Acreage and stocks reports are a caution that grain prices will be quite weather sensitive, by Dr. Robert N. Wisner, Iowa State University Extension Economist

USDA’s June 28 planted acreage and grain stocks reports cleared up some of the uncertainty in the grain supply situation. *Both reports are a caution to grain producers that both corn and soybean prices may be more volatile this summer than in recent years.* That’s because even with normal yields, stocks of both crops appear likely to decline in the year ahead. The smallest U.S. winter wheat crop in decades also increases the sensitivity of corn prices to weather.

Producers may want to consider some forward pricing of crops and purchases of call options to retain upward price flexibility in case summer weather problems develop. Pricing new-crop soybeans is especially risky unless options are used, since prices as of late June for harvest delivery were still well below the downward-revised 2002 loan rates. Locking in a price below the loan rate protects against price declines but exposes farmers to the risk of declining LDPs if prices rise further. For corn, new-crop prices in most areas in late June were at least slightly above the upward-revised 2002 loan rates, and LDP risk was not a major concern.

The USDA acreage survey was taken the first week of June and is subject to possible further revision, since plantings in several states were not yet completed. Current estimates indicate farmers in parts of the eastern Corn Belt reduced corn acreage and increased soybean plantings from earlier intentions. However, these developments were almost exactly offset by opposite changes in plantings in the western Corn Belt and South. Indicated U.S. corn acreage for harvest as grain and soybeans for beans point to reductions in carryover stocks of both crops in 2003. This is expected to be the second consecutive year of declining corn stocks and the third consecutive year for soybeans. *That’s provided that yields are near the long-term average trend yields.* Delayed plantings in the eastern and southern parts of the Midwest, and hot, dry early summer weather in the western part of the Belt hint that below-trend yields are possible this year unless weather is quite favorable from now through fall.

The corn carryover is expected to remain moderately above normal working-stocks needs of the agricultural sector this fall and next fall, although soybean stocks are expected to drop to about minimum working-stock needs, assuming yields are near trend levels. But there are no large reserve stocks of either crop that would offset major droughts such as those of the 1980s.

The balance sheet tables shown on our web site include our latest projections of U.S. corn and soybean supplies, utilization, stocks, prices for the year ahead, and comparisons with recent years. Column A represents continued weather problems the rest of the season, while Column B represents approximately normal weather through harvest. Column C reflects better than average growing conditions throughout the summer and early fall.

In the world feed grain picture, South American corn exports for the year ahead are indicated to be more than 200 million bushels below last season. Production in both
Brazil and Argentina dropped sharply this spring. These two countries normally would be the main alternative suppliers of corn for world markets during the summer and early fall. Lower production there creates positive opportunities for U.S. corn exports. Partially offsetting factors include expectations the China will remain a major corn exporter despite its entry into WTO, and increased feed wheat carryover stocks in eastern Europe and the former Soviet Union that can be exported in the new marketing year. World feed grain carryover stocks as a percent of use are expected to be lower than revised 1995-96 stocks. When compared to stocks initially estimated for that year, they are the second lowest. In 1995-96, corn and wheat prices set record highs in response to perceived tight world supplies. Five years later, China’s grain carryover stocks were revised sharply upward, making world supplies look much more plentiful that generally believed in 1995-96. Global stocks are projected at 8.44 weeks supply this year, compared with pre-revision stocks at 5.89 weeks for 1995-96. Revised estimates now place the 1995-96 global stocks at a 9.36 weeks supply.

For soybeans, South American competition is expected to partially offset the developing tightness in U.S. supplies. Economic problems in both Brazil and Argentina will encourage farmers there to shift acreage from other crops that are more costly to plant to soybeans. U.S. export demand has been supported this spring and early summer by slow movement of new-crop Argentine soybeans, but its exports are expected to increase in the fall as its farmers face cash needs for crop plantings. World soybean carryover stocks at the end of the 2002-03 marketing year, at 9.5 weeks supply, are projected to be the lowest since 1996-97, the most recent year of tight soybean supplies. In 1996-97, world stocks dropped to a 6.5 weeks supply.

Along with feed grains, the world wheat supply situation is projected to tighten to 13.6 weeks supply at the end of the marketing year, compared with pre-revision estimates of a 9.9 weeks supply in 1995-96. Revised estimates for that year now place stocks at a 12.9 weeks supply. Nearly one-fifth of the world’s wheat supply is fed to livestock and poultry, so tightening wheat stocks also may tend to strengthen corn prices some.