Cooperative Extension Service

WEEKLY OUTLOOK

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CORN PRICES EXCEED SUMMER HIGH, SOYBEANS SOFT

Corn prices have increased steadily since October 5. December 1993 futures moved $.25 higher by November 1 and July 1994 futures had advanced $.19. Prices exceeded the highs established at the height of the flood concerns in July. The strength has been primarily based on lower than expected yield results as the corn harvest has progressed. The U.S. crop was estimated at 7.423 billion bushels in August, 7.229 billion in September, and 6.962 billion bushels in October. The 461 million bushel reduction over that period is the largest reduction since 1983, when the estimate dropped by nearly 1 billion bushels.

The average yield estimate has declined from 116 bushels in August to 110.3 bushels in October. The yield estimate declined by 5 bushels per acre in Illinois, Iowa and Minnesota, 7 bushels in Indiana, and 15 bushels in Ohio. Based on yield reports to date, the market expects further yield reductions in the November report, particularly in Iowa and Minnesota.

There have been six other years since 1976 when the corn production estimate declined in both September and October (1976, 1980, 1983, 1984, 1986, 1987). In only one year, 1983, did the estimate decline again in November. The November estimate was larger on three occasions and unchanged in the other two years. It appears that 1993 will be the second occurrence of 3 consecutive monthly declines in the production estimate. The USDA will release the next production estimate on November 9. Pre-report estimates are in a wide range, from less than 6.5 to over 6.8 billion bushels. It is unlikely that the USDA would project year end stocks of less than 1 billion bushels. If the production estimate is less than 6.877 billion bushels, corn use will have to be reduced further.

Corn prices have also been supported by an improvement in the pace of exports. For the past 4 weeks, cumulative shipments exceeded the level of a year ago by 10 percent. Since the beginning of the marketing year (September 1) cumulative shipments are down 7.5 percent from exports of a year ago. For the entire marketing year, the USDA has forecast a 15 percent decline. As of October 21, unshipped export sales were 34 percent less than on the same date last year.

The corn market is beginning to behave more like a "short crop" year. That is, prices have moved higher during the harvest period and most of strength has been in the nearby contracts. Historically, the best strategy has been to price corn early in short crop years. Currently, the basis is relatively weak in most areas, so that farm stored corn could be sold for January or March delivery. Now that the summer high has been exceeded the next target will be the contract high of $2.68, basis December futures. Next week's production report will determine if higher prices are needed.

Soybean prices have traded in an extremely narrow range for the past three weeks. In contrast to the corn market, spreads in the soybean market have widened somewhat. The market generally expects a smaller soybean production estimate in next week's USDA report, but there is not much agreement on the magnitude of reduction. Smaller crops would likely come in the western corn belt.

Soybean exports continue to be well below the level of a year ago. Through the first 7 weeks of the marketing year, cumulative exports were 40 percent below the level of a year ago. Unshipped sales on October 21 were 51 percent less than on the same date last year. Expectations continue to be for a substantial increase in South American soybean acreage. Larger acreage and good yields could result in another record harvest there in 1994.

Domestic consumption of soybean meal and soybean oil continue at a record level. The monthly Census Bureau report showed that stocks of oil at the end of September were at the lowest level for that date in 3 years and the second lowest in 7 years. Meal stocks were at a 4 year low. Processor stocks of soybeans were at an 8 year low.

The divergence in corn and soybean prices over the past 4 weeks was in the opposite direction than that which occurred this summer. Soybean prices are not behaving in a "short crop" pattern. Unless the production report contains a surprise, or the South American crop runs into trouble, January futures will have difficulty moving above the $6.50 level, but should hold above $6.00.

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