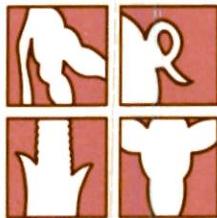




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

June 22, 1988

THE HEAT GOES ON

High temperatures and lack of rainfall in many corn- and soybean-producing areas continue to push prices for these commodities higher. July corn futures moved to \$3.24 per bushel, while the December contract advanced to \$3.40. Those are the highest prices for corn futures since the summer of 1984. July soybean futures moved above \$10.00 per bushel on June 20, the highest price since the spring of 1977. Soybean futures prices advanced to a high of \$10.76 per bushel that year. Weather forecasts for the remainder of June suggest that prices will probably continue to go higher.

Because of the outlook for higher prices and the uncertainty about production levels, additional sales of new crop corn and soybeans should be minimal. Many producers are now waiting for the market to top before selling the rest of the 1987 crop, more of the 1988 crop, and some of the 1989 crop. How the current price rally peaks will be significant in determining the success of trying to sell at the highs.

If the weather pattern breaks soon with forecasts of significant rainfall, prices could fall as rapidly or more rapidly than they increased. A rapidly declining market characterized by several consecutive "limit-down" days is possible. Making cash or futures sales in that kind of market is difficult. If that kind of market is expected, producers may want to do some pricing before the peak of the rally is clear. That strategy has risks as well, particularly if crop conditions continue to deteriorate and farmers sell more than they produce. In addition, if the futures market is used for pricing 1988 and 1989 crops before the rally has peaked, margin calls could be substantial. A gradual improvement in weather and crop conditions could result in a less dramatic and somewhat more erratic decline in prices. A peak in prices under those conditions would provide more pricing opportunities.

If the drought continues and crop damage is substantial, producers will be looking to Washington for relief. One of the most immediate concerns is that current high corn prices will put the final deficiency payment for the 1987 crop below the maximum. Because the deficiency payment is based on a weighted average market price, the payment will decline less than the size of the price increase. Less corn is sold at the higher price level. Another immediate concern is that an average price above \$2.49 per bushel of corn from September 1988 through January 1989 could require producers to repay part of the 44-cent advance deficiency payment received at the time they enrolled in the 1988 program.

The USDA and Congress have established drought task forces to study appropriate policy alternatives in a continued drought. The Secretary of Agriculture has expressed the desire to wait to assess the impact of the drought and then to announce an aid package. In addition to measures already taken to allow haying and grazing of set-aside acres and some haying of

conservation reserve acres, the USDA is being encouraged to consider a number of other measures if the drought continues. These include making the benefits of the 0/92 program available to those who suffer crop failures; not requiring the repayment of advance deficiency payments; guaranteeing some portion of the 1988-89 deficiency payment even if market prices exceed the target price; making uncommitted stocks of feed grains of the Commodity Credit Corporation available to livestock feeders; allowing the harvesting of oats on set-aside acreage; and reviewing the export bonus program for possible cutbacks. In considering these alternatives, the Secretary and Congress must be sensitive to treat program participants and nonparticipants fairly and to minimize disruption to the markets for crops unaffected by the drought.



**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