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CORN AND SOYBEAN PRICE PROSPECTS

Corn prices have been under pressure for the past 2 months. December futures were trading above $3.00 per bushel in early September but declined to the July low of $2.72 1/2 in late October. An attempt at a small rally last week failed, with December futures closing at $2.78 per bushel. That is the lowest weekly close for that contract since June 3, 1988.

The weakness in corn prices has not been caused by new negative information, but by the lack of additional constructive information. By recent standards, corn prices are relatively high. A continuous flow of constructive news is required to push prices higher, while the lack of such information allows prices to drift lower. Recently, the market has been disappointed with the level of export sales. Particularly disappointing was the lack of confirmation of additional sales to the Soviet Union last week. Early sales of large quantities of corn to Japan and the Soviet Union resulted in a high rate of exports from mid-September through mid- October. For that 5-week period, corn exports averaged 43.2 million bushels per week. A slowdown in sales will result in weekly exports declining to the 30 million bushel level.

Prospects for domestic corn demand remain quite good based on indications of continued expansion in hog and broiler numbers. An improvement in export sales will be required if the current price trend is to be reversed in the near term. Even then, futures prices might be expected to improve by only 20 to 25 cents from the level of November 4. With a stronger basis, a price increase of that magnitude would release the farmer-owned reserve. Without additional constructive information, prices will drift even lower. Under that scenario, December futures could decline to $2.60 per bushel. Beyond the next 3 months, the focus of the market will turn from demand to prospects for the 1989 crop. At that time, soil moisture conditions and planting intentions will become important.

January soybean futures traded above $9.15 in early September, but declined to $7.75 on October 27. That decline was associated with an extremely low level of export sales and a significant improvement in moisture conditions in the soybean producing areas of South America. Soybean meal prices declined about $35.00 per ton and soybean oil prices declined by 3 cents per pound.

That rapid decline in prices was followed by a small rally last week as the market responded to expectations that lower prices would attract foreign buying of U.S. soybeans and soybean meal. Significant sales to the Soviet Union were confirmed late last week. That announcement generated higher prices early Friday morning, but prices quickly dropped in a classic "buy the rumor, sell the fact" pattern. Soybean oil prices remained weak even through the modest recovery in soybean and soybean meal prices.

As is the case for corn, domestic demand prospects for soybean meal and oil are quite good. Additional export sales will be required if soybean prices are to recover. Even then, price gains would likely be modest if planting and growing conditions remain favorable in South America. Under that scenario, it would be difficult for January futures to move above $8.30 per bushel. Without additional export sales, prices could continue to drift lower, with January futures declining to $7.50.

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