ending stocks over the course of the previous four marketing years and project a lower 2017-18 ending stocks level than the current 430 million bushel forecast. On average over the last four years, soybean ending stocks decreased approximately 45 percent from the October WASDE projection to the final ending stocks estimate for the marketing year. If this pattern held for this marketing year, soybean ending stocks would come in at around 236 million bushels at the end of 2017-18. The market has grown accustomed to upward revisions in soybean exports and downward revisions in ending stocks over the last few marketing years. A difference this year is the current USDA projection for soybean exports sits at 2,250 million bushels, a record level for soybean exports and 3.5 percent higher than last marketing year's export level. Current export inspections for soybeans for the week ending October 12 are running 7.6 percent lower than last year's inspection level pace. The recent demand for soybeans in export markets is a positive sign but to see export levels increased above the current record projection requires an upturn in the pace of exports.

At 14.280 billion bushels, USDA's October forecast of the U.S. corn crop was 96 million bushels larger than the September forecast. U.S. average yield increased 1.9 bushels to 171.8, while harvested acres decreased by 377,000 acres. The 2017-18 marketing year consumption forecast increased by 35 million bushels, to 14.285 billion bushels. The USDA increased the forecasts for feed and residual use by 25 million bushels and food, seed, and industrial use by 10 million bushels. Projected ending stocks for 2017-18 changed very little with an increase of 5 million bushels to 2,340 million bushels. Some help was provided by lower beginning stocks, at 45 million fewer bushels than September estimates. Corn price will require strong demand throughout this marketing year to lift prices in any sustainable manner, particularly if production continues to increase in the U.S.

During the last 20 years, the forecast of the U.S. average corn yield increased in September and October, like this year, in seven years. In five of those years, the November yield forecast was greater than the October forecast. The average increase in November was 1.72 bushels with a range of 0.4 to 3.5 bushels. The final yield estimate released in January was below the November forecast once in those five years. The potential for a larger corn crop is continuing to develop and looks more likely given many of the yield reports coming out of the Corn Belt.

The rally in soybean prices provides producers with the opportunity to lock in prices for 2017 soybean production. To sustain this price rally, soybean production levels in the U.S. will need to stay at current levels, and robust export demand will need to develop throughout the marketing year. Corn prices will struggle to find support in the short run due to large corn stocks and the prospect of increasing production for the 2017 corn crop.