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GRAIN PRICES DECLINE SHARPLY

CORN, SOYBEAN AND WHEAT PRICES HAVE DECLINED sharply so far in February. March corn futures traded in the range of $1.53 to $1.60 in January, but dropped to $1.43 on February 13. The price of that contract declined 12 cents during the week ending February 13. December futures traded in a range of $1.73 to $1.78 during January but closed at $1.64 on February 13. Cash corn prices in central Illinois declined from $1.45 in mid-January to $1.29.

March soybean futures declined from the $5.00 area during the last half of January to $4.84. November futures dropped from $4.85 to $4.65. The cash price of soybeans in central Illinois was in the $4.80 to $4.85 range in late January, but dropped to $4.68 on February 13.

March wheat futures declined from the area of $2.90 in late January to $2.72. Most of that decline came in the week ending February 13. Cash wheat prices in central Illinois followed March futures very closely declining from $2.90 to around $2.70 per bushel.

While higher prices were certainly not expected, the decline in prices during the second week of February was sharper and came earlier than expected. A number of factors contributed to the declines. In the case of corn, an increase in sales at the farm level was an important factor. Producers are apparently using commodity certificates to redeem Commodity Credit Corporation (CCC) loans. Increased sales in the face of weak demand added considerable pressure to the cash market. Once new contract lows were established, technical selling added to the decline.

Two factors continue to weigh on the soybean market. Improving crop conditions in South America point to a large harvest, particularly in Brazil. In its February *Crop Production* report, the USDA estimated production potential in Brazil, Argentina, and Paraguay at 25.05 million tons (920 million bushels) compared with last year's crop of 21.6 million tons (794 million bushels). If weather conditions remain favorable for the rest of this month, the Brazilian crop estimate could increase.

If the large South American crop materializes, exports of U.S. soybeans and soybean meal will be at relatively low levels this Spring and Summer. The USDA has reduced its export projection for the 1986-87 marketing year by 30 million bushels, to a total of 730 million bushels. That projection is 10 million bushels below last year's shipments. However, meal exports are projected at 6.35 million tons, an increase of 450,000 tons from last month's projection.

The second factor pressuring bean prices is the expectation that the CCC loan rate will be lowered for the 1987 crop. Current legislation calls for a loan rate of $4.77 per bushel. Thoughts that the rate could be lowered by as much as $1.00 per bushel pushed new crop futures to contract lows.

The price of soft red winter (SRW) wheat prices have been supported by tight free market supplies, reduced plantings for the 1987 harvest and new crop export sales. Reports of movement of hard red wheat into deliverable positions on the Chicago market (SRW) has contributed to the recent decline of March futures.

What Next? Corn prices are expected to remain under pressure for the next several weeks as producers continue to redeem CCC loans prior to the planting season. Monthly corn charts show that corn futures have been above $1.40 since early 1973, so that some support should be expected at that level. Futures reached a low of about $1.10 in late 1971. That range is not expected to be tested in the near future, but could be tested in the Fall. Some rebound in the cash price of corn is expected as the Spring planting season begins and farmer sales slow down. A move back to the $1.40 to $1.50 range is possible.

Soybean prices will likely remain on the defensive for the next several weeks and possibly for the remainder of the year. The CCC loan program will provide some price support for old crop prices. With nearly 700 million bushels under CCC ownership or CCC loan, some soybean loans will have to be redeemed by summer. Cash prices could move down to the $4.50 area at least temporarily, with the loan redemption price of about $4.80 being a practical top in the market.

Soft red winter wheat prices may show considerable fluctuation, particularly in the March futures contract. Support should be found at recent lows of $2.62, but a move above $2.90 is not expected.

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