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WEEKLY OUTLOOK

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CORN AND SOYBEAN DEMAND PROSPECTS

This is the time of year when prospective crop size dominates trading in the corn and soybean markets. Weather and weather forecasts along with production estimates, from the private sector and the USDA, will be the focus of the markets for the next several weeks. Along those lines, recent weather patterns have generally increased expectations for corn yields, and to some extent, soybean yields. After trading under 120 bushels, the U.S. corn yield futures contract is currently trading at 124 bushels. The very early private production estimates reflect yield potential at that same level. The lateness of the soybean crop is resulting in more caution in the yield estimates. One early private forecast showed a yield estimate of 35.5 bushels, but most conversation seems to be in the 34 to 35 bushel range.

Beginning in October, the markets will begin to shift its focus to the demand side of the equation. For corn, demand is thought to be somewhat weaker than was the case last year. The events of the past few months have probably shifted the demand curve. Domestically, the five percent reduction in the hog breeding herd is one of the factors that has probably shifted the demand for corn. Some liquidation of the cow herd has occurred, but the number of feeder cattle is about the same as a year ago so that feedlot placements will likely recover this fall. The 300 million bushel expected increase in sorghum production will also provide competition for corn in livestock rations. Feed consumption of corn can expand or contract fairly rapidly in response to crop size, but the marketing year will begin with weaker demand.

On the export side, a modest reduction in demand for U.S. corn is expected from a continued recovery in grain production outside of the United States. However, world grain demand is still on the increase so that any shortfall in world production could give a boost to U.S. exports. Through July 25, new crop corn sales for export were large, at 413 million bushels. Two countries (Japan and South Korea) accounted for 65 percent of these sales.

If the 1996 corn crop does reach 9 billion bushels, corn consumption during the 1996-97 marketing year can increase about 375 million bushels. If exports decline by 150 million bushels, supplies will allow a 525 million bushel (8 percent) increase in domestic consumption. Increased livestock numbers and a recovery in ethanol production could consume those increased supplies, but not at high corn prices.

The soybean demand picture is generally thought to be more constructive than that for corn. The smaller 1995 South American harvest has reportedly been moved to market at a very rapid pace. World production of other oilseeds is expected to be down as acreage has been shifted to grain crops. In addition, it is believed that China will be an aggressive buyer of soybeans in the year ahead. Processing capacity has been expanded there. Larger grain crops may also reduce the level of grain imports, allowing for an increase in soybean and product imports. No sales of new crop soybeans have yet been made to China. The one area of weaker demand during the year ahead may be in the domestic meal market, as more grain flows back into livestock rations.

If the 1996 soybean crop is less than 2.3 billion bushels, which seems very likely at this time, consumption of U.S. soybeans will have to be reduced from the level of the current marketing year. The situation appears to be the opposite of this past year, when corn consumption had to be reduced because of small supplies and soybean supplies were adequate to allow a continuation of consumption at a high level. In addition, the demand for U.S. soybeans may be strengthening, while corn demand has weakened.

As a result of the tight supply and demand prospects for soybeans, many analysts have become quite optimistic about soybean prices. Talk of $9.00 soybeans later in the marketing year has already surfaced. A review of the monthly soybean chart reveals that soybeans have traded to or above $9.00 in 7 years (1973, 1974, 1977, 1980, 1983, 1984, and 1988).

The supply-demand prospects for the upcoming marketing year do not closely resemble those for any of the 7 years identified. The extreme prices were mostly associated with crop problems or threats of crop problems. The two exceptions were in 1973 and 1977, when strong world demand was also a major factor in the price run-up. The major difference between 1996-97 and 1972-73 and 1976-77 is the influence of South American production. The expansion in production over the past 20 years had tended to soften the impact of corp problems in the U.S. The development of that crop in the year ahead will be extremely important.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

ACES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

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