Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

SEPTEMBER 9, 1991

FOCUS ON SOVIET GRAIN DEMAND

The USDA's September 12 *Crop Production* report will clear up much of the uncertainty about corn and soybean supply prospects for the 1991-92 marketing year. Some uncertainty will linger until the western Corn Belt crop reaches maturity, but demand prospects will increasingly become the focus of the market. Export prospects, particularly to the USSR, will be most important.

There is general agreement that large grain imports are needed in the USSR. The impact of a very small harvest there is apparently being further complicated by hoarding of grain. Questions about distribution of the harvest are also raised by increasing independence among the various republics. The need is large and many analysts suggest that the need is immediate to prevent liquidation of livestock herds.

There is less clarity about the process of selling grain to the USSR. Most public announcements coming from the USSR and the republics suggest that large amounts of credit or economic aid are required to finance the purchases of grain. At this juncture, there does not appear to be a willingness in the USSR to divert hard currency to the purchase of food items, even though opportunities for that do exist. The U.S. has responded to the Soviet situation with export credit guarantees, but it has been difficult to interest commercial lenders in extending the credit. As a result, there is growing pressure for the U.S. to make credit directly available to the USSR, to guarantee 100 percent of the principal and interest on loans made by commercial lenders, or to give direct economic aid to the USSR. Decisions must be made by the U.S. government very soon if sales to the USSR are to be made and delivered by the end of the calendar year.

A further decision that must be made is the allocation of existing and any additional credit guarantees or economic aid among the various commodities. The greatest need is for coarse grains and much of the credits allocated to date have been for coarse grains, particularly corn. Depending on the size of the 1991 U.S. corn harvest, additional credits for corn exports would likely reduce the domestic supply and/or reduce the level of stocks at the end of the marketing year. If that is correct, there may be a tendency for additional export credits to be increasingly allocated to other commodities. Soybean meal and wheat would likely benefit from that change.

Wheat stocks are already projected to be relatively low by the end of the marketing year. Increased exports would require that wheat be priced out of the domestic feed markets. A small South American soybean harvest in 1991 and prospects for only a small increase in 1992, suggest that the world demand for U.S. soybeans and soybean meal will increase over the next several months. Again, depending on the size of the 1991 harvest, U.S. stocks will be declining during the marketing year. Increased sales to the USSR would pull stocks to even lower levels.

The situation described above is ironic. The U.S. has been aggressively pursuing a policy of reducing government controlled grain stocks for the past five years. That policy has been successful so that current government inventories are quite small and total inventories are modest and declining. The U.S. does not have an abundance of low priced grain to make available to the USSR at a time when the need in that country is great. This situation has led to a debate about the size of the set-aside requirement for feed grain producers in 1992. The projected level of carryover allows the USDA to place the requirement between zero and 12.5 percent of the base acreage. Relatively small stocks and uncertainty about 1992 growing conditions have led some to argue for a zero set-aside requirement. Others, concerned that more acreage and favorable growing conditions would lead to surplus and lower prices in 1992, have argued for a 7.5 percent set-aside. The USDA is required to make the determination by the end of September.

Many in the industry applauded the 1985 "farm bill" as an indication of less government involvement in commodity markets. That potential has really not materialized, only the role of the government has changed. The government is no longer in the grain storage business, but is a major determinant of export demand.

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

FIRST CLASS