



# WEEKLY OUTLOOK

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## THREE IMPORTANT PRICE FACTORS -- WEATHER, WEATHER, AND WEATHER

For corn and soybean prices, weather and potential crop size always move to the forefront of importance at this time of the year. The importance of summer growing conditions is magnified this year. Wet weather has delayed the planting of both corn and soybeans in parts of the southern Corn Belt. Corn planting in Illinois, for example, is the latest since 1974 and soybean planting is the latest since 1981. The lateness of planting tends to reduce yield potential even under normal summer weather conditions. Adverse weather can result in significant yield loss, as in 1974, 1983, and 1984. Extremely good weather can offset some of the impact of late planting, as in 1981.

A second factor contributing to the importance of summer weather in the United States is the current high rate of use of corn, soybean meal, and soybean oil. In its June *Supply and Demand* report, the USDA forecast that 8.18 billion bushels of corn will be used during the current marketing year. That is nearly 5.5 percent above the previous record established in the 1987-88 marketing year. The high rate of use that year was at least partly in response to very low prices. Record consumption is occurring this year at substantially higher prices. Preliminary forecasts for the 1990-91 marketing year show the potential for use to remain high.

In the same report, the USDA projects domestic soybean meal consumption at 21.9 million tons, about 3 percent above the record level of use two years ago. Because of lagging exports, however, total use of soybean meal will be below the level of both 1986-87 and 1987-88. Domestic soybean oil use is projected at 11.7 billion pounds, 7 percent above the previous high during the 1987-88 marketing year. Even with modest exports of 1.5 billion pounds, total oil consumption is expected to be 3 percent above the record of 2 years ago. Stocks of oil at the end of the marketing year will be at a 4-year low.

A third important factor in the current environment is the relatively low level of U.S. and world grain stocks. Stocks of corn and soybeans in the United States at the end of the current marketing year will represent a 2-month supply. Current wheat stocks represent a 2.4-month supply. Worldwide grain consumption has exceeded production for three consecutive years. That trend is expected to reverse for wheat during the year ahead. The USDA expects world production to increase by 33 million tons and consumption to increase by half that amount. World wheat stocks are projected to increase by 14 million tons.



For coarse grains, the USDA projects a fourth consecutive year of reduced inventories. The production of coarse grains is expected to increase and consumption decrease, but consumption is projected to exceed production by 7 million tons. The stock level is expected to be reduced to a 48-day supply.

The importance of weather has been evident in price movements over the past two weeks. On June 4, December corn futures traded as low as \$2.62, 20 cents below the high established on May 14. More rain and forecasts of adverse summer weather pushed that contract to a high of \$2.87 on June 11. A return to more normal weather and a favorable 30-day forecast pushed that contract back to \$2.74 on June 15.

What can be said about price prospects? If the remainder of the growing season is favorable, prices of both corn and soybeans will move lower, but the downside is somewhat limited. Soybean price declines will be limited by the fact that prices are already quite low. In the near term, November futures could move back to the \$5.80 level. Fall lows might be in the \$5.40 to \$5.50 range. In the case of corn, good demand should prevent a price washout. Near term weakness could push the December contract to the \$2.60 level. Fall lows might be in the \$2.40 range. Odds would then favor substantially higher prices for corn and soybeans sometime during the 1990-91 marketing year (September 1990-August 1991). New crop sales should not be rushed if prices do continue lower over the next few weeks.

In the case of a period of adverse weather this summer, prices could move sharply higher. The magnitude of increase would obviously depend on the extent and duration of weather problems. A significant weather rally should be used to aggressively price both the 1990 and 1991 crops.

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