UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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PREPARING FOR NEAR TERM SURPRISES

The size of the 1999 U.S. corn and soybean crops continues to be a topic of debate. Differences of opinions are influenced, at least in part, by the discrepancy between yield models based on crop condition ratings and USDA yield estimates for some individual states. Those states with crop ratings suggesting lower yields than estimated by USDA include those for which the USDA makes objective yield estimates. Given the subjective nature of crop condition ratings, the USDA methodology should be superior to the crop condition models. In addition, early yield reports tend to be in the "better than expected" category. A few analysts even think the crop estimates might increase. The USDA will release revised estimates on October 8. Given the generally early maturity of this year's crops, the October estimates should be close to final production numbers.

As mentioned last week, the USDA will release a quarterly *Grain Stocks* report on September 30. For corn and soybeans, September 1 stocks represent marketing year ending stocks. Corn stocks are projected at 1.699 billion bushels and soybean stocks are projected at 365 million bushels. The September report is always important for corn because domestic feed and residual use is not measured so that quarterly use in that category is revealed with the stocks report. Use significantly different than expected can result in a surprise in the report.

For soybeans, use is measured on a continuous basis, except for the seed, feed, and residual category. That typically is a fairly constant amount from year to year, accounting for 5 to 6 percent of total use. Previous stocks reports this year have revealed a large residual use of soybeans. The USDA currently carries a residual use projection for the 1998-99 marketing year of 112 million bushels, 40 million larger than residual use of the previous year. On the surface, the larger residual use suggests that the 1998 crop was overestimated. In the past, however, the September report has occasionally "found" some soybeans under similar circumstances.

With the potential for price reaction to any surprises in the upcoming reports, producers may need to consider some pre-report strategies. Those strategies will be influenced by the level of market price in relation to the Commodity Credit Corporation (CCC) loan rate; harvest progress; and previous pricing, storage, and marketing loan decisions.

Assuming that corn and soybean prices remain below the loan rate, producers may not need to make any decisions for crops which have not been priced and have either not been harvested or are in storage without a loan deficiency payment being established. For those crops, a change in price would be offset by a nearly equal but opposite change in the marketing loan gain or loan deficiency payment.

Crops at risk include those that have been priced and a loan deficiency payment not established (perhaps because the crop has not been harvested) and those for which a loan deficiency payment has been established, but have not been priced. After last year's experience, there may not be much of the crop in this category. In the first case, the risk is that prices will move higher, eroding the marketing loan gain or loan deficiency payment. Producers can manage some of that risk by establishing the marketing loan gain now, if the crop is harvested, or with the purchase of call options. In the second case, the risk is that prices will move lower, perhaps resulting in a net price below the CCC loan rate. That risk can be managed by pricing the crop now, or with the purchase of put options. Price movement, however, would have to be relatively large to justify the use of options in either of these situations.

For the crops which have already been priced and either a marketing loan gain or loan deficiency payment established, future risk centers around prices moving higher. This, of course, is always the case after a pricing decision has been made. There may be a price level low enough to encourage some re-ownership of those sales.

Some of these tools may also be used to manage longer term price risk. Current fundamentals do not point to a significant price increase, but that could change.

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