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PRICES EXPECTED TO RECOVER AFTER HARVEST

DECEMBER CORN FUTURES DECLINED ABOUT 30 CENTS from early July through August. That contract traded very close to the 1982 low of $2.14. November soybean futures declined about 65 cents and traded as low as $5.0375. The 1982 low was $5.18.

Prices have rebounded slightly from those lows, but it is not yet clear that a bottom has been reached. Some believe that the 1977 lows of $1.90 in December corn and $4.97 in November soybeans will be tested. Fundamentally, the USDA's September Crop Production report to be released on September 11, will be the basis for near term price direction. Larger production estimates are expected. Substantial increases may result in an attempt at new lows.

Probably a more important question than if the bottom has been reached, is how much strength can be expected after harvest?

For corn, the major price supporting factor will be farmer's reluctance to sell. Nearly 71 percent of the base acreage is in the set-aside program and the grain from these farms is eligible for the CCC loan program. At current new crop corn prices, producers are expected to make widespread use of that program. Movement into the loan should be heavy right at harvest time. For tax reasons, some producers will wait until 1986 to make the decision. If prices do not rebound, loan entries could be large in early January.

There is no way to predict how much corn will go under loan, but estimates suggest entries may be in the range of 3 to 4 billion bushels. Such large entries will result in tight free market supplies and should force the cash price above the loan rate sometime next spring or early summer. Prices above the loan redemption level, however, would not be expected unless crop problems develop next summer.

The most uncertainty centers around policy. It appears that CCC loan rates may be lowered for 1986, but the magnitude of acreage reduction programs is not clear. Prices would likely be adversely affected by any payment-in-kind program without an acreage reduction program.

A number of factors point to a rebound in soybean prices, even though stock levels will likely increase. As in the case of corn, soybean producers are expected to be reluctant sellers at current prices. The CCC loan program offers an alternative, and all producers are eligible for that program. Entries could be large enough to project tight free market supplies later in the year.

Export sales are also expected to show some improvement from the extremely low levels of the last two months. South American competition will be much less intense for the next six months. In addition, some reduction in Brazilian soybean acreage is expected this fall as the government encourages more feed grain production. Once the bottom in the soybean market is reached, importers should accelerate their buying activity.

The overwhelming supply of soybeans, however, will likely limit the magnitude of price recovery. At current soybean oil prices, for example, soybean meal prices would have to increase by about $45 per ton to put soybean prices over $6.00 per bushel.

Prices above $6.00 would likely require some significant production problems during the growing season in South America, or an entry of the U.S.S.R. in the soybean protein market.

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