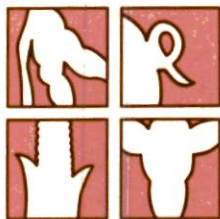




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

May 24, 1989

RAIN DAMPENS CROP PRICES

Beneficial rainfall in mid-May and prospects for more precipitation set off wide-spread selling in the corn, wheat, and soybean markets. The first wave of selling came on May 16, the second on May 22. New crop soybean prices established contract lows, and old crop prices dropped below \$7.00 for the first time in almost 14 months. New crop corn prices moved to the lowest levels since dry weather concerns began last year. December futures traded within 13.5 cents of the contract low. July futures moved to the lowest level since the first week of June 1988. Wheat prices also declined sharply. July futures at Chicago were 30 cents under the contract high, reached at the height of the drought concern this past March.

Rainfall this past weekend, and the change in the National Weather Service's forecast calling for additional rain in the immediate future, dramatically changed the psychology of the grain markets. Even though pockets of dry areas persist, the market now appears to believe that the agricultural drought in the Midwest is history. Expectations are quickly shifting toward normal or trend yields for 1989. Adverse weather will now have to prove itself. Certainly the most critical period for the development of the corn and soybean crops still lies ahead and it is too early to call the crops made, but weather concerns have been reduced significantly.

As weather patterns have turned more favorable, other potentially negative price factors are gaining more attention. In the case of corn declining prospects for the extension of maturing farmer-owned reserve loans suggests that market supplies will be large from July through harvest. In the case of soybeans, ideas that soybean acreage will exceed March intentions also weighed on the market. Some of the abandoned wheat acreage may be planted to soybeans as moisture conditions improve in the Plains states. Ample moisture in the midwestern and southeastern states is also conducive for double cropping of soybeans following the wheat harvest. In the case of wheat, ideas that the export bonus program will be scaled back and that both acreage and yields will increase next year made \$4.00 wheat look high-priced. A much stronger U.S. dollar and a rebound in grain production in other parts of the world supported prospects for a weaker export market for U.S. commodities during the year ahead.

Even with the recent sharp declines, corn and soybean prices are above the average prices forecast by the USDA for the 1989-90 marketing year. New crop corn prices are currently about 20 cents per bushel above the high end of the average price range and about 60 cents above the low end of the range contained in the USDA's

May Supply and Demand report. Soybean prices currently being offered for the 1990 crop are 15 cents above the upper end and \$1.65 above the lower end of the USDA's average price forecast.

With decent growing conditions, corn and soybean prices are expected to reach a low before or at harvest time. The magnitude of post-harvest rallies will depend on demand and prospects for the 1990 crop. The early wash-out in prices also makes summer price rallies a possibility. Marketing plans should contain provisions to deal with wide price swings over the next 12 months.

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