



WEEKLY OUTLOOK

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GRAIN MARKETS SURVIVE A DEMAND SCARE

The case for continued strength in the price of corn, wheat, and soybeans is built on the cornerstone of growing world demand. The current strong El Nino weather pattern, which is blamed for some current world crop problems and is expected to cause more disruption in the months ahead, plays an important supporting role in the case for higher prices. The recent problems in some Asian currency and financial markets raised concerns about the rate of demand growth in southeast Asia. Signs of stability in those markets as central banks intervened to support currency values brings a sigh of relief to U.S. commodity markets. Whether recent problems represent an economic hiccup or are the beginning of more serious problems is yet to be determined. However, recent events underscore the importance of Asian markets for U.S. crops.

In the case of corn, Asian customers accounted for 57 percent of the U.S. export market in 1995-96 and 66 percent in the 1996-97 marketing year. Japan was the single largest customer, accounting for 28 and 33 percent of U.S. exports in those two years, respectively. Japan and Taiwan tend to be the most stable buyers, with purchases by China and South Korea being more variable. Those countries which have experienced some recent problems in their financial and/or currency markets – Indonesia, Malaysia, Philippines, and Thailand – accounted for 4.5 percent of U.S. exports in 1995-96 and 2.9 percent in 1996-97.

Asian buyers have accounted for about 50 percent of U.S. wheat exports in each of the past two marketing years. Once again, Japan tends to be the largest and most stable customer and Chinese purchases tend to be the most variable. Exports to the four "problem" countries accounted for 10 percent of all U.S. wheat exports in 1995-96 and 9 percent in the 1996-97 marketing year.

For soybeans, the Asian market accounted for 46 percent of U.S. exports in each of the past two years. Japan is the largest of those customers, but the European Union is the largest single customer for U.S. soybeans. The four countries identified above accounted for 7.4 percent of U.S. soybean exports in 1995-96 and 7.7 percent in the 1996-97 marketing year.

In the case of soybean products, Asia bought 35 percent of the U.S. soybean meal exports in 1995-96 and 40 percent in 1996-97. The growth last year represented larger purchases by China. Asia accounted for 59 percent of the commercial soybean oil exports in 1995-96 and 69 percent in 1996-97. China is the single largest commercial customer for U.S. soybean oil. The

four countries of Indonesia, Malaysia, Philippines, and Thailand represented 12 percent of the U.S. soybean meal market in 1995-96 and 14 percent in 1996-97. They were not significant commercial customers for soybean oil.

Developments in the Asian financial markets along with weekly export sales reports will be monitored closely for clues about demand prospects. As pointed out last week, there is some concern about the slow rate of corn export sales. Recent purchases by South Korea are encouraging. Many analysts continue to believe that Chinese corn sales will diminish, sending more business to the U.S. The more optimistic also expect China to buy U.S. corn later in the 1997-98 marketing year.

Next week, the USDA will update the 1997 production estimates and reveal its analysis of the export market in its monthly report of supply and demand projections. There is some expectation that the corn export projection may be lowered and that the projection for both domestic crush and exports of soybeans will be increased.

Following the rally in the first half of October, corn and soybean prices have established a wide trading range. December futures have traded between \$2.75 and \$2.95 and are currently about in the middle of that range. November soybean futures have traded between \$6.80 and \$7.29 and are currently in the upper half of that range. Prospects for small carryover stocks and El Nino related crop problems should continue to provide good support in these markets. Unless the crop production report contains a surprise, last weeks lows in both corn and soybeans are expected to hold for now.



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