



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.

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WEATHER MARKET BEGINS

The USDA's June *World Agricultural Supply and Demand* report contained few surprises. For corn, the projections for the current marketing year as well as for the 1998-99 marketing year were unchanged. Some had expected a smaller export projection and larger projection of ending stocks for the current marketing year. However, corn export sales during May and the first week of June were large and export shipments increased accordingly in the first two weeks of June.

For wheat, the USDA increased the estimated size of the winter wheat crop by 37.5 million bushels, reflecting a reduction of 100,000 acres in the estimate of harvested acreage and a one bushel increase in the expected average yield. In addition, the projection of exports for the current marketing year was reduced by 25 million bushels. As a result, year ending stocks are projected at an 8 year high of 827 million bushels. As expected, the estimate of the 1998 Australian crop was increased by 1 million tons to reflect recent favorable growing conditions.

For the 1997-98 soybean marketing year, the projection of exports was lowered by 20 million bushels to a total of 895 million. The reduction was offset by an equal increase in the projection of domestic crush. Crush is now projected at 1.57 billion bushels, 9.3 percent larger than last year's crush. Crush to date is about 11 percent larger than during the same period last year. Interestingly, the increase in the crush projection reflected an increase in expected soybean meal consumption (1.5 percent larger than last month's projection) and not oil consumption (0.6 percent larger than last month's projection). Year ending oil stocks are now projected at 1.435 billion pounds, 180 million pounds above last month's projection.

For the 1998-99 soybean marketing year, the USDA increased the projection of domestic crush (15 million bushels) reduced the projection of exports (40 million bushels) and increased the projection of year ending stocks by 25 million bushels. Those stocks are projected at a 12 year high of 425 million bushels. The smaller export projection for this year and next reflect the on going competition from South American soybeans. The estimated size of the 1998 Argentine crop was increased by one million tons. The 1998 South American crop is now estimated at a record 1.85 billion bushels.

The corn and soybean market will now focus almost entirely on weather and crop conditions in the U.S. At least one private weather service is adamantly forecasting a repeat of 1983-like growing conditions when hot, dry weather in July and August significantly reduced yield potential. Other forecasters are suggesting that any widespread hot, dry conditions in the corn belt should not be expected before September, giving crops opportunity to mature normally. The National Weather

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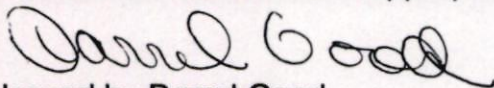
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Service outlook through June 22 is for cooler and wetter than normal weather in the corn belt. The 1983 analogy is not very only convincing since crop progress and weather patterns have already deviated from that year. While this year's corn crop is much more advanced than that of 1983 and will pollinate much earlier, it is still vulnerable to adverse weather conditions over the next 8 weeks. August weather will likely be most critical for soybeans. The more immediate concern is the planting of the last 10 percent of the soybean crop and excessively wet conditions in some areas.

The corn and soybean markets appear satisfied that prices have declined enough for the time being -- December corn futures at \$2.37 and November soybean futures at \$5.70. The sharp downtrend in corn and soybean prices of the past 5 to 6 weeks is now expected to turn to a more volatile price pattern.

Beginning in March, December corn futures have "stair stepped" down from \$2.90 to \$2.40 per bushel. Weather related rallies would likely find resistance at each of the steps -- about every \$.10 from \$2.50 to \$2.90. November soybean futures have declined more than \$1.00 per bushel since early February in a pattern of "lower lows and lower highs". Resistance points in a weather rally appear to be about every \$.20 from \$6.00 to \$6.80.

A failure of crop threatening weather to develop over the next 4 to 6 weeks would likely result in a resumption of the downtrend into the harvest period. The window of opportunity for pricing more of the 1998 crop and finishing the marketing of the 1997 crop appears to be opening. It is difficult to predict how wide the window will open or how long it will remain open. The late season weather rally of 1983 lasted about 6 weeks and peaked before harvest began. The rally of 1980 extended well beyond harvest and took about 24 weeks to peak. The fundamentals for 1998 suggest an early peak to any weather rally, with prices unlikely to reach the lofty levels of 1980 and 1983. A quick response to weather scares seems appropriate this year.



Issued by Darrel Good
Extension Economist
University of Illinois

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