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WEEKLY OUTLOOK

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CORN AND SOYBEANS -- STILL A WEATHER MARKET

A number of supply and demand factors are continually at work to determine the price and price changes for corn and soybeans. At this time of year, however, the progress of the U.S. crops and U.S. weather forecasts become dominant factors in the market. This is particularly true this year, when domestic and export demand appear not to hold any surprises for the next few months.

For corn, domestic consumption will continue to be supported by large livestock numbers. The USDA's May *Cattle on Feed* report indicated that May 1 inventories in the largest feedlots were down only 2 percent from the inventories of a year ago. Placements into those feedlots were surprisingly large in April, exceeding placements of a year ago by 5 percent. Cattle on feed numbers are expected to continue to decline well into 1999 due to liquidation in the cow herd and reduced feeder cattle numbers. Through the summer, however, numbers will be relatively large. Hog numbers are expected to remain near record large well into 1999 due to the expansion of the breeding herd over the past year. Poultry numbers continue to increase as well. The large domestic feed consumption of corn is already captured in the projection of use for the year.

Corn exports continue to struggle. Shipments through May 15 totaled 1.029 billion bushels, 23 percent behind the pace of a year ago. Shipments have averaged 28 million bushels per week so far this marketing year, and need to average 29 million per week from now through August to reach the USDA's projection of 1.475 billion bushels for the year. New export sales have been respectable in recent weeks, averaging just over 20 million bushels per week for the four weeks ended on May 7. That sales pace will have to continue if the USDA projection is to be reached. Competition will come from Chinese and Argentine exports.

For soybeans, the domestic crush is being supported by a continuation of a record level of domestic use and exports of both soybean oil and meal. The seasonal decline in crush has begun, as the South American crop becomes available, but crush may still exceed the 8 percent increase for the year projected by the USDA. Crush to date is about 10 percent larger than crush of a year ago.

Soybean exports have also demonstrated the typical, sharp seasonal decline as the South American crop is harvested and marketed. Weekly shipments have averaged about 7.5 million bushels per week since the first weeks of April. To reach the USDA projection of 915 million bushels for the year, that rate needs to hold near 7 million from now through August.

U.S. planting and growing season weather has been a bit "unusual" already this year. Conditions favored early and rapid planting of the corn crop in western producing areas -- Iowa, Kansas, Minnesota, and Nebraska. Planting started much more slowly in Ohio, Indiana, and Illinois. The recent warm, dry weather pattern has helped the eastern corn belt catch up and it now appears that much of the crop will be planted in a timely fashion. Soybean planting progress should be very timely in most regions of the country.

The recent hot, dry weather pattern has created concern among some observers, particularly as the El Nino event seems to be retreating. Concerns center around the potential of the Latin American drought conditions "spreading" into the U.S. The high pressure ridge in the eastern corn belt has been a focal point.

The National Weather Service's 30 and 90 day forecasts released last week, indicate the potential for generally favorable growing conditions for most of the midwest, particularly the upper midwest, which has probability for slightly above normal moisture from June through August. Above normal temperatures are likely in all of the southeast and extending into Ohio, southern Indiana, and southern Illinois. An area of slightly below normal precipitation is indicated in parts of Georgia and the Carolinas.

In addition to weather conditions, revised planted acreage figures available on June 30 will also be important. At least one private source has released estimates for both corn and soybean acreage to exceed March intentions.

Price volatility could be significant over the next three months. Large crops and no demand surprises could push December corn futures and November soybean futures below the contract lows reached last summer, \$2.47 and \$5.97, respectively. Problems could see those contracts make a retest of the late winter highs, \$2.90 and \$6.84, respectively. It now appears more likely that a test of the lows will occur first.

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