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# ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE  
DEPARTMENT OF AGRICULTURAL ECONOMICS

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## GRAIN AND SOYBEAN SUPPLIES ARE LARGE

ON JANUARY 15, CORN FUTURES PRICES were about 14 cents per bushel less than before the Russian grain embargo was announced. Soybean futures prices were 4 to 14 cents lower, and wheat prices were 13 to 17 cents lower. Cash prices declined somewhat more dramatically as the basis widened in most areas. Most of the price decline can be attributed to the embargo, although soybean prices were under some pressure before the embargo was announced.

The price impact of the announced embargo was softened somewhat by USDA actions intended to remove the embargoed grain from the market temporarily. The farmer-held grain reserve program was revised to make it more attractive to eligible farmers. Actions included an increase in the loan rate for both corn and wheat (from \$2.00 to \$2.10 for corn and from \$2.35 to \$2.50 per bushel for wheat), a waiver of first-year interest on grain put into the reserve, an increase in the storage payment for reserve grain, and a widening of the difference between the "release" and "call" prices on reserve grain.

In addition, the USDA will assume ownership of the embargoed grain as it comes to market. Although the details of this plan have not yet been released, the USDA has said that the grain will not be sold back into the market if prices are less than before the embargo. If the prices are lower, it is assumed that the grain will be placed in CCC stocks. Under current legislation this grain could not be released until market prices reach 150 percent of the loan rate. Indications are that the USDA hopes that enough corn will be moved into the farmer-held reserve (perhaps enough to double the approximately 500 million bushels already in the reserve) so that CCC ownership will not be required.

In the longer run, the government feels that an increase in the amount of corn processed into alcohol for fuel may absorb the corn that would otherwise have been sold to Russia. Steps will be taken to encourage growth in processing capacity.

As the dust settles, it is becoming increasingly obvious that current grain and soybean supplies are burdensome. The USDA released a revised supply-demand balance sheet on January 9 that estimated ending corn inventories at 1.757 billion

bushels, 325 million bushels higher than pre-embargo expectations. Ending soybean stocks were placed at 410 million bushels, an increase of 10 million bushels.

On January 15 the USDA released revised estimates of the size of the 1979 corn and soybean crops. The corn crop was estimated at 7.764 billion bushels, an increase of 178 million bushels from the November estimate. The soybean crop was placed at 2.268 billion bushels, a 32-million-bushel increase from the previous estimate. If all of this increase ends up in carryover stocks, corn inventories will total 1.935 billion bushels and soybean stocks will reach 442 million bushels.

Even if a substantial amount of corn enters the reserve program, free market supplies will be large. It is difficult to envision further price strength for corn and soybeans in the near future. The only potential price-strengthening factor would be a significant reduction in 1980 production, either in the U.S. or other major producing areas. At this writing, no announcement has been made about a 1980 feed-grain set-aside program.

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