UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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USDA REPORTS CONTAIN SOME SURPRISES FOR CORN AND SOYBEANS

The USDA's October reports contained a few surprises for both corn and soybeans. The revised production estimates, 10.19 billion bushels for corn and 2.82 billion bushels for soybeans, were about as expected. However, projections for consumption and year ending stocks contained some significant changes from last month's projections.

For corn, the USDA increased the projected feed and residual use of corn for the current marketing year by 100 million bushels, to a total of 5.85 billion bushels. The upward revision reflects larger than expected use last year (based on the September stocks estimate), a slightly faster pace of expansion of hog numbers, and a significant reduction in the availability of sorghum. The U.S. sorghum crop is now estimated at 465 million bushels, 51 million below the September estimate and 130 million less than harvested last year. Feed and residual use of sorghum is expected to be 60 million bushels less than used last year.

The export projection for corn was also increased by 100 million bushels, to a total of 2.275 billion bushels. That projection is 340 million bushels larger than last year's exports. While world trade of corn is expected to be near the level of last year, the U.S. is expected to gain market share from China and Argentina. Of the major corn importers, only Mexico is expected to import significantly more corn than last year. It was a bit of a surprise that the USDA did not lower the projection of Chinese corn exports even though the Chinese production estimate was reduced by nearly 400 million bushels.

With smaller estimates for September 1, 2000 stocks and the 2000 crop and larger projections of use, the USDA's projection of year-ending stocks declined by 425 million bushels. At 1.817 billion, year ending stocks are still expected to be about 100 million larger than stocks at the beginning of the year. Corn inventories in China, however, are expected to drop from 2.08 billion bushels at the beginning of the year to 1.34 billion at the end of the year.

For soybeans, the surprises in the projections of consumption were in the opposite direction of those for corn. The domestic crush during the current marketing year is now projected at 1.615 billion bushels, 15 million below last month's projection, but 36 million more than crushed last year. Expectations for crush are being limited by relatively weak export demand for meal and oil.

The projection of soybean exports was reduced to 965 million bushels, 35 million below last month's projection and 5 million less than exported last year. World soybean trade is expected to slow from the record pace of the 1999-00 marketing year, due primarily to smaller imports by China. Chinese imports are projected at 266 million bushels, down from 356 million last year. The South American harvest in 2001 is projected at 2.17 billion bushels, 65 million larger than the September projection and 129 million larger than the record harvest of this year. Soybean acreage is expected to be unchanged in Brazil, but is expected to increase by 8.5 percent in Argentina. The average yield, however, is expected to rebound to a more normal level in Brazil.

The net effect of changes in supply estimates and consumption projections was an unchanged projection for year ending stocks of U.S. soybeans. These stocks are projected at 365 million bushels, compared to 288 million at the beginning of the year.

The marketing year average farm price of corn is expected to fall in a range of $1.65 to $2.05, $.15 higher than last month's projection. For the year ended August 31, 2000, the average farm price was estimated at $1.80. For soybeans, the marketing year average price is expected to fall in a range of $4.60 to $5.20, generally above the $4.65 average of the past marketing year.

For the next several weeks, prices will be mostly influenced by harvest progress, weekly estimates of exports, and planting progress in South America. In general, the market expects the November production estimates to be smaller for both corn and soybeans. The changes may not be large, but would further reduce the projections of year ending stocks.

Corn prices have reflected the improving fundamental market factors, while soybean prices have reflected the deteriorating market fundamentals. December corn futures traded to a high of $2.11 following last week's report, $.26 above the contract low reached in August. November soybean futures traded to a low near $4.65, $.50 below the high reached in early September. The strength in corn prices makes corn very competitive with soybeans in the planting decision for 2001. Harvest bids in central Illinois, for example, reflect a soybean loan rate to corn price ratio of less than 2.5 to 1.

Prices are now expected to trade in a narrow range until harvest is completed. Significantly higher prices will likely require some concern about the South American crops, or U.S. crops next spring.

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