UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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USDA REPORTS TO PROVIDE DIRECTION FOR CROP PRICES

The USDA's November update of U.S. and world crop supply and consumption prospects, to be released on November 9, will set the tone for the corn and soybean markets at least through the end of the year. It is generally expected that the November forecast of the 2001 U.S. corn crop will exceed the October forecast. Most of the widely followed private forecasts show a larger crop. The USDA's November forecast has equaled or exceeded the October forecast in 15 of the past 20 years. Over that period, the November forecast has exceeded the October forecast in every year that also had an unchanged or higher forecast in October, as was the case this year.

In addition to a larger production forecast, the market generally expects the USDA to lower its forecast of U.S. corn exports during the current marketing year. That expectation is based in part on the sluggish start to the export program this year. Export inspections during the first nine weeks of the marketing year totaled only 316 million bushels, 15 percent less than inspections during the same period last year. Unshipped sales as of October 25 were about 12 million bushels (4 percent) smaller than on the same date last year. The pace of export business is much slower than a year ago for Japan, South Korea, and Egypt.

If USDA makes the expected changes for U.S. corn production and use forecasts, the result will be prospects for a more comfortable level of stocks by the end of the 2001-02 marketing year. While those stocks will likely be smaller than stocks at the beginning of the year, they will be in line with the general level of inventory for the past three years.

Expectations for changes in supply and consumption projections for the U.S. soybean crop are mixed. Harvest reports reflect more variability in late season soybean yields, resulting in mixed expectations about the USDA's November forecast. Over the last 20 years, the USDA's November soybean crop forecast was larger than the October forecast 11 times and smaller 9 times. In years that the October forecast exceeded the September forecast, as was the case this year, the November forecast exceeded the October forecast 80 percent of the time.

In contrast to the slow start to the U.S. corn export program, the soybean program has started quickly, particularly the export sales program. As of October 25, the U.S. had sold 440 million bushels of soybeans for export. Those sales were 11 percent larger than on the same date last year and represented 45 percent of the USDA's projected exports for the year. Soybean export inspections were relatively small during the first six weeks of the marketing year, but accelerated during the three weeks ended November 1. Cumulative shipments through November 1 were only

7 percent less than shipments of a year ago. That difference was caused in large part to a slower start to shipments to the European Union. Total sales to the European Union, however, are 16 percent larger than sales of a year ago.

Given the large level of outstanding soybean exports sales at this early date in the marketing year, the USDA may increase the forecast of total exports for the year. If the 2001 crop forecast is lowered, the forecast of year ending stocks will decline, perhaps to near the level of stocks at the beginning of the year.

A smaller USDA projection for year-ending stocks of soybeans would suggest that the harvest low in prices has been established. For central Illinois, the lowest daily average cash price was $3.985 established on October 22. The average price increased by $.14 through November 2, as the average basis strengthened only $.01. The extent of post-harvest price recovery this winter will be determined by the rate of consumption and development of the South American crop. After the first of the year, the market will also begin to think about the potential size of the 2002 U.S. crop.

A larger carryover projection for corn would suggest that the cash price of corn may not have established a harvest or marketing year low. The lowest average daily cash price of corn in central Illinois so far this year was $1.795, established in mid-October. That average daily price moved about $.05 higher by the end of October, but was only $.01 higher on November 2, even though the average basis had strengthened by $.05.

Producers who have already established the loan deficiency payment (LDP)) on corn that is still owned, may want to consider establishing some price protection. For corn on which the LDP has not been established, producers still have a wide range of alternatives. The large premium for January delivery still exists. The risk for soybean prices is associated with the potential for a larger USDA production forecast on November 9.

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