



# WEEKLY OUTLOOK

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## EMBARGO LIFTED BUT GRAIN STOCKS ARE LARGE

THE LONG-AWAITED ANNOUNCEMENT LIFTING the partial embargo on grain sales to Russia came last Friday. Details were sparse, but the announcement indicated that all restrictions other than the provisions of the current five-year trade agreement have been removed. Earlier in the week it was rumored that the embargo might be lifted in stages.

Although the announcement was made while the commodity exchanges were still open, grain prices showed little reaction. Many analysts suggested that the lifting of the embargo was well anticipated and had already been reflected in market prices. Interest will now focus on the Russian reaction and the nature of negotiations for a new U.S.-Russian trade agreement. The current five-year agreement expires on September 30. Many expect that the scope of the new agreement will be expanded to include soybeans and soybean products. Although the lifting of the embargo may have only minimal short-term price impacts, it is constructive for the longer run.

The lifting of the embargo came on the heels of the USDA's April grain stocks report, which showed larger-than-expected inventories as of April 1. The particularly large corn inventory figure more than offset the impact of lifting the embargo.

The inventory of corn on April 1 was estimated at 3.995 billion bushels. Although this amount is 18 percent below last year's inventories, it is nearly 200 million bushels above expectations. The implications are confusing. During the January-March quarter, 1.858 billion bushels of corn were consumed. Weekly export inspection data show that 623 million bushels were exported. An estimated 150 million bushels were used as seed and for food and industrial purposes. Thus 1.085 billion bushels remained for feed and residual uses, a reduction of 17 percent from the same quarter of last year. In addition, smaller quantities of other feed grains and soybean meal were fed during the quarter. The reduction in corn feeding is not consistent with the level of livestock production during the quarter, which was actually above that of the same period last year.

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There may be some errors in last year's estimates of quarterly feed disappearance stemming from revisions based on the 1978 census. For the time being, those involved in the market must believe the large inventory figure. Following the grain stocks report, the USDA reduced its estimate of corn feeding for the year and raised the projected carryover level to 866 million bushels, up 250 million bushels from last month's estimate.

April soybean stocks of 1.034 billion bushels were generally in line with expectations. Inventories are about 13 percent less than the high level of a year ago, but they suggest an ample soybean supply. There are again indications that export demand may increase during the last four months of the crop year. If so, ending inventories will likely be less than the USDA's projection of 275 million bushels.

At 1.333 billion bushels, April 1 wheat stocks were slightly higher than anticipated. As a result the USDA lowered its estimate of wheat feeding for the year ending on May 31. Carryover stocks are now estimated at 954 million bushels. With only five weeks left in the marketing year, it also appears that exports will fall short of the USDA's estimate. Ending inventories could exceed 1 billion bushels.

On balance, the events of last week seemed somewhat bearish for the near-term price outlook, particularly for corn. Any increased Russian purchases of corn during the remainder of the year are not likely to offset the 250-million-bushel reduction in projected feed use.

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