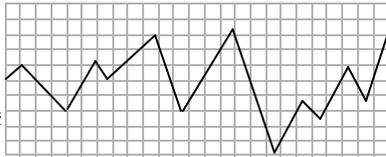




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WEEKLY OUTLOOK

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CORN MARKET SPOOKED BY YIELD REPORTS

December 2002 corn futures established a contract high of \$2.96 on September 9, 2002. The USDA reports released on September 12 contained a smaller forecast of the 2002 U.S. corn crop (down 37 million bushels from the August forecast), a smaller forecast of foreign coarse grain production, and a smaller forecast of U.S. and world grain inventories at the end of the current marketing year. Since those smaller forecasts were released, December corn futures have declined \$.31.

A number of factors may have contributed to the decline, but liquidation of long positions held by speculative traders has been one of the dominant factors pressuring prices. The liquidation appears to have been triggered by reports of "better than expected" yields. It is never clear whose expectations have been exceeded, but the reports have resulted in ideas that the USDA's October production forecast may exceed the September forecast, as was the case last year.

In addition to thoughts that the U.S. crop could exceed the current projection, the slow start to the 2002-03 export program raises concerns about corn demand. As of September 12, the USDA reported 2002-03 marketing year export commitments at 303 million bushels. That figure is about 8 percent smaller than export commitments on the same date last year. The USDA has projected that exports during the current marketing year will be 100 million bushels larger than exports of last year. Compared to last year, smaller sales have been registered to Egypt, Taiwan, South Korea, and China. Prospects for a larger Chinese corn harvest creates concerns about Asian demand for U.S. corn.

Recent price behavior in the corn market is a reminder that U.S. and world feed grain supplies are smaller than a year ago, but little, if any, rationing of use may be required. The primary function of the market is to encourage additional production in 2003. Current new crop price relationships are slightly in favor of additional corn acreage in the U.S. in 2003.

November 2002 soybean futures reached a high of \$5.91 on September 11. The USDA's September 12 reports contained larger forecasts (compared to the August forecasts) of U.S. and world soybean production and stocks for the 2002-03 marketing year. Since the forecasts were released, November futures have declined about \$.24. While the forecasts suggest that use of U.S. soybeans will have to decline during the current marketing year, world supplies are expected to be adequate to allow for increased consumption. The USDA currently projects a 3.3 percent increase in world soybean consumption. The increase is expected to come primarily in South America and China. The South American increase reflects expectations of a larger

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crush, primarily to meet export demand for soybean meal. China is expected to import 36 percent more soybeans than last year in order to expand the domestic crush to support increases in domestic meal and oil consumption.

U.S. soybean exports during 2002-03 are projected to be 215 million bushels (20 percent) less than exports during the past marketing year. As of September 12, the USDA reported that export commitments for the current marketing year totaled 240 million bushels. Commitments are nearly 5 percent larger than on the same date last year and account for slightly over 28 percent of the USDA's projection for the year. New sales need to average only 12 million bushel per week for the next 50 weeks to reach the USDA's projected level of exports. At 62 million bushels, current outstanding sales to China are nearly double the level of sales of a year ago. On the other hand, sales to the European Union (EU), the largest buyer of U.S. soybeans, total only 19 million bushels. Sales to the EU are down by two-thirds from sales of a year ago. The EU is currently buying larger quantities of South American soybeans.

Early season reports on U.S. soybean yields have not been as numerous as corn yield reports. Early results apparently do not differ significantly from expectations.

In spite of strong market signals to the contrary, reports suggest that producers are not rushing to sell corn at harvest time. If the crop size forecast does increase, higher prices will have to be generated by demand or concerns about next year's crop. If consumption unfolds as projected, it will be difficult for prices to move a lot higher before next spring. With use as projected, higher prices in the near term may require an unchanged or smaller crop forecast in October.

Soybean prices will be influenced by a wide range of factors, including subsequent U.S. crop forecasts, rate of use, and prospects for the South American crop. The most important factor near term will be the USDA's October production forecast for the U.S.

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