UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

NOVEMBER 15, 1999

CROP MARKETS WAITING FOR A REDUCTION IN SUPPLY

Prices of corn, soybeans, and wheat moved higher in July and August on the basis of some crop threatening weather in the U.S. That rally, however, did not last long nor did it take prices to a very high level. Corn and soybean crops generally survived in good shape and last week the USDA confirmed large crops. At 9.537 billion bushels, the November corn crop estimate was 70 million bushels larger than the October estimate and only 2.3 percent smaller than the 1998 harvest. The U.S. average yield estimate of 134.5 bushels is almost identical to last year's yield. At 2.673 billion bushels, the November soybean estimate was 23 million bushels smaller than the October estimate and 2.5 percent smaller than the record 1998 harvest due to a 2.2 bushel reduction in the U.S. average yield. The 1999 wheat crop totaled 2.308 billion bushels, 9.4 percent smaller than the 1998 harvest.

Production of each of these crops in 1999 was smaller than expected in the spring, but crops are large enough that an increase in year ending stocks is projected for all three crops. Year ending (September 1, 2000) stocks of corn are projected at 2.039 billion bushels, 228 million bushels larger than stocks on September 1, 1999. Consumption prospects for corn are limited by declining domestic livestock numbers and aggressive Chinese exports. Use for all purposes is projected at 9.305 billion bushels, only 14 million bushels larger than last year's use.

Year ending stocks of soybeans are projected at 395 million bushels, 47 million above stocks on September 1, 1999. Consumption for all purposes is projected at 2.629 billion bushels, 33 million larger than last year's use. Last year, however, residual or unexplained use was extremely large at 116 million bushels. Combined crush and exports are expected to be 84 million bushels larger than last year. Prospects for soybean and soybean meal exports will be influenced by the size of the South American crop. Currently, the USDA expects that crop to be only 2.6 percent smaller than last year's harvest.

Year ending (June 1, 2000) stocks of wheat are projected at a 12 year high of 1 billion bushels, 56 million bushels larger than stocks on June 1, 1999. The USDA projects declining feed and residual use of wheat and only a modest increase in exports. Use for all purposes is projected at 2.357 billion bushels, 70 million less than used last year.

Prospects for a continuation of adequate U.S. and world supplies have kept prices at extremely low levels since the spring of 1998. That pattern is expected to continue until supplies are threatened. The market will follow the development of the South American crops, particularly soybeans, for any hint of a significant problem. The last time that South American had a significant year-to-year decline in soybean production was 1991. Other years of reduced production include 1978, 1982, and 1986. In those four years, the size of the year-to-year decline in production ranged from 8.6 to 14.6 percent and averaged 11.7 percent. On a percentage basis, crop problems in South America tend to be milder than those in the U.S. The last 6 problem years in the U.S. resulted in year-to-year production declines ranging from 13.5 to 25.3 percent, averaging 18.4 percent.

In addition to South American weather, the current dry pattern in the U.S. will keep the market's attention. The winter wheat crop will be most immediately impacted by U.S. weather. Beginning as early as January, however, persistent dry weather would begin to creep into the corn and soybean markets. The last extended period of low crop prices (late 1986 through early 1988) was ended with the drought of 1988. With prices below the Commodity Credit Corporation (CCC) loan rate, the marketing loan and loan deficiency payment programs provide downside price protection for stored crops. The major risk over the next year is the development of higher prices as a result of reduced production in the U.S. In general, higher prices in short crop years have not offset the negative effect of reduced yields on income from that crop because of large stocks in inventory. Maintaining ownership of some of the 1999 crop, with loan protection or with use of options, into the critical weather period of 2000 is a low risk alternative. Decisions are more difficult for new crop corn and wheat because those prices are, for the most part, above the loan rate.

Darrel Good
Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana-Champaign
528 Bevier Hall, MC-184
905 S. Goodwin Ave.
Urbana IL 61801

Return Service Requested

First Class
U.S. Postage Paid
Permit #75
Champaign, IL