



# WEEKLY OUTLOOK



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## **MIXED NEWS IN THE CORN AND SOYBEAN MARKETS**

The corn and soybean markets continue to receive a mixed bag of information. The mix of information includes U.S. weather and crop conditions, reports on the rate of consumption, Chinese soybean import decisions, and USDA supply and consumption forecasts for the year ahead.

Within the past few weeks, some private weather forecasters had predicted a period of hot, dry weather in the midwest from mid-June to mid-July. Currently, however, the primary concern in many areas is excessive precipitation that has resulted in planting delays and loss of some crops to ponding and flooding. The market always has a difficult time evaluating the impact of excessive precipitation, recognizing that yield potential for the majority of the acreage remains high. The evaluation process is a little more complicated this year due to differences of opinion about the magnitude of planted acreage (or intentions) relative to intentions reported in March. In general, the market has been expecting that the USDA's June 30 *Acreage* report will reveal more corn and less soybean acreage than was indicated in the March *Prospective Plantings* report. Now, uncertainty about the magnitude of unharvested acreage will become an issue as well.

The focus on the consumption side of the market has been on the rate of corn exports and the rate of the domestic soybean crush. The USDA continues to project U.S. 2003-04 marketing year corn exports at 2.05 billion bushels. To reach that level, weekly shipments for the final 12 weeks of the year need to average 48 million bushels. The average for the past 4 weeks was only 36 million bushels. However, export sales had been large and it appeared that shipments might accelerate to the needed level. For the last reporting week, however, the USDA reported new sales of only 2 million bushels. To reach the projection, new sales need to exceed 21 million bushels per week. Increasingly, it appears that exports will fall short of the USDA projection.

The need to reduce the rate of domestic soybean crush in line with available supplies has been a focus of the soybean market for several months. Based on the USDA projection of the crush for the year and on Census Bureau estimates of crush through April, the crush during the final four months of the marketing year needs to be 23

percent less than during the same four months last year. The Census Bureau estimate for May is not yet available, but the National Oilseed Processors Association reported that member crush in May was only 12 percent less than in May 2003. If this relatively small rate of decline is confirmed by the Census Bureau, domestic soybean supplies will be extremely tight until the new crop harvest is available, suggesting that the timing of the harvest will be unusually important this year. Alternatively, the 2003 U.S. crop may have been larger than the USDA estimate, as suggested by the March 1 *Grain Stocks* report. The estimate of June 1 stocks, to be released on June 30, will shed more light on that issue.

The impact of Chinese soybean import decisions was highlighted last week. China continues to report the receipt of fungicide contaminated soybeans from Brazil and has reportedly now banned, at least temporarily, 23 trading houses from selling soybeans to China.

Last week, the USDA released the second forecast of 2004-05 U.S. and world supply and consumption prospects for grain and the first forecast for 2004-05 world soybean prospects. The forecast for soybeans was released a month earlier than has been the case in the past. World stocks of coarse grains, including corn, are expected to be reduced again by the end of the 2004-05 marketing year. However, all of the expected decline is to occur in China. Stocks are expected to grow in Europe and stabilize in most other areas. A similar forecast has been made for wheat.

For soybeans, the USDA expects some build-up in U.S. inventories by the end of the 2004-05 marketing year if the 2004 crop reaches its potential of 2.97 billion bushels. A large increase in year-ending stocks is projected for South America. That forecast is based on the expectation of a 7 percent increase in soybean area (mostly in Brazil) and a return to more normal average yields. The 2004-05 South American crop is initially forecast at 4.15 billion bushels, 21 percent larger than the most recent harvest and nearly 20 percent larger than the record harvest of 2002-03.

Corn prices may become a little less volatile than experienced in recent weeks, but are still expected to trade in a wide range. It appears that soybean prices will continue to be quite volatile, with the most strength in old crop prices.

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