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USDA TWEAKS SUPPLY AND DEMAND PROJECTIONS

The USDA's December report on *World Agricultural Supply and Demand Estimates* does not include any new production forecasts for the major U.S. crops, but it provides an opportunity to reassess world production prospects and to update forecasts of U.S. and world consumption.

The report released on December 10, 2004 contained relatively minor differences from the report released in November. For corn, the projection of corn used for ethanol during the current marketing year was increased by 55 million bushels, but the projected use for other food and industrial products was reduced by 30 million bushels. In addition, the projection of U.S. exports was reduced by 50 million bushels, to a total of 2 billion bushels. Year ending stocks are now projected at 1.844 billion bushels, 25 million larger than the November projection. The U.S. average farm price for the current marketing year is projected in a range of \$1.70 to \$2.10 per bushel, the same as last month. Based on the average prices actually received by farmers in September and October, the mid-month average price in November, average monthly farmer marketing patterns, and current futures prices for the remainder of the year, the average price for the year would be at the very upper end of that range.

The USDA did increase the forecast of current year corn production for South Africa, the European Union, Mexico, Canada, and the former Soviet Union. As a result, the projection of world yearending stocks of corn was increased by 3 million tons, even thought the projection of world corn consumption was also increased by 3 million tons. For all coarse grain, the USDA also raised the production forecast for China, reflecting a larger corp of sorghum.

The USDA made no changes in the supply and consumption projections for the 2004-05 U.S. soybean marketing year. However, the projection of average soybean oil yield per bushel of soybeans processed was increased, more than offsetting the 100 million pound increase in projected soybean oil exports. Year-ending stocks of U.S. soybean oil are now projected at 1.271 billion pounds, 84 million larger than the November projection. The average farm price of soybeans for the 2004-05 marketing year is projected in a range of \$4.60 to \$5.30,. \$.10 narrower than last month's projection of \$4.55 to \$5.35. Using the same procedure as described for corn, the current market reflects a marketing year average price near \$5.25.

For the rest of the world, the USDA increased the forecast of the size of the Chinese soybean crop by 500,000 tons, increased the projection of world consumption during the current marketing year by 970,000 tons, and reduced the projection of world ending stocks by 830,000 tons. Those stocks are still expected to be extremely large, however, totaling 60.57 million tons.

In the case of wheat, the USDA increased the projection of U.S. exports during the current marketing year by 25 million bushels, reduced the projection of domestic use for food items by 10 million bushels, and reduced the projection of year-ending stocks by 15 million bushels. The average marketing year farm price is still projected in a range of \$3.20 to \$3.50 per bushel.

For the rest of the world, the largest changes included an 1.85 million ton increase in the projected size of the Canadian crop, and a 1 million ton reduction in the projected size of the Australian crop. World stocks of wheat are expected to show the first year over year increase in 5 years.

More significant changes in projections may occur in the USDA's January report. That report will reflect the final estimate of the size of the 2004 U.S. crops, the December 1, 2004 estimate of U.S. stocks of grains and oilseeds, additional export history, and further development of the southern hemisphere crops. In addition, the wheat market could be influenced by the estimate of U.S. winter wheat seedings. All of these reports will be released on January 12, 2005.

The soybean market appears to be the most interesting of the major crops. To date, prices have remained much higher than anticipated based on the large U.S. crop, prospects for a large South American crop, and prospects for a significant increase in U.S. and world stocks. The presence of soybean rust, however, has been reported early in the growing season in both Brazil and Argentina. In addition, the general thinking is that soybean rust in the U.S. will lead to fewer acres planted in 2005. On the demand side, China continues to buy large quantities of U.S. soybeans. A tendency for soybean producers to be tight holders of the stored crop has also resulted in considerable strengthening of the basis. There is potential for wide swings in soybean prices as the new year unfolds.

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