



WEEKLY OUTLOOK



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CORN AND SOYBEAN PRICES TO FOLLOW EXPORTS AND ACREAGE EXPECTATIONS

The January 11 USDA reports failed to confirm bullish expectations formed by the market over the last two months. The downward revision in the 2000 crop estimates were small (86 million bushels for corn and 7 million for soybeans). Feed and residual use of corn during the first quarter of the 2000-01 marketing year was significantly less than expected, forcing a 75 million bushel reduction in the projection of use for the entire year. As expected, the projection of marketing year exports for corn was reduced by 50 million bushels. The projection of year-ending stocks was unchanged for soybeans (320 million bushels) and was increased by 52 million for corn (1.806 billion bushels). In response to the new estimates and projections, old crop corn futures dropped about \$.10 per bushel, while December futures declined \$.07. The average central Illinois spot cash bid declined by \$.10. For soybeans, futures prices declined from \$.11 to \$.16 per bushel and the average central Illinois cash price dropped \$.135. The cash price of corn is at the lowest level since mid-December, while the cash price of soybeans is at the lowest level since mid-November. With the USDA reports behind us, the market will now focus on the pace of exports, US acreage prospects, and growing season weather forecasts.

As outlined last week, corn exports continue to lag behind the pace needed to reach the USDA projection, even though that projection is now 125 million bushels less than projected in November. To reach the USDA projection, Chinese corn exports will have to slow or cease. China may even need to import some US corn late in the marketing year to make the current projection attainable. In addition, Japanese purchases of US corn will have to accelerate from the current pace. That process will be slowed by Japanese interest in South American corn. The 17 percent increase projected for the Brazilian crop may result in an additional 25 to 50 million bushels available for export. There will be several more anxious weeks for the corn export market, even if the rate of US sales eventually recovers. The export projection may need to be lowered again. In addition, the USDA's current projection of domestic feed and residual use of corn still appears too high based on first quarter use. If so, year-ending stocks could approach 1.9 billion bushels.

Soybean exports and export sales are running ahead of the pace needed to reach the USDA projection for the year. At 975 million bushels, the USDA expects exports to be near the record level of last year. As of January 4, total sales were about nine percent larger than on the same date last year and actual shipments were about one percent larger. The USDA's projection of exports for the year did not increase in the January 11 report, even though current sales are impressive. One reason for the unchanged projection may be the approaching harvest of a record South American crop. That crop is currently projected at 2.245 billion bushels, unchanged from the December projection. However, continued favorable weather over the next six weeks could well result in an even larger crop. A second reason for an unchanged export

projection may be some expectation of a slow down in Chinese purchases relative to the pace of a year ago. If exports exceed the current projection, year ending stocks will fall below the current projection of 320 million bushels, but stocks will still be plentiful.

For the next six weeks, one of the more hotly debated topics will be the likely acreage of corn and soybeans in the US in 2001. Many argue that higher costs, particularly for nitrogen fertilizer, will result in fewer corn acres and more soybean acres. The planting decision will, in fact, be influenced by a number of factors. These include the price and availability of nitrogen in the spring, the price of corn, and spring weather conditions. The two million acre reduction in winter wheat seedings also complicates the picture for spring planted crops. Winter wheat seedings are reportedly down 700,000 acres in Oklahoma, 400,000 in Texas, 300,000 in Montana, and 200,000 in Colorado. These reductions open the door for increased acreage of other crops, although if wheat prices continue to increase producers in the northern plains may increase spring wheat acreage at the expense of feed grains and/or oilseeds.

Various analysts have reported expectations of a reduction in corn acreage of 500,000 to three million acres, with a larger increase in soybean acres due to smaller acreage of wheat. The projected per acre cost increase for corn relative to soybeans suggests only a modest shift in corn and soybean acreage in non-irrigated areas, particularly if the price for next year's corn crop remains at the current premium. The more likely response will likely be reduced nitrogen rates, reflecting higher nitrogen prices, but also the reduced nitrogen requirements for spring application versus fall application. The USDA's *Prospective Plantings* report will be released on March 30.

With trend yields in 2001, corn and soybean supplies will remain large for the 2001-02 marketing year. With spring will come more emphasis on weather prospects for the 2001 growing season. Better pricing opportunities may emerge at that time, particularly if export sales remain large for soybeans and improve for corn.

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