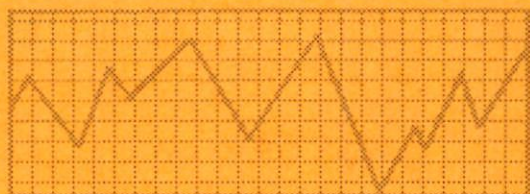




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WEEKLY OUTLOOK

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MARKET TO FOCUS ON CORN AND SOYBEAN DEMAND

Earlier this spring, export demand for corn was increasing rapidly. In the 8 weeks from March 29 through May 10, 1990, almost 450 million bushels of corn were sold for export. At the same time, a record pace of domestic soybean oil and meal consumption was unfolding. The market was convinced that demand for corn and soybeans would remain strong in the 1990-91 marketing year. Planting was late and there was concern about the size of the 1990 crops. It was the burden of the market to prove there would be an adequate supply. Corn prices increased about 55 cents and soybeans about 90 cents per bushel on the basis of good demand and crop concerns.

Based on the USDA's August assessment of domestic and foreign crop prospects, world grain crops will be large in 1990-91. The U.S. wheat crop is one-third larger than a year ago and the world crop is expected to be a record 583.7 million tons, almost 9 percent larger than last year's crop. The largest increase, outside of the United States, is coming in the USSR, where the crop is estimated to be 13 percent larger than last year's crop. The U.S. coarse grain crop is expected to be about 3 percent larger than the 1989 crop. Production outside of the United States is forecast at a record 589.5 million tons, 2 percent larger than last year's crop. The largest increase is in the size of the Soviet crop, up 8 percent from last year's production. The U.S. soybean crop is expected to be nearly 5 percent smaller than a year ago. Production in the rest of the world is expected to increase by 6 percent, resulting in a record world crop. Production of all the major oilseed crops is forecast at a record 219.2 million tons, nearly 4 percent larger than last year's crop.

While the current production estimates are tentative, particularly for the Southern Hemisphere, it appears that there is an adequate supply of grains and oilseeds. As large crops developed, corn and soybean prices gave back all of the spring rally and wheat prices declined to new lows. Market attention will now shift back to the demand side. While prices have probably reached a seasonal low, higher prices will require better than expected demand.

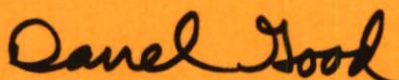
As pointed out in last week's letter, the USDA expects that corn exports will decline by 275 million bushels, or nearly 12 percent, during the year ahead. The decline reflects reduced import requirements of the USSR, and to a lesser degree, Mexico, Eastern Europe, and Taiwan. As of August 9, 241 million bushels of U.S. corn had been sold for export during the 1990-91 marketing year. That figure is double the amount sold by the same date last year. About 75 percent of the export sales have been to Japan. Some of those sales represent a change from old crop corn to new crop corn.

The market is concerned that corn exports will fall short of the USDA projections. With the absence of Soviet purchases, exports could be especially weak during the first 5 months of the 1990-91 marketing year. The USDA's projection of a 100 million bushel increase in domestic corn feeding may be on the high side as well.

In the case of soybeans, domestic demand for meal and oil is expected to remain record large during the 1990-91 marketing year. The biggest uncertainty surrounds potential export demand. The USDA has projected a 10 percent increase in meal exports, a 13 percent decline in oil exports, and stable soybean exports. The magnitude of expected exports are small by historic standards and reflect continued loss of market share to South American soybeans and to other oilseed crops.

The size of the 1991 South American crop will be important to export demand for U.S. soybeans and soybean products. That crop has not yet been planted. Assuming normal weather, the USDA has projected a record South American soybean harvest of 1.216 billion bushels, up about 5 percent from the size of the 1990 crop. There is a strong possibility, however, that production will fall short of that projection. Plantings in Brazil may be reduced because of low profitability and lack of production credit.

Lower corn and soybean prices are not expected. Stocks are at a low level and use during the year ahead will probably exceed the size of the 1990 crops. Assuming no unusual weather problems from now through harvest, the extent of price increases after harvest will depend on the rate of use. Prospects for higher soybean prices are better than for corn. Cash prices could exceed \$7.00 per bushel later in the year. Adverse weather in South America this winter or in the United States next spring or summer could send prices of both corn and soybeans sharply higher.



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