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WEEKLY OUTLOOK

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PROJECTION OF CARRYOVER STOCKS REDUCED, BUT WEATHER DOMINATES

As expected, the USDA lowered the projection of year-ending stocks of corn and soybeans in its April *Supply and Demand* report. The 22 million bushel reduction in projected corn stocks reflected a 25 million bushel increase in the export projection and a small increase in the import projection. The use of corn for all purposes during the 1994-95 marketing year is now projected at 9.375 billion bushels, leaving year ending stocks at 1.588 billion. The projection of use has increased by 565 million bushels since last November and the projection of carryover stocks has declined by 467 million bushels.

Most analysts believe that the record pace of corn consumption will continue into the 1995-96 marketing year. With reduced acreage and "average" yields in 1995, carryover stocks could be reduced to near 1 billion bushels by the end of the 1995-96 marketing year. In making that assessment, however, it needs to be recognized that the 1994 crop, and therefore the projection of feed and residual use of corn for the current marketing year, may be overstated by 250 to 300 million bushels. That estimate is based on the apparent overestimate of the 1994 soybean crop by about 2.5 to 3.0 percent. The implication is that feed and residual use of corn could decline by 250 to 300 million bushels during the 1995-96 marketing year without a reduction in livestock numbers.

A similar pattern was observed in 1992-93 and 1993-94. Feed and residual use of corn increased by 8.7 percent in 1992-93, with a 2.2 percent increase in livestock numbers. Feed and residual use of all grains increased by 6.7 percent that year. Feed and residual use of corn declined by 590 million bushels (11 percent) in 1993-94 with a 1.5 percent increase in animal numbers. Part of that decline was associated with increased feeding of wheat and barley, but feed consumption of all grains declined by 4.4 percent. It is likely that the 1992 crop was overestimated by 1.5 percent, or about 140 million bushels. The large residual use of soybeans in 1992-93 indicates the soybean crop was overstated by 1.5 percent, or about 30 million bushels. The implication is that the 1995 corn crop may not need to be quite as large as generally believed in order to maintain the current level of corn consumption.

The USDA dropped the projection of carryover stocks of soybeans to 435 million bushels, down 75 million from the March projection. The reduction reflected a 5 million bushel increase in the crush projection, a 15 million bushel increase in the export projection, and a 55 million bushel increase in the residual projection. The level of ending stocks is still quite large, representing 19 percent of projected use.

An argument can be made for exports exceeding even the revised projections for both corn and soybeans. With 21 weeks left in the marketing year, corn export commitments represent 84 percent of the 2.025 billion bushel projection. Soybean commitments represent 95 percent of the 800 million bushel projection. Even so, the most important price factor for the next few months will be the prospective size of the 1995 crops.

The National Weather Service outlook for mid-April through mid-July suggests above normal temperatures in the far-eastern U.S., extending into the southeastern growing areas. There is no indication at this point of a problem in the midwest. It appears that planting will be very timely, under generally favorable moisture conditions. As usual, a number of private meteorologists are hinting at a hot and/or dry summer.

The recent rally in corn and soybean prices pushed prices very close to some of the targets we had suggested for a spring rally. In the case of corn, July futures traded to a high of $2.58 and December put in a contract high of $2.67. For soybeans, July traded up to $6.04 and November to $6.19. These levels should have, and apparently did, trigger additional farmer sales. It would be unusual if additional weather rallies did not occur yet this spring or summer. If a favorable growing season does unfold, however, both December corn futures and November soybean futures will likely drop below the current contract lows of $2.355 and $5.7325, respectively. In spite of good demand for corn and soybeans, weather rallies will still likely offer the best pricing opportunity for the 1995 crops until next spring.

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