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

OCTOBER 19, 1992

CORN AND SOYBEAN PRICE PROSPECTS

Corn and soybean prices have declined to the lowest level in nearly 5 years, pressured by prospects of large crops and accumulating inventories. What can be expected now?

CORN. Cash corn prices have dropped under $2.00 per bushel in central Illinois for the first time since May 1988. With harvest still in the early stages, further price declines are likely, particularly if the USDA's production estimate is increased. Yield reports in Iowa, Illinois and Indiana suggest that the production estimate could increase significantly in November and/or January. An increase to 9.1 billion bushels is possible, with some anticipating a crop of 9.3 billion bushels or more. The crop may be large enough that producers will not be able to store as much as desired. Forced cash sales or delayed pricing arrangements during the last part of harvest could establish the seasonal lows in the corn market.

Since 1976, the range from high to low in December corn futures has been relatively consistent in those 11 years not influenced by a significant drought. The range from high to low in those years varied from $.54 (1987 contract) to $.88½ (1977 contract). The average range was $.73½. To date the December 1992 contract has traded in a $.69 range, with a high of $2.75¾. The low in December 1992 futures will be determined by the November crop estimate. A decline under $2.00 is possible.

A number of positive factors are unfolding in the corn market. Russia has been allocated $301 million of export credits for the 1992 feedgrain crops. The USDA also announced on Monday a credit allocation of $138 million for feedgrains to Ukraine. There is optimism that a breakthrough may be coming in the GATT negotiations. The Farmer-Owned-Reserve may be opened for the 1992 corn crop. Corn acreage will decline in 1993 as a result of a 10 percent acreage reduction program. The Secretary has until November 15 to announce a final program. If the projected stocks to use ratio is 25 percent or less, the acreage reduction will be in a range of zero to 12.5 percent. If the ratio exceeds 25 percent, the reduction will be in a range of 10 to 20 percent.

Depending on the size of the crop, however, these positive factors may only serve to establish a bottom in the market, not rally the market. Prices could remain in a narrow trading range until spring, when weather conditions will become the dominant factor.

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SOYBEANS. Earlier this month, cash soybean prices in central Illinois dropped to the lowest level since November 1987. It appears likely that the soybean market has established seasonal lows. A further increase in crop size is likely, but should be a modest 20 to 25 million bushels. Harvest and marketing of the southern crop, however, will keep prices under pressure for several more weeks.

Prices will tend to be supported by an extremely high rate of use. The domestic crush rate over the past seven weeks was nearly 3 percent larger than the rate for the same period last year (which was 4 percent larger than the rate during the same period the previous year). Soybean export sales for the 1992-93 marketing year now stand at 306 million bushels, 59 percent larger than sales on the same date last year. Lower oil, yields per bushel of soybeans, a large export enhancement initiative for soybean oil and the eligibility of Pakistan for export subsidies should result in some decline in oil stocks this year. A smaller rapeseed crop in Europe and export credits for protein meal to Russia ($64 million) and Ukraine ($23 million) will support the export market for soybeans and meal.

The range to date from high ($6.51) to low ($5.24½) in November futures is $1.26½. That is about equal to the average range of non-drought years since 1985. Recovery in prices could continue to be slow as long as the South American crops develop normally. Volatility will return in the spring.

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