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Department of Agricultural Economics
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FOCUS ON THE CROP PRODUCTION REPORT

Corn and soybean prices rallied in late June and early July as hot, dry weather threatened the growing crops. The rally was short-lived, as weather conditions improved as the corn crop entered the pollination stage. From the highs reached on July 5 to the lows of last week, December corn futures declined by \$.60 per bushel and soybean prices plummeted \$1.49 per bushel. The decline in soybean prices reflected both a sluggish demand and improved crop conditions.

The next price move will be influenced by the estimated size of the 1989 harvest, to be revealed in the USDA's crop production report released on August 10. This will be the first yield estimate based on field observations. In July the USDA's World Outlook Board pegged corn-production potential at 7.45 billion bushels. That figure was based on a harvested-acreage estimate of 65.844 million acres and an average yield of 113 bushels per acre.

In general, the market anticipates that the August report will reveal a higher corn yield potential. Estimates have clustered in the range of 115 to 118 bushels per acre. There is still some uncertainty about the number of acres planted to corn and therefore the magnitude of acreage harvested for grain. The previous survey of planted acreage was probably taken before planting was completed in the eastern Corn Belt. The estimate of harvested acreage could decline by 500,000 to 750,000 acres. A corn crop estimate between 7.5 and 7.7 billion bushels should be expected. An estimate below that range would suggest that corn prices are near the lows for the season. A higher estimate could result in one more round of selling, perhaps pushing December futures into the range of \$2.00 to \$2.10. In either case, it appears that the lows in the corn market will be established early. The magnitude of rebound will then reflect the rate of use of corn. Export sales of new crop corn have been extremely small to date. When buyers perceive that the low is in, buying should accelerate and prices should recover. With a crop near 7.6 billion bushels, the average price for the marketing year might be near \$2.20 per bushel.

In July, the USDA saw a potential soybean crop of 1.95 billion bushels. That projection reflected harvested acreage of 60.193 million acres and a national average yield of 32.4 bushels per acre. Many analysts believe that production potential is still near 1.95 billion bushels, although opinions about acreage and yield vary widely. Uncertainty stems from the late planting and wet conditions in the South and in the eastern Corn Belt.

A crop of 1.95 billion bushels, in conjunction with a sluggish demand and large South American supplies, could put additional pressure on soybean prices. November futures could drop below the $5.50 mark. As in the case of corn, the price low is expected to occur early, with some potential for modest price recovery after the harvest. The magnitude of recovery will be at least partially dependent on South American production prospects. Over the past 10 years the season's average price for soybeans has varied from 2.1 to 3.2 times the average price for corn. The average ratio was 2.55. With corn prices averaging $2.20 per bushel, an average price ratio would suggest a soybean price of $5.60 per bushel.

Over the same 10-year period, the average price of soybean meal at Decatur, Illinois, averaged 2.15 times the price of corn in Illinois. With corn at $2.20 per bushel, an average ratio would project a soybean meal price of $169 per ton. The average price of soybean oil for the last 10 years was near 22 cents per pound. With average product prices and average margins, soybean prices could be expected to average near $5.90 per bushel. A smaller-than-expected crop or improved demand will be required to push the season's average price above $6.00 per bushel.

Darrel 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

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