



WEEKLY OUTLOOK



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AS USUAL, U.S. WEATHER TO DOMINATE CROP PRICES

The USDA's February update of world crop supply and consumption estimates contained a number of revisions from the January report. Most of those changes were well anticipated. For corn, the estimate of the current crop in South Africa was increased by about 6 percent, to a total of 354 million bushels. The crop in the former Soviet Union is now projected at 215 million bushels, 3 percent larger than last year's crop, but 49 percent smaller than the crop of two years ago. The projection of Chinese exports during the current year was increased by 118 million bushels, to a total of 315 million bushels.

For the U.S., the projection of corn exports for the current year dropped by 25 million bushels, to a total of 1.95 billion. World corn consumption is expected to be larger than projected last month, led by increases in Southeast Asia, South Korea, and the former Soviet Union. Consumption of U.S. corn is now projected at 9.5 billion bushels, which would leave year ending stocks at 1.739 billion. That projection of stocks is 25 million more than projected last month, but 48 million below the level of stocks at the beginning of the year.

For soybeans, the projection of the South American harvest was reduced by 18 million bushels, to a total of 1.929 billion bushels. The lower estimate reflected smaller projections for Brazil and Paraguay (18 million bushels each) and a larger projection (18 million bushels) for Argentina. Based on the current pace of sales, the USDA raised the projection of U.S. soybean exports during the current marketing year to 890 million bushels, 25 million above the January projection. Exports are expected to be at the highest level since 1982-83 and the third highest ever. The increase in exports was partially offset by a 5 million bushel reduction in the projection of domestic crush. Year ending stocks are expected to total 345 million bushels, about equal to the level of stocks at the start of the year.

For wheat, the estimates of crop size were bumped up for Australia, the former Soviet Union, and the European Union, but reduced for India. The net effect was a very small increase in the 1999-00 world production estimate. The crop is about 1 percent smaller than that of last year and 4 percent smaller than the record crop in 1997-98. For the U.S., exports are now projected at 1.05 billion bushels, 25 million below the January projection and about equal to exports of the past 2 years. Year ending stocks in the U.S. are projected at 997 million bushels, 51 million larger than stocks at the beginning of the year. The changes in the February report altered the fundamental picture very little. World grain and oilseed consumption is expanding, world inventories are being reduced slightly, but are expected to be at fully adequate levels. Whether or not that scenario of adequacy is threatened in the near term will be determined by the size of the 2000 northern hemisphere crops. For corn and soybeans, the size of the U.S. crops will dominate price prospects. U.S. wheat production will be important, but crop size in Canada, Europe, and China will have important implications as well.

The focus is currently on U.S. production prospects due to depleted soil moisture in many areas and a continuation of generally dry conditions, particularly in the southern plains states. If dryness persists, winter wheat production will be the first to be threatened. The dilemma, of course, is that losses of winter wheat could be offset by additional spring wheat. In addition, lost winter wheat could result in more feed grains and/or oilseeds planting if spring moisture levels are adequate.

At a minimum, crop prices should be able to hold the gains made since mid-December into the early spring. Persistent dry conditions would add to those gains. For now, market participants appear to view each price decline as an opportunity to buy in anticipation of a real weather market this spring. Producers can probably be a little patient in pricing old crop inventory and the start of a new crop pricing. Decisions will become more difficult if prices move higher. Any indication of a change in the weather pattern may require a fairly quick response.

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