WEEKLY OUTLOOK
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WILL CORN AND SOYBEAN PRICES REBOUND?

IN RECENT YEARS, A MODEST SUMMER RALLY IN GRAIN PRICES has not been uncommon. These rallies, generally associated with weather and yield uncertainty, have been used by many producers as an occasion to finish pricing old crop grain and to begin pricing the new crop.

No such rally developed this year. During July, corn futures declined 18 to 20 cents while soybean futures dropped 20 to 22 cents. Contract lows were reached for both corn and soybeans. A combination of good growing conditions, large carryover prospects, and continued, economic sluggishness throughout the world account for the price decline. Will the decline persist?

Corn. Until two weeks ago, old crop prices had been supported by the government loan program. Recently, however, the increased movement of corn weakened the basis, and cash prices in central Illinois dropped nearly 20 cents during the last week of July.

The USDA recently extended the rollover period for farmer-held reserve corn by 30 days. Farmers now have a 60-day period in which to move out old crop reserves and replace them with the new harvest. A large percentage of the regular 9-month CCC loans matures in August and September. The two preceding factors, along with an acceleration in the marketing of free stocks, will increase the amount of corn on the market. Basis levels are thus likely to remain weak.

The harvesttime basis will depend on crop size, farmers' marketing decisions, and the strength of the demand for corn. It now appears that the crop, particularly in Illinois, will be large. However, the preharvest flurry of old crop sales and the construction of new storage facilities should provide room for the crop. Low prices are likely to lead to tight farmer-holding and a relatively strong basis.

If current crop prospects materialize, the price level will not probably show much improvement through harvest. Beyond harvest, however, prices should respond to farmers' use of the loan and reserve program. Preliminary figures suggest that 25 to 30 percent of the farmers will be eligible for these programs.

With about 1.6 billion bushels already tied up in CCC programs, free market supplies should become scarce enough to force loan redemption next summer. The current price for delivery next summer is 25 to 30 cents less than the loan redemption price. Crop size will determine whether or not free market supplies will be tight enough to force the reserve trigger price.

Soybeans. Soybean carryover supplies, though relatively large at 270 million bushels, have dropped to their lowest level in 3 years. Soybean meal prices have sagged because of declining exports, and soybean oil prices have come down because of large increases in Malaysian palm oil production. The most negative factor, however, is the market's anticipation of a bumper harvest this fall. Some expect a harvest as high as 2.3 billion bushels, 15 percent above the 1981 crop. The large production estimate stems from the prospect of good yields and the anticipation of more soybean acreage than revealed in the USDA's June survey.

However, further acreage increases are not completely compatible with the level of participation in the Reduced Acreage Program. In addition, the crop is still quite late in Iowa, Nebraska, and Minnesota. Because of the current, low price levels, odds favor a rebound in soybean prices. The August 11 Crop Production report will be important in determining the timing and magnitude of the recovery.

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