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WEEKLY OUTLOOK

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MARKETING CORN AND SOYBEANS THE OLD FASHIONED WAY

Based on the USDA reports released earlier this month, the 1992 corn crop will be the largest since the record crop of 1985. Total supplies (production plus carryover stocks) are projected at 9.858 billion bushels, an increase of 862 million bushels from last year's supplies. Supplies are well below the 12 billion bushels of 1986 and 1987, but the entire supply is available to the market. The USDA estimates that only 90 million bushels of corn will be owned by the Commodity Credit Corporation (CCC) on September 1, 1992. At the peak in 1987, September 1 stocks of CCC corn and Farmer Owned Reserve (FOR) corn totaled 2.764 billion bushels.

The 1992 soybean crop is expected to be the largest since 1985. Total supplies are projected at 2.364 billion bushels, 50 million bushels larger than last year's supply and the largest supply since 1987.

Prospects of large supplies pushed corn and soybean prices sharply lower from the first of July to August 10. Nearby corn futures traded as low as $2.11 1/2 per bushel, the lowest level since early 1988. Nearby soybean futures traded under $5.40 per bushel. Except for a period last summer, nearby soybean futures have not traded lower since late 1987. The sudden change in weather conditions in early July and the quick, sharp decline in prices left many producers with little or no new crop corn and soybeans priced.

It now appears that corn and soybean prices during the 1992-93 marketing year will follow a typical large crop pattern -- lowest in the fall and highest in the following spring or summer. Over the past 17 seasons, there have been 8 years in which cash corn prices have reached a low in the fall quarter (September, October, or November). In each of those 8 years, cash prices reached a peak the following spring or summer (May through August). The increase in cash prices from the fall low to the spring/summer high ranged from $.45 per bushel in 1990-91 to $1.91 in 1982-83 (based on central Illinois bid to farmers as reported in the *Wall Street Journal*). The average increase for the 8 years was $1.00 per bushel. The increase in two years (1982-83 and 1987-88) was influenced by a severe drought the following summer. The average price increase for the other 6 years was $.72 per bushel, in a range of $.45 to $1.00.

There have also been 8 marketing years in the past 17 when cash soybean prices bottomed in the September through December time period. In each of those 8 years, the highest cash price for the marketing year was reached in the May through August time period. The increase from fall/winter lows to spring/summer highs ranged from $.92 during the current marketing year to $5.03 per bushel in 1987-88. The average was $2.53 per bushel. The average for the six years not influenced by a drought was $1.83 per bushel, in a range of $.92 to $2.88.

The seasonal price increase in corn and soybeans in these years has been a function of several factors -- over reaction of the market to large crops, high rates of use generated by low prices, changes in set-aside requirements the following year, and concern about the subsequent planting and growing season.

In years of large crops and low prices at harvest time, the best marketing strategy has been to store the crop into the following year. That appears to be the way to approach the 1992 crops. The drawback of this strategy is the cost of storage and the lack of cash income until the crop is sold. The cost of storage this year, however, is the lowest in several years due to low interest rates. For all soybean producers and for corn producers participating in the Acreage Reduction Program, CCC loans are available for stored crops. Some analysts recommend alternatives for storage -- delayed pricing, basis contracts, sell cash-buy call options, or sell cash-buy futures. With the relatively low cost of storage and large carrying charges in the market, storage (particularly on the farm) is a lower cost alternative. While options reduce the downside price risk of owning grain, that risk is also low this year. Alternatives to storage may be more attractive to corn producers not eligible for CCC loans.

Early season pricing should become more aggressive, and storage plans scaled back, if fall weather conditions generate significant price rallies.

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