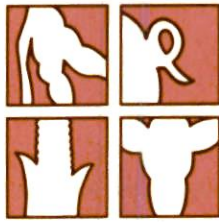




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
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WEATHER AND EXPORT SALES WILL INFLUENCE GRAIN PRICES

New-crop corn and soybean prices have varied widely since early July, with changing weather conditions. December corn futures reached a recent high of \$2.78 a bushel on July 5 as concerns about dry weather were expressed. Widespread rainfall during the pollination period pushed that contract to a low of \$2.18 by the first week of August. By early last week, that contract rebounded to \$2.41 because people thought potential production had declined since August 1. Once again, widespread rainfall put renewed pressure on corn prices by the end of last week.

November soybean prices reached \$7.12 a bushel on July 5, but declined to \$5.62 by the first week of August. The mid-August rally pushed that contract just short of \$6.00. Late August rains brought about another round of selling. Those rains were more beneficial to the soybean crop than to the more mature corn crop. It is not clear whether the late rains have added to the potential size of the crop or maintained yield potential near the level of August 1.

The USDA's next estimate of potential crop size will be released September 12. We expect that report to confirm a corn crop near 7.3 billion bushels and to show a soybean crop slightly larger than the estimate for August 1 of 1.905 billion bushels. If these expectations are correct, the seasonal low in the corn market may have already been established. New lows in the soybean market might be expected. Due to the lateness of the crop in the far eastern Corn Belt, a significantly early frost could reduce the size of the crop. Few concerns were expressed in late August, however, as temperatures moved higher.

The extent to which prices will rebound from the late summer or early fall lows will be determined by demand. Domestic demand is expected to be relatively strong. For the first six months of the 1989-90 marketing year, hog numbers will be about equal to those of last year. Poultry production is expected to be up 8 percent in the first quarter of the marketing year. Growth is expected to continue in 1990. Lower feed prices should result in a higher feeding rate of both corn and soybean meal. Corn feeding could increase by 7 to 8 percent to a "normal" 4.3 billion bushels. Soybean meal feeding is expected to increase by 5 percent to 20.7 million tons.

Uncertainty abounds about export prospects for the year ahead. The USDA expects corn exports to remain large, at 2 billion bushels. That optimism is based on expectations that the USSR will continue to buy large quantities of U.S. corn. Concern about corn exports stems from the current low level of new-crop sales. As of August 10, only 121 million bushels of corn had been sold for export during the 1989-90 marketing year. On the same date last year, sales totaled 272 million bushels. Sales were larger than normal last year because buyers were concerned about supply. In 1987, new-crop corn sales totaled 191 million bushels by mid-August.

The slow pace of new corn sales may reflect buyers' expectations of lower prices. If so, sales should accelerate near harvest time. The alternative explanation is that export demand has been overestimated. That argument will be strengthened if sales do not increase sharply in September and October.

The USDA expects soybean exports to increase by only 8 percent during the upcoming marketing year. Exports of 575 million bushels would be the smallest (excluding the current year) since the 1976-77 marketing year. Large stocks of Brazilian soybeans and expectations that the 1990 South American crop will be 10 percent larger than the 1989 crop are the major factors behind the small projection. By August 10, only 40 million bushels of U.S. soybeans had been sold for delivery during the upcoming marketing year. The average for that date in the previous three years was 92 million bushels.

If current supply and demand projections are correct, the average price of corn and soybeans during the 1989-90 marketing year will be well below the average for the year just ending. Soybean prices will likely show the largest decline. We expect the average price of corn to be near \$2.25 per bushel and that of soybeans near \$5.65 per bushel.



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Prices and Outlook

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