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WEEKLY OUTLOOK

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SUPPLY AND DEMAND PROSPECTS FOR CORN AND SOYBEANS

On October 10, the USDA will release updated estimates of the size of the 1997 U.S. corn and soybean crops. In addition, world production estimates and consumption forecasts will be updated. Opinions about the direction and magnitude of changes in the estimated size of the U.S. crops vary considerably. Historically, there has been some tendency for the October estimates to exceed the September estimates. Over the past 25 years, the corn estimate has been larger in October 12 times, smaller 9 times, and unchanged 4 times. For soybeans, the estimate has been larger 14 times, smaller 10 times, and unchanged once. For this year, there is no compelling evidence to expect a significant change in the estimates.

In general, the market anticipates some increase in the projected level of consumption of both corn and soybeans. For corn, the projection of feed and residual use during the 1997-98 marketing year is expected to be larger than last month's figure of 5.55 billion bushels for at least two reasons. First, the September 1, 1997 inventory of old crop corn was smaller than expected, suggesting that feed and residual use during the 1996-97 marketing year exceeded the USDA projection of 5.3 billion bushels. Our tentative calculations show use near 5.37 billion bushels . Second, the September *Hogs and Pigs* report confirmed expansion in hog production. Pork production in 1998 could be 9 percent larger than in 1997. Corn consumption will also be supported by increasing poultry production and at least temporarily by the large number of cattle in feedlots.

The USDA has projected a 225 million bushel increase in corn exports during the current marketing year. As of September 25, export sales of corn were lagging last year's pace by 235 million bushels, or about 36 percent. Sales have been slow to Mexico and most Asian destinations. Whether or not exports reach the projected level will depend heavily on Chinese export/import decisions.

Without a change in the production estimate, the revised supply and demand projections for corn may show a further reduction in expected carryover stocks at the end of the 1997-98 marketing year. Smaller beginning stocks and a larger feed and residual projection may be partially offset with a lower export projection.

For soybeans, export sales have started very fast this year. As of September 25, 385 million bushels had been sold for export during the current marketing year. That exceeds last year's sales by nearly 151 million bushels, or about 64 percent. Sales have been larger to the

European Union, most of Asia (except Japan), and to Brazil. The USDA has projected a 70 million bushel, or 8 percent, increase in exports for the year. It appears that U.S. exports will remain large at least until the 1998 South American crop becomes available. Whether or not exports exceed the projection will depend heavily on the size of that crop.

The domestic soybean crush has also been very brisk early in the 1997-98 marketing year. Based on figures from the National Oilseed Processors Association, the weekly crush exceeded 27 million bushels in each of the last two weeks of September and the cumulative crush in September was 3 percent larger than during the same month last year. A slight upward revision in projected consumption is expected in the October 10 report. Unless the estimate of the crop size is reduced, projected carryover stocks will still reflect an ample supply.

While the pace of corn and soybean consumption exceeds that of last year, the pace of farmer selling is probably much slower than that of last year. The cash price of corn in central Illinois is about \$.40 per bushel below the price at the same time last year. The soybean price is nearly \$1.00 lower. Anticipation of higher prices is encouraging farmer ownership of both corn and soybeans. With ample storage space and good demand, basis levels are expected to remain generally strong through the harvest period.

Producers may want to sell some of the newly harvested crops to take advantage of the strong basis. Ownership could be retained with the use of futures, basis contracts, or call options. Options have the advantage of limiting downside price risk. At the money March corn call options are priced at about \$.14 per bushel. The \$.09 premium of March over December futures makes the total cost about \$.23. That is less than the typical cost of commercial storage and interest to February 1998. At the money March soybean call options are priced at about \$.28. Adding the \$.09 carry from November to March makes the total cost of ownership about \$.37. That is about equal to the typical commercial storage cost plus interest.

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