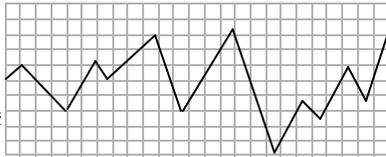




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WEEKLY OUTLOOK

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NO MAJOR SURPRISES IN SEPTEMBER REPORTS

The USDA's September report of U.S. and world crop prospects contained no major surprises. At 8.849 billion bushels, the U.S. corn crop projection was 37 million bushels smaller than the August projection, even though the U.S. average yield estimate was increased by 0.2 bushels, to 125.4 bushels. Stocks of U.S. corn at the end of the 2002-03 marketing year are expected to be a meager 729 million bushels, the lowest level in 7 years.

Compared to the year just ended, the USDA projects a 225 million bushel reduction in feed and residual use of corn during the current marketing year, a 115 million bushel increase in domestic processing use of corn, and a 100 million bushel increase in U.S. exports. Few doubt that processing use of corn will increase, due to expanded ethanol capacity. Opinions differ on prospective feeding and exports of U.S. corn. The projected decline in feed use will have to come as the result of fewer animals or a decline in the amount of grain fed per animal since the decline in corn consumption is not expected to be offset by increased feeding of other grains. The USDA's December 1 *Grain Stocks* report, to be released in early January, will reveal the rate of domestic feed and residual use of corn during the first quarter of the 2002-03 marketing year. That report will be important in determining if corn prices are generating the necessary adjustments in use.

The projected increase in U.S. corn exports reflects expectations of a small increase in world consumption and a decline in exports from Argentina. Chinese exports are expected to increase by 59 million bushels (19 percent) due to a 433 million bushel (10 percent) increase in production. As of September 5, 244 million bushels of U.S. corn had been sold for export during the current marketing year, 17 million less than sales of a year ago. The market will continue to monitor weekly sales and export reports, as well as the sales of Chinese corn, for clues as to the accuracy of the USDA projection.

At 2.656 billion bushels, the USDA's September projection of the U.S. soybean crop was 28 million bushels larger than the August projection. A small reduction in the projection of harvested acreage was more than offset by an increase in the expected yield. The U.S. average yield is now projected at 37 bushels per acre, 0.5 bushels above the August projection, but 2.6 bushels below the 2001 average yield.

For the current U.S. marketing year, the USDA projects a 215 million bushel (20 percent) decline in exports and a 25 million bushel (1.5 percent) decline in the domestic crush. The decline in consumption is being required by the smaller crop. Year ending stocks are expected to total only

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160 million bushels, the lowest level in 6 years. Part of the reduction will be accomplished through higher prices, but much of the cut in U.S. exports is expected to be offset by larger South American exports. For the year October 2002 through September 2003, the USDA expects South American exports to total 1.25 billion bushels, 367 million bushels more than exported in the previous 12 months. The larger projection reflects the large 2002 South American crop, an expected 8.7 percent increase in production in 2003, and continued expansion in world soybean consumption. As of September 5, export sales of U.S. soybeans totaled 213 million bushels, 4.5 million larger than sales of a year ago. The market will continue to pay close attention to the rate of U.S. soybean export sales and the development of the South American crop.

Corn and soybean prices moved higher prior to the release of USDA's report on September 12. The lack of surprises in the report and the start of the midwest harvest allowed December corn futures to decline about \$.20 and November soybean futures to decline about \$.30 following the release of the reports. In addition to the ongoing reports on the rate of consumption, the market will react to yield reports over the next several weeks. Given the expected draw down in U.S. and world inventories, small changes in expected crop size could have important price implications. Those small inventories also mean that prices could be very sensitive to 2003-04 production prospects.

The relatively high level of prices, the lack of carry in the corn and soybean price structure, and the absence of loan deficiency payments all favor harvest sales of corn and soybeans. However, the tightness in the balance sheets, the uncertainty about the South American growing season, and the need for large crops in the northern hemisphere next year suggest that some ownership should be maintained into the winter and spring months. Speculating on higher prices by storing the crops is relatively expensive. Basis contracts or ownership of futures may be less expensive, but not all producers are willing to use these tools. The CCC loan provides cash flow for those who choose to store part of the crop.

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