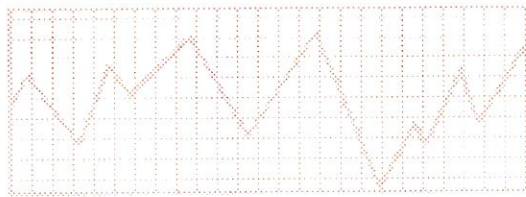




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WEEKLY OUTLOOK

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WEATHER OVERSHADOWS USDA REPORTS

On June 30, the USDA released its annual *Acreage* report and the quarterly *Grain Stocks* report. Those reports were supportive for corn prices, but a bit negative for soybean and wheat prices. The market, however, generally ignored the reports and focused on the continuation of the extremely wet conditions in the western corn belt. Following is a summary of the reports.

CORN. The inventory of corn on June 1 was estimated at 3.709 billion bushels, very close to pre-report expectations. The stocks figure implies that 1.164 billion bushels of corn were fed during the third quarter of the 1992-93 marketing year. Feed use for the quarter was 9 percent larger than use of a year ago. For the first three quarters of the marketing year, feed and residual use is 9 percent larger than during the same period last year. For the year, the USDA has projected feed and residual use at 5.25 billion bushels, a 7.6 percent increase from use of a year ago. It now appears that use will at least reach, and perhaps exceed, 5.25 billion bushels.

Planted acreage of corn was estimated at 74.259 million acres, down 2.227 million from March intentions and 5.066 million fewer acres than were planted last year. Acreage in Iowa and Minnesota was down 500,000 acres from intentions, while the decline totaled 250,000 and 100,000 acres in Indiana and Illinois, respectively.

The USDA projected harvested acreage at 67.265 million. If the U.S. average yield potential has been trimmed from the trend yield near 122 bushels per acre, to say 115 bushels, the 1993 crop will be near 7.75 billion bushels. A crop of that size would result in a decline in ending stocks to about 1.4 billion bushels. Unless the corn crop runs into further problems, prospective supplies appear fully adequate at current prices.

SOYBEANS. June 1 stocks of soybeans were estimated at 683.4 million bushels, about 17 million less than expected and 12 million less than stocks of a year ago. The relatively small figure implies that the 1992 crop was overestimated by about 20 million bushels. With the continuation of a rapid rate of export sales, September 1 stocks of soybeans will be well below the current USDA projection of 310 million, perhaps near 290 million.

As of early June, producers reported planted acreage of soybeans (or intentions to plant soybeans) of 61.575 million acres. That figure is 2.275 million above the March intentions figure and 2.245 million above actual plantings of a year ago. Harvested acreage was projected at 60.473 million acres.

The market quickly discounted the acreage estimate and spurted to new contract highs on the basis of continued excessive rainfall in parts of the western corn belt. Some acreage has never been planted and some is under water. If acreage falls about 1.5 million below the June estimate and if the U.S. average yield drops 2 bushels below the trend yield of 35 bushels, the 1993 crop would total only about 1.95 billion bushels, or about 250 million less than the 1992 crop. Soybean use during the 1993-94 marketing year would have to be about 50 million bushels less than currently projected by USDA to hold ending inventories at 200 million bushels, if the crop comes in at 1.95 billion bushels.

WHEAT. June 1 stocks of wheat were estimated at 529 million bushels, 30 million above the projection in the USDA's latest *Supply and Demand* report. Once again, however, the market shrugged off the negative news due to continued harvest delays and concerns about reduced yields due to wet weather and disease. The next wheat production estimate will be released on July 12.

Soybeans have been the leader in the current weather rally. November futures rallied \$1.20 from the low on June 16 to the high on July 6. December corn futures rallied 34 cents from low to high and July wheat futures moved 45 cents higher. Current prospects for the 1993-94 supply and demand balance suggest that corn prices are currently at value. With the critical pollination period ahead, however, additional weather premium may be built in. The next target is the contract high of \$2.685.

Soybean prices clearly need to be high enough to curtail use during the year ahead. How much reduction is required will be a matter of speculation for several weeks. With soybean futures clearing the \$6.60 level, the door is opened for a move to \$7.50 or above. For both corn and soybeans, however, history is very clear — weather rallies tend to push prices much higher than required to allocate the crop, and then decline sharply.



Issued by Darrel Good
Extension Economist
University of Illinois

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