WEEKLY OUTLOOK
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WILL GRAIN PRICES REBOUND?

RECENT DECLINES IN GRAIN PRICES HAVE BEEN DRAMATIC. Between November 28 and December 5, corn futures declined about 22 cents, wheat prices declined nearly 30 cents, and soybean futures dropped almost 90 cents. At the same time, the basis remained extremely wide. On December 2, the price for corn at the Gulf delivered by barge was 39 cents under the futures contract for March, 1981. A year ago, the basis was +13.5 cents, a difference of 52.5 cents. Also on December 2, the Gulf/ barge basis for soybeans was 20 cents wider than a year ago, and the wheat basis was 17 cents wider.

A wide basis has persisted throughout most of the 1980 season, even though the corn and soybean crops were both extremely small. Brisk selling by farmers has been reported since prices started to rise sharply late in the growing season. Apparently, those reports are confirmed by Committment of Trader reports showing large open interest for reporting short hedgers (outstanding contracts).

Once the price decline started last week, it gained substantial momentum. One reason might be related to the large position of short hedgers in the market. Substantial pressure has been placed on speculators to take the long side of these positions. Once the long speculators started selling, buyers may have been scarce as hedgers held their positions.

What triggered the recent decline in futures prices? Experts cite a number of factors, including escalating interest rates and unrest in Eastern Europe. With soybeans, concern has continued to mount because of lagging export rates. In addition, the demand for soybean oil has remained sluggish; also, good weather conditions have been reported from the production regions in South America.

An examination of weekly figures shows that soybean exports averaged 13.7 million bushels per week through the first 3 months of the crop year. To reach the USDA'S projection of 825 million bushels for the year, the weekly average would have to be 16.5 million bushels for the next 9 months. To date, the reduced export rate has been offset by a high rate of crush. The USDA projects an average weekly crush of 20 million bushels for the year ending on September 30, 1981. For the first 3 months of that year, the crush averaged 21.2 million bushels per week.

The crush rate may soon decline because of the narrowing margins being earned by crushers. If the decline occurs and if it is not offset by higher exports, the total rate of soybean use will decline.

Based on estimates of export demand, domestic livestock numbers, and projected livestock prices, the average price for soybean meal over the marketing year projects to $250 per ton. Recently, prices dropped below that. Soybean oil prices, in real terms, currently are well under the levels of other years when inventories declined. Although further declines in soybean prices may occur over the short run, the lower prices should stimulate use. Soybean meal prices, in particular, appear low in relation to projected prices for livestock. Soybean prices should rebound if the export rate does increase (as expected) and if farmer sales decline. Demand, as reflected in weekly use figures, is the key to price direction over the next few weeks.

Corn prices are on very firm ground. The high export rate along with expectations of higher livestock prices should guarantee that ending inventories will be at minimum levels. Prices will have to remain near the call level to bring reserve supplies into the market. The wheat situation is not as good. Exports through the first half of the year are below the projected average. Increased seedings of winter wheat point to another large crop in 1981.

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