UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

MAY 7, 2001

MARKETS CONTEMPLATE POTENTIAL CROP SIZE AND DEMAND

This is the time of year when crop markets tend to be dominated by production prospects, particularly the potential size of U.S. crops. However, the market never really forgets about the demand side of the price equation. The current wheat market is an example. Information flowing to the market this past week generally confirmed expectations of a significant reduction in U.S. winter wheat production this year. Wheat prices continued to struggle in the face of what appears to be fundamentally supportive information. It may be that the market is somewhat skeptical of private production estimates, preferring to wait on the USDA's first estimate of the winter wheat crop to be released on May 10. Alternatively (or in addition), the market may be reflecting an overall weak demand scenario, suggesting that even with a sharp reduction in U.S. output, world supplies are adequate to meet current demand prospects. Revisions in country-by-country stock estimates included in the May 10 USDA report will shed some significant light on that issue. A third alternative is that the current large carry in the wheat price structure may be sufficient to reflect a sharp decline in U.S. wheat production. The year-over-year carry (May 2001 to May 2002) is about $.55 per bushel at Chicago, $.47 at Minneapolis, and $.37 at Kansas City. The nearly 21 percent carry at Chicago is particularly large.

The divided nature of moisture conditions provides some confusion and uncertainty for the corn and soybean markets. Excessive moisture in parts of the western and northern growing areas has slowed planting progress and once again raised the issue of potential switching of intended corn acres to soybeans. Dry conditions in parts of the eastern and southeastern growing areas has resulted in rapid planting progress, but raised concerns about germination and early growth prospects. In general, history suggests that producers are reluctant to switch corn acres to soybeans beyond their early intentions. The evidence is that producers will stay with corn later into the planting season than generally expected by the market. The most recent example is 1996 when a very wet spring and slow planting progress, particularly in the eastern corn belt, resulted in a modest reduction in corn acreage from March intentions. Some reduction did take place in the wet areas , but was partially offset by some failed wheat acres being replanted to corn. A similar scenario may unfold this year.

Soybean acreage in 1996 increased by 1.7 million acres from March intentions, considerably more than the 700,000 acre reduction in corn acreage. Those figures illustrate that a number of other factors besides corn and soybean switching impact the final acreage number in relation to March intentions. One of these factors is whether the March *Prospective Plantings* report accounts for all of the crop land acreage. In some years it clearly has not. This year appears to be on of those years when planted acreage of all crops will exceed March intentions, even before accounting for possible replanting of failed wheat acres. The March report this year appeared to leave several million acres of crop land not accounted for. That is, intentions for all crops fell well short of actual acreage planted in 2000. The increase in acreage to be harvested for hay does not explain the shortfall. Similarly, increased participation in the Conservation Reserve Program will not likely account for all of the apparent shortfall.

While the market is trying to figure out potential corn and soybean acreage, yield, and production, demand considerations will continue to have some impact on price movement. Soybean and soybean meal consumption remain at a high level. The USDA may make a modest reduction in the projection of year ending soybean inventories in this week's report. The high rate of use is partially responsible for last week's modest recovery in soybean and soybean meal prices. Prices will have to remain generally low as long as prospective and actual supplies are large. Conversely, annual supplies will have to continue to be large to keep prices under the severe pressure of the past three years. The market will be looking for some crack in that large-supply scenario.

For corn, year ending stocks will be relatively large, so that relief from large supplies will have to come from the new crop. Reduced acreage is the most likely source of some relief. Like wheat, however, the large carry in the corn market means that some improvement in the supply and/or demand fundamentals will be required to support those higher prices for the 2001-02 marketing year. The May 2001 to May 2002 carry in the futures market is currently $.44 per bushel, or 21.7 percent.

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