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

JANUARY 24, 1994

HAVE CORN AND SOYBEAN PRICES PEAKED?

Corn and soybean prices made a one-day rally following the January 12 USDA reports and then declined through last week. Corn prices declined below the pre-report level and to the lowest level since mid-December. Soybean prices had moved about 15 cents lower prior to the reports, rallied 25 cents immediately after the reports, and then declined to pre-report levels. Soybean meal prices are about $3 below the pre-report level. The price response is not very encouraging following what was termed a very bullish set of reports.

A number of explanations for the recent price decline have been offered. Each has some validity. One explanation centers around liquidation by speculators who held long positions prior to the report. The Commodity Futures Trading Commission (CFTC) commitment of traders report did show a predominance of the non-commercial positions in both corn and soybeans as being long. There has been some fund liquidation over the past week.

A second factor is that perhaps the reports were fundamentally not as friendly as first believed. In particular, the smaller corn and soybean crop estimates for the U.S. were more than offset by larger estimates in other countries. As reported last week, the estimate of the Chinese corn crop was increased by 232 million bushels in the January report. Foreign soybean production was increased by 37 million bushels from the December estimate. Some concern about dry weather in parts of Brazil have surfaced over the past 2 weeks, but additional rainfall was received this past weekend and more is expected this week.

A third factor is the growing perception that higher prices are sufficiently rationing the small 1993 crops. Apparent feed and residual use of corn declined by nearly 6 percent during the first quarter of the marketing year even though prices were very low in September and October. The high prices since November suggest that feed use has declined more rapidly since mid-November and is declining enough to reduce total use to the 4.8 billion bushels projected by the USDA. Livestock feeding profitability declined dramatically in December with the combination of low livestock prices and high feed prices.

The domestic soybean crush has also declined, relative to last year, since the first of December. Crush during the first quarter of the year was down only 0.5 percent from the crush during the same period last year. Figures from the National Oilseed Processors Association show a 3 percent decline since the first of December.

Corn exports through the first 19 weeks of the marketing year were down 19 percent, compared to the 22 percent projected for the year. As of January 13, however, only 208 million bushels of corn had been sold for export, but not yet shipped. That is 45 percent less than outstanding sales of a year ago. Actual shipments plus outstanding sales are running 27 percent behind the total of a year ago.

Soybean exports are running 19 percent behind the pace of a year ago, compared to the 20 percent reduction for the year projected by the USDA. Outstanding sales as of January 13, however, stood at only 100 million bushels, 52 percent less than sales of a year ago. Actual shipments plus outstanding sales are 32 percent below the total of a year ago.

A fourth factor that is beginning to surface is the realization that harvested acreage of corn and soybeans will likely increase significantly in 1994. We outlined our thoughts about acreage increases in the December 13 issue of this newsletter.

Corn and soybean prices may not drop dramatically from current levels since prices must complete the rationing process. The prices experienced immediately after the report, however, will be difficult to exceed without some additional friendly information. Assuming the South American crop continues to make good progress, the next important checkpoint will be weather conditions in the U.S. at planting time. Good weather would point to further price erosion while problems would revive prices, particularly new crop prices.

Old crop sales should continue to be made at current price levels, with the idea of holding only portion of the 1993 crop into potential 1994 weather problems. A first sale of new crop corn and soybeans is also warranted at current prices.

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