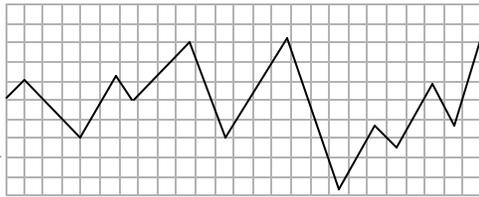




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WEEKLY OUTLOOK

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WEATHER TAKES CENTER STAGE

The USDA reports released on May 10 contained some minor surprises, but those surprises were not large enough to establish new price trends. The estimate of the U.S. winter wheat crop, at 1.3 billion bushels, was smaller than expected. The estimate is nearly 61 million bushels smaller than the 2001 crop, 265 million smaller than the 2000 crop, and would be the smallest crop in 24 years. Production of all classes of U.S. wheat is projected at 1.886 billion bushels, 72 million smaller than last year's crop. At that level, production would be at the lowest level since 1988. The price impact of the small U.S. crop projection was partially offset by projections of increased production in the rest of the world. Foreign production is expected to expand by 3.2 percent, led by a 16.6 percent increase in the European Union. Production in major exporting countries is expected to increase by 12.7 percent, resulting in a 100 million bushel decline in U.S. wheat exports. At 875 million bushels, the projection of U.S. exports for the 2002-03 marketing year would be the smallest in 31 years.

For corn, the USDA projects a 428 million bushel increase in U.S. production in 2002, reflecting more acres and a slightly lower average yield than in 2001; a 75 million bushel decline in feed and residual use; a 115 million bushel increase in food and industrial use; a 175 million bushel increase in exports; and a 60 million bushel drop in stocks by the end of the 2002-03 marketing year. The larger export projection reflects expectations for less competition from Argentina and China. The smaller projection for feed and residual use reflects expectations for increased feeding of other grains and a small decline in animal numbers. Foreign production of corn is expected to increase by 4.2 percent and foreign production of all coarse grains is expected to increase by 2 percent in 2002-03. However, expanding consumption is expected to result in declining world stocks by the end of the 2002-03 marketing year.

For soybeans, the USDA increased the projection of domestic crush during the current year by 5 million bushels and reduced the projection of year ending U.S. stocks by an equal amount. The estimate of the current South American crop was reduced by 7 million bushels. For the 2002-03 marketing year, the USDA projected a 41 million bushel decline in U.S. production; a 20 million bushel increase in domestic crush; a 45 million bushel reduction in exports; and a 5 million bushel reduction in U.S. stocks. Projections for the rest of the world were not made in this report.

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As mentioned last week, the reports released on May 10 tend to set the tone for the market, but development of U.S. crops is the most important factor for the next few months. On that front, a fair amount of uncertainty continues. Recent heavy rainfall in parts of Missouri, Illinois, Indiana, Ohio, Kentucky, and Iowa has delayed corn planting and raised questions about switching of intentions from corn to soybean acreage. In addition, there is the possibility of some prevented plantings, particularly in river bottoms. The extent of acreage abandonment depends on how weather conditions unfold over the next several weeks. Finally, the lateness of planting in some areas, along with water damage to the soft red winter wheat crop, raises the question of average yield of the 2002 crops. The USDA's projection of corn yield (137.9 bushels) was based on a linear trend over the period 1960 through 2001. The projection of the 2002 soybean yield (39.7 bushels) was based on regional trends over the period 1978 through 2001. The expected average wheat yield (40.1 bushels) was based on the National Agricultural Statistical Services May estimate of the winter wheat average yield (43.1 bushels per acre) and actual spring wheat yields from 1999 through 2001.

Weather concerns are enough to suggest that the long-term down trend in December 2002 corn futures is over, at least for now. That contract has a low of \$2.15. In addition, the recent lows of \$4.50 should hold for the November 2002 soybean futures contract. In general, spring weather rallies have less punch than summer weather rallies since wet weather and delayed planting tend to have a smaller impact on yield potential than does hot, dry summer weather. Current concerns are enough for the speculative traders to reduce their short positions and for producers to be reluctant sellers of both the old and the new crops. The current rally could push old crop cash prices to the highest level of the post-harvest period, providing some pricing opportunities. New crop corn prices might approach the expected loan rate. The December corn futures contract appears to have resistance at about every \$.05 from \$2.30 to \$2.45. The recent high near \$4.85 in the November soybean futures contract should provide some resistance in the near term.

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