Cooperative Extension Service

WEEKLY OUTLOOK

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WHAT ARE YOUR PRICING PLANS FOR CORN AND SOYBEANS?

Making a marketing decision for corn or soybeans is a very difficult task for producers under current conditions. Much of the eastern cornbelt suffered an early summer drought. Pollination problems have greatly reduced corn yield prospects in those areas. Crop conditions are extremely variable. Weather patterns changed in August, and recent rains may help soybeans develop more pods and larger beans. As summer passes, concerns shift to potential damage of an early frost, particularly for late planted corn and soybeans in the western cornbelt.

Demand prospects are equally uncertain, especially with the unsettled economic and political conditions in the USSR. The USSR is one of our largest export customers for corn, wheat and soybean meal. Their level of purchases, however, are quite variable. Their presence or absence in the export markets have a large impact on price movement. Livestock feeding margins are down sharply from last year and there is a lot of poor quality wheat available for feed use. World total grain supply (production plus stocks) is only marginally smaller than last year.

Exports of U.S. corn are expected to be down slightly, while soybean exports are expected to be larger than during the 1990-91 marketing year. Based on the August USDA crop report, the reduction in prospective corn and soybean production is not large enough to boost prices significantly. Producers with poor crops suffer both from poor yields and low prices.

With recent changes in prospective production and demand, it is time to update your marketing plan. While no one knows precisely what future events will occur, there are trends and past relationships between supply and demand that help predict longer term price trends. In this type of analysis, one makes certain assumptions about supply and demand, either implicitly or explicitly. In the following analysis, I am assuming that future USDA crop estimates will show a further reduction in the size of the corn crop and perhaps a slightly larger soybean crop; carryover supplies on September 1, 1992 will be less than 1.2 billion bushels of corn and 300 million bushels of soybeans currently indicated in USDA balance sheets; and local cash prices differ from U.S. average farm prices depending upon location, distance from an inland terminal elevator, processing plant, or export (river) market.

With these caveats, it is not unreasonable to expect the U.S. average corn price for the marketing year ahead to be in a range of $2.45 to $2.65 per bushel, compared to $2.30 for the 1990-91 marketing year. This means that country elevator prices during the marketing year may range from a low of $2.20 to a high near $2.75. The current December-July corn futures spread (carrying charge) is 15 cents per bushel. The gain in basis from harvest until mid-June is likely to be about 20 cents per bushel. Current price relationships make hedging for commercial firms profitable. Producers with farm storage will find storage profitable, and will likely fare better by waiting for a post harvest price rally to hedge or forward contract. If (or when) positive net carrying charges disappear, consider selling the cash corn and retain ownership through the use of futures or call options if prices are still relatively low.

The USDA's projection for the average soybean price during the 1991-92 marketing year is currently $4.85 to $6.85 per bushel, compared to $5.75 for the year just ending. The midpoint of the range is $5.85 per bushel. In the past, bull markets have not started in soybeans when carryover supplies were as large as currently projected unless a weather problem developed. Cash prices at country elevators may range from a harvest low near $5.25 per bushel to a summer high above $6.50. As with corn, use of farm storage is recommended. A November-July soybean spread (carrying charge) of 33 cents plus a gain in basis of at least 30 cents makes commercial hedging profitable. Use of futures and/or options are also recommended as an alternative to storing soybeans if spreads narrow and prices remain low.

Many things can happen to dramatically change these projections. An understanding and willingness to use futures and options markets greatly enhances the flexibility in making cash marketing decisions. At current price levels, the opportunity for higher prices appear greater than the risk of prices going substantially lower. Successful marketing involves going with the greatest odds.

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