

Grain Outlook

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much affected by swings in corn prices, because most of the corn raised here goes right into livestock. He said a tight grain market would tend to put a floor under soybean meal prices, but added that, even so, he felt protein was going to get cheaper in the months ahead.

He commented on the upsurge in wheat prices

which had been evident in the past few weeks, and said that the wheat market now is in a state where it reacts emotionally to anything. "One theory I've heard is that wheat futures will go the limit when it rains on LaSalle Street in Chicago. Some of the market reactions have nothing at all to do with the actual condition of the crop. I think the wheat prices we're seeing now are emotional reactions to things

that might or might not have an adverse affect on supplies."

In his speech to the Penn-Ag group, Herder said, "We're winding up the wheat marketing year, and we are not running out of wheat. The carryover will probably be more than 200 million bushels, obviously better than the zero carryover that millers and bakers were loudly predicting back in January. At that time we were exporting about 20 million bushels per week. By now, weekly shipments are closer to ten million bushels.

"Exports dried up as it became increasingly clear that we are going to harvest a very large crop. Six months ago, it was just a prospect for a large crop, and foreign users wanted to be covered in case prospects deteriorated."

Herder noted that the affect on prices from experts couldn't be estimated too well at the moment. India is a big question mark. With a current shortage of some 150 million bushels of wheat, and

the prospect of inadequate monsoon rains in the current growing season, that country could be facing a critical food shortage in the months ahead. If that shortage should develop, the U.S. would probably export a lot of wheat to India, with resultant upward pressure on prices here.

One possible mitigating factor in this situation, Herder noted, is that the USSR may be in a position to export wheat this year. Of course, it's impossible to say whether or not Russia would export to India, even if they did have a wheat surplus.

"The key to the corn outlook," Herder said, "lies in the weather and the size of the new crop. And, until we get a firm idea on how much corn will be available next fall, we will be living with a highly unstable situation."

"The story behind this is found in the record low level of corn stocks that now exist, the recent difficulties in getting the new crop in the ground, and the largely unknown current demand for

old crop corn. The result of all this is a corn forecast that is complex and that contains a greater than usual degree of uncertainty."

Herder noted that many Midwestern corn belt planters have been having difficulty getting their crops into the ground. Some of them have gone through their third planting, and if the third planting fails, these farmers will be at the end of the line for this crop year.

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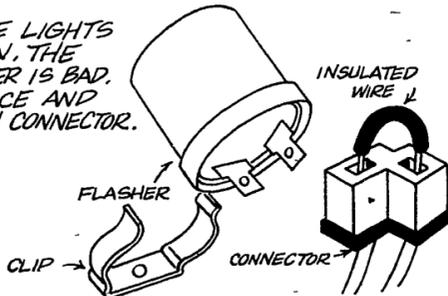
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