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

November 23, 1992

CORN AND SOYBEAN PRICES — WHAT NEXT?

Corn and soybean prices showed unexpected strength following the large crop estimates released on November 10. After an initial decline to a new low of $2.04½, December futures rallied to a high of $2.18 on November 19. July futures moved to about $2.39 and December 1993 futures approached $2.47. The corn basis strengthened as well. In central Illinois, the basis strengthened about 10 cents from November 2 through November 19. January soybean futures dipped to $5.46½ per bushel on November 11 and rallied to a high of $5.67 on November 17. November 1993 futures traded as high as $5.92½. The soybean basis has strengthened by about 7 cents since the first of the month.

Part of the strength in the markets was technically based. Buyers emerged when prices could not move sharply lower on the basis of the new production figures. The significant delays in corn harvest and the anticipated settlement of the U.S.-EC oilseed dispute were important supportive factors. A continuation of the rapid pace of export sales provided underlying support. Through November 12, corn export sales were 33 percent larger than sales of a year ago. For the year, exports are expected to be only 1 percent larger than exports during the past year. Soybean sales were 41 percent larger as of November 12, while exports for the year are projected to increase by only about 7 percent.

What should be expected now? For corn there is a fairly "typical" price pattern in large crop years. Prices tend to make lows in October/November, recover modestly after harvest, trade in a narrow range through the winter, and move higher during the following spring/summer. Prices during the last two months of the marketing year (July and August) are the most difficult to anticipate. Prices at that time are almost entirely dictated by prospects for the new crop. As predicted, this typical pattern was generally followed last year. The major variation from our predicted pattern was that the highest price of the marketing year occurred in March, rather than in the May through July period. The price peak of $2.70 was about 5 cents less than the projection. The end of the marketing year saw prices drop to new lows as prospects for a large 1992 crop developed. The range in cash prices (central Illinois) for the 1991-92 marketing year was 59 cents per bushel, equal to the average range for the non-drought years since 1982-83.

At this time, there is no reason to expect that corn prices during the 1992-93 marketing year will deviate significantly from the typical pattern. To date, the lowest cash price for corn occurred on October 27 ($1.86½ per bushel for the price series used here). Since then prices have recovered about 20 cents per bushel. Stable prices through the winter, as export sales moderate, and recovery to the $2.50 level by spring should be expected. The expected recovery is based on the likelihood of reduced acreage, a high rate of use, and normal weather concerns. Whether or not prices move beyond $2.50 or turn lower depends on late season growing conditions. With large carrying charges in the futures market, opportunities to forward price corn at favorable prices will occur before the cash price recovers.

Soybean prices tend to follow a similar patterns to corn prices, although variations in the rate of use and the development of the South American crop can result in divergence in the corn and soybean price pattern. A year ago, we suggested that soybean prices would move from the October low of $5.28 to a high of $6.25 to $6.50 sometime in the April 1992 to August 1992 time period. The highest price ($6.20 per bushel) occurred on June 9, 1992. A similar pattern should probably be expected for the current marketing year. For the near term, positive impacts of the settlement of the U.S.-EC oilseed dispute and an ongoing high rate of soybean consumption will be tempered by an excellent start to the South American growing season. March 1993 futures should be supported above $5.50, but would not be expected to exceed $6.00 unless South American weather turns dry. Prices would be expected to move higher in the spring of 1993. A recovery of cash prices to the $6.10 to $6.40 range is suggested by historical price patterns. Higher prices would likely be generated only by extended periods of adverse weather.

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