



WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

DECEMBER 16, 1996

SUPPORT FOR CORN PRICES FADES, BUT INCREASING FOR SOYBEANS

The slow pace of corn exports chronicled in last week's letter was reflected in USDA's revised projections of use released on December 12. The projection of corn exports for the current year was reduced by 50 million bushels, to a total of 1.9 billion bushels, and the projection of year-ending stocks was increased by a similar amount. Many had anticipated a lowering of the export projection, but thought it would be delayed until the January report. Last week's report also confirmed prospects for a record large 1996-97 world coarse grain crop of 885.4 million tons, 11 percent larger than the 1995-96 harvest.

With prospects of adequate carryover stocks and expectations of increased corn acreage in 1997, the corn market is rapidly running out of potential for recovery, at least prior to spring weather. Another opportunity for some supporting news is with the final 1996 production estimate and December 1 stocks estimate to be released on January 10. Most observers expect the final production estimate to exceed the November estimate of 9.265 billion bushels. The expectation is at least partially based on the history of "large crops getting larger." On the positive side, the stocks figure is expected to confirm a significant recovery in domestic consumption of corn during the first quarter of the 1996-97 marketing year. The impact of large first quarter use would be increased if the December 27 *Hogs and Pigs* report also shows an expansion of the breeding herd.

There is always a chance that USDA reports will differ enough from expectations to result in a price correction. Reports of low test weight corn, particularly in the eastern corn belt states, does open the door for a final production estimate below market expectations. In addition, feed and residual use could exceed expectations based on August consumption of new crop corn, excessive shrinkage of high moisture corn, and a quick rebound in feeding rates. Price recovery from the surprises would likely be relatively small if export sales continue to lag. Barring bullish surprises in the USDA reports, corn prices would be supported mostly by tight farmer holding and any further rally in soybean prices.

The rapid pace of soybean exports and export sales prompted the USDA to increase its export projection for the current marketing year by 30 million bushels. At 900 million bushels, the projection represents the third largest annual export figure. Exports totaled 929 million and 905 million bushels in 1981-82 and 1982-83, respectively. The larger export projection results in a projection of year ending stocks of only 180 million bushels, or about four weeks supply at the projected rate of use. It is generally believed that China will soon retreat from the U.S. soybean and soybean meal markets, with most of their needs prior to the harvest of the South American

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crop already covered. However, China did purchase a surprisingly large 5.8 million bushels of U.S. soybeans in the latest reporting week ended December 5. If Chinese purchases remain large, or the South American crop encounters a problem, exports could remain quite strong.

The USDA did not change its projection of the domestic crush of soybeans. At 1.39 billion bushels, the projection is 15 million below the record crush of 1994-95. Based on the current record crush pace, there is some possibility that crush can exceed the current projection. If the crush pace continues large after the first of the year, the supply-demand balance will look increasingly tight. The final soybean production estimate to be released on January 10 could alter the supply picture slightly and either aggravate or partially alleviate the tight supply-demand balance.

If soybean consumption remains large over the next few weeks, January futures may test the Thanksgiving high just under \$7.20. A continuation of a high rate of use without an increase in the crop estimate might be enough to push that contract back to the early October level in the \$7.40 to \$7.45 range.

As always, South American crop progress will become increasingly important after the first of the year. Last week, the USDA confirmed prospects for a record 1.525 billion bushel harvest in 1997.

THIS IS THE LAST ISSUE OF WEEKLY OUTLOOK FOR 1996. THE NEXT ISSUE WILL BE RELEASED ON JANUARY 6, 1997.

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