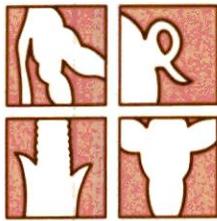




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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January 5, 1988

DEMAND AND DRY WEATHER PUSH GRAIN PRICES HIGHER

Grain prices declined sharply from early September to mid-November. The corn and soybean harvest was larger than expected and new export sales were progressing slowly. It appeared that prices had fully rationed the drought-reduced crops. Prospects of a large South American soybean crop in the spring of 1989 weighed on the soybean market.

From November 18 through January 3, nearby soybean futures advanced by about \$0.75 per bushel. Those contracts closed higher for 6 consecutive weeks. March corn futures increased by \$0.15 per bushel. March wheat futures at Chicago advanced by \$0.22 per bushel.

The recent increase in corn prices has been propelled by an increase in export sales, particularly to the USSR. Sales of corn to the USSR for delivery during the 1988-89 marketing year now total nearly 400 million bushels. The total is double the amount of U.S. corn purchased by the USSR last year. Through December 22, sales of U.S. corn to all destinations totaled 1.013 billion bushels, an increase of 26 percent from the level of sales on the same date last year. In early December, the USDA forecast corn exports during the current marketing year at 1.775 billion bushels, up only 2 percent from last year's exports. That figure may be revised upward in the USDA's *Supply and Demand* report, to be released on January 13.

During the first quarter of the 1988-89 soybean marketing year, the domestic crush totaled 275.6 million bushels, down only 6 percent from last year's crush. For the entire year, the USDA has projected the domestic crush at 1.03 billion bushels, 12 percent less than the crush during the 1987-88 marketing year. If that projection is correct, crush during the last three quarters will have to be 14 percent less than last year's crush.

The USDA projects soybean exports for the 1988-89 marketing year at 565 million bushels, 30 percent below last year's exports. Through December 22, sales of U.S. soybeans to all destinations totaled 338 million bushels, 35 percent less than on the same day last year. Actual shipments of U.S. soybeans were down 42 percent from the level of shipments last year. As pointed out before, however, comparison to last year is somewhat misleading because of the fast pace of exports during the first quarter of that year. Exports during the first quarter last year were within 2 million bushels of the record first-quarter exports in 1981-82. In that year, exports reached 929 million bushels. Last year, exports reached only 802 million bushels.

If 565 million bushels of soybeans are to be exported, shipments need to average about 10.9 million bushels per week. During the first 16 weeks of the marketing year, export shipments averaged 11.8 million bushels. The trend has been towards larger weekly shipments. During the first 5 weeks, shipments averaged only 6 million bushels per week.

Soybean use is running ahead of the USDA's projections for the year. Continued weather problems in South America and a smaller crop than projected would support use of U.S. soybeans during the last half of the year. Carryover stocks may be reduced to near 100 million bushels.

Chicago wheat futures surged to contract highs on January 3 as export bonus activity remained brisk. The USSR was targeted for nearly 75 million bushels of export bonus wheat and China was offered another 37 million bushels. China has already purchased 220 million bushels of U.S. wheat under the subsidy program. Dry weather in the Great Plains continues to threaten the hard red winter wheat crop in those areas.

Grain prices in the near term will be influenced by four important USDA reports to be released on January 13. The reports will contain final 1988 production figures, December 1 stocks figures, a winter wheat seeding estimate, and revised supply and demand estimates. Unless the soybean crop estimate is increased, the current price rally is likely to continue, pushing the March contract to the \$8.65 to \$8.70 level. An upward revision in the corn production figure without a corresponding increase in the projection of use could result in a 10-cent decline in corn futures. An unchanged estimate of production and an increase in projected use could add 10 to 20 cents to the price of corn. The wheat seedings report is expected to show a large increase in acreage, but weather will continue to be an important price factor.



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