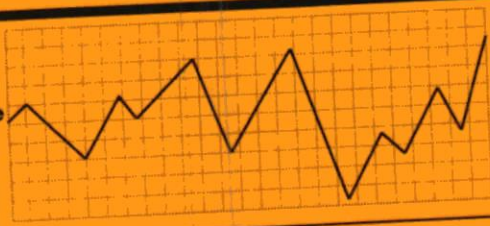




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# WEEKLY OUTLOOK

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**FEBRUARY 12, 1996**

## **GRAIN STOCKS — HOW SMALL IS SMALL?**

The USDA's monthly *Supply and Demand* report released last Friday morning contained larger projections for exports of corn, wheat, and soybeans and smaller ending stocks projections for corn and wheat. The use and carryover projections for corn are still the most intriguing.

Corn exports for the current marketing year are now projected at 2.2 billion bushels, 23 million larger than last year's exports, the largest annual exports in six years, and the fourth largest annual exports ever. As of February 8, USDA inspection figures showed 1.085 billion bushels of corn exported since September 1, 1995. As of February 1, 730 million bushels had been sold, but not yet shipped. The total, 1.815 billion bushels, represents 83 percent of the USDA projection. Only 14 million bushels of new exports are required weekly to reach the USDA projection. Sales the past two reporting weeks averaged 41 million per week. Outstanding sales can be canceled and some cancellations are expected if corn prices move lower. It still seems likely that exports will equal or exceed the USDA projection.

With domestic processing use of corn at 1.685 billion bushels, exports of 2.2 billion bushels would leave only 5.057 billion bushels for feed and residual use and carryover stocks at the end of the year. The USDA projects feed use at 4.6 billion and carryover stocks at 457 million bushels. Stocks at that level represent only a 20-day supply at the reduced rate of consumption required this year. Stocks have not been reduced to such low levels before and it is questionable whether stocks can actually decline that low and still keep the pipeline full. An early harvest may be required in 1996. If exports exceed the current projection and/or ending stocks must be larger than 457 million bushels, feed and residual use may have to be trimmed from 4.6 billion bushels. As little as 4.36 billion bushels may actually be available for feed and residual use.

Some analysts indicate that adequate rationing of domestic feed demand is occurring. With average cattle and hog slaughter weights remaining high, sow slaughter low, and a large increase in the number of feeder cattle, signs of rationing are still not clear. Reports of poor sow conception rates late last summer suggest that the winter pig crop may be smaller than projected. The size of the pig crop will be reported on March 29. On the same day, the March 1 *Grain Stocks* report will be released, allowing the calculation of



winter quarter feed and residual use. If that calculation projects to negative carryover stocks, corn prices will move higher. Confirmation of an adequate slow down in feed use will send prices lower, if spring weather prospects are favorable. In the mean time, futures prices are expected to remain on the defensive, with basis continuing to improve.

For soybeans, the USDA increased the export projection by 10 million bushels, to a total of 810 million, but reduced the crush projection by 10 million, to a total of 1.38 billion bushels. Carryover stocks are still projected at 190 million bushels, a 30-day supply. The continuation of weak export demand for soybean meal and oil and the recent slowdown in the crush rate suggest that the domestic crush may fall short of the projection. The South American crop is in generally good condition and the USDA projects the 1996 harvest there at 1.37 billion bushels, only 114 million less than the record crop of last year. Old crop soybean prices are expected to remain on the defensive until at least late March. New crop prices may be supported by expectations that soybean acreage will be reduced slightly in 1996.

In the case of wheat, the USDA lowered the import projection by 15 million bushels, lowered the feed and residual projection by 25 million, and increased the export projection by 50 million bushels. As a result, stocks at the end of the 1995-96 marketing year are projected at only 346 million bushels, a 52-day supply. As a percentage of use, U.S. wheat stocks have never been smaller than projected for this year. In absolute terms, stocks have been smaller only twice since 1950. The tight stocks situation will likely continue to support wheat prices, as will rumors about Russian wheat purchases and ongoing concerns about the U.S. winter wheat crop.

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