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GRAIN--PRICES HOW MUCH HIGHER?

GRAIN PRICES, LED BY SOYBEANS, HAVE STAGED A RECENT RALLY. Since the first of the month, old-crop corn futures advanced from 12 to 20 cents. Cash prices have been even stronger, with the price in central Illinois about 25 cents higher.

Before expiring, May wheat futures at Chicago advanced 40 cents since the first of the month and July futures are up by nearly 30 cents. May soybean futures advanced by about $1.10 per bushel, while July is up by $1.04. Most of the strength in the soybean complex has stemmed from higher soybean oil prices. Soybean oil prices have increased about 8 cents per pound since the first of the month, an increase of nearly 25 percent. Soybean meal prices have increased about $12 per ton, or about 6 percent.

The strength in old-crop grain and soybean prices has resulted from tightening supplies and a continued high rate of use. In the case of corn, tight farmer holding has led to aggressive bidding by processors to meet current needs. Deliverable stocks of wheat are at extremely low levels, and export demand continues to be better than expected. Recent concern about unfavorable growing conditions in the Soviet Union has also led to increased speculative buying of wheat.

In the soybean complex, the domestic crush rate and the rate of exports remain higher than can be maintained for the rest of the year. The seasonally adjusted rate of crush projects to about 1 billion bushels for the year, while the export rate projects to 770 million bushels. Such a level of use would leave carryover stocks at about 65 million bushels. It is unlikely that carryover stocks can be reduced to such a low level. The high rate of use currently stems from improved soybean oil demand in the export market. Concerns about tight edible oil supplies around the world and an uncertain export policy in Brazil have touched off a buying spree in the oil market.

It is difficult to determine just how high the current price rally will go. The contract high in July soybean futures is $9.92 1/2 per bushel. Some analysts believe that soybean oil prices could test the all-time high of 50 cents reached in September 1974. Such an increase could add nearly $1 to the price of soybeans and test the previous contract high. More than likely, the rally will fall short of that mark, however. History suggests that once prices accomplish the rationing process, prices decline rapidly. The point is that the current rally could be short-lived and may fall short of some of the more optimistic projections. The rally should probably be used to price a large proportion of remaining old-crop soybeans.

The contract high in July corn is $3.88 per bushel. With normal weather, it is unlikely that the high will be challenged. However, the cash price of corn is expected to remain very firm until a large 1984 crop is in sight. Corn prices will be more sensitive to summer weather than will soybean prices.

The strength in the wheat market has resulted in a partially inverted market. At Chicago, May futures are premium to July, and September is about the same price as July. The cash basis for new-crop wheat is also very strong. Current cash prices are nearing the upper end of the USDA's projection for the season's average price.

The recent price strength may also have some implications for pricing new crop corn and soybeans. As of May 21, for example, September corn futures were 23 cents premium to December futures. September soybean futures were 54 cents premium to November. Placing new crop hedges in the September contract and later moving them forward at a more favorable spread may offer the potential for higher prices on 1984 crops.

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