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WEEKLY OUTLOOK

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CROP PRICES FIND MORE SUPPORT

Several factors continue to provide support for corn, soybean, and wheat prices. Among these are continued dry weather in some South American growing areas, dry weather in some U.S. winter wheat areas, a solid rate of export sales, and a large number of cattle in U.S. feed lots. These factors may provide additional support for prices, but the most important factor will be U.S. weather conditions.

Dry weather has reduced corn and soybean production in some South American areas, but favorable conditions in other areas will keep crop size reasonable. A significant crop loss is not expected at this time. Large numbers of cattle in U.S. feedlots, along with expanding poultry production, are providing strong domestic feed demand. The January 28, *Cattle* report, however, is expected to show smaller feeder cattle supplies and prospects for fewer cattle being fed as the year progresses. U.S. winter wheat production is in question, but world wheat supplies are large and U.S. spring wheat acreage could be expanded to meet a shortfall in winter wheat prospects. In short, old crop inventories are sufficient. Carryover stocks will not be as large as projected a month ago, but inventories are expected to be well above minimum levels.

With normal weather and trend yield sin 2000, upside potential in prices might be limited. Reasonable targets might be $5.75 for November 2000 soybean futures; $2.65 for December 2000 corn futures; and $3.00 for July wheat futures (Chicago). However, trend yields for the 2000 crop are not assured. The recent dry pattern in many areas raises legitimate concerns about prospects for average yields in 2000.

It is useful to put potential crop size in perspective. For corn, to maintain carryover stocks for the 2000-01 marketing year near the projected 1.7 billion bushels for this year would require a crop of about 9.55 billion bushels. If harvested acreage declines by about 500,000 acres, as many currently expect, to 70 million, the average U.S. yield would need to be 136.4 bushels per acre to produce a crop of 9.55 billion bushels. Assuming use could be maintained at 9.55 billion bushels with higher prices, the yield would need to be only 126.4 bushels per acre to hold stocks above one billion bushels. The average yield in 2000, then, would need to be about 5 percent below trend to result in significant tightening of stocks.

For soybeans, to maintain next year's carryover stocks near the 365 million bushels projected for this year would require a crop of about 2.65 billion bushels. If harvested acreage increases by 500,000 acres, to 73 million, the U.S. average yield would need to be 36.3 bushels per acre to produce a crop of 2.65 billion bushels. To maintain stocks above 200 million bushels, the average yield would need to be only 34 bushels per acre. The average yield in 2000 would have to be about 12 percent below trend to result in a meaningful reduction in year ending stocks next year.

For wheat, to maintain next year's carryover stocks near the 970 million bushel level projected for this year would require a crop of about 2.4 billion bushels. If harvested acreage remains near the 54 million of 1999, the U.S. average yield would need to be 44.4 bushels to produce a crop of 2.4 billion bushels. To maintain stocks above 700 million bushels, the average yield would need to be only 39.4 bushels per acre.

Current stocks provide some buffer for a shortfall in U.S. or world production in 2000, but a significant crop problem would likely require higher prices to reduce consumption to the level of available supplies. How high prices would need to go would be a function of the magnitude of crop loss and the strength of demand.

For old crop corn still eligible for loan benefits, continued ownership is likely a prudent strategy for now. For soybeans still eligible for loan benefits, the 60-day lock-in provision for loan repayment is still an attractive alternative. Old crop corn and soybeans not eligible for loan benefits are more problematic. A strategy of spreading sales into the spring may be one alternative. For new crop soybeans, prices are generally below the loan rate. New crop corn prices are well above the loan rate. Scale up selling of some percentage of the new crop might be considered. Premiums are about $.25 for December at-the-money options, resulting in a minimum price only about $.10 to $.15 above the loan rate in many areas.

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