



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.

JANUARY 18, 2000

CROP PRICES BOOSTED BY USDA REPORTS AND WEATHER CONCERNS

The USDA reports released on January 12 provided fundamental support for corn, soybean, and wheat prices. Concerns about less than ideal weather in Brazil are providing additional support for soybean prices. Persistent dryness in parts of the southern Plains is providing additional support for wheat prices.

The USDA reports provided the most surprises for the corn market. Changes contained in those reports included a 100 million bushel reduction in the estimated size of the 1999 U.S. harvest; a 50 million bushel increase in projected exports for the current marketing year; a 20 million bushel increase in projected food and industrial use; a 100 million bushel increase in projected feed and residual use; a 280 million bushel reduction in projected carryover stocks; and a 10 cent increase in the projected marketing year average price, in a range of \$1.70 to \$2.10. At 1.714 billion bushels, stocks on September 1, 2000 are expected to be 73 million less than stocks on September 1, 1999. One of the few changes in the projections for the rest of the world was a 40 million bushel reduction in the forecast of the Brazilian corn harvest due to recent dry weather. Corn futures gained about 12 cents last week, while the average cash price in central Illinois gained only 4.5 cents as basis weakened considerably. December 2000 futures traded to a high of \$2.50 on both Thursday and Friday.

For wheat, the USDA lowered the estimate of the 1999 U.S. harvest by 6 million bushels; increased the projected feed and residual use by 50 million bushels; reduced the projected year end stocks by 55 million bushels; and increased the projected marketing year average price by 5 cents, in a range of \$2.50 to \$2.60. Only very minor adjustments were made in the projections for the rest of the world.

The estimate of winter wheat acreage in the U.S. came in at 42.916 million acres, down from 43.431 last year and 46.449 million two years ago. Acreage is the smallest since 1972. Compared to last year, planted acreage is down 400,000 in Texas, 300,000 in Oklahoma, 200,000 in Kansas, 150,000 in Nebraska, and 100,000 in Illinois. Increases were registered in Arkansas (180,000 acres) and Montana (450,000 acres). Last week, wheat futures at Chicago gained about 13.5 cents.

For soybeans, the USDA reduced the estimated size of the 1999 U.S. harvest by 30 million bushels; reduced the projection of year ending stocks by an equal amount; and increased the projection of the marketing year average price by 5 cents, in a range of \$4.50 to \$5.00. The projected size of the Argentine crop was increased by about 18 million bushels and the

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projection of the Brazilian crop was unchanged, even though some weather problems have been noted there. The estimate of planted acreage was increased for both countries. January 2000 futures gained 14 cents last week, while the average cash price in central Illinois was up 15 cents and November 2000 futures gained 19.75 cents.

It appears that the corn market has fully captured the impact of the changes in the supply and demand projections. The price gains for both soybeans and wheat have exceeded the impact of the USDA reports. Some private crop watchers suggest that Brazilian soybean production may have already been reduced by 40 to 60 million bushels, and hot weather is forecast for this week. Dryness in the southern Plains is expected to persist, further reducing crop ratings there. As of January 9, 60 percent of the Texas crop was rated in poor or very poor condition.

July 2000 wheat futures declined about \$.65 from late September to mid December. About half of that decline has now been regained. The \$3.00 mark may provide a near term cap for the rally, but a move to \$3.20 could be generated by ongoing crop concerns and/or higher soybean prices. December 2000 corn futures have recaptured almost all of the decline that occurred from early September to mid December. Additional price increases soon may require some help from wheat or soybean prices or from continued moisture concerns into planting time. Depleted subsoil moisture conditions are a concern for all crops, but could be especially important for corn if acreage is reduced again this year. The December contract high is \$2.795. November soybean futures have rallied about \$.45 since mid December and appear ready to challenge the September highs near \$5.50.

The recent price rally gives producers an opportunity to price part of the 1999 crop for which the loan deficiency payment has been established. For old crop soybeans still eligible for loan, the 60-day lock-in on loan repayment appears to be a very attractive alternative. The same is true for corn if the posted county price is below the loan rate, or drops below the loan rate. The price strength also provides a starting place for pricing some of the 2000 corn and wheat crops. Sales should likely move cautiously due to the production and price risk associated with dry conditions persisting into the growing season. This might be the year to consider the benefits of options and crop/revenue insurance. New crop soybean prices are still below the likely loan rate for the 2000 crop so that pricing need not be considered.

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