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MARKET WATCHING SOYBEAN USE AND POTENTIAL CORN PRODUCTION

For the soybean market, the major task for the next four months is making small supplies last until the new harvest. For corn, the major issue is the size of the 2004 U.S. crop.

The USDA now projects 2003-04 marketing year soybean exports at 900 million bushels, nearly 14 percent less than shipments of a year ago. The domestic crush is projected at 1.475 billion bushels, nearly 9 percent less than last year's crush. The reduction is being forced by the small crop of 2003. Year-ending stocks are expected to be at a bare-bones level of 115 million bushels. It now appears that soybean exports are being reduced in line with USDA projections. As of April 8 (32 weeks into the marketing year) the USDA's export inspections report indicated that cumulative shipments were down 12 percent from the shipments during the same period last year. The *Export Sales* reports through April 1 showed a decline of about 9 percent. At 70 million bushels, unshipped soybean export sales as of April 1 were 38 million bushels (35 percent) smaller than unshipped sales of a year ago. The decline in cumulative shipments plus outstanding sales is in line with the USDA projection for the year. While the South American harvest will be significantly smaller than previously expected, it will be adequate to supply world needs over the next several months, allowing U.S. exports to decline.

Through the first half of the 2003-04 marketing year, the cumulative domestic crush was 3 million bushels more than the crush during the same period last year. To meet the USDA projection for the year, crush during the last half of the year needs to be 143 million bushels, or 18.5 percent, less than during the last half of the 2002-03 marketing year. The nearly 24 million bushels per month reduction seems like an impossible task. How will it happen? Three factors will combine to stretch available domestic soybean supplies. First, use of U.S. soybean oil and meal will have to decline, with most of that adjustment occurring in the export market. For domestic uses, an interesting question is whether there has been some accumulation of oil and meal inventories by end users. The monthly Census Bureau report only reports meal and oil inventories at mills. Changes in inventories at other locations are not measured, resulting in some "noise" in the monthly estimates of disappearances as non-mill stocks fluctuate up and down. Anecdotal evidence suggests that livestock producers have increased stocks of soybean meal. To

the degree that is the case, meal use will not have to decline as rapidly as the decline in crush.
Second, imports of soybeans, soybean meal, and soybean oil can help alleviate the shortage in domestic supplies this summer. While the USDA has projected a significant increase (percentage wise) in imports of soybeans and products this year, the absolute magnitudes are still small. Larger imports can occur if required by the market. The third factor is the potential for early harvest of a portion of the 2004 U.S. soybean crop. Harvest typically occurs first in the Delta states. Intended soybean acreage in those areas is nearly 500,000 larger than acreage of a year ago. There are some indications that actual acreage could exceed those intentions as producers switch away from intended cotton acreage. In some years, harvest occurs relatively early in the upper Plains states. Intended acreage in North Dakota exceeds last year's area by 550,000 acres. A relatively early harvest might allow September 1 stocks of old crop soybeans to be reduced below the 115 million bushel level currently projected by the USDA. The extent to which prices must remain high, or go even higher, to match supplies and use is not known, but it may be less than suggested by the assumed need to reduce the domestic crush by 18 percent.

For the corn market, a small year ending inventory and continued large use into the 2004-05 marketing year are assumed. The question seems to be whether or not the 2004 U.S. crop will be large enough to supply the increasing domestic and world appetite for corn. The size of the U.S. crop required to meet expected needs will be influenced by the size of grain crops in the rest of the world and by the magnitude of corn exports from other areas. It appears that there will be less competition from China during the upcoming marketing year, but more competition from the southern hemisphere in the spring/summer of 2005. In addition, a significant rebound in world wheat production would provide more competition for U.S. corn in the world market.

For now, the market believes that the U.S. corn yield will have to be at least at trend value of about 140 bushels to provide an adequate crop in 2004. Planting progress, weather forecasts, and early crop condition ratings will be watched closely . Price swings could be quite large as the planting and growing season progresses. For both corn and soybeans attractive pricing opportunities for the 2004 crop have unfolded and may persist well into the growing season.

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