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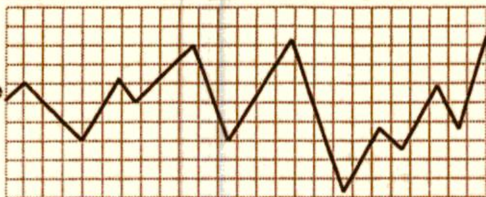

WEEKLY OUTLOOK

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AUGUST 19, 1996

CROP SIZE AND DEMAND STILL UNCERTAIN

The corn and soybean markets had a very bullish initial reaction to the USDA's August *Crop Production* report. The corn estimate, at 8.7 billion bushels, was well below the market's expectation and resulted in a $.20 increase in December futures. The soybean estimate, at 2.3 billion bushels, was larger than expected, but was discounted because of the lateness of the crop. November futures gained $.22 on the day of the report. A week after the report was released (at the close of the night session on August 19), December corn futures were only $.045 higher than the pre-report level. November soybean futures were $.03 lower. Weekend rainfall in parts of the corn belt and forecasts of a week of warm temperatures were expected to speed crop development, resulting in late week price declines.

A favorable end to the growing season would likely result in a larger corn crop estimate than was released last week. That crop could exceed 9 billion bushels, under the right conditions. A crop of 9 billion bushels would allow both consumption and ending stocks to increase during the year ahead. More ample supplies of corn, larger crops of sorghum and barley, and a larger coarse grain crop in the rest of the world are not the ingredients for an extended price increase for corn. Prices could decline rather significantly from current levels. The biggest threat to this scenario would be an early, wide-spread killing frost.

With the real risk of lower prices into harvest and beyond, some additional pricing of the 1996 crop seems prudent. With both production and price risk remaining, consideration might be given to the use of options. At-the-money, December put options were trading at $.16 on August 19. At-the-money call options were at $.20.

It is generally believed that the soybean production estimate will decline, regardless of the weather pattern into harvest. Favorable weather-plenty of moisture, warm temperatures, and a late killing frost — would result in only a modest decline in the estimate. Unfavorable weather could probably reduce the estimate by 100 million bushels or more. Some reduction in the level of soybean consumption will likely be required during the year ahead. That likelihood suggests that soybean prices will be better supported than corn prices. Two questions remain: How much reduction in consumption will be required? and How strong is domestic and foreign demand? Assuming that year-ending stocks of

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soybeans will not be reduced below 100 million bushels, a crop of less than 2.245 billion bushels would require a reduction in use from the level of the current marketing year — projected at 2.315 billion bushels.

The strong export demand scenario for soybeans was outlined two weeks ago. That scenario centers around reduced production of other oilseeds — rapeseed, sunseed, and cottonseed — and prospects for China to re-enter the world soybean product market. At this time, no sales of 1996 crop soybeans or soybean products have been registered for China. Some areas of caution about soybean demand include increased palm oil production and weaker domestic meal demand. The size of the 1997 South American crop will obviously be very important as well. An increase in plantings is projected for Brazil.

Over the past year, soybean consumption appeared to be very robust at prices near $7.00 and continued strong as prices moved higher. At the $8.00 level, however, consumption began to decline. This pattern was observed in April/May and again in August. For the year ahead, it might be argued that higher prices will be required to reduce consumption in the face of strong demand.

With the extreme lateness of the soybean crop and favorable demand prospects for the next several months, there appears to be less urgency to price additional quantities of the 1996 crop. For those inclined to price more of the crop, some consideration should be given to the use of options. During trade on August 19, the premium for November put options one strike price out-of-the money ($7.25) was $.13. The premium for call options one strike price out-of-the money ($7.75) was $.24. The use of options will allow producers to participate in future price increases while establishing a reasonable price floor.

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