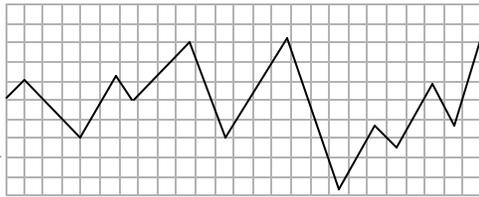




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WEEKLY OUTLOOK

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USDA REPORTS GIVE CORN AND WHEAT MARKETS A FIRMER TONE

The USDA's monthly reports of *World Agricultural Supply and Demand Estimates* and *Crop Production* provided some fundamental support for corn and wheat price prospects. In the case of wheat, the USDA now forecasts the 2002 U.S. crop at only 1.823 billion bushels, 63 million smaller than the May forecast and 135 million smaller than the 2001 harvest. The forecast represents the smallest crop since 1988. U.S. stocks at the end of the 2002-03 marketing year are projected at 555 million bushels, the smallest year-ending inventory in 6 years.

Wheat production in the rest of the world is forecast at 540.2 million tons. That forecast is 2.6 percent larger than the 2001-02 crop, but 4.2 million tons smaller than the May forecast. Compared to last month's forecast, smaller crops are expected in Australia, China, Eastern Europe, and the former Soviet Union. World wheat stocks are expected to decline for the third consecutive year. Still, wheat supplies are expected to be large enough that consumption can continue at a normal pace.

For corn, the major surprise in the June report was a smaller forecast of the 2002 U.S. crop. The May forecast was based on the March *Prospective Plantings* report and trend yields. This month, the USDA lowered its expectation of corn plantings by 1 million acres due to delayed planting in the eastern corn belt. In addition, the projected average yield was reduced from 137.9 bushels to 135.8 bushels to reflect the expected impact of late planting. As a result, the 2002 crop is now forecast at 9.65 billion bushels, 285 million smaller than the May forecast and only 143 million larger than the 2001 crop. With expanded exports and an increased domestic processing use of corn, the smaller crop is expected to reduce stocks at the end of the 2002-03 marketing year to 1.3 billion bushels, the lowest level in 6 years.

While this month's downward revision in the projected size of the 2002 U.S. corn crop was a friendly surprise, the market had a modest response. The reduced forecast was logical, but there is still a lot of uncertainty about both acreage and yield. The USDA's National Agricultural Statistics Service will release an *Acreage* report on June 28. This report will reflect an early June survey so will not be the final word on planted acreage. However, the report will provide a good benchmark for judging actual planted acreage. Yield prospects will reflect weather conditions for the remainder of the summer. The National Weather Service is projecting near normal precipitation and temperature for the majority of the growing season. The market will continue to take a wait and see attitude about yield prospects.

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The June report also contained a smaller forecast of foreign coarse grain production. At 629 million tons, the forecast is 2.2 percent larger than last year's crop, but 1.7 million tons smaller than the May forecast. World coarse grain stocks at the end of the 2002-03 marketing year are forecast at 111.2 million tons, the lowest year ending inventory in 7 years.

For the 2002-03 U.S. soybean marketing year, the USDA lowered the projection of beginning stocks by 20 million bushels, increased the 2002 crop projection by 20 million bushels, reduced the export projection by 10 million, and increased the projection of year ending stocks by 10 million bushels. The first projections for the 2002-03 marketing year for the rest of the world will be released next month.

The average daily cash price of corn in central Illinois moved to the highest level since harvest on June 13, while the highest post harvest price of soybeans was established on June 5. It is common for the highest cash prices of the marketing year to be established in June. The relatively favorable near term weather outlook suggests that prices may soften somewhat. However, it is pre-mature to suggest that the highest prices of the year have been established. Consumption of both corn and soybeans continue at a rapid pace and considerable production uncertainty remains. Some sort of averaging strategy for pricing remaining old crop inventories still appears attractive. New crop soybean prices are still well below the CCC loan rate. Harvest delivery prices for corn are marginally below the loan rate in most areas. The market is offering an average price of about \$2.15 for delivery from harvest to the summer of 2003. That is equal to the mid-point of the USDA's projection for the marketing year average price.

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