



# 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.

**AUGUST 17, 1998**

## **CROP SIZE AND CHINA INFLUENCE CORN AND SOYBEAN PRICES**

The USDA's August estimate of the size of the U.S. corn and soybean crops were about as expected. The U.S. average corn yield of 130 bushels per acre translates into a prospective crop of about 9.6 billion bushels. The U.S. average soybean yield of 39.5 bushels points to a crop of 2.825 billion bushels. The question now is "Will the estimates get larger?", following the adage that large crops get larger.

The history of large corn crops is that in some years the yield estimate increases from August to the final estimate (1979, 1981, 1985, 1992, 1994, and 1996). The largest increases exceeded 10 bushels per acre in 1992 and 1994. However, not all years with high yields showed an increase in the yield estimate from August to the final estimate (1982, 1984, 1986, and 1987). A significant increase from the August estimate is not expected this year. The advanced crop maturity suggests that the August objective yield analysis was close to actual yield potential. In addition, average crop condition ratings have not improved since late July. Early August weather was generally favorable for crop development in the midwest, but hotter, drier weather is on tap for the last half of the month. Nutrient deficiencies are apparent in many areas.

Similarly, the average soybean yield estimate increased from August to the final estimate in some high yielding years (1979, 1985, 1986, 1992, 1994, and 1996). The largest increases were the 2.6 bushels of 1985 and the 4.3 bushels of 1994. In other years of high yields, the average estimate did not increase (1981, 1982, 1997). The average yield estimate declined by 1 bushel per acre in 1987. This year, the average crop condition rating has improved slightly from late July and early August weather has been generally favorable. Hotter, drier conditions forecast for last August may result in some leveling off of crop condition ratings. A slight increase in the U.S. yield estimate, to 40 bushels, is expected for September. Such an increase would add about 35 million bushels to the size of the crop.

For corn, the USDA projects an increase of 265 million bushels (3.6 percent) in domestic use during the 1998-99 marketing year. Exports are expected to increase by 125 million bushels (8.5 percent). The larger export projection is a function of low prices and expectation of less competition during the year ahead. Exports from other destinations are expected to decline by 170 million bushels (12 percent). U.S. corn exports will be limited by an increase in foreign production and a continuation of the economic problems in Asia. A key area will be China. More severe economic problems and a currency devaluation would be negative for export

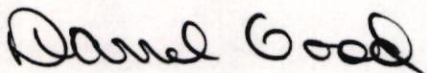


prospects to China. At the same time, widespread flood damage and crop loss may force China to import more and export less corn than currently projected. The swing could be several million bushels. The USDA currently estimates the Chinese corn crop to be 17 percent larger than the 1997 harvest. U.S. corn exports may well turn out to be larger than the early projection, in contrast to the disappointment of last year.

December corn futures may reach a low yet this month with cash prices establishing a low in September or October on a weak basis. That pattern is typical of recent large crop years.

For soybeans, the USDA projects a 25 million bushel increase in the domestic crush and a 20 million bushel decline in exports during the 1998-99 marketing year. The slow down in exports reflects the large South American stocks (nearly double last year's inventory) and the slow down in Asian demand. Export demand will be influenced by economic conditions and soybean production in China. Widespread crop problems (drought and flooding) may result in a smaller crop than currently estimated. Longer term, the size of the 1999 South American crop will also influence U.S. exports. Production is expected to decline (9 percent) as average yields retreat from the very high levels of 1998. As in the case of corn, soybean and soybean product exports may well exceed current projections.

As has been the case in other large crop years, cash soybean prices are expected to reach a low in September or October. An early harvest suggests an early low. History suggests an increase of at least \$1.00 per bushel from the harvest low to the marketing year high.



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