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# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**JANUARY 21, 2003**

## **CROP MARKETS LOOKING AHEAD TO 2003-04**

With the much anticipated January 10 USDA reports now digested by the market, attention will focus on prospects for the upcoming northern hemisphere crop season. Most of the focus will be on the U.S. Stocks of U.S. crops are expected to be adequate, but small, going into the 2003 harvest seasons. The relatively small inventories mean that the size of the 2003 crops will have very important price implications.

Two topics will likely dominate market conversation this winter-soil moisture conditions and planted acreage prospects. Moisture conditions have the most immediate implications for the winter wheat crop. However, lack of precipitation in large parts of the U.S. this past fall and so far this winter has triggered early weather talk for spring planted crops as well. The Palmer Drought Index shows that dry conditions are prevalent in much of the Rocky Mountain states, the upper Plains, Nebraska, and in parts of Kansas, Iowa, Missouri, northern Illinois, northern Indiana, and Michigan. Dryness is also noted in parts of the Southeast. The National Weather Services outlook for the period February through April projects drier than normal climate across the Ohio Valley, Great Lakes Region, and the Pacific Northwest. For the southeast, the projection is for a dry February and wetter than normal climate in March and April. The 90 day forecast is based, in part, on prospects for a weakening El Nino episode. With the lack of other significant fundamental developments, weather conditions may provide a lot of fuel for conversation over the next two months. For corn and soybeans, current moisture conditions obviously have little significance. Spring/summer weather will be an important price factor, as it always is.

The USDA's winter wheat seedings report revealed a 2.5 million acre increase in winter wheat seedings in the fall of 2002. The increase totaled 700,000 acres in Kansas, 500,000 in Oklahoma, 300,000 in Montana, and 200,000 in Texas. The increase in the eastern corn belt totaled 555,000 acres. Seedings declined about 280,000 acres in the south and southeast. Part of the increase in winter wheat seedings may be offset by declines in spring wheat acreage, depending on relative prices over the next few months. One popular private forecaster has projected a 700,000 acre decrease in the total of spring and durum acreage in 2003.

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That same firm has projected that U.S. corn acreage will increase by nearly 2.7 million acres and that soybean area will decline by 1.1 million acres. That firm believes that total acreage of corn, soybeans, and wheat will increase by 3.35 million acres in 2003. It is not clear how the increase will occur. A number of factors will influence the magnitude of total crop land acreage and the mix of that acreage by crop in 2003. These include the extent of weather damage to winter wheat, relative prices of spring planted crops, and spring weather conditions. The USDA will release the results of its *Prospective Plantings* survey on March 31.

Corn and soybean prices appear to have established support levels following the price declines immediately after the January 10 USDA reports. July corn futures have found support near \$2.35. It is probably important for the rate of corn export sales to increase if that support level is to hold. The early January high just above \$2.50 may be difficult to penetrate prior to spring. More volatility is likely from March forward, as spring/summer weather conditions unfold.

The soybean market remains inverted, with March futures finding support near \$5.44 and July finding support near \$5.35. A high rate of export sales continues to provide fundamental support for soybean prices, but the absence of significant problems in South America tend to keep a lid on prices. March and July futures traded to \$5.85 and \$5.74, respectively, in early January. It may be difficult to challenge those levels if South American conditions remain favorable. There is some conversation about potential disease problems in the wetter areas of Brazil.

It now appears that the corn and soybean markets will trade in a relatively narrow range, perhaps into March. Producers may need to maintain some patience in pricing additional quantities of 2002 crops and 2003 crops until the market has had a chance to react to spring acreage and weather prospects.

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