Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

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

May 11, 1988

CORN AND SOYBEAN PRICE PROSPECTS

New crop soybean futures have rallied by more than $2.00 per bushel since early last fall. Corn futures for the 1988 crop have increased by more than 30 cents per bushel. Those contracts reached new highs during the first week of May. A number of factors have contributed to the price increase. These factors were outlined in the *Weekly Outlook* for March 2, 1988. What are the prospects for the remainder of the growing season?

Both prospects regarding supply and developments regarding demand will influence prices. In the case of soybeans, the uncertainty of supply stems from two sources: planted acreage and prospective yields. Weather developments will have a major influence on both of these factors. It is generally agreed that soybean acreage in the United States must exceed March planting intentions in order to prevent the reduction of soybean stocks to a minimum level as well as another significant increase in soybean acreage in South America this fall. The most likely opportunity for such an increase will be with double-cropping of soybeans following the harvest of winter wheat. Current prices offer a sufficient incentive for double-cropping, but sufficient moisture conditions will also be necessary to attract significantly more double-cropped acres.

Weather patterns will obviously be the determining factor for soybean yields. With the majority of single crop soybean acreage in the Midwest, yield potential is high with good growing conditions. A higher percentage of double-cropped acres would tend to lower the average slightly. Without a significant increase in acreage, average yields below the levels of the past three years would require some reduction in the current rate of use. Some price rationing would be required.

It is generally believed that higher prices would ration domestic use first. The declining value of the dollar has offset part of the effect of higher prices in the world market. In addition, subsidized sales of soybean oil are expected to remain relatively large. Rationing will probably first occur in the domestic soybean meal market. Some rationing was apparent in November 1987, when cash meal prices moved to $225 per ton, basis Decatur, Illinois. It is interesting to note that with soybean oil at 22 cents per pound and the apparent cash crush margin at 60 cents, soybean meal would have to be $260 per ton in order for soybeans to be $8.00 per bushel.

For corn, supply prospects are now probably more important than demand considerations. The surplus is large enough that significant price rationing would not be required unless U.S. average yields dropped below 95 bushels per acre. The three-year average is 118.9 bushels per acre. The futures market is currently offering a premium of 19 percent for new crop corn. A significant reduction in the surplus would be required in order for next year's price to average as high as the one currently being offered. Favorable weather conditions would result in a decline in corn prices, whereas severe conditions would be required to push prices much higher.

The current situation can be characterized as a weather market. Historically, weather markets have two characteristics. First, prices tend to go higher than necessary to ration the available supply. Second, the seasonal price peak tends to occur before harvest. Of the past seven major rallies, three have peaked in the spring before harvest, three have peaked in the summer, and one peaked at harvest.

D. L. 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

FIRST CLASS