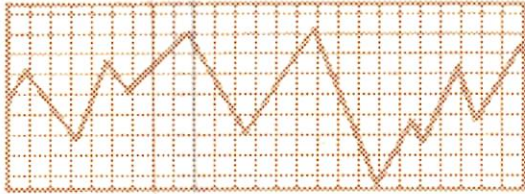




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WEEKLY OUTLOOK

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CORN AND SOYBEAN PRICE PROSPECTS ARE MIXED

The USDA's February Supply and Demand report contained no changes in the projection of U.S. corn use during the current marketing year. Year ending stocks (August 31, 1995) are still projected at 1.658 billion bushels. That is about equal to the average level of inventory for that date for the period 1989 through 1993. The expected size of the 1995 South African crop was reduced another 1 million tons. At 7 million tons, the crop is expected to be 46 percent smaller than the 1994 harvest. The projected net corn export balance for China was reduced to only 20 million bushels. Last year, net exports from China totaled 463 million bushels. Late last week, China cancelled 25 million bushels of U.S. corn purchases, but the market believes the cancellation reflects current logistics and not a decline in demand. The corn is expected to be repurchased later on. It is possible, however, that the cancellation is due to the fact that USDA recently made an additional 1 million ton export bonus allocation for wheat to China.

The near term prospect for corn prices remains generally favorable. The record pace of corn consumption is expected to continue into 1996; planted acreage of corn is expected to decline by 3 million acres in 1995; and most observers believe that the 1995 U.S. average corn yield will decline by 12 to 14 bushels from the record yield of 1994. This scenario points to a decline in ending stocks of corn next year. Corn prices are generally expected to increase another \$.10 per bushel over the next few weeks and could add another \$.10 on the basis of early season weather jitters.

Are there any threats to this positive outlook? It is important that weekly export sales stay on target for the 1.95 billion bushels projected by the USDA. All eyes will be on China. Beyond that, new fundamental information will be scarce until March 31, when the USDA releases its quarterly Grain Stocks report and the Prospective Planting report. A case can be made for a slow down in apparent domestic feed consumption of corn during the second (current) quarter of the marketing year so the stocks report will be important. Near term strength may also be limited by the apparent willingness of producers to get caught up on sales on small price rallies and by the fact that large speculators are already net long corn futures by a wide margin.

Only minor changes were made in the USDA's February projections of soybean consumption. The export projection was lowered by 5 million bushels, to 785 million. The crush projection was increased an equal amount to 1.365 billion bushels. Ending stocks are still expected to be very

large, at 510 million bushels. The export projections for soybean meal and oil were increased and the projections of year - ending stocks were reduced.

The estimated size of the 1995 Brazilian soybean crop was increased by 11 million bushels. Combined production in Brazil and Argentina is now estimated at 1.38 billion bushels, 26 million larger than the record 1994 crop.

The USDA also announced last week that the planting of soybeans, and most other oilseeds, on corn set aside acres would not be allowed in 1995. It was believed that such a provision would have increased soybean plantings by 750,000 acres in 1995.

After declining to new contract lows on February 1, soybean futures advanced 11 to 12 cents per bushel during the week ended February 10. The advance was fueled by a recovery in soybean oil prices. In addition, large speculative traders who have been short soybean futures were covering those positions. That type of buying may push prices a few cents higher, but it will take new buying for any kind of sustained rally. As long as the South American crop remains in good condition, additional strength in soybean prices may not occur for two or three months. At that time, the market will react to any weather threats to the 1995 U.S. crop. In the past two years, weather rallies have carried soybean futures to the \$7.30 to \$7.50 range. In the three years prior to that, the rally carried to only the \$6.40 to \$6.60 range. Without significant crop problems, this year's rally could be even smaller. The current recovery in prices, though small, is an opportunity to make additional old crop sales. New crop pricing opportunities may be somewhat better nearer planting time.



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