Cooperative Extension Service
University of Illinois at Urbana-Champaign

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

June 5, 1985

HAS THE GRAIN PRICE RALLY PASSED?

IT COULD EASILY HAVE GONE UNNOTICED, but grain prices managed a modest rally in late March and early April. July corn futures moved up to the $2.84 to $2.85 level from their previous low of $2.72. Cash corn prices in central Illinois approached $2.75. December corn futures challenged $2.70. On May 31, July corn futures were back down to $2.74 1/2, and December closed at $2.54.

During the second week of April, July soybean futures moved above $6.15, and cash prices in central Illinois broke above $6.00. November futures closed at $6.21 on April 24, nearly 40 cents above their previous low. On May 31, July futures closed at $5.67 1/2 and November closed at $5.62. Cash prices in central Illinois were around $5.70 per bushel.

A similar pattern unfolded for wheat. July futures at Chicago rallied to the $3.40 level during the second week of April. Subsequent declines pushed that contract as low as $3.12 1/4 during the last week of May. That contract closed at $3.15 on May 31. December futures declined from $3.49 to $3.27.

Have we seen the rally for the year? First a look at corn. Old crop corn is in abundance and the new crop is making excellent progress. Export prospects for the remainder of this crop year and into 1985-86 are not very bright. However, free market stocks of corn still project to be very tight by late summer. With about 850 million bushels of corn in the nine-month Commodity Credit Corporation (CCC) loan program, additional loan redemption will likely be required. The break-even price for redemption after 9 months storage is about $2.75 in central Illinois. The interest cost on CCC loans is about 2 cents per month. The break-even price, then, is 2 cents lower for each month of early redemption. Current cash prices are below the break-even price for redemption. Based on these considerations alone, a rally of cash prices back to the $2.75 area this summer might be expected.

December corn futures are trading around the CCC loan rate of $2.55. Such a price discourages new crop sales, making the loan program an attractive alternative. With over 70 percent of the crop eligible for the loan program, further declines are not expected. A rally in new crop corn before harvest, however, will likely require some deterioration in crop prospects in the U.S. or other major producing countries.

In the case of soybeans, price declines in recent weeks reflect the very low levels of exports of soybeans and soybean products, the large harvest in South America, and the generally good growing conditions in the U.S. While acreage of soft red winter wheat is down sharply this year, the early harvest is expected to result in a high proportion of that acreage being double-cropped with soybeans.

There are over 200 million bushels of soybeans in the CCC loan program. However, the break-even price on redemption after 9 months storage is only about $5.40. That is below the current market price. Based on current estimates of use, carry-over stocks will be large enough that redemption of soybeans under loan will not be required.

While demand prospects are not good, a rally in soybeans could still be generated by weather concerns. With market size projected at only 1.8 billion bushels, weather conditions would have to be severe to threaten a shortage.

As pointed out last week, cash wheat prices are at a substantial discount to the loan. A postharvest rally seems likely if producers make widespread use of the CCC loan program.

In summary, a modest rally in old crop corn appears likely based on tightness of free market stocks. Rallies in soybean prices and new crop corn will likely have to come from weather concerns. Unless demand prospects improve, even weather rallies will be tempered. Price expectations should not be set very high.

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