



WEEKLY OUTLOOK

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WORLD COARSE GRAIN STOCKS TO BE REDUCED

The primary news in the crop markets last week was the USDA's August *Crop Production* report showing a smaller than expected U.S. corn crop and larger than expected soybean crop. The price action in the corn market was not as robust as expected as some traders expect the crop estimate to increase. We doubt that any significant increase will result from the mid-to-late August rainfall, but will have to wait on the September report.

The U.S. coarse grain crop is expected to be 4.7 million tons, or 1.8 percent, smaller than the 1996 crop. The drop is due primarily to a 28 percent smaller sorghum crop. In the rest of the world, coarse grain production is projected to be 22.7 million tons, or 3.6 percent, smaller than last year's record crop. Smaller crops are expected in Argentina (12 percent), Canada (10 percent), and China (13 percent). Slight increases are expected in Europe and a 15 percent increase is projected for the former Soviet Union.

While world production is currently expected to be 27.5 million tons smaller than last year's crop, consumption is projected to increase by 16 million tons. As a result, stocks at the end of the 1997-98 marketing year are projected at only 105 million tons, or 12 percent of projected consumption. Stocks are projected to be nearly as tight as two years ago, when corn prices went over \$5.00 per bushel. The primary difference, however, is that supplies were so small two years ago that prices had to rise high enough to reduce consumption significantly. This year, supplies are ample enough to allow a significant increase in consumption. That is, it currently appears that little price rationing will be required during the year ahead. Instead, the low level of year ending stocks poses a problem if production levels are reduced in 1998. Even the current projection of the size of the Chinese crop and the southern hemisphere crops are vulnerable.

The implication is that corn prices could remain quite volatile in the year ahead. In addition to final U.S. crop size, export demand by China will be extremely important. Export sales of new crop corn have started slowly. China has not yet purchased any 1997 U.S. crop corn and may not for a few months due to the recently harvested large wheat crop. Sales during the last half of the 1997-98 marketing year could be quite large. If so, the low level of projected stocks in conjunction with any 1998 crop concerns would likely propel corn prices over \$3.00 per bushel.

In contrast to the coarse grain situation, U.S. and world wheat and oilseed stocks are projected to increase by the end of the 1997-98 marketing year. World wheat production in 1997-98 is now projected at 596.4 million tons. That is 10.4 million larger than the July estimate, 13.4 million larger than last year's crop, and 8.3 million larger than the record crop of 7 years ago. In addition to a larger U.S. crop, production is expected to increase in China (10 percent), the former Soviet Union (19 percent), and Eastern Europe (28 percent). Production in other exporting countries (Argentina, Australia, and Canada) is projected to decline by 26 percent.

The level and distribution of wheat production is such that world consumption is expected to increase, U.S. exports are projected to increase, and world ending stocks are projected to increase. Those stocks are projected at 124.5 million tons, up from 109.1 million tons at the beginning of the 1997-98 marketing year. Unless U.S. exports, which have started slowly, exceed the current projection, price increases will be difficult to generate.

World oilseed production in 1997-98 is projected at a record 225 million tons, nearly 7 percent larger than last year's output. The increase is dominated by soybeans (14.4 percent) due to the large U.S. crop about to be harvested and expectations for increased plantings in South America. If these projections materialize, world year ending stocks of oilseeds are projected to grow from 16.5 million tons this year to 22.7 million tons next year, even with a 5.5 million ton (2.5 percent) increase in consumption.

The scenario of large crops, increasing consumption, and increasing inventories is likely to keep some pressure on soybean prices, at least through harvest. With the South American crop not yet planted and uncertainty about the 1998 U.S. crop, there is plenty of room for price volatility during the year ahead.



Issued by Darrel Good
Extension Economist
University of Illinois

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University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801