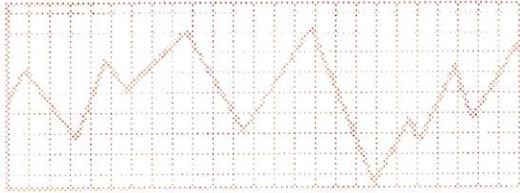




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WEEKLY OUTLOOK

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ANY CHANCE OF A MAJOR RALLY FOR CORN AND SOYBEAN PRICES?

The last major rally in corn and soybean prices occurred in 1988. In that year, July corn futures rallied from about \$2.10 in March to a high of \$3.59 in early July. December futures rallied from about \$2.20 to a high of \$3.70 during the same time period. July soybean futures traded in the \$6.20 to \$6.50 range in March of 1988 and rallied to a high of \$10.99 in June. November futures moved from the \$6.50 area to a high \$10.30 during the same time period. The rapid, sharp increase in prices in 1988 was associated with drought conditions in all of the major growing areas.

Since 1988, corn and soybean prices have managed occasional, smaller rallies. Those price increases have all been weather related. Basis the nearby futures contract, however, corn prices have been above the \$3.00 mark only once since 1988-early July 1990. Basis the nearby futures contract, soybean prices have not been above \$6.60 for almost 4 years. More recently, corn and soybean prices have traded in an extremely narrow range. Since last October, July 1993 corn futures have traded in about a \$.15 range. July 1993 soybean futures have traded in about a \$.60 range, but did not hit the \$6.00 mark until late March of 1993.

Now that it has been 5 years since the last major rally in corn and soybean prices, it seems like it is time for the next such rally. Since 1973, the longest time period between major peaks in corn prices was the 6 years from 1974 to 1980. For soybeans, the largest interval was the 4 years from 1984 to 1988. What are the chances that a major price rally will occur in 1993? At this juncture, the odds of a significant move appear low. Supplies of old crop corn in the United States are at the highest level in 5 years; the former Soviet Union is no longer a significant commercial buyer of U.S. corn; South African grain production has rebounded from the drought reduced crop of a year ago; and early season moisture conditions in the Midwest are fully adequate. In the case of soybeans, year-ending stocks are projected to be at the high end of the range of the past 6 years and South America has just harvested a record soybean crop.

There are, however, a number of positive developments in the corn and soybean markets. Robust domestic demand will push total consumption of U.S. corn to a record level in spite

of mediocre export demand. Corn acreage in the U.S. is down significantly, much of the corn has been planted late, and cool weather dominated on the first day of June. The crop will likely pollinate in the potentially hottest, driest part of the summer. Consumption of U.S. soybeans will also be record large this year, led by a record domestic crush and better than expected export demand. Export sales have remained seasonally strong in spite of the large South American harvest. Soybean acreage in the U.S. is not expected to increase in 1993.

If corn and soybean prices manage a major move up this year, the move would most likely be based on unfavorable weather conditions in July and August. Weather conditions cannot be accurately forecast for that time period. Current opinions among those evaluating potential weather conditions vary widely. Some see a repeat of last year's cool conditions, while others see a significant period of warm, dry conditions. The current high rate of consumption of both corn and soybeans and a confirmation of the March planting intentions figures means that prices could move sharply higher on the basis of a summer weather problem.

What to do? A weather market in 1993 is primarily a concern for pricing the 1993 (and perhaps the 1994) crops of corn and soybeans as most decisions about pricing the 1992 crop will have to be made soon. With December corn futures below \$2.40 and November soybean futures below \$6.10, little weather premium is built into the market and the downside price risk appears to be small until crop prospects become more clear. Aggressive new crop pricing does not seem warranted at current prices. If large sales are made, some consideration to a reownership strategy with options might be considered. July may be the critical month for pricing, even if a weather market does not materialize, as favorable weather would set the stage for even lower prices into harvest.

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