



U.S Corn and Soybean Production Forecasts Are Larger Than Expected

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Today, the USDA released new forecasts of U.S. and world crop production as well as updated forecasts of 2012-13 marketing year consumption. Following is a brief summary of the new forecasts and implications for corn, soybean, and wheat prices.

Corn

The 2012 U.S. corn crop is forecast at 10.725 billion bushels, 19 million bushels larger than the October forecast. The U.S. average corn yield is forecast at 122.3 bushels, 0.3 bushels larger than the October forecast. The production forecast for the rest of the world was a fraction higher than the October forecast, with smaller forecasts for Europe and Mexico, offset by slightly larger forecasts for Southeast Asia and Russia. Consumption of U.S. corn during the current marketing year is projected at 11.167 billion bushels, 17 million larger than the October forecast, reflecting an increase in the expected consumption for food and industrial purposes. However, the projection of imports was increased by 25 million bushels, to a total of 100 million bushels, so that the projection of ending stocks was increased by 28 million bushels. Ending stocks for both the U.S. and the world are expected to be much smaller than stocks at the beginning of the marketing year. The marketing year average farm price is now projected in a range of \$6.95 to \$8.25, \$0.25 lower than the October projection.

New projections differed from market expectations in several aspects. U.S. production is larger than expected, the forecast of the Argentine crop was not reduced as some thought might happen, and the projection of year ending stocks exceeds expectations. The corn market will now be influenced by the development of the South American crop, with emphasis on weather conditions in Argentina following an extremely wet October, and the ongoing rate of consumption, particularly the pace of exports. The *Crop Production* and *Grain Stocks* reports to be released on January 11 will be closely watched for changes in the production forecast, with some change in the forecast of harvested acreage expected, and for the revealed rate of domestic feed and residual use of corn.

Soybeans

The 2012 U.S. soybean crop is forecast at 2.971 billion bushels, 111 million larger than the October forecast and 80 million larger than the average trade guess. The U.S. average yield is forecast at 39.3 bushels, 1.1 bushels above the average trade guess, 1.5 bushels above the October forecast, and only

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1.6 bushels below last year's average. The average yield forecast was increased for all but seven states, with only the yield in Oklahoma reduced from that of a month ago. Outside the U.S., production forecasts were increased slightly for Bolivia and the Ukraine.

The forecast of U.S. soybean exports was increased by 80 million bushels, the forecast of the domestic crush was increased by 20 million bushels, and the forecast of ending stocks was increased by 10 million bushels. The projection of world stocks was increased by 90 million bushels (4.3 percent). The 2012-13 marketing year average price farm is expected to be in a range of \$13.90 to \$15.90, \$0.35 below the October forecast.

The soybean market will now be influenced by the on-going rate of consumption, particularly the pace of exports. Some recent sales cancellations reflect the substantial price decline since early September and prospects for a large South American crop. Development of that crop will now become center stage.

Wheat

The USDA lowered the projection of 2012-13 marketing year U.S. wheat exports by 50 million bushels in recognition of the slow export pace to date. Even though the projection of foreign wheat production was reduced by 60 million bushels, the projection of exports from the rest of the world was increased by 117 million bushels. Most of that increase is for Russia and the Ukraine. The projection of U.S. ending stocks was increased by 50 million bushels, but the projection of the marketing year average farm price was little changed from that of last month as much of the 2012 crop has already been sold. World stocks are expected to decline sharply by the end of the current marketing year.

Focus in the wheat market will continue to be on the development of the U.S. winter wheat crop, which is experiencing generally dry conditions; the outcome of the Australian crop; and the export policy in the former Soviet Union.

Price Implications

For the most part, today's USDA reports were negative for crop prices—more so for soybeans and less for corn and wheat. Corn prices are expected to remain in the sideways pattern experienced over the past six weeks while old crop wheat prices are expected to be supported within the wide range experienced since mid-July. Prices for the 2013 wheat crop are expected to remain strong based on production concerns. Soybean prices are in a clear downtrend, with some chance that South American production risk is now being under-valued.