WEEKLY OUTLOOK
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PRICING NEW-CROP CORN AND SOYBEANS

AS THE 1984 PLANTING AND GROWING SEASONS PROGRESS, corn and soybean producers must evaluate forward-pricing opportunities. Two decisions must be made--when to price and how to price. When to price is a speculative decision that is based on the current price level and expected price changes. How to price is a function of price relationships within the corn and soybean markets.

The high level of participation in the 1984 feed grain program puts an effective floor under new-crop corn prices. Producers who have participated in the program would not be expected to sell corn at prices below the loan level by more than the cost of storage. The 1984-85 season's average price of corn is not expected to average below the national average loan rate of $2.55 per bushel.

On June 1, December 1984 corn futures closed at $3.02 3/4 per bushel. July 1985 futures closed at $3.18. Assuming a relatively strong basis pattern for the year ahead, those futures offered a season's average price of about $2.80 to $2.90 to most Illinois producers. While new-crop corn prices are a substantial discount to old-crop prices, they are well above the loan rate.

The slow start of the 1984 crop reduces the chances of above-normal yields. The magnitude of planted acreage will be revealed on June 28. Uncertainty about the size of the 1984 crop and continued tight supplies of old-crop corn will likely prevent a significant decline in prices over the next two months. There seems to be minimal risk in postponing additional new-crop sales.

Forming judgements about new-crop soybean prices is more difficult. Soybean meal prices during the 1984-85 marketing year should be in a more normal relationship to corn prices. Even with corn prices only slightly above the loan rate, soybean meal prices at Decatur should be supported in a range of $180 to $190 per ton. Soybean oil prices are expected to decline from their current high level as the world inventories of edible oils are increased. Prices, however, should remain above the relatively low levels of recent years. Any price above 26 cents per pound for oil would result in a season's average price above $7 per bushel for soybeans.

On June 1, November soybean futures closed at $7.27 per bushel; July 1985 futures closed at $7.64. Assuming normal basis levels, the Illinois soybean producer was being offered a season's average price of about $7.20 per bushel. Given the uncertainty about the size of the 1984 crop, there seems to be minimal downside risk on new-crop soybean prices for the next 2 months. The June 28 *Acreage* report will be the next checkpoint for evaluating new crop prices.

While current forward-pricing opportunities may not be too attractive, good opportunities to forward price may develop. When forward pricing does occur, the market should be evaluated for the best pricing method. At the current time, for example, new-crop bids on both corn and soybeans reflect a relatively strong basis. In addition the carrying charges in the futures market are relatively small. The premium of July futures over December corn or November soybean futures is only about 8 percent on an annual basis. The market is currently offering no returns on storage of the 1984 crops.

For those producers who use the futures market, the current premium of September 1984 futures over December corn futures and November soybean futures offers an additional alternative to consider. Since 1970, the premium of September corn futures over December futures has never persisted beyond the early part of September. In soybeans the premium has persisted only twice. In each of those years, the premium was less than 10 cents. As long as the current premium persists, producers may consider placing new crop hedges in the September contract. Those hedges could then be moved forward when and if the premium disappears.

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