



# WEEKLY OUTLOOK



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## **CROP MARKET FUNDAMENTAL STILL UNFOLDING**

The USDA's November *Crop Production* reports along with the monthly update of world supply and consumption prospects contained a number of changes from the October reports. Those changes, however, did not alter the overall fundamental picture for the corn, soybean, or wheat markets.

As generally expected, the forecast of the 2007 U.S. average corn yield was reduced from the October forecast. At 153 bushels, the U.S. average yield forecast is 1.7 bushels below the October forecast and 2.8 bushels below the September forecast. The October to November decline reflected reductions of five bushels in Iowa and Minnesota and six bushels in Nebraska. The forecast is 4.4 bushels above the long term trend value for 2007 and 3.6 bushels above the projected yield based on year-end crop condition ratings. The 2007 crop is now forecast at 13.168 billion bushels, 150 million smaller than the October forecast.

The yield forecasts for 2007 have followed the same pattern as in 1990 and 2006 – higher in September and lower in both October and November. In each of those previous years, the January yield estimate was below the October forecast. A similar decline this year would result in a January estimate of about 152 bushels and a crop of 13.083 billion bushels.

On the consumption side the USDA lowered the projection of feed and residual use of corn during the current year by 50 million bushels, to a total of 5.65 billion bushels. The reduction is a little surprising given the record level of hog production that is underway. Year ending stocks are projected at 1.897 billion bushels. If the 2007 crop was a bit smaller than the current forecast and feed and residual use or exports are larger than forecast, ending stocks might be near 1.765 billion bushels. The magnitude of expected year ending stocks will be one factor in determining the magnitude of corn acreage required in 2008.

For soybeans, the forecast of the 2007 U.S. average yield was reduced by 0.1 bushels, to 41.3 bushels. The forecast of the average yield has been remarkably consistent this year, ranging from 41.5 bushels in August to 41.3 bushels in November. For some reason, the market anticipated a small increase in the yield and production forecast in this month's report. The production forecast is four million bushels smaller than the October forecast and 594 million smaller than the record crop of 2006.

No changes were made in the forecast of soybean exports or domestic crush for the current year, although the forecasts of both soybean meal and oil exports were increased from the October

projections. The increase in expected soybean oil exports was offset by a lower projection of domestic use as soybean oil continues to lose market share to other vegetable oils. Even though soybean oil is expected to remain in surplus, prices are expected to be record high, averaging between \$.375 and \$.415 per pound. The previous marketing year high was \$.316 in 1973-74, followed by \$.31 last year. High soybean oil prices reflect high crude oil prices as those high prices stimulate the demand for biodiesel.

Expectations for the size of the 2008 South American crop were little changed from October, although a slightly larger crop is expected in Paraguay due to higher yield expectations. The 2008 South American crop is projected at 4.35 billion bushels, 130 million larger than the 2007 crop. A crop of that size would likely require U.S. producers to increase soybean acreage in 2008. However, if the 2008 average South American yield is equal to the 2007 yield, the crop will be 260 million larger than the 2007 harvest, with slightly different implications for U.S. acreage. It is still too early, then, to forecast the U.S. acreage response in 2008.

For the current U.S. wheat marketing year, the USDA increased the forecast of both imports and year ending stocks by five million bushels. The estimate of foreign wheat production was increased by about 105 million bushels. The largest increase, 37 million bushels, was for China. World wheat inventories will remain extremely tight, but not as tight as forecast last month.

The focus in the wheat market is now on potential crop size in 2008. A significant increase in world wheat acreage is expected as a result of record high prices. Harvested acreage worldwide is estimated at 535 million for the current marketing year, above the 523 million harvested last year, but the world average yield was about 0.3 bushels lower than last year. World production has been small for two consecutive years. The recent peak in world wheat acreage was 570 million in 1996-97. A return to that level is not expected, but an increase of just 3 percent along with average yields would produce a 2008-09 crop of 23.38 billion bushels, 5.5 percent larger than this year's harvest. A crop of that size would result in a significant increase in world wheat inventories.

Following the recent sharp increase, corn and soybean prices are now expected to trade in more of a sideways pattern, with a little weaker tone. The trend in wheat prices is still down.

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