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QUESTIONS ABOUT CORN AND SOYBEAN SUPPLY AND DEMAND

As harvest of the 2001 corn and soybean crops progress, several important questions about stocks, crop size, and market size still remain. On the domestic side, supply for the 2001-02 marketing year will be determined by the magnitude of old crop carryover stocks and the size of the 2001 harvest. The USDA's quarterly *Grain Stocks* report to be released on September 28 will answer the question about carryover stocks. The USDA has projected year-ending soybean stocks at 240 million bushels and year ending corn stocks at 1.938 billion bushels. There is generally anticipation that inventories of both crops may be a bit smaller than those projected, as domestic use during the final quarter of the year may have been larger than projected.

Crop size will be the dominant supply factor. The market appears to be somewhat divided in opinion about changes from the September forecast. Some argue that the trend towards smaller crop forecasts has been established and that further reductions are likely in October. History, however, provides a mixed record of changes in the crop forecast in October following a smaller forecast in September. Others analysts point to improved crop condition ratings over the past two weeks as evidence that production forecasts may stabilize or actually increase somewhat. As of September 17, the USDA rated 56 percent of the corn crop in good or excellent condition compared to 52 percent in those categories on September 3. For soybeans, the percentage of the crop rated good or excellent grew from 52 percent on September 3 to 55 percent on September 17. Compared to the ratings of a year ago, 2 percent more of the soybean crop was rated in good or excellent condition on September 17, while 9 percent less of the corn crop was in those categories.

Future changes in estimated crop size and total supplies of corn and soybeans may not be large. If that is the case, then market size and strength of demand will become the major focus of the market. For corn, there is some expectation that use during the 2001-02 marketing year could exceed the current USDA projections in each of the three major categories – domestic processing, domestic feed, and exports. Optimism about domestic processing use centers around expectations of accelerating ethanol consumption, while export optimism centers on China. A case for feed and residual use to exceed the current USDA projection of 5.8 billion bushels (50 million less than the estimate for last year) is a little difficult to make. Placements of cattle into feed lots is slowing, hog production is not expanding, and broiler production is expected to expand by only 2 percent.

For soybeans, there is also some optimism that use during the current marketing year could exceed the current USDA projection of 2.823 billion bushels, the same as use during the year just ended. Chinese demand and the size of the 2002 soybean crop in South America will be the primary factors determining the size of the market for the 2001 U.S. soybean crop.

The market will monitor the rate of consumption closely to gauge the accuracy of the projections of use. To date, corn exports and export sales are lagging the pace of a year ago, with Mexico and South Korea accounting for the decline. On the other hand, total commitments of soybean exports are running well ahead of last year's pace. Only sales to Mexico are significantly smaller than at this time last year. The pattern of domestic use of corn and soybeans will unfold slowly, reflected in monthly soybean crush estimates from the Census Bureau and in quarterly USDA stock reports.

Cash corn prices have generally shipped below the Commodity Credit Corporation (CCC) loan price. The over night bids in central Illinois on September 21, for example, averaged about $1.90, or about $.05 below the loan rate. However, the posted county price in that area was generally well below the cash price, resulting in a relatively larger loan deficiency payment (LDP). The combination of low posted county prices and a premium for January delivery offered an interesting marketing strategy of establishing the LDP at harvest and selling the crop for January delivery. For those more optimistic about prices, locking in the loan repayment rate for 60 days might be considered.

For soybeans, cash prices are running well below the CCC loan rate, about $.90 in central Illinois. The posted county price, however, is generally close to the cash price and the premium for January delivery is relatively small, providing fewer alternatives for pricing.

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