Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

JUNE 12, 1995

USDA REPORTS PROVIDE NEW BENCHMARKS

Each month the USDA's World Agricultural Outlook Board (WAOB) updates the supply-demand tables for the major commodities. Information from several government agencies is reflected in these reports. The release dates are scheduled a year in advance, and follow the release of the crop reports and grain stocks reports. Forecasts of production and projections of use for the new crop year are made starting in May. The latest report was released on June 12.

Changes in the old crop estimates are typically relatively minor during the late stages of the marketing year. Most of the information has already been factored into the balance sheets. Production estimates for the new (1995) crops are normally based on the March planting intentions and trend yields. Demand projections for the 1995-96 marketing year reflect both trends and current information. The goal is to determine the adequacy or degree of surplus of the crop. This is reflected in ending stocks and is a big influence on the annual average price.

The estimate of September 1 ending corn stocks was lowered 50 million bushels due to increased exports. The major interest is on the 1995-96 marketing year due to the late planting season and the negative impact on both planted acreage and yields. The USDA pegged the 1995 corn crop at 7.9 billion bushels, down 700 million bushels, or about 8 percent, from the May estimate. This is based on 73.3 million acres planted (down 2 million) and 66 million acres harvested (down 2.5 million from the May estimate). The U.S. average corn yield was estimated at 119.7 bushels per acre, down 5.9 bushels from the May report. The acreage and yield estimates represent "best estimates" rather than survey results. The first official acreage estimate will be released June 30. The first production estimate based on survey results will be released on August 11.

Demand projections are also very tentative at this time. The USDA cut food, industrial and seed use of corn only 25 million bushels, exports 125 million, and feed use 375 million. Ending stocks, at 748 million bushels, are 250 million below the May estimate. The U.S. average price was increased 15 cents per bushel to a range of $2.45-$2.85.

Any further reductions in production is likely to result in additional rationing of feed use. Ending stocks of at least 700 million bushels are believed necessary for pipeline stocks. Industry users can pass along some of their increased costs. With the strong export demand and weak value of the dollar, corn prices could go sharply higher to accomplish the necessary rationing if we have unfavorable summer weather.

Other factors also have a big influence on corn prices in the short run. Commodity funds and other large speculators have a huge long position in the futures market. Much of the current news has already been anticipated and is reflected in the futures prices. If so, the spring weather peak may have occurred, and it will take unfavorable summer weather to drive corn prices higher. As the weather improves and planting is completed, many funds may choose to liquidate at least part of their long positions.

Soybean exports for the current marketing year were increased 10 million bushels (to 810 million) and the crush estimate is a new record of 1.385 billion bushels. The ending stocks estimate for September 1 was reduced to 410 million bushels. An increase of 1.2 million harvested acres for 1995 reflects the shift due to delayed planting. The estimated average soybean yield was reduced .5 bushel from the trend yield, to 36 bushels per acre. The 1995 production estimate is up slightly from May, at 2.21 billion bushels. The demand projection of 2.27 billion bushels is 4 percent less than the 1994-95 use. Ending stocks, at 355 million bushels, represent a stocks/use ratio of 15.6 percent — an ample supply. The U.S. average price is projected in a range of $5.25-$6.25.

Making marketing decisions is very difficult under current conditions. Corn and soybean are likely to decline in the short-run due to both technical conditions of the market and improving weather and crop conditions. The source of largest variability in yields, (July and August weather) still lies ahead.

Producers not willing to use the futures and/or options market will likely receive higher prices by waiting to see the impact of summer weather. Remember the futures markets are anticipatory. Producers making cash sales should purchase out-of-the-money call options; be willing to buy futures if summer weather is unfavorable; or be satisfied with current prices.

Bill Uhrig

Issued by J. William Uhrig
Extension Economist
Purdue University

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS