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WEEKLY OUTLOOK

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MARKET SECOND GUESSES CROP REPORT

The market generally expected that the USDA's August *Crop Production* report would overstate production potential for the corn and soybean crops due to dry weather in the eastern corn belt during the first two weeks of August. The August report, then, would serve as a benchmark from which to estimate final production potential. Private estimates for the August corn estimate were generally in the 9.2 to 9.3 billion bushel range, with thoughts that the final crop size might be in the range of 8.9 to 9.0 billion bushels. December futures moved to a high of $2.435 on Tuesday before the report was released.

The USDA's August estimate came in much above expectations, at 9.561 billion bushels. With some August crop deterioration, the market expects the crop to be smaller than that estimate, perhaps in the 9.2 to 9.3 billion range. With use projected at 9.4 billion bushels during the 1999-00 marketing year, a crop of 9.2 billion bushels would still leave a carryover of 1.5 billion bushels. In recent history, a carryover near 1.5 billion bushels has been associated with a marketing year average farm price between $2.25 and $2.30 per bushel.

The August estimate for soybeans came in at 2.87 billion bushels, within the range expected by the market. Recent precipitation in parts of the corn belt may have been sufficient to maintain production potential in those areas. The concern centers around the dry areas in the east and southeast. Further crop deterioration may have occurred in those areas. The decline in soybean production potential probably has been less than deterioration in corn potential. Based on recent history of dry weather in August, crop size may not decline below 2.78 billion bushels. With use projected at 2.719 billion bushels, a crop of that size would result in some further accumulation of inventory by September 2000. Under that scenario, cash prices could remain below the Commodity Credit Corporation (CCC) loan rate for an extended period.

Private crop tours will be underway this month, providing additional information about crop size. Due to the limitations in scope and methodology, the results of these private surveys should be interpreted with caution. They have not always been a good predictor of actual crop size.

Other factors will influence price as the 1999-00 marketing year progresses. For soybeans, the most important will be size of the South American harvest. Based on normal yields, the USDA projects the 2000 harvest there at 1.85 billion bushels, only 3.9 percent smaller than the 1999 harvest and 8 percent smaller than the record crop of 1998. Planting decisions will be influenced by price action over the next two months. Continued low prices would likely see expectations of reduced acreage fulfilled. Higher prices, however, would likely short circuit those reductions.

For corn, Chinese production and exports will be important. The USDA now estimates the 1999 Chinese crop at 5.04 billion bushels, 3 percent smaller than last month's estimate, but 3 percent larger than last year's crop. Chinese corn exports (net) for the 1999-00 marketing year are projected at 128 million bushels, 40 million larger than projected last month and 28 million larger than exported this year.

In addition, the size of the 2000 corn crop in Argentina and South Africa will have some influence on late season exports of U.S. corn. Production in those two countries is expected to increase by 13 percent (106 million bushels). Finally, the rate of economic recovery in Southeast Asia may influence the demand for U.S. corn. Much of the increase in U.S. exports in recent months has been associated with the response to low prices, not an increase in demand. Economic recovery would point to better demand.

For new crop soybeans, cash prices are well under the tentative loan rate. (There has been some discussion of lowering the 1999 crop loan rate). Central Illinois bids on August 13 averaged about $4.25 for harvest delivery, or about $1.20 under the CCC loan rate. That price was $.57 under July 2000 futures. With a typical spring basis of $-.10, the market was offering a return to storage of about $.47 per bushel. That is about equal to interest plus commercial storage costs. Assuming that the cash price does not exceed the loan rate for the foreseeable future, consider selling new crop soybeans and taking the loan deficiency payment (LDP) at harvest. If on-farm storage is available and cash flow is not a constraint, some of the crop could be sold for later delivery in order to capture the carry. When establishing the LDP, it is important that the posted county price track the local cash price.

For corn, the central Illinois harvest bid on August 13 averaged about $1.88 per bushel, slightly below the loan rate. The cash price was $.57 under July 2000 futures. With a spring basis of $-.10, the market was offering a return of about $.47 to storage, well above the cost of storage. In addition, the spring delivery cash price was well above the loan rate. Consider using farm storage for corn, selling corn for spring delivery, and taking any LDP that is available at harvest.

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