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NEW-CROP PRICES BECOME VOLATILE

NEW-CROP CORN AND SOYBEAN PRICES have moved sharply lower over the past month. December corn futures declined from $1.90 per bushel to $1.72. November soybean futures declined from $5.10 to a low of about $4.80. The lower prices reflected expectations for another large harvest in 1986.

Beginning last week, new-crop prices became more volatile, although they remained at generally low levels. December corn rallied back to $1.82, but finished last week at $1.75. November soybeans touched $5.18 before declining back to $5.05, but they were higher again on July 21.

The fluctuations in prices reflect uncertainties from two sources: weather and government program provisions. The southeastern part of the United States has suffered substantial drought damage to both the corn and the soybean crop. The damage is more significant for soybeans than for corn because a large percentage of the national soybean acreage is in the dry areas. In addition, the corn crop is generally in good to excellent shape in the Midwest, and the corn surplus is already burdensome.

Forecasts of high temperatures and less than normal levels of rain for the Midwest through August pushed prices higher last week. Revised forecasts for short-term relief from high temperatures pushed prices lower. Less than expected coverage by weekend rainfall pushed soybean prices higher on Monday. And so goes a weather market.

Continued rumors about changes in government programs also had an influence on the market recently. First, rumors of a program to pay producers not to use the Commodity Credit Corporation (CCC) loan program this fall touched off some selling of new-crop futures. Second, rumors that export bonus programs would be expanded to include the Soviet Union and China tended to push prices higher. Neither of these program provisions has been announced, but there is clearly some congressional pressure to expand the export bonus program.

Whether the export bonus program is expanded or not, corn export sales should increase significantly this fall. Importers have apparently reduced inventory levels in anticipation of lower priced commodities at harvest time. Increased sales at harvest, however, do not necessarily point to a major rebound in corn exports for the year. Competition remains keen and production outside of the United States is expected to be larger than a year ago.

A case can be made that new-crop corn prices, particularly in the futures market, may have already established a low for the year. The ability of the industry to store the 1986 harvest will determine how much lower the cash prices for that crop will go. The degree of price recovery after harvest will depend to a large extent on the nature of government program provisions. Prices above the CCC loan level would not be expected.

Depending on the weather, soybean prices may continue to be more volatile than corn prices over the next few weeks. Fundamentally, new-crop soybean prices are high in relation to corn prices. Soybean meal in particular is not competitively priced with feed grains. If the 1986 harvest is as large as currently expected, further downside movement in soybean prices is possible. The amount of decline will be heavily dependent on the CCC loan price and other loan provisions to be announced next month.

Weather-related rallies in the soybean market, then, will likely provide good selling opportunities for producers. November futures show some technical resistance at $5.20 and at $5.35. Major problems would have to be encountered for those contracts to challenge the high of $5.56.

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