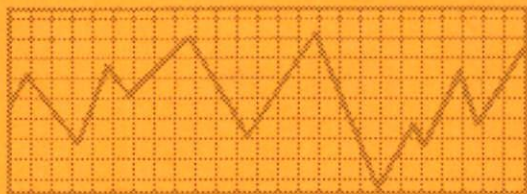




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# WEEKLY OUTLOOK

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## **ARE CORN AND SOYBEAN CROPS LARGER THAN ESTIMATED?**

Estimates of smaller crops and an early frost in the Midwest provided opportunities for corn and soybean prices to move higher. The price rallies, however, were modest and short lived. November soybean futures moved to the \$6.18 level on September 18, well short of the \$6.50 high reached on August 2. By the close on September 20, that contract was under \$6.00 once again. December corn futures traded as high as \$2.58, short of the \$2.72 high reached on August 2. At the close on September 20, that contract was back to \$2.50.

Frost damage to the crops in the upper Midwest was apparently minimal. In addition, the lack of any immediate U.S. response to food needs in the USSR was disappointing to the market. It now appears that additional aid to the USSR will be modest and will be dispersed throughout the year rather than concentrated in the fall months. A third factor contributing to the anemic price response is a general anticipation that yields are slightly better than estimated in the USDA's September *Crop Production* report.

Over the past 16 years, there were 9 years in which the September corn production estimate was smaller than the August estimate, as was the case this year. In those 9 years, the October production estimate exceeded the September estimate on only 3 occasions. However, the final production estimate exceeded the September estimate in 6 of the 9 years, was unchanged in 2 years, and was smaller only one time. In the 6 years when the final estimate exceeded the September estimate, the magnitude of increase ranged from 1.6 to 10.5 percent. The average was 4.3 percent. It is also interesting to note that in 3 of those 6 years, the final estimate was essentially identical to the August estimate.

In the case of soybeans, there have been 7 years in the past 16 years in which the September production estimate was lower than the August estimate, as was the case this year. In 3 of those 7 years, the October estimate exceeded the September estimate. The final estimate, however, exceeded the September figure in 4 of the 7 years. The magnitude of increase ranged from 1.1 to 7.3 percent, averaging 4.2 percent.

Market participants are also keenly aware of last year's history of soybean production estimates. The September estimate was unchanged from the August estimate and the October figure was slightly smaller than the September report. In November, however, the



production estimate was increased by 81 million bushels. A further increase of 18 million bushels was registered in January.

With harvest well underway, particularly in the Eastern Corn Belt, yield reports are beginning to show a pattern. As expected, yields are highly variable. In general, yields tend to be better than expected in areas not significantly impacted by the drought. This is particularly true for soybeans with yields of 60 bushels or more not uncommon.

Corn and soybean prices are likely to remain under pressure through the harvest season. Expectations of slightly larger crops, a slow rate of export sales, and the likelihood of a lower acreage reduction requirement for the 1992 corn crop are all price depressing. Future political decisions that will affect prices are expected to favor steady to lower prices. It may be spring before the corn and soybean markets can manage a substantial rally. Corn that is being stored now, should be stored with a commitment to hold until spring. Soybean prices may have more upside potential this winter, depending on South American production prospects.

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