



WEEKLY OUTLOOK

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CROP MARKETS: A LOT TO CONSIDER

Typically, the grain and oilseed markets at this time of year focus mainly on spring weather conditions in the northern hemisphere and the implications for prospective crop size. This year, markets are being influenced by a broad range of factors. As a result, prices are quite volatile and projections are more difficult than usual. Following is a run down of some of the current considerations for the major crops.

WHEAT. On April 11, the USDA revised the U.S. and world supply and demand estimates for the current marketing year. The projection of U.S. wheat exports was increased by 35 million bushels, more than offsetting a larger projection for imports and a smaller projection for processing use. As a result, year ending stocks are now projected at 460 million bushels, 14 million less than last month's projection. The projection of world wheat consumption was increased by 5.7 million tons (1 percent) and the projection of year ending stocks was reduced by 4 million tons to a total of only 108 million. Ending stocks will only be marginally larger than stocks at the beginning of the year.

Extremely low temperatures over the weekend damaged winter wheat crops in Kansas, Oklahoma, Texas, and Colorado. The extent of the damage will not be known for some time, but production potential has been reduced significantly. Planned acreage reductions in spring wheat areas and prospects of delayed planting suggest a sharp decline in spring wheat production. In addition, wheat acreage and production will be down in Canada and perhaps in Europe. Early indications were for reduced acreage in the southern hemisphere in 1997-98. Sustained price increases may reverse those early decisions.

CORN. As expected, the USDA's April supply and demand estimates contained a large increase (125 million bushels) in the protection of feed and residual use and a large decrease (75 million bushels) in the projection of exports for the current marketing year. Year ending stocks are now projected at 909 million bushels, or 10 percent of projected use. On the world scene, the USDA increased the estimated size of the 1996 Chinese coarse grain crop (mostly corn) by 5 million tons (4 percent) and increased the projection of year ending stocks in the rest of the world.

Prospects for planted acreage of corn and other feed grains this spring have been scrambled. Some have suggested that wet conditions in the southeast and in the northern plains would slow planting and reduce acreage of corn. On the other hand, there is the possibility that damaged winter wheat will be replanted to other crops, including sorghum.

SOYBEANS. The USDA's April supply and demand estimates contained a 5 million bushel reduction in the projection of exports for the current year, but a 15 million bushel reduction in the projection of year ending stocks. The projection of seed use was increased by 4 million bushels, and the projection of residual use was increased by 16 million. The increase in residual use suggests the 1996 crop was overestimated.

The estimate of the 1997 Argentine harvest was reduced by 9 million bushels. Late season dryness in Argentina and parts of Brazil have added uncertainty to the crop estimate. Some private estimates are well below the revised USDA estimates. Even so, the availability of the South American crop has reduced the rate of consumption of U.S. soybeans. Last week, the domestic crush dropped below the level of a year ago and weekly exports have slowed dramatically.

Soybean plantings in the U.S. will be up sharply this year and expectations are increasing that acreage will exceed the March intentions of 68.8 million acres. The increase might result from wet conditions in the southeast and northern plains.

Adding to the confusion in the corn and soybean markets is the structure of prices. In an environment of tight supplies and the need to ration use (soybeans) one would expect an extremely strong basis and an inverted futures market. The corn and soybean basis are both relatively weak and there is a slight carry in the futures market from May to July. These factors suggest that futures prices have exceeded value for both crops.

It now appears that old crop corn, wheat, and soybean prices have accomplished the job of equating supply and demand. The considerable uncertainty in U.S. and world production in 1997-98, however, is sure to keep prices volatile. Opportunities to price 1997 crops at attractive levels will likely be presented on a number of occasions.

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