



WEEKLY OUTLOOK



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MARKET WATCHES SOUTH AMERICAN WEATHER, WAITS FOR JANUARY REPORTS

Over the next 3 months, the corn and soybean markets will be influenced by the progress of the South American crops and the information in the USDA reports on January 12. The 1998 South American soybean crop was a record 1.929 billion bushels, nearly 30 percent larger than the previous record established in 1997. Acreage in both Brazil and Argentina increased by about 10 percent last year. The average yield in Argentina was especially large due to favorable weather generated by El Nino.

For 1999, the USDA currently projects a 12 percent reduction in Argentine production, on the basis of more normal yields. The Brazilian crop is expected to decline by about 6.5 percent on the basis of a slight reduction in acreage and normal yields. Production in Paraguay remains small, but is projected to increase 10 percent, to about 114 million bushels. In total, the South American soybean harvest in 1999 is projected at 1.786 billion bushels, 7.4 percent smaller than the record harvest of last year.

The Argentine corn crop is a small percentage of the world crop, (2.5 to 3.5 percent) but Argentina is typically the second largest exporter of corn. The 1998 harvest there totaled a record 762 million bushels, 25 percent larger than the 1997 harvest. Acreage was about unchanged from the previous year, but the average yield increased by 25 percent due to favorable El Nino weather patterns. Exports from the 1998 harvest are projected at 531 million bushels, up more than 100 million bushels from the exports of last year and about 18 percent of total world exports.

For 1999, the USDA currently projects the Argentine corn harvest at 590 million bushels, 22.6 percent smaller than the 1998 harvest. Both acreage and yield are expected to be below the level of last year. Argentine exports from the 1999 harvest are projected at 394 million bushels, 137 million below the projection for the current marketing year.

The South American crops have just been or are just being planted, so projections at this early date are very tentative. Weather during critical stages of crop development in January and February will largely determine yields and total crop size. At this early juncture no significant problems have been reported.

On January 12, the USDA will release final corn and soybean production estimates, December 1 stocks estimates, and a winter wheat seedings estimate. The crop production report will be

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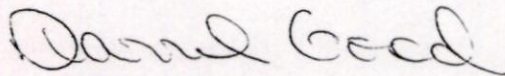
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watched to see if a big corn crop continues to get bigger. The report will also be very important for soybeans, as some analysts believe that the current crop estimate is too small.

The December 1 stocks estimate will be most important for corn as it will reveal the feed and residual use of corn during the first quarter of the marketing year. Based on the large hog slaughter and the heavy weights of cattle and hogs, the expectation is for a large disappearance in the September, October, and November period.

The winter wheat seedings report will be important because it will be the first indicator of any shifts in cropping patterns in 1999. Generally, a reduction in winter wheat acreage is expected. The magnitude and regional pattern of change will indicate potential acreage changes for other crops – oilseeds, feed grains, and cotton. At this juncture, we anticipate that reduced wheat acreage will translate into increased oilseed acreage, particularly soybeans. A high loan rate, consistently good yields, and lower costs of production make soybeans the crop of choice in many areas.

The pace of farmer sales is expected to remain slow into the early part of 1999. Basis levels should remain generally strong after the initial early January delivery period for forward contracts. Without South American weather concerns, however, futures prices may remain on the defensive. For the past two years, the USDA January reports have contained generally bullish information for corn and soybeans. Will that happen for a third time? If not, higher prices may have to wait on spring/summer weather and crop concerns in the U.S.



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