Cooperative Extension Service

WEEKLY OUTLOOK

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VOLATILE CROP PRICES AS GROWING SEASON WINDS DOWN

Corn and soybean prices have been on a roller coaster since June. November soybean futures declined to $5.76 in mid-June, rallied to a high of $7.57 at the peak of flood concerns, declined to $6.48 after the August crop report, and then moved back above $6.70 last week. The pattern has been similar for corn, except with a much narrower range. December corn futures found a low of $2.25 in mid-June, a high of $2.61 in July, and is currently trading around $2.40.

A variety of crop problems or potential problems abound as the 1993 growing season for corn and soybeans comes to an end. The biggest concern is the lateness of the crops in South Dakota, Minnesota, and Iowa. Cooler weather in those areas raises concerns about the magnitude of crop losses from an earlier-than-normal freeze. In addition, the Canadian rapeseed crop could be damaged from an early freeze.

Ongoing hot, dry conditions in the southeast and parts of Ohio also raise doubts about the yields of corn and soybeans in those areas. Reports of outbreaks of sudden death syndrome (SDS) in soybeans in Illinois and southern Indiana cloud the yield picture in those areas. Finally, additional heavy rainfall in parts of Iowa threatens more corn and soybean acreage and introduces concerns about a wet harvest period.

This wide array of crop problems makes it difficult for the market to assess production and price potential. Crop concerns have renewed talk of $9.00 soybeans and $3.00 corn in some circles. At the same time, there is growing concern about the demand side of the markets. The potential for sharp declines in exports was outlined in last week's newsletter. Domestic use of corn for livestock feed is likely receiving increased competition from large quantities of poor quality wheat. If so, September 1 stocks of corn may be larger than currently projected.

In the case of soybeans, the domestic crush rate has slowed considerably since mid-June. Figures from the Census Bureau indicate that the crush during June was slightly smaller than the crush of a year ago. The July crush was 4.3 million bushels (4 percent) smaller than that of a year ago. To reach the USDA projection of 1.28 billion bushels for the year, the crush during August needed to total 93.3 million bushels, 9 percent less than during August last year. Weekly figures from the National Oilseed Processors Association showed a 10 percent decline during the 4 weeks ended August 25.

With all the uncertainty about crop size, corn and soybean prices are expected to be very volatile over the next 6 weeks. Potential for significant declines in prices seems remote for the next 2 or 3 weeks, as late maturity is a supporting factor. An early freeze, however, would likely be required for prices to exceed the July highs. An early freeze, depending on how early, how extensive, and how severe would likely result in a sharp spike in prices followed by price declines.

Our thoughts on marketing remain unchanged. As the market puts a weather premium back in the price structure, prices will offer an opportunity for catch-up sales. If an early freeze occurs, then sales should be advanced aggressively on the price spike. If an early freeze does not occur, marketing should probably be advanced any way.

While different from other short crop years, 1993 is a short crop year that will likely result in the highest prices early in the year. If prices decline sharply in the winter months, some reownership of corn and soybeans might be considered. Buying call options during periods of low price volatility offers a relatively inexpensive way of managing the risk of ownership.

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