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WEEKLY OUTLOOK

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GRAIN, SOYBEAN PRICES RESPOND TO EXPORT PROGRAMS AND COLD WEATHER

December wheat futures at Chicago reached a contract low of $3.125 on August 13. The low was $1.275 below the contract high reached six months earlier and about $.75 below the recent high in early June. Recent price weakness reflected the slow start to export sales for the 1992-93 marketing year. Actual exports of wheat are running ahead of last year's pace. Exports during the first quarter of the year totaled 265 million bushels, 25 million more than during the same period last year. Total export commitments (exports plus outstanding sales), however, stood at only 396 million bushels on August 27. That figure is 107 million less than commitments on the same date last year. Sales are off to the slowest start in 7 years.

Wheat prices got a boost last week on the basis of the President's announcement of a large export enhancement initiative for wheat. That announcement targeted 28 countries for 30 million tons of subsidized wheat under the Export Enhancement Program (EEP). A total of $1 billion was designated for that program. It is not yet clear how much of the 30 million tons offered will actually be purchased. The European Community may step up its export subsidy program in response to the U.S. initiative.

October soybean oil futures reached a low of $.1821 per pound on August 10. The low was $.044 below the contract high reached in June. The decline reflected accumulating oil stock generated by a strong demand for soybean meal. Partially in response to the large stocks of oil, the U.S. recently announced export subsidy offers on 180,000 tons (400 million pounds) of soybean oil.

The market is currently awaiting an announcement of new export credits for the former Soviet Union. That announcement is expected this week and is rumored to be for a total of $1 billion for exports during the last quarter of this calendar year. The credits are expected to include a broad range of commodities, including more value added products than in the past.

In addition to the flurry of export activity, markets have reacted to frost in some growing areas of Canada and potential for frost in some growing areas of the United States over the next few days. Frost in Canada reduced wheat and canola production, while frost in the United States could affect corn, soybean and spring wheat production. From the lows reached on August 31, December wheat futures rebounded nearly $.20 per bushel, December corn futures moved up $.11, October soybean oil gained $.01 per pound, October meal rebounded by $4.50 per ton, and November soybean futures jumped $.23 per bushel.

In the near term, the markets will continue to monitor prospects for a killing frost in the context of the USDA's crop production report to be released on September 10. If a frost does occur, the market will try to assess how much production potential is reduced from the September figure. Private estimates released last week indicate a potential corn crop of 8.8 to 9 billion bushels and a soybean crop of 2.07 to 2.1 billion bushels. These estimates are equal to or slightly larger than the USDA's August estimates. The state by state estimates will be important in calculating frost damage.

If an early frost does occur, the market may offer some attractive early season pricing opportunities for corn and soybeans. December corn futures in the $2.40 to $2.50 range are possible. Damage would have to be severe to overcome the technical resistance in the $2.50 to $2.56 area. November soybeans could rally to the $5.90 to $6.00 area on the basis of early frost. If an early frost does not occur, and crops are as large as the current estimates, a retest of contract lows is likely. Weather will be less important to the wheat market, with most of the attention focused on exports. December futures are expected to trade in the $3.25 to $3.50 range.

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