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SELLING NEW CROP CORN AND SOYBEANS

GENERALLY GOOD GROWING CONDITIONS AND EXCELLENT CROP PROGRESS pushed new crop corn and soybean futures to new lows last week. December corn futures closed at $2.465 on July 3. That was the lowest close for December futures since December 1982. November soybean futures closed at $5.4375 on July 1, the lowest close for the November contract since November 1982.

Substantial price gains were registered on July 5. December corn futures closed nearly 4.5 cents higher at $2.51, while November soybeans closed nearly 25 cents higher at $5.725 per bushel. Part of the recovery was technical in nature, but part was related to forecasts of hot, dry conditions moving into the corn belt. Those higher temperatures are coming at the time that the corn crop is entering the critical reproductive stage.

How much of a rally can be expected? There are obviously a large number of unknowns, but it is important to keep overall supply and demand prospects in perspective in evaluating the rally potential. First, adverse weather at this time is more significant for corn than soybeans because of the stage of growth of the two crops. Second, the yield levels are only one-half of the production equation. There is still considerable uncertainty about the level of corn and soybean acreage this year. The USDA will release estimates of planted acreage on July 10. Because the survey period for these estimates was early in the soybean planting season, the soybean acreage estimate will reflect a relatively high proportion of planting intentions. We will review these estimates next week.

Third, production potential must be evaluated in terms of the likely size of the market for the 1985 crops. In the June *Supply and Demand* report, the USDA projected that the total market size will not increase next year. If world crops develop normally, corn exports may be down significantly, offset partially by modest growth in the domestic market. As of late June, only about 13 millions bushels of new crop corn have been sold for export, compared to about 71 million a year ago. The market may require only 7.1 to 7.2 billion bushels of corn during the year ahead.

Demand prospects for soybeans are more uncertain because of the importance of the size of the South American crop next spring. The magnitude of rebound in soybean meal demand and the direction of exchange rates will also be important. Currently, the USDA sees a market for only about 1.8 billion bushels of soybeans. As of late June, only about 21 million bushels of new crop soybeans had been sold for export, compared to about 40 million at this time last year. Unless demand prospects improve, a normal crop in 1985 would result in a further accumulation of corn stocks and would keep pressure on soybean prices in order to prevent growth in inventories.

Weather markets provide a difficult marketing situation. In general, these rallies provide good marketing opportunities. Selling decisions, however, are difficult because of the uncertainty about the duration of adverse weather conditions and the effect on crop size.

The recent high closing price for December corn futures was $2.6925 (April 1, 1985). The highest price registered for the December 1985 contract was $2.95. The recent high closing price for November soybean futures was $6.21 (April 24, 1985). The highest price for that contract has been $6.68 per bushel.

Given the current demand prospects for the 1985 corn and soybean crops, weather damage would have to be quite severe to result in shortage. Pricing of the crop should probably be accelerated if prices approach the recent highs.

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