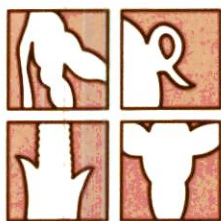




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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DECEMBER SUPPLY AND DEMAND ESTIMATES RELEASED

The USDA released updated supply and demand estimates for grains and oilseeds on December 10 and revised world production figures on December 11. Following is a summary of the major changes affecting corn, soybeans, and wheat.

Corn. Relatively few changes were made in the estimates reflecting the current corn situation. The inventory of U.S. corn at the end of the 1987-88 marketing year (September 30, 1988) is still projected at 4.325 billion bushels. The USDA's *Grain Stocks* and *Annual Crop Production* reports to be released on January 14 will allow a calculation of the feed and residual use of corn during the first quarter of the marketing year. That calculation will provide some insight into the validity of the current feed and residual projection of 4.8 billion bushels.

Soybeans. As expected, the USDA increased the projection of U.S. soybean crush and exports and lowered the forecast of carryover stocks at the end of the year. The domestic soybean crush is expected to reach 1.205 billion bushels, 2 percent above last year's crush. Exports are expected to reach 760 million bushels, about equal to last year's shipments. Stocks at the end of the marketing year (August 31, 1988) are projected at 335 million bushels, 40 million bushels less than projected last month and 101 million bushels below the level of beginning inventories.

For soybean meal, the projection of domestic use was lowered by about 1 percent to 21 million tons. The recent surge in meal prices and collapse in hog and poultry prices account for the reduction. Meal exports are projected at 7.5 million tons, 400 thousand tons above last month's figure and slightly higher than last year's exports. The large projections for soybean and meal exports reflect buying by the Soviet Union after the last projections were made. Additional Soviet buying may occur. The impact of additional sales, if any, will be partially offset by expectations of a larger soybean crop in South America. Combined production in Brazil, Argentina, and Paraguay for 1988 is estimated at 1.021 billion bushels, up 9 percent from 1987.

For soybean oil, the projection of exports was increased by 200 million pounds to 1.6 billion pounds. The increase reflects additional subsidized sales. Carryover stocks are projected at 2.05 billion pounds, an increase of 325 million pounds from the level of stocks at the beginning of the marketing year.

Without new sales to the Soviet Union, the current soybean price rally may stall. The direction of prices may then be influenced by decisions affecting U.S. soybean acreage in 1988. As indicated last week, proposals are being made to change current legislation to accommodate an increase in soybean acreage in 1988. Predicting congressional action in an election year is

not easy. Allowing soybean plantings on set-aside acres for other program crops, however, would be a blatant violation of current supply control policy. Allowing soybeans to substitute for other program crops may be more reasonable but is probably not necessary.

Wheat. The export projection for U.S. wheat was increased by 100 million bushels to 1.45 billion bushels. Exports at that level would be 446 million bushels above last year's shipments, the highest level in five years. Stocks at the end of the marketing year (May 31, 1988) are projected at 1.286 billion bushels, one-third less than the record at the end of the 1985-86 marketing year and the lowest level in six years.

The high rate of wheat exports is slightly deceiving. The increase in U.S. sales reflects extremely large subsidies, not an improvement in general demand conditions. The decrease in wheat stocks reflects large acreage reduction programs and subsidized sales. Only soft red winter wheat is in tight supply. Although the near-term outlook is for firm wheat prices, it is difficult to make a case for higher prices, based on the current artificial market.



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