



# WEEKLY OUTLOOK



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**December 11, 2001**

## **USDA REPORTS WILL BE IMPORTANT FOR WINTER CROP PRICES**

Demand prospects, particularly export demand for corn and soybeans remain uncertain. The slow pace of corn exports during the first quarter of the marketing year reflects continued shipments by China and reluctant buying by Japan due to StarLink concerns. The USDA will update the estimate of the size of the 2000 China corn crop, as well as the marketing year projection of China and U.S. corn exports in the monthly report released on December 12. China is currently giving very mixed signals about the availability of corn for exports. In addition, the timing of China's attempt to enter the World Trade Organization may well influence its corn export subsidy policy. A slow down in China's shipments and an increase in Japanese buying are clearly needed soon if the U.S. has a chance to export the 2.275 billion bushels of corn projected last month. In addition to this week's revised projection of exports, the weekly export inspections and export sales reports will be monitored closely for indications that Japan has returned to the U.S. market.

The rapid pace of soybean exports and export sales reflect continued large purchases by China and the restriction on meat and bone meal feeding in Europe. The USDA is expected to increase the projection of U.S. soybean, and perhaps soybean meal, exports in the monthly report released on December 12. The size of the increases, however, will likely be moderated by continued expectations of another record South American soybean harvest in 2001.

On December 28, the USDA will release the quarterly Hogs and Pigs report, showing the current inventory of hogs as well as farrowing intentions for the next six months. The recent action in the hog market suggests the market expects less expansion than indicated in September. The rate of expansion will be important for domestic corn and soybean meal demand.

On January 11, the USDA will release the final estimate of the size of the 2000 crops, an estimate of December 1 stocks, a winter wheat seedings estimate, and revised projection of consumption during the current marketing year. The estimated size of the 2000 corn and soybean crops has declined with each report since the first estimate was released in August. Since 1975, there have been only two other years (1984 and 1999) in which the estimated size of the U.S. soybean crop

declined each month from August through November. In both those years, the January estimate was smaller than the November estimate (41 million bushels in 1984 and 30 million bushels for the 1999 crop). For corn, there have been four other years since 1975 in which the production estimates declined each month from August through November (1980, 1983, 1993, and 1995). The January estimate was smaller than the November estimate in two of those years (1980 and 1993), it was larger once (1983), and unchanged once (1995). A slight reduction in the size of both the corn and soybean crops appears likely this year.

The estimate of December 1 stocks will be especially important for corn. Based on known exports and domestic processing uses of corn, the stocks estimate will allow the calculation of domestic feed and residual use of corn during the first quarter of the marketing year. In combination with the information in the December Hogs and Pigs report, that estimate will provide the basis for a more reliable projection of feed and residual use of corn for the year.

The winter wheat seedings report is expected to show a decline in acreage, partly due to unfavorable weather in the southern plains states during the fall months. The magnitude of the decline will be an important signal for spring wheat producers. In addition, the location and magnitude of the decline will have implications for likely acreage of other spring planted crops, particularly sorghum and soybeans.

After two and one half years of depressed corn and soybean prices, the market continues to anticipate a break-out to higher levels. The average cash price of corn in central Illinois moved to a marketing year high of \$1.985 on December 1, while the average soybean price reached a high of \$4.965 on December 8. Those prices are \$.475 and \$.55, respectively, above the lows reached early in the marketing year. While current conditions do not point to sharply higher prices in the immediate picture, some continued recovery in cash prices might be expected as U.S. stock levels remain modest and world grain inventories continue to tighten.

The extent of further price recovery will eventually depend on prospects for the 2001 crops in the U.S. Periods of weather and crop concerns would be expected to push cash corn prices \$.20 to \$.30 above current levels. The futures market, however, already offers a \$.25 to \$.30 premium for spring delivery, depending on basis. Soybean prices could advance by \$.50 to \$.75 per bushel. The futures market currently offers about a \$.20 premium for spring delivery.

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