



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.

MAY 12, 1998

USDA REPORTS VIEWED AS MOSTLY NEUTRAL FOR PRICES

On May 12, the USDA released the first estimate of the size of the 1998 winter wheat crop, as well as the monthly update of supply and demand projections for all major commodities. This month's report contained the World Agricultural Outlook Board's first set of projections for the 1998-99 marketing year. Following is a summary of the projections and the implications for wheat, corn, and soybean prices.

WHEAT. The 1997-98 marketing year for wheat ends on May 31. The USDA now expects year ending stocks to total 766 million bushels, 40 million bushels above last month's projection. The larger projection reflects smaller projections for feed and residual use (down 25 million bushels) and for exports (down 15 million bushels).

For 1998, the USDA estimates the winter wheat production potential at 1.706 billion bushels, about 177 million smaller than last year's crop. The smaller estimate reflects a reduction of 1.1 million in harvested acreage and a 3.1 bushel reduction in the average yield. The largest reduction, 131 million bushels, is projected for hard red winter wheat. Based on spring wheat seeding intentions and trend yield analysis, production of all classes of wheat is projected at 2.356 billion bushels, only 171 million smaller than the 1997 crop. Reduced spring wheat acreage is offset by higher yield expectations. Stocks at the end of the 1998-99 marketing year are projected at 766 million bushels, equal to the projection for the current year.

On a world basis, the USDA sees prospects for a 2.2 percent reduction in wheat production, a 2.5 percent increase in consumption, and a slight reduction in ending stocks. The U.S. average price during the upcoming marketing year is projected in a range of \$3.05 to \$3.45, compared to the average for the current year of \$3.40 per bushel. Progress of the U.S. and world wheat crops will dictate price action. Further, significant reductions in price are not expected. Rallies will depend on crop problems developing somewhere in the world.

CORN. For the current marketing year, the USDA lowered the projection of corn exports by 50 million bushels to 1.475 billion bushels. That projection is 550 million bushels below the projection made last fall. The poor export performance reflects a slow down in Asian demand and large grain crops in the rest of the world. The estimate of the current Argentine corn harvest was increased by another 40 million bushels to a record 750 million bushels. Year ending stocks are now projected at 1.259 billion bushels, the third largest of the past seven years.

For the 1998-99 marketing year, a crop of 9.64 billion bushels is expected based on March planting

intentions of 80.8 million acres (74.4 million harvested for grain) and a trend yield of 129.6 bushels per acre. That projection is 274 million bushels larger than the 1997 harvest. Corn consumption is expected to increase by 300 million bushels, leaving year ending stocks at a six year high of 1.609 billion bushels. The average farm price in 1998-99 is projected in a range of \$2.05 to \$2.45, compared to \$2.40 to \$2.50 for the current year.

Corn prices for the next few months will primarily reflect prospects for the U.S. crop. It now appears that the crop will be planted in a reasonable time frame, except for the far eastern corn belt. Prices will likely remain choppy, but mostly sideways, until summer weather prospects become more clear.

SOYBEANS. For the current marketing year, the USDA increased the domestic soybean crush projection by 25 million bushels, lowered the export projection by 30 million, and raised the carryover projection by 5 million bushels, to a modest 240 million bushels. The large domestic crush is being driven by record domestic consumption and record exports of both soybean meal and oil. Exports of soybeans are also expected to be record large, but are slowing in the face of a record large South American crop. That crop is now estimated at 1.815 billion bushels, 18 million larger than last month's estimate and 317 million larger than the previous record crop of last year.

For 1998, the USDA sees prospects for another record U.S. soybean crop. Based on planting intentions of 72 million acres (70.9 harvested) and a trend yield of 39.5 bushels per acre, the 1998 crop would reach 2.8 billion bushels. Consumption is expected to increase only marginally, resulting in prospects for a large build-up in year ending stocks. Those stocks are projected at 410 million bushels, resulting in an average farm price projection in the range of \$4.75 to \$5.75, compared to \$6.45 for the current marketing year.

Soybean prices have been supported by higher soybean oil prices. Further upside potential is limited. Oil prices do not have to move high enough to ration consumption, but only high enough to ensure that soybeans are crushed. Unless the 1998 crop runs into trouble in July and August, lower prices are anticipated.



Issued by Darrel Good
Extension Economist
University of Illinois

Presorted First Class
U.S. Postage Paid
Permit #75
Champaign, IL

Return Service Requested

CES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801