



# WEEKLY OUTLOOK



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## **JULY USDA PROJECTIONS ABOUT AS EXPECTED**

The USDA's monthly update of U.S. and world crop supply and consumption prospects released on July 12 contained a number of "tweaks", but not any significant surprises.

For corn, the USDA increased the projection of domestic processing use of corn (other than for ethanol) during the current year by 10 million bushels, but lowered the projection of U.S. exports by 100 million bushels, resulting in a 90 million bushel increase in the projection of year ending stocks. For the 2004-05 marketing year, the projection of U.S. production was increased by 210 million bushels, reflecting the increase in acreage reported last month. The first objective yield and production forecasts will be made next month. The projection of feed and residual use during the upcoming year was increased by 50 million bushels, resulting in an increase of projected year ending stocks of 250 million bushels, to a total of 991 million. The 2004-05 marketing year average farm price is projected in a range of \$2.30 to \$2.70, \$.25 below the June projection.

World wide, coarse grain production in 2004-05 is expected to be about 7 million tons larger than projected in June and 39 million tons (4.4 percent) larger than the 2003-04 crop. In addition to larger crops in the U.S., production is expected to rebound in Argentina, Europe, and Ukraine. World stocks of coarse grains at the end of the 2004-05 marketing year are expected to be smaller than stocks at the beginning of the year, but larger than projected last month.

The projected size of the 2004 U.S. winter wheat crop was reduced by 61 million bushels, reflecting a 257,000 acre reduction in the estimate of harvested acreage and a 1.4 bushel reduction in the forecast of average yield. The new projection is 237 million bushels (14 percent) smaller than the 2003 crop. Combined production of durum and other spring wheat is forecast at 589.3 million bushels, 6 percent smaller than last year's crop.

World wheat production in 2004-05 is expected to reach 598 million tons, slightly larger than the June forecast and 8.6 percent larger than the very small crop of a year ago. At the projected level, the world crop would be the second largest ever, behind the 609.3 million ton crop of 1997-98. Compared to last year's output, production is expected to be up sharply in the European Union (20.5 percent), India (10.5 percent), Russia (24.6 percent), and Ukraine (317 percent).

As a result of the large world crop, exports of U.S. wheat are expected to decline from 1.155 billion bushels last year to 975 million in the current marketing year. Still, stocks of U.S. wheat are projected to decline from 596 million bushels on June 1, 2004 to 494 million on June 1, 2005. However, stocks of wheat outside the U.S. are expected to grow slightly, resulting in the first

increase in world stocks in 7 years. The 2004-05 U.S. marketing year average farm price of wheat is projected in a range of \$3.20 to \$3.80, \$.05 lower than the June projection. Last year's average was \$3.40.

As expected, the USDA increased the projection of the size of the domestic soybean crush during the current marketing year. At 1.5 billion, the projection is 25 million bushels larger than the June forecast. However, the projection of "residual" use of soybeans was reduced to a total of only 5 million bushels, reflecting the larger than expected estimate of June 1 stocks. Subsequent reports will have to sort out the confusion about size of the 2003 crop, residual use, and the actual magnitude of exports. There is a large difference in Census Bureau and USDA estimate of exports to date. The bottom line is that 2003-04 marketing year ending stocks are projected at only 105 million bushels, 15 million below last month's projection.

For the 2004-05 marketing year, U.S. production is now anticipated to be 2.94 billion bushels, 25 million below the June projection. The change reflects fewer planted acres reported last month and a slight decline in the average yield projection. The first objective yield and production forecasts will be made next month. A large increase in South American production is still anticipated for 2004-05, allowing for a large increase in world soybean consumption and a large increase in world stocks. For the 2004-05 U.S. marketing year, the USDA projects an increase of 145 million bushels in the domestic crush, a 150 million bushel increase in exports, and a 105 million bushel increase in year ending stocks. The marketing year average price is projected in a range of \$5.70 to \$6.70, the same as projected last month, and sharply lower than the \$7.55 average expected for the current year.

In the absence of major surprises in the USDA July reports, the market will continue to focus on crop progress and the rate of domestic soybean use. With December corn futures near \$2.50, the market is fully reflecting a very large crop. November soybean futures at \$6.40 reflects a fair amount of skepticism that the crop will reach 2.94 billion bushels.

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