UNIVERSITY OF ILLINOIS
EXTENSION

# WEEKLY OUTLOOK

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## GRAIN STOCKS REPORT PROVIDES SOME EXCITEMENT

The USDA's quarterly *Grain Stock* reports do not often contain significant surprises. This is not the case with the September 1 *Grain Stocks* report released on September 29. The biggest surprise came in the estimate of wheat inventories. At 2.366 billion bushels, stocks were 79.4 million bushels less than on the same date last year and about that much smaller than the market had expected. As a result, the estimated size of the 2000 U.S. wheat harvest was reduced by 63 million bushels (2.7 percent), to a total of 2.239 billion bushels.

The smaller-than-expected wheat stocks estimate will result in a lower projection of year-ending stocks in the USDA's monthly report to be released on October 12. While U.S. stocks are ample, the concern about weather conditions surrounding the seeding of the winter wheat crop and the draw down in world wheat stocks will provide underlying support to wheat prices. Chicago wheat futures continue to show a large carry, so that prices for next year's crop are about $.55 higher than the price for the old crop. Some early opportunities to price some of the 2001 crop may emerge yet this fall/winter.

September 1 stocks of corn were estimated at 1.715 billion bushels, nearly 72 million less than on the same date last year and 54 million less than projected by the USDA's World Outlook Board. The implication is that feed and residual use of corn was larger than expected during the summer months. Use during the summer was unusually small last year.

The smaller than expected stocks estimate now makes the revised production estimate to be released on October 12 even more important. If, as almost everyone expects, the production estimate is lowered, the projection for year ending stocks will likely drop under 2 billion bushels. The upcoming expansion in U.S. hog production along with growing ethanol consumption may warrant some increase in the projection of domestic corn use. On the export side, all eyes will be on the estimated size of the Chinese corn crop. The USDA has already estimated a 10 percent reduction in output due to a dry growing season. A further cut would support ideas of a sharp increase in U.S. corn exports this year.

If the corn crop estimate is reduced as expected, it is likely that the corn market has established an early low this year. A high rate of consumption along with a slow pace of farmer sales could result in a rapid basis improvement following harvest.

September 1 soybean stocks were estimated at 288 million, 61 million bushels less than the inventory on the same date last year, but 23 million more than had been projected by the USDA's World Outlook Board. As a result, the USDA increased the estimated size of the 1999 harvest by about 11 million bushels. The increase reflected a 0.1 bushel increase in the U.S. average yield estimate and a 30,000 acre decrease in the estimate of harvested area. The acreage adjustments came in Arkansas (-50,000), Kentucky (+10,000), and Tennessee (+10,000). The yield adjustments came in Kansas (+1.0), Maryland (+2.0), Minnesota (+1.0), and Tennessee (+1.0).

While soybean stocks were only modestly larger than expected, the difference will tend to buffer the expected reduction in the estimated size of the 2000 crop in the USDA's October *Crop Production* report. Recent price strength had reflected the anticipated cut. With such widely varying yield results being reported, the October production estimate could still provide a surprise to the market, in either direction.

The market will also be interested in any revisions in the estimated size of the current Chinese soybean harvest and the implications for U.S. export prospects. A change in 2001 production prospects for South America is not expected.

In general, crop market fundamentals are improving. U.S. crops will not be as large as anticipated two months ago. Consumption of U.S. corn and soybeans will be record large and world stocks, particularly of wheat, are declining. Some gradual price improvement is generally expected. A move above loan rate prices, however, may require further improvement in the supply demand fundamentals. Beyond the October and November production estimates, the market will closely monitor export progress for evidence of stronger or weaker than expected demand. The likelihood that U.S. stocks will remain at manageable levels opens the door for more significant price recovery in the last half of the marketing year.

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820