ILLINOIS FARM AND FOOD OUTLOOK
COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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HAVE THE GRAIN MARKETS BOTTOMED OUT?

AS THE YEAR'S END APPROACHES, the major question in the grain markets is: Have prices of corn, wheat, and soybeans stopped going down? In early December, the answer to this question appeared to be "yes." The wide harvest basis on grains and soybeans had narrowed, and modest swings in the Chicago Board of Trade futures made that market look like a trading affair. However, on Friday, December 12, the futures prices of corn, wheat, and soybeans broke through their November lows and made the markets technically bearish, with further declines projected.

Although technical tools such as chart action and computer trends are not perfect in forecasting price trends, their record is good enough that many professional speculators will not trade against technically projected trends. Speculators are more likely to view mild price upturns as an opportunity to sell futures rather than to buy.

Hence, any sustained strength in grain prices must originate in the cash market, that is, from new export buying or tight holding by farmers of the actual grains. In the near future, such an occurrence seems more likely for wheat, and possibly soybeans, than for corn.

Much corn is not yet in permanent storage, and increased selling by farmers is likely in January and February. Moreover, there is a large supply of market corn in the three eastern Corn Belt states of Illinois, Indiana, and Ohio. Their 1975 corn production was 369 million bushels, or 23 percent larger than in 1973; U.S. production was only up 3 percent. On the other hand, Illinois, Ohio, and Indiana have good transportation access to both the export market and the broiler-feed market. Broiler production is up from a year ago, and that industry is expected to consume about 10 percent more feed grains this marketing year than last.

Corn exports are at a record rate. Shipments from October 1 through December 5 amounted to over 333 million bushels, compared to 174 million a year earlier. However, outstanding export sales November 30 were only 395 million bushels, compared to 1,141 million a year earlier. With the exception of Russia and the Eastern European countries, our foreign customers seem in no hurry to buy, possibly influenced by these facts: Russia has supposedly covered their needs until next summer; the projected U.S. carryover of 600 to 700 million bushels is adequate, unless 1976 crop reverses develop; and 1975 grain production in all countries, except the USSR, was near normal or better.

As the marketing year progresses, the corn market will get support from increased cattle and hog feeding. Cattle feeding will exceed 1974 levels, but the number of fed hogs will not increase much until the summer and fall of 1976. As a result, the feed usage of all grains is expected to be the same or lower this winter than a year earlier; but usage in the April-September period of 1976 may be a fifth larger than in 1975.

In brief, the fundamental supply-and-demand forces for corn are not likely to prevent further nearby price declines if farmer selling is heavy after the first of the year. Thus, farmers who have not already sold a part of their crop and have debts to pay, face hard choices. Their best bet may be to price their corn on any bulge in the $2.25 to $2.40 range. Others may risk the wait for $2.50 or better, expecting new export buying or adverse weather for the 1976 crop.

Some guidance will come from three crop reports in January. They are the final estimate of the 1975 corn production, planting intentions for 1976, and the estimates of January grain stocks.

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