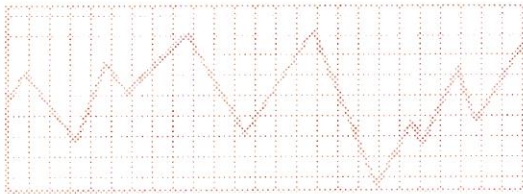




Cooperative
Extension
Service



WEEKLY OUTLOOK



A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

MARCH 2, 1992

CORN AND SOYBEAN PRICE VOLATILITY TO INCREASE?

Corn and soybean prices have traded in a very narrow range since the marketing year began on September 1. The average spot cash price of corn in central Illinois (bid to farmers at country elevators) has ranged from a low of \$2.27 per bushel on October 10, 1991 to a high of \$2.61½ on February 10, 1992. Nearby corn futures have ranged from a low of \$2.36 on December 9, 1991 to a high of \$2.69 on February 4, 1992. The average spot cash price of soybeans reached a high of \$6.04½ per bushel on September 18, 1991 and established a low of \$5.28 on October 10, 1991. Nearby soybean futures have ranged from a high of \$6.09 on September 18 to a low of \$5.39 on October 28, 1991.

Prices of both corn and soybeans are expected to become more volatile with the approach of the 1992 planting and growing season. Depending on weather patterns, new highs, new lows, or both could be established between now and harvest of the 1992 crops. Corn prices will be supported by the low level of stocks and strong domestic demand. Sluggish export demand and prospects for increased corn acreage in 1992 will tend to keep prices in check. The USDA will release its Prospective Plantings report on March 31. Analysts are expecting at least a 2 million acre increase in corn plantings, with some forecasting as much as a 5 million acre increase. Ultimately, weather patterns during the 1992 growing season will dictate price patterns. The National Weather Service's 90-day outlook, released on February 28, revealed prospects for warm, dry conditions in the corn belt.

Over the past 16 marketing years, the range from high to low in spot cash corn prices has varied from \$1.91 (1982-83) to \$.45 (1990-91). The average for those years not influenced by extremely adverse weather was \$.76 per bushel. The average range for those years influenced by poor weather conditions was \$1.18 per bushel. The range so far in the 1991-92 marketing year is only \$.34½. Weather scares could push cash prices near \$3.00, while actual weather problems could push prices over \$3.50 per bushel. At the other extreme, more acres of corn and very favorable growing conditions could force prices back to the \$2.10 to \$2.20 level late in the growing season.

Soybean prices will continue to be pressured by prospects of a much larger harvest in South America this spring. Last year's crop was at a 4-year low of 1.022 billion bushels. That crop could approach 1.15 billion bushels this year. Support for soybean prices is being generated by ideas that acreage in the United States will decline in 1992 and by ideas that future export credits to the Commonwealth of Independent States might favor soybean products. Ultimately, U.S. weather conditions will be the most important factor.

The range from high to low in spot cash soybean prices during the past 16 marketing years has ranged from \$5.20 per bushel (1976-77) to \$.62 per bushel (1985-86). The average for years not influenced by widespread adverse weather conditions was \$1.42, while the average for short crop years was \$3.51. The range so far in the 1991-92 marketing year is only \$.77 per bushel. Weather scares could push cash soybean prices to the \$6.25 to \$6.50 level, while severe weather conditions could push prices to the highest level since the 1988 drought. On the downside, ideal growing conditions could see prices erode to the \$5.20 level by late in the growing season.

Increased price volatility over the next several months will likely offer excellent pricing opportunities for both old and new crop corn and soybeans. Making pricing decisions, however, could be quite challenging because of the uncertainty about weather and production. Now is the time to develop a marketing strategy to manage the uncertainty of weather markets. That strategy might be a simple scale up pricing strategy or it might involve a combination of forward pricing, hedging, and options. In any case, it is difficult to develop an objective strategy after price volatility begins.



Issued by Darrel Good
Extension Economist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS