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USDA REPORTS IMPORTANT FOR CORN AND SOYBEAN PRICES

The corn and soybean markets have been responding to the rate of exports and progress of southern hemisphere crops. Upcoming USDA reports will provide some added perspective on both the supply and demand side of the price equation. The December 30 *Quarterly Hogs and Pigs* report will provide an update on prospective feed demand for corn and soybean meal through the remainder of the 2002-03 crop year. Declining numbers of hogs and cattle reported to date suggest some softening of feed demand this year. The USDA has projected the largest year-over-year decline in pork production (3 percent) for the second quarter of 2003. Beef production is expected to be down 7 percent in the third quarter and 11 percent in the fourth quarter of 2003. Poultry production in 2003 is expected to be only 1 percent larger than in 2002.

The December 1 *Grain Stocks* report, to be released on January 10, will provide an estimate of feed and residual use of corn for the first quarter (September-November) of the 2002-03 crop year. It is expected that report will show only a modest reduction in feed and residual use compared to the same quarter last year. Year-over-year reductions should be larger during the last nine months of the crop year. Corn supplies are large enough that a large decline in use is not required this year.

In addition to the *Grain Stocks* report, the USDA will release the final U.S. corn and soybean production estimate for 2002. In each of the past four years, the January corn production estimate was smaller than the November projection. In the previous 17 years, the January estimate was below the November projection only three times. Except for 1988, the difference between the January and November figures over the last 20 years has ranged from 0 to 159 million bushels. The difference was 250 million in 1988. The difference has not exceeded 100 million bushels since 1993. A relatively small difference is expected this year. With a smaller estimate of harvested acreage, the January figure may be marginally below the November 2002 projection.

The January soybean production estimate was below the November projection in each of the past seven years, in eight of the past nine years, and in 13 of the past 20 years. The difference, whether up or down, ranged from 2 million bushels to 60 million bushels. The difference has not exceeded 35 million bushels since 1987. The late harvest in parts of the southern U.S. is expected to result in a marginally smaller estimate in January 2003.

The USDA will also release a *Winter Wheat Seedings* report on January 10. Typically, this report has minimal implications for corn and soybeans. This year, however, the higher

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wheat prices may have resulted in a sharp increase in winter wheat seedings. If so, there will be fewer acres available for spring planted crops. The estimate of the total area seeded to winter wheat, as well as the geographic distribution of seedings, may provide an early look at potential changes in oilseed and feed grain acreage in 2003. At this earlier stage, there is still some expectation that the increase in corn acreage and decline in soybean acreage in 2002 will be repeated in 2003. The magnitude of the switch in acreage will continue to be debated.

For now, corn and soybean prices appear to have established a trading range that may persist until some new fundamental information appears. March corn futures are finding support near \$2.35 and should have excellent support at \$2.30 for now. The \$2.50 area is the recent high and may be difficult to exceed without a few surprises in upcoming reports. January soybean futures have apparently found a trading range between \$5.55 and \$5.80. However, the contract high is at only \$5.93. With a strong export pace and lingering concerns about the South American crop, soybean prices may have more potential to exceed the recent trading range than do corn prices.

With declining U.S. and world inventories of grains and soybeans, production in 2003 will be the most important price factor during the last half of the 2002-03 marketing year. Inventories at the beginning of this year were large enough to compensate for the declines in production in 2002. Inventories will not be large enough to buffer the impact of another small crop in 2003. Once the market absorbs the upcoming USDA reports and South American production prospects become clearer, attention will turn towards next year's crop.

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