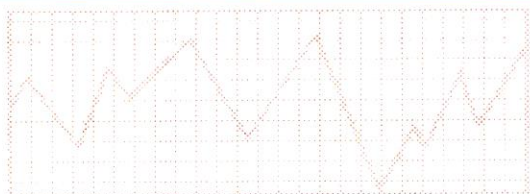




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# WEEKLY OUTLOOK

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## **GRAIN MARKETS DOMINATED BY PRODUCTION PROSPECTS**

As is usually the case this time of year, the grain and oilseed markets are responding primarily to production prospects in the United States. Production obviously depends on the magnitude of harvested acreage and the average annual yield of those crops. Considerable uncertainty surrounds both aspects of the production equation this year. That uncertainty will likely keep prices quite volatile for the next several weeks.

Yield uncertainty centers primarily around weather developments between now and the end of July. Persistent dry weather in Northern Illinois, and parts of Iowa, Wisconsin, and Indiana has probably already reduced yield potential for corn. A variety of other problems, including spotty germination, frost damage, and insect infestations are also adversely affecting the crop. Other areas in the Midwest are experiencing near ideal conditions. It is this type of weather diversity that makes judging yield prospects very difficult. There appears to be no consensus of opinion about precipitation and temperature prospects over the next several weeks.

Uncertainty about the magnitude of crop acreage stems from at least two sources. One is the apparent under-counting of crop acres in the USDA's March *Prospective Plantings* report. That report showed farmers' planting intentions for all the major crops at 261.44 million acres. That is slightly less than the 261.51 million acres planted to those crops last year. Based on USDA's preliminary report of participation in the 1992 acreage reduction programs, 10.6 million fewer acres will be taken out of production in 1992 than were idled in 1991. On the surface, it appears that crop acreage could be substantially larger than estimated in March. The same situation occurred last year, with the June *Acreage* report showing 3.3 million more acres planted than were indicated in March.

The other major source of uncertainty about acreage stems from widespread failure of the winter wheat crop in parts of the Midwest. That failed acreage has been replanted to corn and soybeans. The magnitude of failed acreage and the distribution of that acreage to other crops is not known. The USDA will release its June *Acreage* report on June 30. We expect that report to show considerably more acreage of both corn and soybeans than was indicated in March.



The impact of that *Acreage* report will depend on the weather and weather prospects at the time. An improving weather situation along with confirmation of more acreage would be quite negative for both the corn and soybean markets. If weather and crop conditions continue to deteriorate, however, the market could easily ignore a confirmation of larger plantings, at least temporarily.

Uncertainty about crop size and the resulting price volatility make pricing decisions very difficult for producers. The bottom line, however, is that weather markets historically provide the best opportunity for pricing remaining old crop inventories and forward pricing the new crop. History suggests that December corn futures and November soybean futures have about a 65 percent probability of reaching contract highs in the June, July, and August time period. Old crop cash prices are equally likely to put in highs during the same time period.

The decisions of when, and how much new crop to price are easier for those producers with good crop prospects and much more difficult for those with every uncertain prospect. The bottom line, however, is that some pricing should be done during periods of weather related rallies. Options can be used to manage some of the price and production uncertainty.

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