

WEEKLY OUTLOOK

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NEW RECORDS FORECAST FOR CROP PRODUCTION AND USE

Farmers have been reporting record corn and soybean yields since harvest began in September. The USDA crop reports confirmed the record production in October, and forecast new records with the release of the November crop production report. Corn production is forecast at 10 billion bushels, 408 million larger than the October forecast. Soybean production is pegged at 2.523 billion bushels, 65 million bushels larger than the previous estimate.

The U.S. average corn yield is 138.4 bushels, 7 bushels higher than the previous record set in 1992. The estimate of corn acreage harvested for grain was raised 590,000 acres, to 72.3 million acres. Illinois had the highest (non-irrigated) state average yield at 155 bushels per acre, followed by Iowa at 152. Production increases in Illinois and Iowa account for 36 percent of the increased production from the October report. Eastern corn belt yields were affected by drought conditions in some areas, which pulled state averages down to 141 bushels in Indiana and 139 bushels in Ohio. Three corn belt states of Illinois, Iowa and Nebraska produced 48 percent of the total crop.

Feed use of corn is forecast to be 5.5 billion bushels, nearly 4 percent larger than the previous record set in the 1992-93 marketing year. Total use, at 8.8 billion bushels is also 4 percent larger than the previous record. Ending stocks are forecast to exceed 2 billion bushels, resulting in a stocks to use ratio of 23 percent. This is 2.4 times larger than corn stocks on August 31, 1994.

The record yields are causing a shortage of storage in the major corn states, with about 10 percent of the corn crop yet to be harvested. The result is a wide basis, and low prices. The midpoint of the USDA's projection of the average farm price for corn is \$2.05. Corn prices in Illinois and Indiana typically average about 5 cents per bushel higher than the U.S. average. Farmers forward priced only a small percentage of their production and have been reluctant sellers with prices below \$2 per bushel and a desire to push corn sales into 1995 for tax purposes. Corn stored outside must be moved before warm spring weather. This, plus farmer sales for operating funds, portrays a very sluggish corn market for the next several months. Returns to storage are likely to come from larger spreads in the futures market and improvement in the basis. The prices of distant futures are expected to erode as they become the near-by contract. Without crop problems, increases in the general price level may be limited.

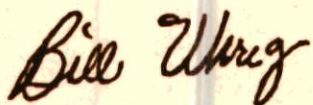
Iowa is the champion soybean producing state this year, with a record yield of 51 bushel per acre. Nebraska follows with 48 bushels, while Illinois and Indiana both recorded 46 bushels per acre.

A record crush of 1.355 billion bushels is projected, up 6.5 percent from last year's record. Exports (year-to-date) have been running about 40 percent ahead of last year due to very profitable crush margins by overseas processors. With future sales lagging, it is believed that the exports are front loaded, so that exports may falter during the winter months. Recently, soybean prices have been boosted by a very strong oil market.

"In other large-crop years since 1987 (excluding years followed by drought the next summer), the average pattern has been a modest increase in July futures into December, weakness in January and February — followed by a moderate upturn in the spring that peaks about mid-May. From early June onward, the price trend has been sharply downward into late summer. Similar downside risk would be present this summer with favorable 1995 weather" (Robert Wisner, Iowa State University). With current soybean bids near the average of the annual expected price, it is time to consider pricing or forward contracting part of your crop. If unfavorable weather develops next spring, you can buy futures and/or call options to re-own the soybeans.

While December 1995 corn futures and November 1995 soybean futures are sharply higher than current prices, better pricing opportunities for 1995 production are expected by late spring.

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