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WEEKLY OUTLOOK

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FUNDAMENTAL SUPPORT FOR CROP PRICES FADES

The post harvest rally in corn and soybean prices has been anemic, reflecting only basis appreciation. Corn and wheat futures have established new contract lows and soybean futures turned lower after a brief rally. Fundamental support from dry weather has faded as South American soybean growing areas received some much needed rain and the U.S. winter wheat growing areas turn a little wetter.

The USDA's December estimates also confirmed prospects for abundant supplies for the near term. For wheat, the crops in Argentina and Australia are expected to be 21 percent and 4 percent, respectively, larger than last year's harvest. Along with a larger crop in Canada, these crops are expected to offset the smaller crop in the European Union, so that production in major exporting countries will be nearly as large as last year's very large crop. Smaller crops in Eastern Europe, North Africa, and Pakistan, are offset by larger crops in China and the former Soviet Union. The abundance of wheat resulted in the USDA lowering its marketing year forecast of U.S. wheat exports by 25 million bushels and increasing the projection of year ending (June 1, 2000) stocks by an equal amount. The projections represent a year ending stocks-to-use ratio of 44 percent. The projection of the world stocks to use ratio is a more modest 22 percent.

The USDA's December report contained few changes in the world corn and coarse grain projections. For world coarse grains, the projection of year ending stocks represents 17.8 percent of projected world consumption. That is slightly lower than the November projection of 17.9 percent, but above the 17.6 percent of last year and the 15.6 percent of two years ago. Domestically, the projection of feed and residual use of corn during the current marketing year was increased by 50 million bushels, to a record 5.55 billion bushels. That projection is 1.1 percent larger than use in that category last year and 0.8 percent above the previous record during the 1997-98 marketing year. The increased projection this month presumably reflects the larger number of cattle on feed and the improvement in livestock prices.

Year ending stocks of corn are now projected at 1.994 billion bushels, 45 million below last month's projection. The projection of the marketing year average price is in a range of $1.60 to $2.00 per bushel, unchanged from last month's projection.

Changes in world soybean projections included a 15 percent reduction in the estimated size of the crop in the European Union, a 1.3 percent increase in the projection of domestic consumption in Brazil, and a 5 percent reduction in the projection of year ending stocks in South America. For the U.S., the only change in soybeans and soybean product projections was a 100 million pound (0.6 percent) reduction in the projection of domestic oil consumption. Year-ending stocks of oil are now projected at an 8-year high of 2.115 billion pounds. As a result, the projections of the marketing year average price of oil and soybeans were reduced. The average price of soybeans is projected in a range of $4.45 to $4.95 per bushel.

Compared to the last extended period of low prices (mid 1980s) the projected U.S. ending stocks of corn, wheat, and soybeans are rather modest. Year ending stocks of corn peaked at 4.88 billion bushels on September 1, 1987 and were at 4.26 billion on September 1, 1988. Wheat stocks peaked at 1.9 billion bushels on June 1, 1986 and were at 1.8 billion on June 1, 1987. Year ending stocks of soybeans peaked at 536 million bushels on September 1, 1986 and were at 436 million bushels on September 1, 1987. The projection for September 1, 2000 is 395 million bushels. As a percentage of annual use, current stocks are small by the standards of the mid 1980s. Even so, the market has become comfortable with relatively low stocks since the last major shortfall in production in 1988. Prices are expected to remain on the defensive until current supplies are threatened. That threat could occur at anytime, but is not occurring at the moment.

The marketing loan program provides downside price protection for unpriced crops. There, however, continues to be risk for those unpriced crops for which a loan deficiency payment has already been received.

THIS IS THE LAST ISSUE OF WEEKLY OUTLOOK FOR 1999. THE NEXT ISSUE WILL BE JANUARY 4, 2000.

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