



# WEEKLY OUTLOOK

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## **SMALL GRAIN STOCKS INCREASE THE IMPORTANCE OF 1996 CROPS**

The USDA's monthly supply and demand estimates released last week confirmed prospects for extremely small stocks of grain at the end of the current marketing year. Corn stocks on September 1, 1996 are projected at a meager 367 million bushels, 45 million below last month's projection, and a record low 4.3 percent of projected use. Based on the rate of corn feeding to date and the slowness of livestock producers to reduce demand, the projection of feed and residual corn use was increased by 100 million bushels. The projection of processing use was lowered by 55 million bushels (3 percent) as high corn prices have made the manufacture of some products unprofitable. The projection of exports was unchanged at 2.25 billion bushels. Export sales remain very brisk, however. With 21 weeks left in the marketing year, export commitments already total 2.11 billion bushels, or 94 percent of the USDA projection.

Stocks of wheat on June 1, 1996 are projected at 305 million bushels, 41 million below last month's projection and the lowest level in 48 years. The smaller stock projection reflects a 25 million bushel increase in the export projection, a 10 million bushel increase in expected food use, and a 5 million bushel reduction in the import estimate.

The inventory of soybeans on September 1, 1996 is projected at 190 million bushels, down 10 million from last month's projection. The smaller figure reflects a 15 million bushel increase in the export projection, a 5 million bushel increase in seed and residual use, and a 10 million bushel reduction in the projection of the domestic crush. Carryover stocks of soybeans have been below 200 million bushels only twice in the past 16 years — following the short crops of 1983 and 1988.

The USDA made very few changes in the world supply and demand estimates. The estimate of foreign coarse grain production was increased slightly, including a 5 percent increase in the estimated size of the South African corn crop. The estimated size of the 1996 South American soybean harvest was unchanged at 1.37 billion bushels, 8 percent less than last year's record harvest.

Grain prices will continue to reflect the rate of consumption as reflected in weekly export reports and the weekly soybean crush report. Weekly reports of livestock slaughter will also be monitored closely for signs of liquidation. Increasingly, the market will be driven by prospects for the 1996 harvest. Wheat prices have been driven to new contract highs on the basis of crop concerns. The problems with the hard red winter wheat crop have been well advertised. In the first complete crop condition report of the year released last week, the USDA also confirmed the poor condition of the soft red winter crop. There are thousands of acres in the midwest that are showing only a partial stand of wheat. Over the next few weeks, producers

alternative crops — corn, sorghum, or soybeans.  
The northern Plains has raised concerns about the timeliness of

The combined acreage of corn and soybeans is expected to be larger than the 142.4 million acres revealed in the March *Prospective Plantings* report. Most of the increase is expected in corn acreage and will come from early release of Conservation Reserve acreage, planting of land formerly in the 0/85 program, replanting of failed wheat acreage, and planting of acres formerly devoted to hay or pasture. Corn acreage could approach 81.5 million with soybean acreage maintained at 62.5 million or slightly higher. Failed wheat acres will allow an increase in soybean acreage, but reduce the opportunity for double cropping soybeans following wheat harvest. The USDA will update the planted acreage estimate on June 28.

Growing conditions and average yield of the 1996 corn and soybean crops will be more important than the final acreage figure. The market is somewhat concerned about the on again, off again start to spring weather. Soil temperatures generally remain low. In addition, there is concern about the diverse soil moisture situation going into the spring planting. Adequate moisture is available in the east, but some dryness exists in parts of Illinois and to the west. There is worry that the southern Plains drought will "spread" and some climatologists have forecast a drier than normal season in parts of the midwest. At the same time it is still very early and some rainfall was received in the past 2 days. Corn planting will progress rapidly beginning late this week.

All of this means that crop prices could remain quite high and become very volatile over the next several weeks. Forward pricing opportunities will be good, but difficult to judge. Pricing strategies should probably be centered around making frequent sales in relatively small increments. Options will become more expensive as price volatility increases, but should be considered for sales in excess of 50 percent of expected production.

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