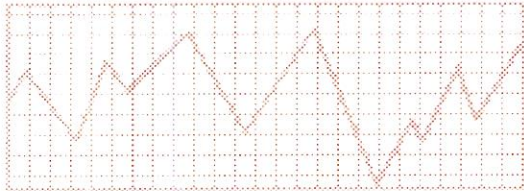




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NEW CROP FACTORS INFLUENCING CORN AND SOYBEAN MARKETS

The corn and soybean markets are beginning to be influenced by uncertainty about the 1992 growing season. Uncertainty surrounds the normal new crop considerations -- how many acres of corn and soybeans will be planted in the United States and what kind of weather pattern will develop.

In the case of corn, a large 1992 crop is needed because of the low level of stocks expected to be on hand at the end of the 1991-92 growing season. The market generally expects that corn acreage will increase in 1992. The acreage reduction program requires participating farmers to idle only 5 percent of their base acreage in 1992, down from 7.5 percent last year. With a national base of nearly 83 million acres and a participation rate of 75 percent, that change could add 1.55 million acres to corn plantings in 1992. Last year, an estimated 2.6 million acres of corn base were flexed to other crops under provisions of the 1990 Farm Bill. If current price ratios persist into planting time, fewer acres will be flexed in 1992, perhaps adding another 1.25 million acres of corn. In addition, the reduction in winter wheat seedings and the reduction in set aside requirements for wheat, frees up acres for other crops, including corn. Winter wheat seedings in the midwest and southeast are down about 750,000 acres from last year.

Corn plantings in 1992 could be between 79 and 79.5 million acres, pointing to harvested acreage of 71.1 to 71.6 million acres. A 1992 yield near the 108.6 bushel average of 1991 would produce a crop of 7.72 to 7.78 billion bushels. A crop of that size would not allow any expansion in use in the 1992-93 marketing year. A 1992 yield near the 1990 average of 118.5 bushels would produce a crop of 8.43 to 8.48 billion bushels. A crop of that size would result in some rebuilding of stocks during the 1992-93 marketing year.

Uncertainty about weather conditions in 1992 has pushed new crop corn prices to contract highs this month. Those prices are about 10 cents higher than old crop prices. Prices are too high if a favorable growing season develops and too low if weather concerns develop. Over the past 21 years, December futures have never established a contract high from November of the previous year through March of the current year. The recent high in December 1992 futures is probably not the life-of-contract high. That high will most likely occur in the June through August time period. How high depends on weather and crop conditions.

In the case of soybeans, carryover supplies are expected to be abundant and the South American crop is expected to be larger than the 1991 harvest. Low soybean prices relative to other crops is expected to lead to reduced plantings in 1991. With new crop corn prices at \$2.50 per bushel, for example, soybean prices would have to be near \$6.50 for soybeans to be competitive with corn in the midwest. New crop soybean prices are currently 60 to 70 cents below that level. Agronomic considerations will likely limit the reduction in soybean acreage, even if current price ratios persist into planting time. Plantings will not likely decline below 57.8 million acres, the 13-year low reached in 1990. Even with acreage at such a low level, favorable growing conditions would produce a crop in excess of 1.9 billion bushels in 1992. A crop of that size, in conjunction with a larger South American harvest, would not allow any reduction in stocks during the 1992-93 marketing year. Any improvement in soybean prices relative to feed grain prices by planting time, would result in a smaller reduction in acreage.

November soybean futures have recently traded as high as \$6.10 per bushel, only 10 cents below the contract high reached last June. New crop prices are about 40 cents higher than old crop prices. It is unlikely that the life-of-contract high has been established for November futures. In 13 of the past 21 years, the life of contract high was established in the period May through November.

While new highs are expected for both December corn and November soybean futures, new lows could also be established late in the growing season if crops eventually turn out to be large.



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