

WEEKLY OUTLOOK

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MARKET EXPECTING LARGE CORN AND SOYBEAN ESTIMATES

The USDA's first objective corn and soybean production estimates for 1998 are scheduled for release on August 12. Based on private crop estimates released last week, the market is generally expecting to see large estimates for both crops. In the case of soybeans, the most widely watched private crop estimates have ranged from about 2.8 to 2.9 billion bushels, reflecting trend yields or higher. The late, wet planting season in some areas may result in some adjustment in the previous estimates of planted and/or harvested acreage, but the yield estimate is expected to be large. Since the field yield work for the August survey was conducted in late July, the market may expect the average yield estimate to increase in later reports since August weather has been generally favorable for crop development.

Last month, the USDA's World Agricultural Outlook Board projected soybean consumption during the 1998-99 marketing year at 2.615 billion bushels. If the crop is as large as expected, consumption will have to be much larger to prevent a significant increase in year ending stocks. Without improvement in overall world demand and/or significant decline in oilseed production somewhere else in the world, soybean prices will remain low to maximize consumption.

There is a little larger range in expectations for the estimated size of the corn crop. Estimates generally range from 9.3 to 9.8 billion bushels. Again, some anticipate the estimate getting larger in later reports, but given the advanced maturity of the crop this year, the August estimate may be close to the actual crop size. The wide range in crop conditions as well uncertainty about planted/harvested acreage contributes to the relative wide range of crop expectations.

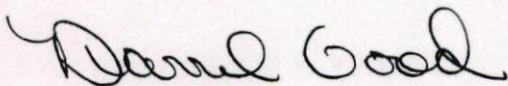
In its July report, the World Agricultural Outlook Board projected corn consumption during the upcoming marketing year at 9.225 billion bushels. The projection is less than the expected crop size, implying a continuation of low prices and some further accumulation of inventory by the end of the 1998-99 marketing year. The forecast of September 1, 1998 stocks may also increase as a higher rate of wheat feeding this summer may have resulted in less corn feeding than projected last month.

In addition to the U.S. corn and soybean production estimates, the market will also be interested in any changes in production estimates for China, the former Soviet Union, and the European Union. In the case of China, some media reports suggest that wide spread flooding may have reduced grain production prospects while dry weather may have adversely affected soybean prospects. Lower production estimates may get translated into larger projections for Chinese

soybean imports and smaller corn exports. In the case of the former Soviet Union, smaller crops may imply some increase in imports. Last month the USDA estimated a 16 percent decline in grain production in the former Soviet Union, but no change in the net grain trade. The size of the European Union wheat crop, currently projected to be 7 percent larger than the 1997 harvest, and coarse grain crops, projected to be down 3.5 percent, will be important in assessing export competition.

The estimated size of the spring wheat crop will also have price implications, not only for wheat, but for corn. Some private tour results last week reported "lower than expected" spring wheat yields in some areas. Those reports contributed to some stability in wheat and probably corn prices.

With large crops on tap and prices already at low levels, producers are expected to try to store as much of the unpriced corn and soybean crops as possible. Historically, cash prices have made significant recovery from harvest time lows. One factor that often contributed to that recovery was an increase in set-aside acres for wheat and feed grains. Those set asides are not part of the current farm program. Price recovery, then, will have to be stimulated by other factors. A recovery in Asian economies will be required to get export demand back on track. In the meantime, it appears only a crop threat will provide a significant recovery. Foreign coarse grain production was record large in 1996-97, declined to the second largest level in 1997-98, and is projected to make a modest recovery in 1998-99. Foreign wheat production was record large in 1996-97, reached a new record in 1997-98, and is projected to decline only modestly in 1998-99.



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