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

February 21, 1994

FUNDAMENTAL ASPECTS OF THE 1993-94 CORN AND SOYBEAN MARKETS

Stock levels of corn and soybeans at the end of the current marketing year are predicted to be the lowest since the mid-1970s. A review of historical ending stock levels and annual average prices indicates high prices are associated with low stock levels. Conversely, large ending stocks are associated with low annual prices. This has led many analysts to call for sharply higher prices for corn and soybeans for the 1993-94 marketing year. A question frequently asked is "Why aren't corn and soybean prices higher?"

There are some fundamental reasons why this year's price pattern is different than patterns that existed during past years.

This year's reduced crop output was caused by excessive rainfall, floods, and lack of sunshine. In years of drought, a shortage of rainfall is obvious by July and a drought typically causes uniform problems across large areas of the corn belt. Prices rise swiftly to a level which rations use. By harvest, the impact of the short crop is fully factored into the market and prices trail irregularly lower throughout the rest of the marketing year. Thus, the old adage, "A short crop has a long tail." This year, the extent of the crop damage was not officially recognized until the November crop report.

In previous years, the U.S. was the main source of corn and soybean exports. This year, U.S. corn production declined 33 percent, while total foreign corn production increased 3 percent. World corn trade declined 9 percent, or 6 million metric tons (MMT). Several countries have larger crops and less import needs. The corn and soybean export markets have become very competitive. China is expected to export 12.5 MMT of corn (about 492 million bushels) which is 38 percent of corn exports projected for the U.S. South Africa imported 4 MMT (about 160 million bushels) of corn in 1991. South Africa is now a corn exporter. Corn sales to the FSU (Former Soviet Union) have been cut in half, down about 6 MMT or 240 million bushels, since the 1991-92 marketing year. South American soybean production is projected to set another record of nearly 38 MMT in 1994. This would be an increase of nearly 3 MMT (110 million bushels) from last year's crop.

The U.S. is importing Canadian wheat and barley on both coasts. Subsidized sales and a weak Canadian currency makes Canadian wheat competitive with corn shipped from the corn belt. The delayed harvest of the spring wheat crop resulted in some poor quality wheat that must be fed.

Feeding of U.S. wheat is projected to reach 275 million bushels during the 1993-94 marketing year. This is an increase of 84 million bushels, or 44 percent, from feed use of last year.

The EU (European Union) is disposing of some surplus grain stocks before the stricter regulations from the GATT agreement begin taking effect in 1995. This has caused a reduction in corn gluten imports, making more corn gluten available for feed in the U.S. During the past years of short supplies, the reductions in feed use were greater than the reductions in exports. Corn exports to date are running about 22 percent below year earlier levels, primarily due to slack demand. While the supply-demand balance projections indicate a need to reduce feed consumption of corn by 500 million bushels, or 9 percent, the actual reduction needed may be closer to 100 million bushels due to the increased feeding of wheat, barley, and corn gluten feed.

The U.S. average farm price is a weighted average price. About 40 percent of the corn was sold or priced last fall at sharply lower prices than exist this spring. Also, there is a large difference between the U.S. average price and the peak price.

Corn and soybean futures prices may not rise as high as generally expected this year, unless there are problems with 1994 production. Corn and soybean futures prices are expected to rise seasonally as we approach the March *Grain Stocks* report (released March 31). Unless the report is bullish, it is likely that the futures prices will peak before planting time. Weather for the 1994 crops becomes the dominant price factor starting in April. The basis is expected to continue to strengthen into summer or early fall — especially for good quality corn. To capture the benefits of the expected price trends, consider hedging or using hedge-to-arrive contracts. If crop problems develop next summer, you can offset these marketing decisions by buying futures or call option contracts.

Issued by J. William Uhrig
Extension Economist
Purdue University

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS