



WEEKLY OUTLOOK

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USDA REPORTS AND WEATHER

The USDA's July *Supply and Demand* report contained few surprises for corn and soybeans. Production estimates were adjusted for the June *Acreage* report, but yield prospects are still based on trend analysis. The first objective yield estimate will be made on August 12.

Based on trend yield analysis, the USDA sees the potential for a 9.7 billion bushel corn crop in 1997. Exports are expected to increase by 225 million bushels, to a total of 2.05 billion, as foreign coarse grain production is forecast to drop by 10 million tons (1.6 percent). Much of that reduction is expected in China. Feed and residual use of corn is projected at a record 5.6 billion bushels, nearly 6 percent above the projection for the current year. That increase will presumably come from increased broiler and pork production, lower feed prices, and a sizeable decline in sorghum feeding.

Processing use is expected to increase by 5 percent to a total of 1.78 billion bushels. That projection, along with the increased projection for the current marketing year, was the biggest surprise in the report. Previous estimates of processing use during the first half of the current marketing year showed use running below that of last year. Those estimates will apparently be revised upward. Stocks of corn at the end of the 1997-98 marketing year are projected at 1.196 billion bushels, or 12.7 percent of projected use. That relatively low inventory of corn served as a gentle wake-up call for the corn market.

The report suggests that a large corn crop in 1997 can be mostly consumed and that U.S. and world stocks will likely remain at relatively low levels. Recent hot, dry weather in parts of the eastern corn belt as the crop approaches pollination also raised concerns about yield prospects in those areas. December corn futures had declined under \$2.30 on the basis of good crop ratings and talk of a 10 billion bushel corn crop. With 75 percent of the crop already rated in good or excellent condition, improvements are hard to come by. Declines in the ratings would likely lead to additional recovery in prices. In addition, end users, particularly importers, would probably become more aggressive buyers of new crop corn. Export sales have been very sluggish so far.

It will be mostly a weather market for the next two months. Rallies will offer opportunity for catch-up sales as producers have reportedly sold only small amounts of new crop corn. Initial resistance may be near \$2.50 in the December contract, but higher prices are possible and volatility could increase dramatically.

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Trend yield analysis projects to a 1997 soybean crop of 2.69 billion bushels, 308 million above last year's crop and 173 million larger than the record crop of 1994. However, soybean consumption is projected at a record 2.535 billion bushels. Increases are projected in every category of use-domestic and exports-for soybeans, oil, and meal. The expected increases are impressive, especially in the face of expected increases in foreign production of oilseeds and products. Oilseed production outside of the U.S. is projected at a record 192.1 million tons, 5.3 percent larger than last year's reduced crop. Foreign oilmeal production is expected to be up 3.2 percent, while vegetable oil production is projected to increase by 2.3 percent. Those projections are very tentative, however, since the southern hemisphere crops have not yet been planted. The 1998 South American soybean crop represents 23 percent of the projected foreign oilseed crop. The soybean crop there is projected at a record 1.64 billion bushels, nearly 10 percent larger than the recently harvested crop.

Based on these early projections, the current tight supply situation would give way to more abundant stocks. Stocks at the end of the 1997-98 U.S. marketing year are projected at 285 million bushels, or about 11 percent of projected use. World stocks are projected at 700 million bushels, 46 percent above the projection for the current year, representing 13.5 percent of projected use.

November soybean futures dropped under \$5.80 on the basis of good crop ratings and trade talk of near record yields and a 2.8 to 2.9 billion bushel crop. As of July 7, 68 percent of the crop was rated in good or excellent condition. Recent dryness in some eastern corn belt areas has tempered the thoughts of record yields and has generated some recovery in new crop prices. Further recovery will offer an opportunity for some catch up sales. Based on the early supply and demand projection, the USDA sees an average price in 1997-98 between \$5.40 and \$6.60 per bushel.



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