



WEEKLY OUTLOOK

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CHANGE IN WEATHER DRIVES CORN AND SOYBEAN PRICES TO NEW HIGHS

The prospect of bumper corn and soybean crops in 1996 has gradually given way to expectations of another year of disappointing production. Those expectations accelerated last week as corn belt precipitation fell well short of early forecasts, particularly in the eastern corn belt. In addition, forecasts for the last half of July became drier and warmer, although weekend rainfall was a pleasant surprise. Much of the corn crop is approaching the reproductive phase, when weather conditions become most critical. The late planted soybean crop is in a race with the calendar and needs favorable weather to maintain prospects of a reasonable yield. The area of greatest concern has been the eastern corn belt, as parts of the upper midwest and western corn belt have received beneficial rainfall. However, the highest temperatures are now being forecast for the western corn belt. The southeast also received some moisture, after two weeks of significant declines in crop conditions.

The revised weather forecasts last week attracted a lot of new buying to the corn and soybean markets. Traders want to get on board for the summer weather markets. As a result, corn and soybean futures traded to new highs. July and December corn futures traded to \$5.545 and \$3.89, respectively. July and November soybean futures traded to \$8.56 and \$8.25, respectively. Wheat futures tried to ride the coattails of corn and soybean prices, but failed on Friday. The USDA's new forecasts released on July 12 show some rebuilding of wheat inventories. The USDA now sees prospects for a 1996 wheat crop of 2.263 billion bushels, 77 million larger than the 1995 harvest. The winter wheat harvest is thought to be 63 million bushels smaller than the 1995 crop, but larger spring wheat acreage is expected to result in a 140 million bushel increase in that crop. The size of that crop, however, is still dependent on summer weather conditions.

The USDA also released revised supply and demand projections for corn and soybeans. September 1, 1996 stocks of corn are now projected at 322 million bushels, 25 million less than projected last month. The smaller than expected June inventory of corn forced a 50 million bushel upward revision in the projection of feed use. That increase was accommodated by an additional 25 million bushel reduction in the projection of processing use. Use in that category is now expected to be down 118 million bushels (7 percent) for the year.

September 1 stocks of soybeans are now projected at 180 million bushels, following a 5 million bushel increase in the projection of domestic crush and a 10 million bushel increase in the projection of exports. Unless the current pace of use drops rapidly over the next 7 weeks, September 1 stocks may be at 170 million bushels, or less.

For the upcoming crop year, the USDA's World Agricultural Outlook Board (WAOB) lowered its corn yield projection by 3 bushels, to 123 bushels per acre. Based on planted acreage of 80.4 million, acreage

harvested for grain is projected at 74.1 million acres, yielding an estimated crop of 9.115 billion bushel. Revised acreage figures and the first official yield and production estimates will be released on August 12. With a crop of 9.115 billion bushels, the WAOB sees September 1, 1997 corn inventories at 667 million bushels. That projection is based on a 155 million bushel increase in corn use during the 1996-97 marketing year — domestic use up 355 million and exports down 200 million.

Based on current crop conditions, and expectations that planted acreage fell short of the intentions of 80.4 million, the WAOB projection of the corn crop may be 400 million bushels too high. If so, corn use could only increase by 100 million bushels next year, even if year ending stocks remained at the extremely low level expected this year.

For soybeans, the WAOB left the 1996 yield projection unchanged at 36.7 bushels per acre. Based on planted acreage of 63.9 million, harvested acreage is projected at 63.1 million, and the 1996 crop is projected at 2.315 billion. A crop of that size would allow soybean consumption to continue at the same level as during the current year. That is, little if any rationing would be required. However, it now appears unlikely that the U.S. average yield can reach the projected level. Even if acreage exceeds the June intentions by .5 million, production potential may be near 2.2 billion bushels. If consumption continued at the same level as this year, September 1, 1997 stocks would be reduced to 60 million bushels. Conversely, if ending stocks were maintained at 170 million, use would have to be reduced by 110 million bushels. A large South American harvest would be required to accommodate such a decline without higher prices. The USDA does see the potential for a 140 million bushel increase in South American production, but the crop will not be planted for several months.

We continue to believe that corn and soybean prices will behave in a more typical short crop fashion this year. That is, end users are expected to respond much more quickly to reduced supplies and high prices. If so, prices will peak early — probably before harvest.



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