



# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**MARCH 16, 1998**

## **MARCH CORN AND SOYBEAN PRICE RALLY HITS A SNAG**

March soybean futures rallied about \$.25 and March corn futures about \$.13 during the first two weeks of March. The strength was associated with ideas of harvest delays in South America and planting delays in the United States. Soybeans gave back most of that rally last week, while corn gave back about one half of the rally. Pressure stemmed from large private acreage estimates, renewed harvest pressure from South America, a slow down in the domestic soybean crush rate, and lack of friendly surprises in the USDA's monthly supply and demand estimates.

Sparks Companies reportedly is expecting a large increase in both corn and soybean acreage in the U.S. in 1998. At 82.5 million acres, corn plantings would be nearly 2.3 million larger than last year's acreage. At 72.8 million, soybean acreage would be up 1.95 million acres. Cotton acreage is expected to decline by 1.8 million and spring wheat acreage by 1.6 million. Given the 1.7 million acreage reduction in winter wheat seedings and an estimated 1.6 million acre increase in crop land from the Conservation Reserve Program, these estimates still leave about 2.5 million acres not accounted for. We expect to see an increase in acreage of other oilseeds (sunflower and flaxseed) and a smaller decline in cotton acreage. In addition, both corn and soybean acreage could exceed the already large projections. The USDA's *Prospective Plantings* report will be released on March 31, but will not be the last word on planted acreage. The survey was conducted near the first of the month, leaving ample opportunity for variation between intended and actual planted acreage.

In its monthly update of supply and demand estimates, the USDA lowered the projection of U.S. soybean exports for the current marketing year by 10 million bushels and increased the carryover projection by an equal amount. The market got caught looking for a larger crush projection and a smaller carryover projection. The South American soybean crop estimate was unchanged from last month. That crop is still expected to be 20 percent larger than last year's record production. World vegetable oil production in 1997-98 is estimated to be 1.99 million tons larger than a last year's output, but consumption is projected to rise by 2.28 million tons, resulting in a further tightening of world ending stocks. However, the fact that consumption is expected to increase faster than production is not due to a limited supply of oilseeds. World oilseed output is 21.24 million tons, or 8.5 percent, larger than last year's output. Production of oil is expected to be limited by poor protein meal demand, resulting in a poor crush margin and restricted crush. More vegetable oil is readily available as world oilseed stocks are expected to increase by 6.57 million tons, or 39 percent. This situation means that vegetable

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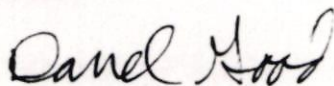


oil prices will continue to lead the oilseed complex, but also suggests there is very limited upside in oil prices, particularly if U.S. soybean acreage expands as expected.

For coarse grains, the USDA increased its estimate of world production in 1997-98 by 3.59 million tons. That change reflects a 4.25 million ton increase for the 1997 Chinese crop and a small increase in the Australian and Western Europe crop estimates. The projection of year ending world stocks was increased by 9.86 million tons. That projection is still 5 million tons below the level of beginning stocks. Excluding China, however, the projection of stocks is actually 16.3 million tons above the level of stocks at the beginning of the year. Given how little is really known about Chinese production and stocks, world grain supplies are probably more abundant than what the market has believed over the last six months.

For the 1997-98 world wheat crop, the USDA reduced the estimate of beginning stocks by 1.68 million tons, reduced the production estimate by .17 million tons, increased the projection of consumption by .35 million tons, and reduced the projection of year ending stocks by 2.2 million tons. Stocks are still projected at 22.4 percent of projected use, up from 18.7 percent last year.

Corn and soybeans, particularly new crop, appear to be overpriced in light of current U.S. and world supplies, large farmer owned inventories, Asian economic problems, low livestock prices, and likely expansion in production in 1998. At least some support is being provided by ideas that the March 31 *Grain Stocks* report will confirm large domestic corn consumption and by concerns about unfavorable U.S. weather in 1998. Corn planting delays are likely in the southeast and the weakening of the El Nino has caused some premature forecasts of dry summer weather. Most commentary centers around how to handle the risk of poor crops and higher prices later in the year. Some consideration should be given to the risk of sharply lower prices.



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