



WEEKLY OUTLOOK

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SMALL EXPORT SALES PRESSURE GRAIN AND SOYBEAN PRICES

Late last week, November soybean futures traded under \$6.00 per bushel for the first time since the first week of August. Chicago wheat futures were flirting with contract lows and corn futures were down 9 cents from the highs during the second week of October. Part of the weakness in the corn and soybean market reflected farmer selling as harvest proceeded rapidly. To a greater extent, however, weakness reflected poor export demand.

As of October 18, only 497 million bushels of U.S. corn had been sold for export during the current marketing year. A year ago, sales stood at 794 million bushels. While the USDA expects that exports for the entire year will be 12 percent less than a year ago, sales are 37 percent less than at this time last year. Sales to the five largest customers -- USSR, Japan, Taiwan, South Korea, and Mexico -- stood at 343 million bushels, 47 percent less than last year's sales total. The USSR has purchased 16 million bushels of U.S. corn, down from 280 million bushels last year. Sales to all destinations other than the USSR are down only 11 percent from last year.

Actual shipments of corn during the first 7 weeks of the marketing year totaled only 162 million bushels, 21 percent less than a year ago. To reach the USDA projection of 2.075 billion bushels, exports need to average 42.5 million bushels per week for the next 45 weeks.

The USSR has indicated that it is interested in more corn imports for its poultry industry, but is asking that the U.S. extend credit on those sales. Whether or not credit should be extended is a complicated policy decision. If credit is not offered or is significantly delayed, the USSR will continue to find credit from other exporters. It now appears unlikely that corn exports will reach the current USDA projection.

The USDA projects that soybean exports during the 1990-91 marketing year will be about 1 percent less than last year's exports. Export sales of soybeans as of October 18 stood at 140 million bushels, 32 percent less than sales of a year ago. Sales are down sharply to every major buyer. Export sales of meal are down 28 percent and oil sales are 68 percent lower than a year ago. The slow pace of soybean and soybean meal sales reflects the relatively large inventory of South American protein.

Prospects for U.S. exports of soybeans and soybean products depend partly on the size of the 1991 South American crop. Almost all sources seem to agree that planted acreage will decline in Brazil. A 10 to 15 percent reduction is widely expected. Most of the decline is expected to come outside of the major producing states of Rio Grande Do Sul and Parana. Acreage declines are expected in response to lack of adequate production credit, a restructuring of the minimum price guarantee,

and preferential treatment for domestically consumed crops such as corn. The current decline in soybean prices will also discourage soybean planting.

Brazilian yield prospects are mixed. The 1990 average yield was only 25.3 bushels per acre because of dry weather in some areas. A normal yield might be around 29 bushels. Yields in 1991 could be adversely affected by the lack of adequate production credit and less than optimal fertilizer application. Forecasts of the 1991 Brazilian crop range from 640 to 700 million bushels, compared to the 1990 harvest of 709 million. Production in Argentina is expected to be slightly less than last year's total of 395 million bushels, as shifts in acreage are not expected.

In the case of wheat, the USDA expects that exports during the current marketing year will be down about 9 percent from last year. Twenty weeks into the year, exports are running 27 percent behind the pace of a year ago. Total export commitments (exports plus outstanding sales) are down 21 percent. Sales of hard red winter wheat, white wheat, and durum wheat are slightly larger than a year ago. Sales of hard red spring wheat are down 17 percent and sales of soft red winter wheat are down 47 percent.

To reach the USDA's export projection of 1.125 billion bushels, exports need to average 21.6 million bushels per week. After 20 weeks, the average is 21.5 million. Prospects of reaching the USDA projection are good, but will require substantial export bonus sales to compete with abundant supplies in Canada and the European Community.

Corn, soybean, and wheat prices will remain under pressure until the export pace accelerates. Speculative selling by the large funds will likely push prices lower than warranted by overall fundamentals, suggesting substantial price recovery once export buying does surface. Wheat prices will also be supported by prospects of a significant reduction in the size of the U.S. and world crops in 1991.

Darrel Good

Issued by Darrel Good
Extension Specialist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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