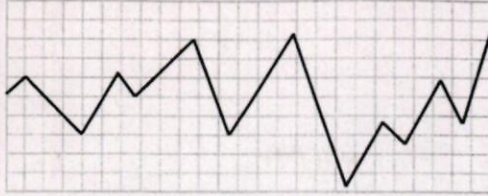




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WEEKLY OUTLOOK

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SEPTEMBER 7, 1999

WHAT SIZE CORN AND SOYBEAN CROP IS THE MARKET TRADING?

Private estimates of the size of the 1999 U.S. corn and soybean crops vary widely. Estimates reported in the farm news range from 9.199 billion to 9.392 billion bushels for the corn crop and 2.716 to 2.817 billion bushels for the soybean crop. Prices, particularly for soybeans, have moved higher as weekly crop conditions reports show a continued deterioration in crop conditions. November 1999 futures have moved above the highs reached immediately before the August *Crop Production* report. December 1999 corn futures are still below the August pre-report high of \$2.435.

For soybeans, the price increase still leaves prices below the Commodity Credit Corporation (CCC) loan rate so that it has not resulted in a net increase in prices for the 1999 crop. In fact, for those soybeans which have been forward priced for delivery after harvest, the price increase has reduced the potential loan deficiency payment (LDP) and resulted in a lower net price. The benefit of higher prices has accrued primarily to owners of 1998 crop soybeans not under CCC loan. In total, the price increase has taken more money out of producers' pockets than it has put in. Prices need to move above the loan rate to have a positive impact on producer income.

With November 1999 soybean futures at \$5.15 and July 2000 futures at \$5.40, the market is offering a 1999-00 marketing year average farm price of about \$5.10 per bushel, with normal post harvest basis levels. That is about \$.10 above the USDA's estimate of the average price for the 1998-99 marketing year, ended on August 31. The current price appears to be trading expectations of year ending stocks of about 370 million bushels. If September 1, 1999 stocks are near the USDA projection of 385 million bushels, and if the 1999-00 market size is near the USDA projection of 2.72 billion bushels, the market appears to be trading a crop of about 2.7 billion bushels, slightly below the smallest private estimate.

This is not an exact analysis, since the relationship between carryover stocks and average price is not exact and the market may have different expectations about market size. The market for U.S. soybeans during the current marketing year will depend on a number of factors, including the size of the 2000 South American crop. One of the negative influences of the timing of the current price rally is that it will encourage soybean planting in South America.

With December 1999 corn futures at \$2.25 and July 2000 futures at \$2.45, the market is offering a 1999-00 marketing year average cash price of about \$2.15. That is \$.20 higher than the USDA's estimate of \$1.95 for the 1998-99 marketing year, when year ending stocks were near

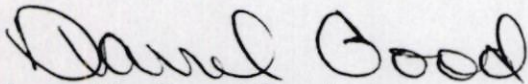
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1.7 billion bushels. The market currently reflects expectations of 1999-00 marketing year ending stocks of about 1.5 billion bushels.

The USDA has projected the size of the U.S. corn market at 9.41 billion bushels during the 1999-00 marketing year. Many analysts believe that estimate will have to be reduced due to more active Chinese exports. If the market is for 9.36 billion bushels, the current corn price reflects a 1999 U.S. crop of about 9.16 billion bushels. As in the case of soybeans, that is below the lowest private estimate for the size of the 1999 crop.

While this analysis has some short comings, the market is clearly trading much smaller crops than reflected in the USDA's August *Crop Production* report. In addition, there is likely an expectation that the USDA production estimates for both corn and soybeans will be reduced again in October. Since 1975, the September corn production estimate was below the August estimate 12 times (50 percent of the years). In those 12 years, the October estimate was below the September estimate 7 times. Over that same time period, the September soybean production estimate was below the August estimate 9 times (37.5 percent of the years). In those 9 years, the October estimate was below the September estimate only 4 times. Since 1987, the 4 years with a smaller September production estimate have each been followed by a higher October estimate. One other point worth noting, in recent history, the USDA's September production estimates, on average, have been closer to the final crop size than have the private September estimates.



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Extension Economist
University of Illinois

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