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# WEEKLY OUTLOOK

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**MAY 17, 1999**

## PROSPECTS FOR NEW CROP SUPPLY AND USE

On May 12, the USDA released the first projections of U.S. and world supply and use for grains and U.S. projections for soybeans. History suggests that final figures could deviate significantly from these very early projections. However, they serve as an important benchmark to evaluate the impact of future developments. Following is an overview of the projections for the 1999-00 marketing year for corn, soybeans, and wheat, along with some judgement about the projections.

**CORN.** For this report, the USDA's World Agricultural Outlook Board uses acreage reported in the March *Prospective Plantings* report and trend yield to project the size of the 1999 crop. That computation results in a projection of 9.445 billion bushels, 316 million bushels (3 percent) smaller than the 1998 harvest. Acreage may deviate from March intentions due to delayed planting in the western corn belt. However, it still appears that the March report did not account for all the potential crop land in 1999. The next estimate of acreage will be released on June 30.

The average yield will be determined by summer weather. The presence of the La Nina has some meteorologists calling for a very unsettled weather pattern and an above average probability of yield reducing weather. The National Weather Service 90 day outlook (through August) shows potential for very favorable growing conditions.

In the case of use, the USDA projects feed and residual use at 5.625 billion bushels, the same as for the current year. Reductions in livestock numbers (hogs and cattle) will likely be offset by reduced feeding of other grains (barley and oats) and a continuation of high slaughter weights. Hog numbers may also be on the increase by late in the marketing year. Processing use of corn is expected to increase by 3.5 percent, to a total of 1.925 billion bushels, in line with the long term trend increase.

Exports are projected at a modest 1.85 billion bushels, up only 25 million bushels from the projection for the current year. A larger projection was expected based on smaller southern hemisphere supplies and potential for economic recovery in Asia. Use for all purposes is projected at 9.4 billion bushels, leaving the potential for September 1, 2000 stocks at 1.829 billion bushels, 55 million larger than the projection for September 1, 1999. The market appears to believe that there is a good chance that U.S. stocks will actually decline next year. The futures market currently offers an average price slightly above the high end of the USDA's projection of a season's average price of \$1.80 to \$2.20. Early projections point to larger crops in most other important production areas in 1999-00. Total foreign production is expected to increase by 5 percent and foreign stocks are projected to grow by 8 percent.

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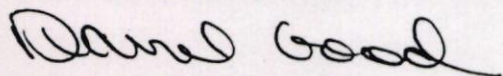
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**SOYBEANS.** Using the same methodology as for corn, the 1999 U.S. soybean crop is projected at a record 2.88 billion bushels, 4.5 percent larger than the 1998 harvest. Based on western corn belt planting delays, acreage may exceed intentions. The USDA projected a surprisingly large 75 million bushel (4.8 percent) increase in the domestic crush and a 160 million bushel (21 percent) increase in exports. While foreign production estimates were not made in the report, the large increases are expected to be generated by significant reductions in foreign soybean production, presumably in South America. The projections of use appear to be too optimistic. Even so, year ending stocks would grow to a record 595 million bushels (22 percent of projected use). The USDA sees the 1999-00 marketing year average price in a range of \$3.95 to \$4.75 per bushel. The futures market currently offers a price at, or slightly above, the upper end of that range.

**WHEAT.** The 1999 wheat production estimate is based on the *Prospective Plantings* report, the National Agricultural Statistics Service (NASS) May estimate of average winter wheat yields (44.4 bushels), and a trend yield for spring wheat. Harvested acreage of all wheat is projected at 55.4 million acres, down 3.6 million from last year's acreage, and the U.S. average yield is projected at 40.5 bushels, 2.7 bushels below last year's average. The production estimate of 2.245 billion bushels is 305 million below the 1998 crop.

Projections of use represent only modest changes from the projections for the current year. Domestic use is expected to decline by 62 million bushels and exports are projected to increase by 100 million bushels. Year ending stocks are projected at 869 million bushels (36 percent of projected use), 100 million less than the projection for June 1, 1999. The season's average price is projected in a range of \$2.60 to \$3.10, compared to \$2.65 for the current year.

Production in 1999-2000 is expected to decline in China and the European Union and to increase in India and the former Soviet Union. Foreign stocks are expected to decline from 111 million tons this year to 94 million next year. The expected decline is concentrated in the European Union and China. The projected decline in Europe would bring stocks to a more normal level. There is very little confidence in projections for China.



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