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LATE SEASON RAIN HALTS THE CROP PRICE RALLY

Recent precipitation in some of the drier areas of the midwest has brought a halt to the week-old rally in corn and soybean prices. The market now has to sort out the potential yield impact of the late season rainfall. August precipitation, of course, will result in higher average yields than would have occurred without the rainfall. The question is whether yields will exceed the USDA August forecast. The objective yield portion of the August forecast is based on the assumption of normal growing conditions following the collection of data for the August forecast.

The market remembers the pattern of yield forecasts last year, when late season rainfall also brought some relief to dry areas. For soybeans, the September yield forecast was 0.5 bushel below the August forecast, but the January estimate was 0.9 bushels above the August forecast. For corn, the September forecast was 0.4 bushel below the August forecast, but the January estimate was 4.3 bushels above the August forecast. Contrary to popular belief, the late rains last year appeared to boost corn yields more than soybean yields.

Based on the USDA's forecast that 71.001 million acres of corn will be harvested for grain in 2002, each bushel change in yield would mean a 71 million bushel change in production. A 4 bushel increase in the U.S. average yield this year would change prospects for a very tight supply and demand balance to prospects for a more comfortable balance. Still, year ending stocks might not be much above 1 billion bushels.

Harvested acreage of soybeans is projected at 72.029 million acres, so that a 1 bushel change in yield would alter production by 72 million bushels. A 72 million bushel increase in production over the August forecast would produce a crop of 2.7 billion bushels. A crop of that size would still require a 200 million bushel reduction in use during the year ahead in order to maintain year ending stocks above 150 million bushels.

Even with some increase in the size of the crop compared to the August forecast, it appears that U.S. corn and soybean inventories will be reduced during the 2002-03 marketing year. Under those circumstances, the strength of demand will be extremely important in determining the post-harvest price pattern. What level of prices will be required to limit consumption to the level of supply? The market will carefully monitor the monthly soybean crush reports, the monthly estimates of processing uses of corn, and quarterly USDA stock reports. In addition, monthly reports of livestock numbers, cattle-on-feed and the hog inventory, will provide information about potential adjustments in use. In the case of exports, the market has weekly USDA estimate of export sales and export inspections.

Currently, the only consumption data available are the weekly USDA export sales reports. Early sales are not a good indicator of actual shipments in the subsequent marketing year, but these sales are examined for clues about buying patterns of individual importing countries. As of August 8, only 90.5 million bushels of soybeans and 86.3 million bushels of corn had been sold for export during the 2002-03 marketing year.

The last time that consumption of U.S. corn and soybeans had to be restricted was the 1995-96 marketing year. Two factors appear to be significantly different for corn in 2002-03 than in 1995-96. First, the magnitude of the needed cut in consumption was much larger in 1995-96. Use was reduced by 800 million bushels, or 8.6 percent in 1995-96 compared to use in 1994-95. This year, use can be maintained at the level of use during 2001-02 if the crop is at least as large as the August forecast. Second, demand does not appear to be as strong currently as it was in 1995-96. High livestock prices and strong world economics meant that adjustments in consumption were not made early in the 1995-96 marketing year and that an extremely high price was eventually required to force the necessary reduction in use. The implication is that, with a trend yield in 2003, price will not have to go nearly as high this year as in 1995-96. The price pattern this year may be more typical of a short crop year, peaking early in the year.

For soybeans, the current situation is different from that of 1995-96 in two significant but contrasting ways. The use of U.S. soybeans may have to be reduced by more than 200 million bushels this year, compared to a 60 million bushel reduction in 1995-96. However, the 2003 South American soybean crop may be double the size of the 1996 crop. Larger South American supplies mean a lower price would be required to make the needed reduction in the consumption of U.S. soybeans.

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