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LATE WEATHER MARKET

In most years, significant threats to the U.S. corn and soybean crop have passed by September and the market is pretty comfortable with estimating potential crop size. The exception to that general rule has primarily been in years of late maturing crops when freeze damage could occur. This year, however, late season dryness and high temperatures have raised more than the normal amount of uncertainty about crop size.

In its *August Crop Production* report, the USDA estimated the U.S. average corn yield potential at 141.9 bushels per acre, resulting in expectations of a record crop of nearly 10.4 billion bushels. The U.S. average soybean yield potential was seen at 40.7 bushels, resulting in a crop estimate of almost 3 billion bushels. At the end of July, 74 percent of the corn crop in the 18 major producing states was rated in good or excellent condition. For soybeans, 68 percent of the crop in the 18 major producing states was rated in good or excellent condition. By the end of August, only 67 percent of the corn crop and 58 percent of the soybean crop in those states were rated in good or excellent condition. The decline in ratings, of course, suggests that yield potential has been lost since the data were collected for the August yield estimates. The main concern is in some Delta states and in the southern plains where dryness and high temperatures have persisted for an extended period of time. However, soybean pod fill and corn kernel development have likely been adversely affected in parts of the midwest as well.

Last year, the decline in crop ratings in August was identical to the decline this year. The portion of the corn crop rated in good or excellent condition declined by 7 percentage points in both years and the portion of the soybean crop rated good or excellent declined by 10 percentage points in both years. Last year, the U.S. corn yield estimate in September declined by 2.5 bushels per acre and the U.S. soybean yield estimate declined by 1.3 bushels per acre. Beyond the end of August, the corn crop ratings stabilized and soybean ratings declined slightly. The October corn yield estimate was 1.3 bushels larger than the September estimate and very near the final estimate in January. However, the U.S. soybean estimate declined by 0.9 bushel in October and another 0.5 bushels in January. The January corn yield estimate was 133.8 bushels, 0.9 bushels below the August estimate and the January soybean yield estimate was 36.5 bushels, 2.7 bushels below the August estimate.

This year, overall crop ratings are higher than the ratings of a year ago, but are expected to decline during early September. The correlation between “final” crop ratings and actual yield are not perfect, but current ratings for the 2000 crop suggest that average yields will be below the August estimates, but above last year’s average.

The price implications of lower yields can be put in context of expected market size for corn and soybeans during the 2000-01 marketing year and prospects for carryover stocks on September 1, 2001. In its August report, the USDA projected corn consumption at 9.785 billion bushels, resulting in an increase in stocks from 1.794 billion bushels on September 1, 2000 to 2.389 billion bushels on September 1, 2001. If the consumption projection is in the ballpark, the average yield would have to decline below 134 bushels per acre in order for stocks to be reduced during the 2000-01 marketing year. For soybeans, consumption was projected at 2.808 billion bushels, resulting in an increase in stocks from 280 million bushels on September 1, 2000 to 465 million bushels on September 1, 2001. To prevent a build-up in stocks, the U.S. average yield will have to decline below 38 bushels per acre.

Prospects for a decline in stocks will likely be required to push corn and soybean prices above the loan rate in the near term. However, higher prices into harvest, even if they remain below the loan rate, probably alter producer marketing strategies a little. In particular, higher prices and lower loan deficiency payments (LDP) increase the risk of establishing the LDP at harvest and holding the crop unpriced. If prices move closer to the loan rate, holding crop under loan becomes a more attractive alternative. This strategy maintains the protection of the loan price while allowing the producer to benefit from higher prices. In addition, a continuation of higher prices would mean that pricing opportunities for the 2001 crop would deserve a closer look, particularly at levels above the loan rate.

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