

WEEKLY OUTLOOK

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January 20, 1998

MARKETS REACT TO USDA REPORTS

The USDA reports released on January 13 contained two significant surprises. First, while the final 1997 corn production estimate was essentially unchanged at 9.366 billion bushels, the December 1 stocks estimate of 7.23 billion bushels was significantly smaller than expected. Second, the winter wheat seedings estimate of 46.6 million acres was much smaller than expected.

On the surface, the smaller than expected stocks of corn on December 1, 1997 implies that domestic use of corn was huge during the first quarter of the 1997-98 marketing year. The USDA estimates processing use during the quarter at 436 million bushels, 50 million larger than use of a year ago and 23 million above the previous record use of two years ago. For the year, the USDA now expects processing use to reach a record 1.815 billion bushels, 100 million above the previous record of three years ago.

Feed and residual use of corn during the first quarter of the year reached 2.2 billion bushels, 255 million more than during the first quarter last year and 185 million above the previous record use of three years ago. As a result, the USDA now projects feed and residual use for the year at a record 5.85 billion bushels.

Corn exports continue to be disappointing. As expected, the USDA lowered its projection of exports for the year to 1.75 billion bushels. The net effect of the changes was a lower projection for year ending stocks. Those stocks are projected at 844 million bushels, 109 million less than projected last month and 39 million below the level of stocks at the beginning of the year.

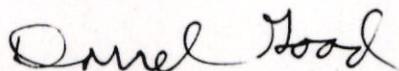
Winter wheat seedings are estimated to be 1.745 million less than seeded last year. The market was expecting an increase in acres due to generally good yield results in 1997 and relatively high prices prior to the time of seeding. The decline in acreage was almost entirely in areas that produce hard red winter wheat. Questions now center around what crops will be planted on the acres not planted to winter wheat. In addition, expectations are that spring wheat seedings will be reduced, more Conservation Reserve Program acreage will be planted in 1998. If so, the combined acreage of corn and soybeans could increase significantly in 1998.

Currently, the ratio of November soybean futures to December corn futures is 2.33 to 1. That ratio generally favors corn production over soybean production. However, most analysts expect soybean acreage to increase more than corn acreage in 1998. This expectation is supported by the fact that

soybeans may compete better in areas where acreage of other crops is being reduced. In addition, soybean yields were generally good in 1997 and soybeans may be preferred if there are concerns about a dry growing season in 1998. There may be room for an additional 1.2 million acres of corn and 2 million acres of soybeans in 1998.

The USDA reports added about \$.20 to the price of corn last week. Additional strength is not expected in the near term. There are concerns that the export projection may still be too high. A confirmation of the high rate of feed and residual use will not be available until the March stocks estimate is released at the end of March. The lower carryover projection does, however, make the size of the 1998 crop more important. Weather and crop concerns could push prices higher during the planting and/or growing season. Prices are expected to remain relatively stable into the spring weather period.

There is room to be more concerned about soybean prices. The USDA is now projecting a 1998 South American harvest of 1.74 billion bushels, 240 million larger than last year's harvest. U.S. export sales are slowing and will continue to do so as the South American crop approaches maturity. An additional 2 million acres of soybeans in the U.S. and a trend yield in 1998 would produce a crop approaching 2.9 billion bushels, about 150 million bushels larger than the 1997 harvest. Opportunities to price soybeans may be limited to periods of weather concerns over the next six months.



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