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

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PRICING DECISIONS

THE HARVEST OF THE ILLINOIS SOYBEAN CROP is progressing rapidly and the corn harvest is beginning to pick up pace. All the uncertainty surrounding crop size, domestic and foreign demand, the health of the economy, and the frenzy in the metal markets has caused considerable variation in the prices of corn and soybeans.

The record corn and soybean crops indicated in the USDA's September crop report are likely to be confirmed by the October report, which will be released this week. Frost is apparently no longer a major threat. So one major uncertainty has been eliminated.

The September Hogs and Pigs report showed that hog production is continuing to expand rapidly. The demand for corn and soybean meal for use as feed is likely to be strong again in 1979-80. That demand will be tempered somewhat by lower hog and poultry prices and higher feed prices.

The USDA has announced that Russia will be permitted to buy up to 25 million metric tons of U.S. corn and wheat over the year ahead. How much will actually be purchased or what combination of corn and wheat will be taken are not clear. Russia may have already purchased up to 15 million tons of grain for delivery this coming year. Our corn exports will be large in 1979-80.

The spiraling gold and silver prices have moderated somewhat. Perhaps the gold mania has subsided for a while. The grain market is beginning to take a closer look at the fundamentals of supply and demand.

Pricing and storage decisions by farmers have also had a major impact on price movement. Individual farmers must evaluate all of these factors and make decisions about pricing, storage, and delivery.

On October 5, December corn futures closed at $2.88-1/2 per bushel; March, at $3.02; May, at $3.10; and July, at $3.14. The basis and, therefore, the cash prices vary considerably throughout the Corn Belt. The basis in the eastern Corn Belt is generally quite narrow, with harvest prices at 20 to 25 cents under December being quite common. An ending basis of about 15 cents would yield a price of $2.73 per bushel for December, $2.87 for March, $2.95 for May, and $2.99 for July delivery. The market is currently offering a profitable price. Assuming an ending basis of 15 cents, the March and May prices for corn offer a return on storage that exceeds is up 19 percent. As with coarse grains and wheat, the United States is the source of most of the increase. Unlike the grain crops, however, oilseed production outside of the United States is expected to be larger than last year. A major portion of that increase is expected to be in South American soybeans.

As we have pointed out before, the record U.S. corn crop does not present a burdensome supply situation. Export demand will be strong because of production shortfalls in other parts of the world. Domestic livestock numbers are high. The entire corn crop will be used. So, corn prices are expected to stay relatively strong.

By contrast, all of the record soybean crop may not be consumed. Carryover stocks at the end of 1979-80 marketing year could be twice as large as 1978-79 carryover stocks. Unless production problems with oilseeds develop somewhere in the world, it is difficult to see how a significant price increase could come about for soybeans.

Darrel L. Good

Darrel L. Good, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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