



WEEKLY OUTLOOK

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WHAT SURPRISES LURK IN THE AUGUST CROP PRODUCTION REPORT?

The USDA will release the first objective yield and production estimates for the 2003 corn and soybean crops on August 12. As was the case last year, there is a very wide range of opinion about potential crop size this year, although both crops are expected to be much larger than the 2002 crops. In 2002, the August production estimates were smaller than expected for both corn and soybeans, but both crops turned out to be larger than the August estimates. The January 2003 estimate of the 2002 corn crop was 122 million larger than the August estimate, while the January soybean estimate exceeded the August estimate by 102 million bushels. In addition, the June 1, 2003 soybean stocks estimate suggested that the 2002 soybean crop was even larger than the January estimate.

Since 1980, the January soybean estimate was above the August estimate 13 times and below the August estimate 10 times. For corn, the January estimate exceeded the August estimate 14 times and was less than the August estimate 9 times.

For the 2003-04 marketing year, the USDA has projected corn consumption at 9.95 billion bushels, assuming abundant supplies and relatively low prices. With harvested acreage of 72 million, the 2003 average corn yield would have to be below 138 bushels in order for consumption at the projected level to bring year-ending stocks below one billion bushels. Current crop ratings suggest a yield above 138 bushels per acre.

For soybeans, the USDA projects use during the year ahead at 2.784 billion bushels, assuming abundant supplies here and in South America and relatively low prices. With harvested acreage of 72.7 million, the 2003 average yield would have to be below 38.2 bushels per acre in order for consumption at the projected level to bring year ending stocks below 150 million bushels. In general, the market anticipates a yield in excess of 38.2 bushels per acre.

Expectations of large crops have allowed corn and soybean prices to move sharply lower over the past two months. The average spot cash of corn in central Illinois moved to a marketing year low on August 1, 2003, nearly \$.50 below the level in mid-May. Cash soybean prices remained above the low of October 2003, but declined by more than \$1.00 from the market year high in mid-May. New crop bids dropped below the loan level.

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Corn prices have declined enough that there is some potential for a small counter cyclical payment for the 2002 crop. That determination will not be made until the average price for August is known and the USDA determines the percentage of the crop marketed each month from September 2002 through August 2003. Based on the average prices reported through June, the mid-July price, and the previous five year average monthly marketings (as a percentage of the total), the calculated weighted average price for the first 11 months of the 2002-03 marketing price is \$2.32. That is exactly equal the price that would result in no counter cyclical payment. Actual monthly marketings for 2002-03 may not alter this calculation much, since monthly average prices through June were in a very narrow range. A low average price in August, then, could trigger a small payment, perhaps near \$.02 per bushel. No counter cyclical payment is anticipated for the 2002 soybean crop.

With new crop bids slightly below the loan rate, there is little urgency in pricing additional quantities of new crop corn and soybeans. An increase in the spreads in new crop corn futures and a weakening of the new crop basis makes storage of the 2003 corn crop more attractive. On August 1, the average harvest bid in central Illinois was \$.40 under July 2004 futures, compared to \$.28 under in mid-June. A large crop would likely lead to additional weakening of the basis and a larger return to storage.

While new crop prices are not attractive to sellers, end users of corn and soybean meal have an opportunity to lock in prices at attractive levels.

Issued by Darrel Good
Extension Economist
University of Illinois

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