WAITING ON THE AUGUST CROP REPORT

Corn and soybean prices have been extremely volatile over the past few weeks. September corn futures have traded in a range of nearly $0.30, while August soybean futures have seen a $0.70 trading range. The wide trading range reflects uncertainty about crop size and the relatively tight supplies of old crop soybeans. The recent price behavior has been similar to that of a year ago when September corn futures traded in a $0.40 range and August soybean futures had a range of $0.75. The major difference is that prices have been at a higher level this year.

The debate about likely size of the U.S. corn and soybean crops continues and opinions apparently vary significantly. The USDA’s weekly crop condition report shows that crop ratings are the lowest since 1988, suggesting that significant yield potential has already been lost. Others argue that crop ratings are not a good predictor of crop yields and that recently improved weather conditions in some areas point to the potential for decent average yields in 2002.

The USDA will release the first projection of 2002 yield potential on August 12. The market will view this as an important benchmark for judging actual crop size. The report will reflect changes, if any, in planted acreage since the June survey was conducted, a forecast of harvested acreage, and yield projections. It is always interesting to examine how the August forecast has compared to the estimate released in January after harvest. Last year, when there were similar (although lesser) weather and crop concerns, the August soybean production forecast was only 24 million bushels (0.8 percent) smaller than the January estimate. The August corn projection was 241 million bushels (8.3 percent) smaller than the January estimate. In the 20 years from 1982 through 2001 the August soybean production forecast was above the January estimate 9 times and below the January estimate 11 times. The August projection was below the January estimate for 5 consecutive years from 1988 through 1992. Since then there has been an alternating pattern of above and below.

For corn, the pattern has been similar to that of soybeans. The August forecast was above the January estimate in 8 of the last 20 years and below the January estimate 12 times. The August projection was also below the January estimate during the 5 year period from 1988 through 1992. While the historical relationship between the August forecast and January estimate of crop size is interesting, it does not provide much insight for predicting the relationship this year. The change in the production projection from August forward
depends on weather conditions during the final stages of growth. The market will use the August projection as a starting point, but will closely monitor weather conditions and crop condition reports in order to “second-guess” the projections.

Potential crop size will continue to be the primary price factor over the next several weeks. Once the market settles on yield and production expectations, more attention will shift to expectations about market size during the 2002-03 marketing year. For corn, the USDA sees the potential for an increase in exports and domestic processing use during the year ahead. A small decline in domestic feed and residual use is expected. The critical question is whether the crop is large enough to accommodate an increase in consumption or if higher prices will be required to limit consumption. The last time that consumption had to be limited was 1995-96. In that year, demand was strong enough to require extremely high prices to force such a reduction.

For soybeans, the USDA has projected a small increase in the domestic crush during the year ahead, but a significant decline in U.S. exports. The decline in exports reflects the expectation of increased exports from South America. At this early stage, the USDA sees a 4 percent increase in soybean area in Brazil, a 6 percent increase in Argentina, and a 2 percent increase in Paraguay. That increased acreage is expected to result in a record 2003 harvest of 2.965 billion bushels, 100 million bushels larger than the current projection of the 2002 U.S. harvest. Even with a decline in U.S. exports, the 2002 crop may be small enough to keep year-ending stocks at an extremely low level.

It now appears that improving weather conditions will result in some near-term price declines. The prospects for declining U.S. and world stocks of grains and oilseeds should keep prices supported above the extremely low levels of the past 4 years. Small U.S. crops would provide an opportunity to test the strength of demand for corn and soybeans.

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