ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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CORN IS SCARCE AND SOYBEANS ARE ABUNDANT

A REPORT OF GRAINS STOCKS IN ALL POSITIONS AS OF JULY 1 was released on July 24. This report tells us how much grain and soybeans we have to last until the harvest.

CORN STOCKS SMALL. Corn stocks in all positions were 1,146 million bushels, compared to 1,443 million a year ago and 1,937 two years ago. We can derive a rate of disappearance from the stocks. Total disappearance for the April-June quarter was 1,063 million, a 25-percent reduction from a year ago. For the crop year beginning last October 1 through the three quarters ending June 30, exports were 863 million; food and industrial use were about 340 million; and feed use was 2,787. Exports were down 15 percent; food and industrial use was up 5 percent; and feed use was down 22 percent. The sharpest cuts to adjust to the small 1974 crop were made by U.S. livestock producers.

The stocks remaining are a measure of the rationing job yet to be done. With a large crop growing in the fields, stocks will be reduced to a minimum working level of about 350 million, leaving 796 million as available. Food and industry will take about 117 million. The current rate of export and sales suggests July-September exports of about 220 million. Thus, only 459 million will remain for feeding--74 percent of the figure a year ago. The year-ago quarter was sharply reduced in anticipation of a short crop, too.

The conclusion is that old crop corn remains in very short supply. If 1975 crop conditions remain favorable, we will go from shortage to abundance with the harvest. This impending shift is the reason old crop prices have been exceeding new ones by about 50 cents per bushel.

SOYBEANS ABUNDANT. Soybean stocks in all positions totaled 359 million bushels, compared to 344 million a year ago. There are more soybeans left out of the short 1974 crop than there were out of the large 1973 crop. Soybeans have been overrationed.

The current rate of use of 53 million per month for processing and about 4 million per week for exports indicates a carryover by August 31 of about 235 million--up from 171 million the year before. We will add to the carryover from a short crop and will go into a large crop with a quite-low usage rate.

Nearly all of the carryover will be owned by farmers--no one else wants them at current soybean-to-product price spreads. This holding has forced processors and exporters to pay premiums for old-crop beans. But it is like having a bear by the tail--the problem is not how to hold on, but how to let loose.

SOYBEAN PRICE STRENGTH. Soybean prices have gone up more than $1 a bushel in recent weeks. This has been associated with the large Russian grain purchases. But the Russians haven't bought any soybeans. They bought 37 million in 1972, and haven't bought any since. Why the strength? One explanation lies in the relative positions of hedgers and speculators.

On June 30, reporting hedgers were long 157 million bushels of soybean futures and short 98 million. They were net long 59 million. For every long there is a short. Thus, speculators were net short 59 million. With the Russians buying grain, they tried to get out. But the only way out was to bid prices high enough to entice other speculators to go short. Short hedges tend to reflect sales by farmers. Short hedges are unusually small for this time of year, reflecting the holding action by farmers.

The farmers may finally turn out to be right. However, current strength is probably based more on technical considerations of who is long and who is short than on supplies and requirements.

This material prepared by Professor T.A. Hieronymus for this letter.

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