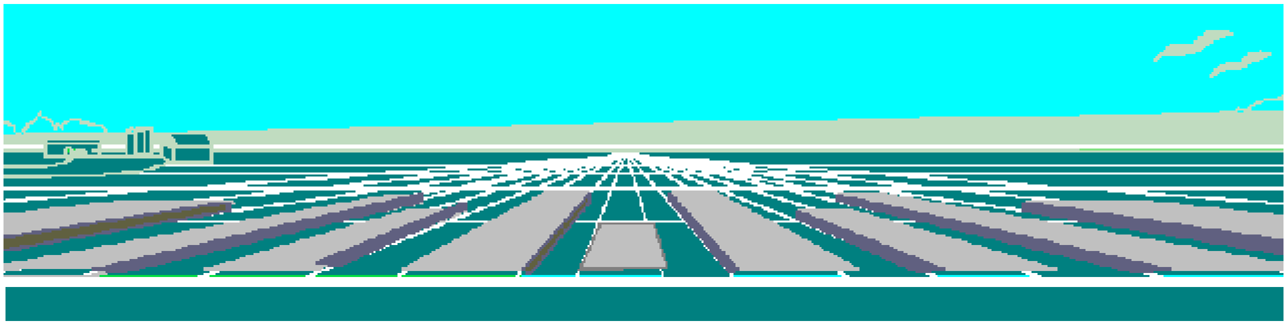

January 16, 1998 **Ames, Iowa** **Econ. Info. 1734**

CORN AND SOYBEAN OUTLOOK FOR 1997-98

Corn

USDA's January 13 production and stocks reports confirmed that domestic corn feeding has been very strong so far this marketing year, up 14% from 1996. Strong feed demand partially offsets the very depressed export demand for U.S. corn. Thus, August 31 carryover stocks are expected to be adequate but will leave very little reserve supply available to offset possible problems with the 1998 crop. The carryover is expected to be about a five- week supply, providing only 2.5 weeks' supply beyond the absolute minimum needed for normal merchandising, feeding, and processing operations. Lack of reserve supplies will make spring and summer prices quite sensitive to any major weather threats to the crop that might develop during the planting or growing season. Cumulative exports since September 1, 1997 and outstanding unshipped sales in early January were about 25 percent below the disappointing exports and sales at the same time last year.

Weak export demand reflects serious economic problems and extremely depressed currency values in much of the Pacific Rim. That region normally accounts for about two-thirds of the export demand for U.S. corn and is home of our top three corn export markets. Other factors contributing to reduced U.S. exports include: (1) aggressive Chinese exports through early January, (2) increased grain production in western Europe, (3) increased availability of feed wheat in world markets, and (3) the shift of eastern Europe and the Former Soviet Union (FSU) into net grain exporting positions. Weather was quite favorable in FSU and eastern Europe, and less competition from that source seems likely in the 1998-99 marketing year.

While a major recovery in export demand is not in sight, some modest improvement in corn exports relative to those of a year earlier seems likely in the late spring and summer. Reduced Southern Hemisphere production from last year is anticipated. Also, if the current USDA estimate of China's 1997 corn crop is correct, China may shift from being an exporter of corn to being a small importer of corn in the late spring or summer.

Price Prospects

Despite sluggish exports, there is a good chance cash corn prices in much of Iowa and the Midwest will rise at least slightly during the spring planting season. An increase of seven to ten cents per bushel from late February to the peak in the spring fieldwork season looks like a good possibility. More significant price strength would be likely with an early end of El Niño, serious planting delays, or an abrupt shift to dry weather. Historically, El Niño has been associated with cooler and wetter than normal weather in the Midwest and generally has contributed to favorable yields (with the exception of 1993). Some private weather services are anticipating a possible early end to El Niño, although the average length of past cycles would carry it into August, according to Elwynn Taylor, ISU climatologist.

Farmers across the Midwest appear to have stored corn and soybeans more aggressively than usual this year. That is a caution for late February and early March prices. Large cash expenses will be coming due on farms across the country at that time. Farmer selling may increase to meet these expenses at a time when export demand is sluggish, and may temporarily weaken prices.

To evaluate price prospects, a two-year perspective can be helpful. Table 1 shows my supply-demand projections for this season and next, along with comparisons from recent years. Our 1997-98 utilization projections are 40 million bushels less than those of USDA. For the 1998 crop and normal weather, a very slight drop in corn acres appears likely, although the weather will have a major bearing on whether this occurs. With near-normal growing conditions and a moderate recovery in exports, corn production would be likely to about match utilization and leave carryover stocks near this summer's level. Weather problems that reduced yields to about 1993 levels would tighten the supply dramatically, likely pushing ending carryover stocks to bare minimum levels. That would almost certainly generate very strong corn prices, although upside potential might be tempered considerably by weak hog prices. Corn prices over $5 in 1996 coincided with $60 hogs. Hog prices $15 to $20 lower would sharply reduce the price pork producers could profitably afford to pay for corn.

