



WEEKLY OUTLOOK

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MARKET EXPECTING LARGER CORN AND SOYBEAN CROPS

The USDA's September estimates of the size of the U.S. corn and soybean crops were larger than the average trade guess. Within a few days of the release of those estimates, however, traders began anticipating larger estimates in the October report. The larger crop ideas are based on early reports of better than expected yields in the eastern corn belt. Such random reports can be misleading, since it is not clear whose expectations are being evaluated. There is, however, a historical tendency for the estimate of both the corn and soybean crops to increase in October following an increase in September.

Since 1975, the September corn crop estimate has been larger than the August estimate seven times [1977, 1978, 1979, 1981, 1985, 1990, 1992]. In six of those seven years, the yield and production estimates increased again in September. The only exception was 1990 when the production estimate declined by 94 million bushels. It is important to note that the November estimate was also larger in each of the six years with an increase in October and that the January estimate was larger than the November estimate in five of the six years.

For the six years with an increase in the production estimate in October, the increase ranged from 26 million to 168 million bushels and averaged 111 million bushels, or 1.4 percent. An average increase this year would produce an October estimate of 9.38 billion bushels.

For soybeans, there have been 8 years when the September production estimate exceeded the August estimate, as it did this year [1977, 1978, 1979, 1981, 1982, 1985, 1992, 1993]. In six of those eight years, the October estimate exceeded the September estimate. In 1982, the estimate declined by 14 million bushels in October. The October estimate declined 18 million bushels last year. In the six years with a larger October figure, the November estimate was also larger on five occasions. The exception was 1981.

In those six years when the estimate of the soybean crop increased in September and October, the October increase ranged from 3 million to 45 million bushels, with an average of 25 million bushels, or 1.2 percent. An average increase this year would result in an October production figure of 2.344 billion bushels, 28 million larger than the September estimate.

Each crop year is unique, so that history is only a guide. However, the market will likely continue to behave as though the 1994 corn and soybean crops will get larger. The next estimates will be released on October 12.

While crop prospects will continue to dominate the price picture for the next several weeks, the market is also closely monitoring the export situation. There are expectations that U.S. corn and soybean exports will rebound from the low levels of this past year. Soybean export sales have been large since late July. As of September 8, 242 million bushels of soybeans had been sold for delivery during the 1994-95 marketing year. That is nearly 36 percent of the total projected for the entire year. A year ago, only 78 million bushels had been sold for export. The fast pace of export buying has prevented soybean futures from dropping as low as in the fall of 1992, at least so far. The concern now is that export sales will slow down considerably once the harvest is complete, making price recovery difficult. The planting and early development of the South American crop will be extremely important for soybean prices.

In contrast to soybean sales, export sales of corn have started slowly. As of September 8, 267 million bushels of corn had been sold for shipment during the 1994-95 marketing. Last year that figure stood at 311 million bushels. Sales, however, were large in the week ended on September 8, and reports of additional large sales circulated last week. While the numbers are not large, the early buying by Asian countries, including China, is encouraging. The size of the Chinese grain crops are still uncertain due to late season weather problems.

New crop corn and soybean futures established new lows on September 16. Prices are expected to remain under pressure through the peak of harvest, with a test of the 1992 lows possible. In that year, December corn futures reached a low of \$2.045 in October. November soybean futures bottomed at \$5.245, also in October.

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