



# WEEKLY OUTLOOK

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## **CROP MARKETS BECOME MORE TWO-SIDED**

From the last week of March through the fourth week of April, corn soybean, and wheat prices were in a very steep up trend. Old crop corn futures moved about \$1.00 higher, while December futures gained about \$.20. For soybeans, old crop prices rallied \$.80 to \$.85, while new crop advanced about \$.60. The largest gains were in new crop wheat, up about \$1.50 at Chicago during that period. The sharp increases were in response to USDA's March *Grain Stocks* and *Prospective Plantings* report and deteriorating winter wheat crop conditions.

Last week, prices became much more volatile, with limit increases and limit declines. The expiring May contracts for corn and wheat were especially volatile, as daily limits on price change were removed. Extremely tight stocks amid delivery rumors fueled the wide price swings. New crop prices generally showed less volatility.

As the market begins the transition from old crop dominance to new crop dominance, it is useful to update the evolving supply and demand fundamentals. The USDA will release its monthly *Crop Production and Supply and Demand* reports on May 10. These reports will contain the first estimate of the 1996 winter wheat crop and the first projections of the supply and demand balance for the 1996-97 marketing year for all major crops. Except for winter wheat, production projections in that report will reflect planting intentions and trend yields.

Over the past month, some signs of a slow down in domestic corn consumption have emerged. Weekly reports show an increase in cow slaughter and sow slaughter and a slow down in broiler egg sets. At least one major processor has announced additional reductions in ethanol production. Rising hog prices and some recovery in cattle prices are expected to moderate the rate of livestock liquidation. The loss of a substantial portion of the winter wheat crop and delays in eastern corn belt planting means that substantial rationing of old crop supplies are still required.

The pace of corn exports and new export sales are still quite high. As of May 2, exports totaled nearly 1.65 billion bushels, 15 percent above the shipments of a year earlier. Outstanding sales stood at 601 million. Export commitments totaled almost 2.25 billion bushels, equalling the USDA's projection of exports for the year. There are still 178 weeks remaining in the marketing year. Exports need to average 34.8 million bushels per week to reach the USDA projection. The average to date has been 47 million per week.

The market generally expects corn acreage to exceed the March intentions of 79.92 million acres. Some estimates have reached the 84 to 85 million acre level. Planting delays in the eastern corn belt will likely temper those estimates as the planting date will increasingly favor soybeans.

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The unfolding fundamentals for soybeans have been a mixed bag. The domestic crush during the five weeks ended May 1 was about 6 percent less than during the same five weeks last year. The Census Bureau figures indicated that the March crush was nearly 10 percent below the record crush of a year ago. Even though the crush declined by 12.5 million bushels in March, stocks of meal and oil at the end of March were larger than stocks of a year ago. The build-up reflected very weak export demand for meal and oil. Domestic meal demand remains strong and the crush rate over the next several weeks is expected to be stronger in relation to the pace of last year.

Soybean export activity has remained very brisk. The pace of shipments has slowed, averaging only 12 million bushels per week for the five weeks ended May 2. The average was 19.5 million during the same period last year. New export sales remain large, however, with outstanding sales on April 25 exceeding last years sales by 26 million bushels. It is probably more useful to monitor shipments than sales. Sales have a history of remaining large late in the marketing year and then being rolled into the next marketing year.

The USDA will release an updated estimate of the South American soybean crop on May 10. Some private sources expect a reduction in that estimate. At the same time, failed wheat in the midwest and delays in corn planting in the east will likely result in soybean acreage in the U.S. exceeding March intentions of 62.5 million acres.

For wheat, the focus is almost entirely on the condition of the winter wheat crop, although delays in seeding the spring crop is of concern. The 1996 crop could drop below 2 billion bushels for the first time in five years, requiring additional reductions in use during the 1996-97 marketing year.

It appears as though crop prices will continue to be relatively volatile over the next several weeks in response to weather conditions. A continuation of wet weather in the east would suggest some further strength in new crop corn prices.

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