Table 1. Corn Bal. Sheet (Mil.Bu.) 1/14/98

			Prelim.	**Proj.**	**ISU Projected 1998-99**		
SUPPLIES:	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**A**	**B**	**C**
Harv.A.(mil.)	72.9	65.0	73.1	73.7	73.3	73.5	74.0
Bu./A.	138.6	113.5	127.1	127.0	105.0	130.0	138.0
Production	10,103	7,374	9,293	9,366	7,692	9,559	10,211
Imports	10	16	13	10	12	10	4
Carryover	850	1,558	426	883	884	884	884
Total (incl. imports)	10,962	8,948	9,732	10,259	8,588	10,454	11,099
UTILIZATION:							
Feed & resid.	5,535	4,711	5,362	5,830	4,600	5,780	5,875
Food, ind. & seed	1,693	1,583	1,692	1,805	1,670	1,810	1,790
Exports	2,177	2,228	1,795	1,740	1,900	2,000	2,100
Total	9,404	8,522	8,849	9,375	8,170	9,590	9,765
CARRYOVER:	1,558	426	883	834	418	864	1,334
U.S. Farm Price	$2.26	$3.95	$2.70	$2.60	$3.50	$2.60	$2.35
IOWA Avg. Price	$2.20	$3.85	$2.60	$2.50	$3.40	$2.50	$2.25
N. C. Ia. harv. price	$1.80	$2.90	$2.38	$2.40	$3.35	$2.35	$2.05
Long-term Prob.				85%	25%	65%	10%
Deficiency, FFA pmt	$0.28	$0.49	$0.00	$0.25	$0.26	$0.26	$0.26

Table 2. Soybean Bal. Sheet (Mil.Bu.) 10/10/97

			Prelim.	**Proj.**	**ISU Projected 1998-99**		
SUPPLIES:	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**A**	**B**	**C**
Harv.A.(mil.)	60.9	61.6	63.4	69.8	69.3	69.5	69.8

Bu./A.	41.4	35.3	37.6	39.2	34.5	39.4	41.0
Production	2,517	2,177	2,383	2,727	2,391	2,738	2,862
Carryover	209	335	183	131	247	247	247
Total (incl. imports)	2,731	2,516	2,576	2,862	2,643	2,990	3,114
UTILIZATION:							
Crush	1,405	1,370	1,436	1,505	1,440	1,535	1,550
Exports	838	851	882	975	940	1,015	1,070
Other Domestic	153	111	127	135	135	135	135
Total	2,396	2,333	2,445	2,615	2,515	2,685	2,755
CARRYOVER	335	183	131	247	128	305	359
U.S. Avg. Price	$5.48	$6.77	$7.38	$6.55	$7.35	$6.10	$5.95
IA. Avg. Price	$5.38	$6.67	$7.28	$6.45	$7.25	$6.00	$5.85
N.C. Ia. Price	$4.90	$6.75	$6.50	$6.05	$7.30	$5.75	$5.60
Meal Price, Decatur	$163	$198	$259	$217	$244	$199	$195
Meal 44%	$154	$186	$244	$204	$230	$188	$184
Nov. Fut. @ Harv	$5.28	$7.15	$6.85	$6.50	$7.80	$6.20	$6.05
Long-term Prob.				85%	25%	65%	10%

A U.S. average yield approaching the 1994 record would have the potential to boost carryover stocks moderately in 1999. In that case, the market would search for an equilibrium price at which farmers and their lenders would be willing to store about half a billion bushels of corn for a year or more without government storage payments. There is also some chance that USDA and Congress could find a way to provide storage payments with an extended CCC loan program, although prospects for that are uncertain.

Key Corn Indications from the January 13 USDA Reports

Along with an increased projection of domestic corn feeding and reduced exports for 1997-98, several significant changes were made in the world estimates. Total world coarse grain production for 1997-98 was increased by 3.64 million metric tons (143 mil. Bu. Corn equivalent). Estimates were increased by 116 million bushels (corn equivalent) for Argentina, 24 million bushels for eastern Europe, and 63 million bushels for FSU. China's corn and feed grain estimates were unchanged from last month. World wheat production was raised by 3.53 million tons (130 mil. bu.), with increases in both the Australian and Chinese wheat crops. China's 1997 wheat production is now estimated at 13 percent above that of 1996, and may create the potential for some wheat feeding in China. These upward-revised estimates indicate spring and summer competition in the world feed grain market may be a little stronger than previously expected. Over the past 16 years, USDA's January world crop estimates have been below final numbers 56 percent of the time, while wheat estimates have been below the final numbers 63 percent of the time.

Soybeans

USDA's January 13 reports reduced the 1997 U.S. crop estimate a very slight 9 million bushels from last month, and also reduced the projected exports by five million bushels. With a very slight one million bushel decline in the September 1, 1997 soybean carryover (carry-in for this year), the projected September

1, 1998 carryover dropped five million bushels from last month -not enough to have a noticeable affect on prices.

In the world report, USDA raised its projection of this spring's Brazilian soybean harvest by one million tons (37 million bushels), increased the 1997 Chinese soybean crop estimate by 11 million bushels, and slightly increased its projections of Brazilian and Argentine soybean meal exports from this spring's harvests. The net effect of these changes was to slightly strengthen the caution signs for late spring and summer soybean prices. In the next several weeks, the bean market will take direction from weather and crop conditions in South America, as well as U.S. export sales reports and palm oil prices in dollars.

Current South American crop conditions are reported to be favorable, although some areas of Brazil's northern Soybean Belt reportedly could use more rain. The pace of U.S. soybean export sales has gradually slowed in the last six weeks. Some recent weekly sales have been below those of a year ago. Indonesia has placed controls on palm oil exports. Malaysia is by far the largest producer of palm oil, and is a much larger influence on world vegetable oil prices than Indonesia. Indonesia has been affected some by drought, but a severe drop in its currency value may be part of the reason for the export controls. Trade sources indicate that its currency has slipped more than 70 percent against the U.S. dollar, making its exports extremely cheap in world markets.

Old-crop soybean prices through early February may tend to trade in a 12 to 16 cent range either side of mid-January price levels, with more strength possible if serious weather problems develop in South America. Continued good crop conditions in South America by mid-February would be a signal of potentially increased downside risk into early March and again from late May through September. Between early March and late April, there is a good chance for modest temporary strength in cash soybean prices.

…Robert Wisner