



WEEKLY OUTLOOK

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AUGUST 12, 1997

USDA REPORTS APPEAR BULLISH FOR CORN BEARISH FOR WHEAT AND SOYBEANS

On August 12, the USDA released its *Crop Production and Supply and Demand* reports. The production report contained the first objective yield estimates for corn and soybeans. Following is a summary of the reports and the implications for prices.

Corn. Based on conditions around the first of the month, the USDA estimated the potential size of the 1997 crop at 9.276 billion bushels. That estimate is 17 million bushels smaller than the 1996 harvest, reflecting a national average yield of 125.3 bushels per acre compared to last year's average of 127.1 bushels. The average pre-report trade estimate was at 9.55 billion bushels.

For the current marketing year, the projection of exports was reduced by 25 million bushels and the projection of year ending stocks was increased by a similar amount, to 941 million bushels. For the 1997-98 marketing year, the smaller than expected production estimate suggests that stocks will remain very tight. The USDA sees an increase in exports and domestic use totaling 590 million bushels and stocks by September 1, 1998 declining to 847 million bushels. The average price for the 1997-98 marketing year is projected in a range of \$2.50 to \$2.90, compared to the average of \$2.70 for the current year.

Since the first of August, the condition of the corn crop has deteriorated. As of August 10, only 58 percent of the crop was rated in good to excellent condition, compared to 65 percent the previous week and 64 percent last year. Recent precipitation may be "too little too late" for the crop to improve yield potential significantly. Production estimates may decline in subsequent reports. Prices are expected to move sharply higher following the August 12 reports, with December futures likely to exceed the recent high of \$2.76 and \$3.00 is within range.

Soybeans. The 1997 soybean crop is estimated at a record 2.744 billion bushels, reflecting a national average yield of 39.3 bushels per acre. The estimate is 362 million larger than last year's crop, 227 million larger than the previous record crop of 1994, and about 60 million above the average trade guess.

For the current marketing year, the USDA lowered the projection of both imports and exports by 10 million bushels, leaving the year ending stocks projection unchanged at 125 million bushels. For the 1997-98 marketing year, the USDA projects exports and domestic use to increase by

a total of 118 million bushels. Even so, year ending stocks are projected to increase to 305 million bushels. The average price during the 1997-98 marketing year is projected in a range of \$5.40 to \$6.60, compared to \$7.38 for the current marketing year.

Soybean crop conditions have also deteriorated since the crop production survey was conducted. As of August 10, only 55 percent of the crop was rated in good or excellent condition, compared to 60 percent the previous week and 58 percent last year. Recent precipitation has probably been sufficient to improve crop conditions. Prospects for a crop in excess of 2.7 billion bushels are good. Soybean prices may find some support from higher corn prices, but November futures are not expected to exceed the recent high of \$6.75 and may be restrained wellk below that level.

Wheat. The 1997 wheat crop is now estimated at 2.531 billion bushels, 100 million larger than the July estimate, 249 million larger than the 1996 crop, and the largest crop in 3 years. The projection of exports for the current marketing year was increased by 50 million bushels, to a total of 1.1 billion bushels, even though foreign production is expected to increase by 7 million tons. Year ending stocks are projected at 695 million bushels, 251 million larger than stocks at the beginning of the year.

The average price for the marketing year is projected in a range of \$3.05 to \$3.65, compared to the \$4.35 average of the past year. The recent rebound in wheat prices will likely give way to stable to slightly lower prices as a result of the larger U.S. and world production estimates. September futures at Chicago may retreat back towards \$3.50 in the near term.



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