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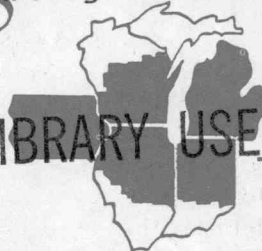
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Letter

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CROP PRODUCTION ESTIMATES were revised upward last week strengthening prospects for a record harvest. Based on conditions as of October 1, the U.S. Department of Agriculture estimates the 1975 index of all crop production will be up 10 percent from the curtailed harvest of last year and nearly 1 percent above the previous record established in 1973. With the exception of cotton—which is expected to be down 22 percent this year—production of virtually all major crop categories is up substantially.

Food grain production—wheat, rice, and rye—is estimated to be up 18 percent from the 1974 record, representing the major component contributing to this year's record crop harvest. Total feed grain production—corn, sorghum, oats, and barley—is expected to be up 23 percent this year but still somewhat short of the highs registered in 1971 and 1973. The 1975 oilseed harvest—soybeans, cottonseed, peanuts, and flaxseed—is expected to be the second largest on record and 15 percent above the 1974 level. Output of sugar crops is estimated to be up 22 percent, paced by a record harvest of sugar beets.

Corn production is expected to rise to a new record this year, even though total feed grain production may only achieve the third highest level. The U.S. Department of Agriculture currently estimates that over 5.7 billion bushels of corn will be harvested this year, up 1 percent from the September estimate and 23 percent larger than the disappointingly small production last year. Prospects for a record corn crop reflect an increase in harvested acreage but below trend yields. Current estimates suggest corn yields will average 86.2 bushels per acre nationwide this year, about 15 bushels above 1974 but well short of the 1972 record of over 97 bushels per acre.

Soybean production is now expected to approach 1.5 billion bushels this year, up 2 percent from the September estimate. The revised production estimate is 19 percent larger than last year but nearly 5 percent short of the 1973 record. Nationwide, soybean yields are expected to average 27.5 bushels per acre, about equal to earlier highs.

The revised production prospects coupled with the resumption of negotiations in Moscow have raised hopes that the embargo on U.S. grain sales to the Soviet Union will soon be lifted. (The embargo on sales to Poland was lifted late last week.) Despite the prospects of a near-term end to the USSR embargo, however, there is considerable uncertainty as to what impact the lifting will have on U.S. grain markets. The uncertainty largely reflects the extent of unconfirmed

Russian grain purchases during the period the embargo was in effect, as well as current market expectations in regards to total U.S. grain sales to the Soviet Union.

Most observers anticipate total Soviet grain purchases will approximate 25 million metric tons this year—a figure that may be a more accurate reflection of the USSR's importing capacity rather than its desired grain purchases. Confirmed USSR grain purchases from all countries as of this week reportedly totaled 18 million metric tons. While some reports indicate the bulk of the remaining 7 million tons will be purchased subsequent to the ending of the embargo, others suggest these additional purchases, to a large extent, have already been negotiated in unconfirmed contracts. Although the two views are not necessarily inconsistent, they do suggest the possibility of somewhat different pressures on domestic grain prices once the embargo is lifted.

Aside from the issue of the extent of unconfirmed Soviet grain purchases, there is reason to believe that any announcement of an end to the embargo may well entail a restriction on additional U.S. grain sales to the USSR. Recently, the Secretary of Agriculture reportedly indicated the additional purchases could be as much as 5 million metric tons. Although it is difficult to gauge market expectations, it would seem safe to presume that additional sales of 5 million tons or less would be somewhat below the level previously anticipated.

Until these uncertainties are clarified, there is little basis for projecting near-term trends for grain prices. Fundamentally, however, it appears that the increased crop harvest this year will materially improve supplies relative to a year ago. Moreover, it appears the increased supplies will more than offset the anticipated rise in utilization and will permit a rebuilding of carryover stocks. Such a scenario would suggest that corn prices in the 1975/76 marketing year would average below the \$3.12 per bushel average at Chicago during the past marketing year.

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