WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JULY 12, 2005

USDA SEES TIGHTER CORN AND SOYBEAN STOCKS, MORE ABUNDANT WHEAT

The USDA's July update of projections of supply, consumption, and stocks of major commodities indicated smaller US inventories of corn and soybeans and more abundant supplies of US wheat. Some further tightening of world stocks of all three commodities was also indicated.

In the case of US corn, the USDA increased the projection of domestic use during the current marketing year by 75 million bushels in response to the smaller than expected estimate of June 1 inventories released on June 30. The projection of feed and residual use was increased by 150 million bushels and the projection of use of corn for production of ethanol was reduced by 75 million bushels. The large increase in expected feed and residual use likely represents an unusually large residual use, indicating that the 2004 crop was likely over-estimated. Feed and residual use during the 2005-06 marketing year is expected to be 300 million bushels (nearly 5 percent) less than during the current year, reflecting a more typical level of residual use. The projection of exports during the current marketing year was increased by 25 million bushels, resulting in a 100 million bushel reduction in the projection of year ending stocks.

For the 2005-06 marketing year, the USDA lowered the projection of average yield by 3 bushels, to a trend value of 145, resulting in a 200 million bushel reduction in the expected size of the 2005 crop and a 300 million bushel reduction in the projection of year ending stocks. The year ending stocks projection, however, is still 125 million larger than the projection for the current year.

In the case of US soybeans, the projection of domestic crush during the current year was increased by 15 million bushels, and the projection of residual use was increased by 15 million bushels in recognition that the 2004 crop was likely over-estimated. Year ending stocks are now projected at 290 million bushels, well below the early year projection of 460 million bushels. For the 2005-06 marketing year, the USDA left the yield projection unchanged at 39.9 bushels, resulting in a 5 million bushel reduction in the production forecast due to smaller acreage revealed last month. Stocks at the end of the 2005-06 marketing year are now projected at 210 million bushels, 80 million less than the first projection of two months ago.

For the 2005-06 US wheat marketing year, the estimate of beginning stocks was increased by 13 million bushels, in line with the *Grain Stocks* report released last month. The projected size of the 2005 harvest, at 2.208 billion bushels, is 68 million larger than the June projection. The production forecast contains the first survey-based yield estimate for spring wheat. The estimate of harvested acreage of all classes of wheat was reduced by 839,000 acres from June, but the forecast of average yield was increased by 2 bushels per acre. At 43.8 bushels, the average yield projection is 0.6 bushels above the 2004 average. The projection of use of wheat during the current marketing year was unchanged form the June projection, resulting in a year ending stocks projection of 700 million bushels, 81 million larger than last month's projection.

For the 2005-06 corn marketing year, the USDA projects the average farm price in a range of $1.70 to $2.10, $.15 higher than the June projection. At the close of trade on July 11, the futures market reflected an average farm price for 2005-06 of about $2.35. Part of the difference between the USDA forecast and the market forecast is a difference of opinion about crop size. Based on current crop condition ratings, likely yield for the 2005 crop is below the USDA projection of 145 bushels. All else equal, a yield two bushels below the USDA projection would reduce year ending stocks by nearly 150 million bushels and raise the price forecast by about $.05 per bushel.

For soybeans, the USDA projects the 2005-06 marketing year average farm price in a range of $5.10 to $6.10 per bushel, $.15 above the June projection. At the close of trade on July 11, the futures market reflected an average marketing year farm price of about $6.70. In the case of soybeans, current crop ratings suggest an average yield very near that of the USDA projection. The market likely anticipates that crop ratings and yield potential will continue to decline.

While part of the apparent price premium in both the corn and soybean markets can be attributed to production concerns, part may also reflect a difference of opinion about the fundamental value of corn and soybeans. That is, for a given level of production, consumption and stocks, the market appears to value corn, and particularly soybeans, more highly than does the USDA.

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