WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

April 14, 1982

NEW CROP GRAIN PRICES--HOW MUCH HIGHER?

GRAIN PRICES HAVE MANAGED A MODEST RALLY over the past four weeks. Corn futures have moved 14 to 19 cents higher and new crop prices have advanced more than old crop prices. For soybeans the price rally has totaled about 50 cents per bushel. Wheat futures at Chicago have increased nearly 20 cents.

It is clear that part of the price increase has been "technically" inspired. The extremely low prices in early March attracted new buying interest in the grain complex, particularly in soybeans. Do market fundamentals support higher prices?

If the 1982 winter wheat crop matures normally, production may exceed last year's record output. The major price-supporting factor in the market under those circumstances would be the government loan program. Thus, if cash prices drop below the $3.55 loan rate by more than the cost of storage for 9 months, the government loan program becomes more attractive than the market. Loan activity, if sufficiently large, should then support cash prices around $3.25 per bushel. Such cash prices would support July futures at Chicago at about $3.75, the price at which July futures closed on April 8. Unless crop conditions deteriorate, either domestically or abroad, there is no fundamental support for higher wheat prices.

Corn supplies are large, and current prices are high enough to bring the one billion bushels of government loan corn back onto the market. The direction of corn prices will be determined primarily by new crop considerations. The sign-up for the Reduced Acreage Program has been high. However, the compliance rate will be influenced by planting conditions and prevailing prices this spring. Already the recent advances in new crop prices have reduced the attractiveness of the program.

The reappearance of winter during the first week of April emphasizes the importance of weather as the primary factor in determining the size of the 1982 corn crop. Although a late planting season in the Corn Belt certainly is possible, the implications of a late start in corn planting are not clear. For example, planting was very late in Illinois in 1973 and 1974, and average yields were small both years, particularly in 1974, because of an early, killing frost. Yet in five of the past ten years, planting started slowly but progressed rapidly and was completed on time. These five years produced the five highest yields of the past decade. Evidently, yields are influenced more by when planting is completed than by when planting is started. Though excessive moisture delays the start of planting, it usually produces high yields.

Normal yields in 1982 will produce more corn than is currently being used. With new crop prices at a substantial premium to both old crop prices and the government loan price, a prudent strategy suggests forward pricing some new crop corn.

Soybean meal prices will have to remain competitive with corn prices. Higher soybean prices will have to come from higher soybean oil prices. Currently, oil prices are near historic lows in deflated dollar terms. These low prices should stimulate a high rate of use and set the stage for a significant price rally if any major oilseed crop has production problems in 1982-83. The recent high prices of about $7.05 for November futures are not likely to be exceeded in the short term. Higher prices will be demand based and are not likely to show up until 1983.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

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

Official Business
Penalty for private use, $300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

U.S.MAIL