



WEEKLY OUTLOOK

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RATE OF USE IS KEY TO GRAIN PRICES

NOW THAT THE LARGE CORN AND SOYBEAN CROPS HAVE BEEN HARVESTED, price direction will depend largely on the rate of use. The influence of a rapid rate of use on price has been exemplified by the wheat market. The harvesting of a record crop resulted in extremely low cash prices early in the summer. The price at Chicago declined to less than \$3.35 per bushel while prices in some parts of the state dropped below \$3.00 per bushel.

This low price level resulted in a high level of feeding during the summer months. In addition, wheat exports got off to a very fast start. Through November 12, exports totaled 815.7 million bushels, 20 percent more than had been exported by the same date in 1979 and 1980. As a result of the rapid rate of use, cash wheat prices have advanced sharply, although futures have remained relatively stable. By November 12, the Chicago wheat price was \$4.15 while prices at interior points varied around \$3.90 per bushel. Fundamentally, wheat prices over the next several weeks will reflect the rate of exports, the size of winter wheat seedings (to be revealed on December 22), and the rate of entry of wheat into the farmer-held reserve program.

The wheat export rate has slowed somewhat in recent weeks and is now well under the level needed to reach the USDA's projection for the year. We have been somewhat skeptical of the 1.9 billion bushel export estimate because of the large wheat crop outside of the United States. Movement into the reserve has been much slower than anticipated. Seedings of winter wheat may not decline significantly from the high level last year. Although wheat futures may rebound to the high end of their recent trading range, significant cash price increases will have to come from a further narrowing of the basis.

Although it is very early in the corn and soybean marketing year, it is time to start evaluating the rate of use of these crops. In addition to the impact of the large crop, corn prices have sagged because of the poor export demand to date. Through November 12, export inspections totaled only 252.3

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million bushels, an average of 42.1 million per week. This pace needs to increase to nearly 48 million per week to reach the USDA's projection of 2.45 billion through the end of the marketing year. Through November 5 only 25 percent of the expected exports had been sold. By this time in 1979 and 1980, nearly half of the year's exports had been sold.

Feed use of corn will also have to be large. Recent low livestock prices raise some concern about feed demand. The rate of corn feeding can be calculated when the USDA releases the January 1 grain stocks report late in January.

The rate of soybean use to date has been surprisingly large. Exports during the first 10 weeks of the marketing year have been the largest ever. Weekly exports have averaged 19.5 million bushels, 20 percent above the average rate needed to meet the USDA projection for the year. The domestic soybean crush has averaged 22 million bushels per week, about 10 percent above the average rate projected for the year.

As a result of the rapid rate of use and tight farmer holding, the soybean basis has improved considerably in recent weeks. The corn basis has also showed some improvement in spite of a slow rate of use. This narrowing primarily reflects farmers' reluctance to sell.

Some cash grain price improvement has come as a result of an improving basis, but a significant recovery in futures prices will require a pattern of rapid use. Corn use is the most disappointing to date.

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