Cooperative Extension Service

WEEKLY OUTLOOK

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MARKET REACTS TO USDA PROJECTIONS AND NOW WATCHES THE WEATHER

Corn and soybean markets reacted to last week's monthly world supply and demand estimates from the USDA and will now focus on planting season weather conditions. The April *Supply and Demand* estimates confirmed most pre-report expectations, but contained a couple of surprises.

For corn, the USDA lowered the projection of domestic feed and residual use by 150 million bushels and reduced the export projection by 100 million. The export projection is now 525 million bushels less than projected last fall. The estimated size of this year's Argentine corn crop was increased by nearly 80 million bushels. The estimate may still be too low. The projection of domestic processing use of corn was reduced by 10 million bushels. The use of corn for all purposes is now expected to reach only 9.05 billion bushels and carryover stocks are projected at a 3-year high of 1.2 billion bushels.

For soybeans, the projection of oil exports was increased 300 million pounds (11.5 percent) and the projection of meal exports was increased 300,000 tons (4 percent). The projection of domestic use was reduced by 200,000 tons for meal and increased by 100 million pounds for oil. As a result, the projection of marketing year crush was increased by 5 million bushels, the projection of year ending oil stocks was reduced by 280 million pounds, and the projection of year ending meal stocks was increased by 25,000 tons. The projection of marketing year exports was reduced by 5 million bushels. That projection is still 63 million larger than last year's exports even though current export commitments are only equal to those of last year. The most significant change was a 20 million bushel increase in projected seed and residual use. That change reflects the smaller than expected March 1 inventory of soybeans and suggests that the 1997 crop was overestimated by about 20 million bushels. Carryover stocks are now projected at 235 million bushels. Unless export sales accelerate, that estimate appears to be too low.

For wheat, the USDA lowered the projection of both domestic feed and residual use and exports by 25 million bushels. The projection of seed use was lowered by 2 million bushels, so that the projection of year ending stocks jumped by 52 million bushels.

The USDA's projections portray ample old crop supplies of corn, soybeans, and wheat. The projection of world ending stocks of corn was increased by 7.67 million tons (10.5 percent) most of that is a larger U.S. carryover. The projection of world wheat stocks was increased by 3.53 million tons (2.7 percent). The projection of soybean stocks was lowered by 520,000 tons (2.7

percent), but ending stocks are expected to be 51.5 percent larger than stocks at the beginning of the year. Vegetable oil is the only commodity which remains in tight supply. That situation should be partially alleviated with the increase in South American and U.S. soybean production this year.

The corn and soybean markets will now begin to react mostly to spring weather conditions, planting progress, and prospects for the size of the 1998 crops. The National Weather Service forecasts above normal precipitation for the entire country, excluding portions of the southwest and northwest, though April 20. While some corn planting has occurred in the eastern corn belt, the market is beginning to think in terms of delayed planting, acreage shifts, and reduced yields. History suggests that significant shifting between corn and soybean acreage will not occur unless corn planting is delayed into very late May. That should be particularly true this year since the current new crop corn-soybean price ratio favors corn production.

The most recent Commodity Futures Trading Commission Report indicates that reporting speculators are net short both corn and soybean futures. This is important. If speculators become worried about spring weather conditions, they will exit the short positions and establish long positions. This action can result in fairly large price moves in a short period of time.

In general, spring weather markets are not as volatile as summer weather markets. In addition, delayed planting will likely be interpreted as friendly for new crop corn and bearish for new crop soybean prices. The fact that new crop corn prices are $.34 higher than old crop prices may also limit the rally potential in new crop corn futures. At this juncture, December corn futures may be limited to the low $2.80 level. We would view that level as a pricing opportunity for those who have not sold any new crop corn.

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