



# WEEKLY OUTLOOK

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## CROP ESTIMATES GET LARGER

The widespread rainfall since the first of the month has improved corn and soybean crop prospects in most areas. Some areas do remain dry, particularly in the far western corn belt, but much of the area that was stressed from heat and low rainfall in July has received beneficial rainfall. Conversation has now turned from a discussion of how small the crops will be, to how large the crops might be. Private crop estimates released to date suggest a corn crop near 7.94 billion bushels (122 bushels per acre) and a soybean crop near 2.16 billion bushels (34.7 bushels per acre).

Larger numbers, particularly for corn, are beginning to circulate. Many believe the corn crop has potential to exceed 8 billion bushels, perhaps by a significant amount. The September Iowa corn yield contract, which was trading near 126 bushels in mid-July, has steadily advanced to near 131 bushels. There continues to be more uncertainty about the potential size of the soybean crop, due to the extreme lateness of the crop in many areas. There is no doubt that August rainfall has improved production prospects, but it is difficult to assess the yield potential at the current stage of growth. In addition to providing an assessment of yield potential, the USDA's August 11 *Crop Production* report will provide a fresh look at the magnitude of planted and harvested acreage.

In typical fashion, corn and soybean prices have declined sharply as crop prospects have improved. December corn futures were in a steady uptrend from last November through mid-July. During those 8 months, the value of that contract increased by about \$.55 per bushel, to an extreme high of \$3.00 on July 17. By the close on August 4, the price had declined to \$2.75. There is further downside potential in the price of corn if crop prospects remain favorable. Lower prices would be generated by liquidation of speculators currently holding long positions, increased farmer selling, and a willingness of end users to wait for lower prices to price additional needs. Technically, December futures could retreat to the late June low near \$2.67 or the mid-April low just below \$2.60.

Soybean prices began a slow uptrend in mid-May. November futures increased from about \$5.85 to an extreme high of \$6.61 on July 17. At the close on August 4, that contract had declined to \$5.97. The contract low near \$5.73, reached in February, could be tested if crop conditions continue to improve.



While the near term price outlook has turned negative, there is still some optimism about corn and soybean prices. In the very short run, the late crop is still vulnerable to an early killing frost in some areas. The market will have to deal with that possibility, but it is difficult to anticipate such a weather event. For the longer term, prices may well be supported from the demand side. The 1995 crops will likely be small enough that use will have to decline from the record levels of the current marketing year. This is particularly true for corn. At this time, it does not appear that prices have been high enough, long enough to start that rationing process. Hog prices, for example, have increased about \$10 per hundredweight since mid-May, more than offsetting the increase in feed prices. Liquidation probably has not begun. Recent cattle inventory reports show increased numbers of cattle on feed, and more feeders in the pipeline.

On the export side, new crop sales have been relatively large. As of July 27, the USDA reported 350 million bushels of corn had been sold for delivery during the 1995-96 marketing year. An additional 100 million bushels of sales from the current year may also be carried into next year. The 1995-96 marketing year could start with export sales already exceeding 30 percent of the current USDA projection of 1.875 billion bushels. That is in contrast to last year, when corn sales started very slowly, and stood at only about 80 million bushels at the end of July 1994.

Soybean export sales for delivery next year stood at 82.4 million bushels on July 27, down from the extremely large 110 million bushels on the same date last year. It appears, however, that there will be large old crop sales carried into the new marketing year. As of July 27 (5 weeks remaining in the marketing year), about 64 million bushels of sales for the current year were yet to be delivered.

Many analysts have been forecasting a new era of strong world demand for U.S. agricultural products. If the demand is as strong as predicted, corn and soybean prices could make a significant recovery from lows established over the next several weeks. The big question is still "how much rationing needs to be done?" The answer will unfold as harvest approaches.



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