Cooperative Extension Service

WEEKLY OUTLOOK

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CORN AND SOYBEAN MARKETS FOCUS ON CONSUMPTION

With record corn and soybean crops in the bin, the markets will focus primarily on the rate of consumption. If use is proceeding at faster than expected rates, prices have a chance of modest improvement, while a slower rate of use will keep prices under pressure.

For corn the only current information on the rate of use is one the export side. The USDA has projected exports for the current market year at 1.625 billion bushels, an increase of nearly 300 million bushels, or about 22 percent, over the exports of a year ago. With eleven weeks of the marketing year gone, exports are about 6 percent smaller than shipments of a year ago. However, new sales have been large since the last week of September, averaging 39 million bushels per week. As of November 17, 344 million bushels of corn had been sold but not yet shipped. That compares to 272 million bushels on the same date last year. Recent European and Asian interest in U.S. corn keeps hopes alive that demand for U.S. corn may be larger than currently projected. Those expectations are bolstered by reports that China will significantly reduce corn exports and may import corn at times. Additional export credits for the former Soviet Union would also raise export expectations.

Domestic feed use of corn should be in line with the record 5.5 billion bushels projected by the USDA. The first look at domestic use will be available with the December *Grain Stocks* report to be released in early January. The record pace of hog and poultry production suggest a high rate of corn feeding. There may also be a tendency for producers to underestimate the inventory of corn stored on the farm on December 1 because of the relatively high test weight of the 1994 crop. An underestimate would inflate the estimate of first quarter corn feeding.

The USDA's final 1994 production estimate will be released in early January. Based on historical patterns, we expect the estimate to be slightly larger than the 10.01 billion bushel November figure. If so, larger supplies would offset the potential benefit of a high rate of consumption.

Corn prices appear destined to continue in a very narrow trading range for the next two months. Basis levels have improved significantly over the past month, as transportation costs have declined and farmers remain slow sellers of corn. Futures prices, however, established new contracts lows this past week. Basis could get a downward jolt if sales accelerate in January. Longer term, corn prices could get some support from reduced plantings in 1995. The 7.5 percent set-aside program will take about 5 million base acres out of production. In addition, the increase in soft red winter wheat acreage could result in another 1.5 million acre reduction in corn and soybean acreage. Such a reduction would open the door for spring weather rallies which could push July futures into the $2.50 to $2.60 range.

The domestic soybean crush during the first two months of the marketing year totaled a record 224.23 million bushels, a 5.7 percent increase over the crush during the same period last year. Figures from the National Oilseed Processors Association indicate that the crush during the first two weeks of November was 9.3 percent larger than during the same period last year. The crush has been supported by very high soybean oil prices that have resulted in exceptionally large crush margins. The high oil prices, however, have probably slowed the pace of oil consumption and suggests some decline in oil prices. It is doubtful that meal prices can increase to offset declines in oil prices, so that crush margins will narrow and the pace of the crush will slow. The USDA projects a 6.5 percent increase in the crush for the entire year. Assuming South America harvests another large crop in 1995, it is unlikely that the crush will exceed the USDA projection.

For the year, the USDA projects soybean exports at 770 million bushels, nearly 31 percent larger than exports of a year ago. Shipments during the first 11 weeks of the marketing year were 37 percent larger than those of a year ago. Unshipped sales remain large, at 291 million bushels as of November 17. Unshipped sales at this time last year stood at only 97 million bushels. The pace of new export sales was extremely large from mid-September to mid-October, averaging 32.2 million bushels per week. For the past 5 weeks, sales have averaged 18 million bushels per week. Again, assuming that South America has a normal growing season, it is unlikely that exports will exceed the USDA projection. With a larger production estimate in January, the projection of carryover stocks could exceed 500 million bushels.

Cash soybean prices in central Illinois managed a $.60 recovery from early October to the third week of November, as oil prices shot higher and basis levels improved. Additional price recovery will be small over the next 2 months. Some weakness may develop during that period as farmer sales escalate and the torrid pace of consumption slows. A typical spring rally, based on weather concerns, is expected to push cash prices to the $6.00 level.

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