



WEEKLY OUTLOOK



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THE TALE OF TWO CROPS

The USDA now forecasts the 2003 U.S. corn crop at 10.2 billion bushels. That forecast is 263 million larger than the September forecast and 156 million larger than the previous record crop of 1994. The U.S. average yield is forecast at 142.2 bushels per acre, 3.6 bushels above the 1994 record. Of the major corn producing states, the average yield is expected to be below that of a year ago only in Iowa, Minnesota, North Dakota, and Wisconsin. Large increases in average yields are expected in eastern and southeastern states.

In contrast, the USDA now forecasts the 2003 U.S. soybean crop at 2.468 billion bushels, 175 million bushels less than forecast in September and 280 million less than produced in 2002. At 34 bushels per acre, the projected U.S. average yield is 4 bushels below the 2002 average, the lowest in 10 years and 7.4 bushels below the record yield of 1994. The forecast represents the smallest crop in 7 years. Average yields in 2003 are expected to be lower than in 2002 in only 12 of the 29 states included in the USDA's forecast. Sizeable increases are expected in some eastern and southern states. Large declines are expected in the three largest soybean producing states, Illinois down 6, Iowa down 14, and Minnesota down 11.5.

In the case of corn, the large crop is expected to be met by an increase in both domestic use and exports. Increased ethanol production and a modest increase in feed consumption is expected to push domestic use up by 217 million bushels, or 2.7 percent. U.S. exports are expected to grow by 200 million bushels, or 12.5 percent, due to less competition from China and Brazil. Stocks of U.S. corn are expected to grow from 1.086 billion bushels on September 1, 2003 to 1.353 billion on September 1, 2004. World coarse grain stocks, however, are projected to decline sharply for the fourth consecutive year. Significant reductions in inventory this year are expected to occur in China, the European Union, and in Russia. The USDA sees the 2003-04 marketing year average price in a range of \$1.90 to \$2.20, compared to the \$2.32 average for the previous year. The current price is near the low end of the projected range.

For soybeans, the small U.S. crop will require a large reduction in consumption this year. The USDA has projected year ending stocks at a bare bones level of 130 million bushels. Based on the experience of 1995-96 and 1996-97, it is unlikely that stocks can be reduced to a lower level and still maintain the supply pipeline. If that is the case, use of U.S. soybeans during the current year will be limited to 2.515 billion bushels, 277 million less than was used last year and the smallest annual use in 7 years. The USDA expects a 16 percent reduction in exports and a 7 percent reduction in the

domestic crush. A reduced domestic crush will result in a rare decline in domestic meal and oil consumption and a large decline in meal and oil exports. Soybean oil exports are projected at 850 million pounds, compared to 2.25 billion pounds during the year just ended.

Consumption of soybean meal and oil outside of the U.S. is expected to increase this year, fed by a much larger South American crop. The USDA now expects a 14 percent increase in soybean area and production in Brazil and a 5 percent increase in soybean area and a 4 percent increase in production in Argentina. The 2004 South American crop is projected at 3.72 billion bushels, 340 million larger than the 2003 crop. Just like last year when the 140 million bushel decline in U.S. production was more than offset by a 560 million bushel increase in South American production, this year's decline of 280 million bushels is expected to be more than offset by a 340 million bushel increase. The USDA projects the 2003-004 marketing year average farm price in a range of \$6.05 to \$6.95, up from the \$5.53 average of last year. The current price is near the upper end of the projected range.

With a large corn crop to be used and significant rationing required in U.S. soybean consumption, the market will continue to focus more attention on the rate of consumption of each of those crops. In addition, the soybean market will be influenced by the progress of the South American crop. Finally, the USDA November production forecasts will be important in confirming crop size. Historically, there have generally been only small changes in the U.S. average soybean yield forecast in November. The change has been as large as 1 bushel only 5 times in the past 30 years. One bushel declines occurred in 1984 and 1993. In 1983, the year with the most similar pattern to 2003, the average yield forecast increased in November and the final estimate was higher than the November forecast. For corn, there have been four years in the past 30 years when the yield forecast declined in September and increased in October, as was the case this year. The average yield forecast increased in November all four years, by 1.1 to 2.8 bushels.

Soybean prices are expected to remain fairly volatile as the market searches for a seasonal high. Corn prices will likely remain under pressure through harvest.

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