WEEKLY OUTLOOK
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December 12, 1984

GRAIN PRICES - IS THE WORST OVER?

DECEMBER CORN FUTURES HAVE DECLINED 21 CENTS since November 1. March futures have come down about 14 cents. Futures prices were at contract lows on December 7. Cash prices in central Illinois have dropped 10 cents to about \$2.55. January soybean futures have declined 49 cents, to \$5.94 on December 7. Cash prices in central Illinois have come down about 39 cents in that 5-week period.

The decline in prices reflected a weak demand situation and little optimism for improvement. Exports of corn and soybeans got off to a very slow start, as outlined 2 weeks ago. The bridge problems in the St. Lawrence Seaway slowed corn movement out of Chicago, putting pressure on December futures. Increasing palm oil production in Malaysia and expectations that South America will have another large soybean harvest next spring pressured the soybean complex. The inability of foreign currencies to show any consistent or significant strength in relation to the dollar also weighed on grain prices.

The question now being asked is: have prices bottomed? There is no way to answer that question precisely, but for practical purposes the answer seems to be, yes. Cash corn prices have declined under the Commodity Credit Corporation (CCC) loan rate of \$2.55 in the western Corn Belt and to the loan rate in the eastern Corn Belt.

At these price levels producers will become more and more reluctant to sell corn. For corn already in storage, the majority of the storage cost (excluding interest) has already been incurred. At prices under the loan rate, then, there is little price risk to those who qualify for the loan program. We would expect that with over half of the crop eligible, producers will begin putting substantial quantities of corn under loan.

At the same time, the rate of corn use has picked up. Exports have exceeded 60 million bushels for each of the past 2 weeks. Livestock numbers remain large and corn prices are low in relation to livestock prices. The January *Grain Stocks* report should reveal a high rate of domestic use of corn.

Soybean futures are within 14 cents of their contract lows. Cash prices are only about 15 cents higher than the lows reached in early October. Cash soybean meal prices have been extremely low. There is some evidence that these low prices have resulted in a higher rate of domestic use. Use during October (the latest information available) was 1.87 million tons. That level has only been exceeded twice--November 1979 and December 1982. Meal prices at Decatur moved above $140 per ton in early December as the basis narrowed about $9 per ton.

Soybean oil prices have remained relatively high, but both export and domestic use of oil were very large in October. Oil stocks at the beginning of November were estimated at 596 million pounds, the lowest level of stocks since September 1975. The talk of rebuilding world oil supplies may be a little premature. The optimism about the size of the South American soybean crop needs to be kept in perspective as well. Planting is just now being completed.

There is some evidence that corn and soybean prices may be near a low point. However, the magnitude of price recovery may be modest. Corn prices should at least be forced up to the loan redemption level. With interest rates on those loans of 10.25 percent, the redemption price is about $2.70 after 6 months and about $2.75 after 9 months.

Continued higher rates of use of soybean meal should push those prices higher, which will support higher soybean prices if soybean oil prices hold together. That situation alone, however, will not add much more to soybean prices than the cost of ownership.

Significant increases in corn and soybean prices this winter will likely require some combination of much stronger livestock prices, a sharp drop in the value of the dollar, or crop problems in South America.

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