



WEEKLY OUTLOOK

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USDA REPORTS PROVIDE SOME SURPRISES

The USDA released updated crop production estimates and world supply and demand projections on October 9. The projections revealed prospects for growing stocks of the major crops in the United States, but declining inventories in the rest of the world.

The 1998 U.S. soybean crop is now estimated at 2.77 billion bushels, 140 million less than estimated last month and only 66 million larger than last year's crop. The U.S. yield estimate was revised from 40.6 to 38.7 bushels per acre. Yield estimates declined for many of the major producing states, but increased in most of the northern states. Along with the smaller crop estimate, came smaller projections of use. The domestic crush is projected at 1.6 billion bushels, about unchanged from last year's crush and 25 million less than projected last month. Compared to last year, domestic meal and oil consumption are expected to increase, but exports are expected to decline. Soybean exports are projected at 830 million bushels, down 47 million from last year's shipments. Prospects for smaller soybean and soybean product exports reflect large South American soybean stocks and expectations of another large crop there in 1999. Based on average yields, the 1999 South American crop is projected at nearly 1.8 billion bushels, only about 8 percent smaller than the record 1998 crop.

Year ending soybean stocks in the U.S. are projected at 395 million bushels, 90 million below last month's projection, but the largest in 12 years. Stocks in the rest of the world are expected to tighten, but remain above the level of 1996-97. The marketing year average price is projected in a range of \$5.00 to \$5.70, up \$.35 from last month's projection. For eastern corn belt producers, the market is currently reflecting a marketing year average near the upper end of that range.

The 1998 U.S. corn crop is estimated at 9.74 billion bushels, unchanged from last month's estimate and 378 million larger than last year's crop. Compared to last month, the yield estimate declined in Illinois, Indiana, and Ohio; was unchanged in Iowa; and increased for most northern states. The biggest change was the 9 bushel increase in the Minnesota estimate. Based on larger than expected feed and residual use last year, the USDA increased its projection of use this year by 100 million bushels, to a total of 5.85 billion bushels. Compared to last year, domestic processing use is expected to increase by 68 million bushels and exports are projected to increased by 135 million. Use for all purposes is expected to be up 400 million bushels, at 9.35 billion bushels. Year ending stocks are projected at 1.7 billion bushels, 200 million less than projected last month, but the largest level in 6 years.

Feed grain production in the rest of the world in 1998-99 is expected to be about 2 percent smaller than last year's crop. Larger projections for China and Brazil are more than offset by smaller projections for the former Soviet Union, Europe, and Argentina. Year ending stocks are expected to decline sharply in the former Soviet Union. The marketing year average price is projected in a range of \$1.80 to \$2.00, unchanged from last month's projection. For the eastern corn belt, the market is currently offering a price near the upper end of that level.

The 1998 U.S. wheat crop estimate now stands at 2.557 billion bushels, about unchanged from the September estimate. Based on the September 1 stocks estimate, the projection of feed and residual use for the year was lowered to 375 million bushels, 25 million below last month's projection, but 80 million above use in that category last year. Domestic food use of wheat is expected to increase by 10 million bushels and exports are projected to increase by 35 million bushels. Even so, year ending stocks are expected to reach an 11 year high of 902 million bushels.

Wheat production in the rest of the world in 1998-99 is expected to be 4 percent smaller than last year's crop. Larger crops in western Europe and Australia are being more than offset by smaller crops in China, Argentina, and especially the former Soviet Union. After showing a one-year increase, foreign wheat stocks are expected to decline sharply this year. The largest decline is projected for the former Soviet Union. The 1998-99 marketing year average price is projected in a range of \$2.45 to \$2.75, \$.05 lower than last month's projection.

The USDA's October reports set a little firmer tone for corn and soybean prices. The market reflected that quickly, however, and additional follow through will likely be limited. In addition, some analysts are concerned that the Iowa soybean yield estimate was lowered too much. Rapid harvest progress and increased farmer selling will also keep prices in check. Higher prices will now have to be generated by unexpected export demand and/or southern hemisphere crop problems.

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