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

May 2, 1994

NEW CROP CORN AND SOYBEAN PRICES IN MIDDLE GROUND

November soybean futures declined to a low of $6.07 on April 18 and December corn futures put in a recent low just below $2.46 on April 25. Since then, November soybeans have rallied about $.20 and December corn is up $.10. This pattern of volatility is typical for this time of year, reflecting changing weather conditions. The National Weather Service now suggests above normal precipitation for much of the midwest during the early part of the growing season. this is a reversal from last month's forecast of near normal precipitation.

Price strength over the past week also reflects indicators of strong domestic demand for corn and soybeans. The Census Bureau's oilseed crush report for March (released last week) revealed a larger than expected crush of soybeans. At 112.5 million bushels, the March crush was only 0.4 percent smaller than the record March crush of last year. Through the first seven months of the 1993-94 marketing year, a total of 766.2 million bushels of soybeans were processed, only 1.3 percent less than processed during the same period last year. For the year, the USDA projects a 1.5 percent decline in the domestic crush. Even with a large March crush, the inventory of soybean meal and oil at the end of the month was relatively small. Month-end stocks of meal were estimated at 230 thousand tons, the smallest inventory for that date in 12 years and 32 percent below the inventory of a year ago. The inventory figure implies that domestic consumption of soybean meal is proceeding at a record pace. Stocks of soybean oil at the end of March stood at 1.384 billion pounds, the smallest inventory for that date in 8 years and 38 percent below the inventory of a year ago. Apparent domestic consumption of soybean oil is also on a record pace.

The continuation of a larger than expected number of hogs coming to market suggests that domestic corn feeding during the spring quarter may be large as well. Finally, the threat to the hard red winter wheat crop from a combination of dry weather and below freezing temperatures also bolstered domestic demand prospects for corn.

In contrast to the rate of domestic consumption, exports of both corn and soybeans remain slow. With about 19 weeks remaining in the marketing year, corn exports are down 24 percent from last year and soybean shipments are off nearly 25 percent. Both figures are close to the USDA projections for the year.

What now? It goes without saying that weather and planting progress will dominate the markets. To date, weather patterns have not been uniform across the corn belt. Corn planting progress has been very rapid in some areas, Iowa and Ohio, for example and slower in other areas such as Illinois and Missouri. The 30 day outlook for above normal precipitation can be viewed in at least two ways. First, if the majority of the corn still gets planted in a timely fashion, above normal moisture would keep prospects in tact for good yields and a large crop. In addition, there would likely be little incentive for midwest producers to alter plans relative to corn and soybean acreage. Second, if planting delays become severe, some corn acreage might be switched to soybeans and corn yield prospects lowered somewhat. In general, however, yields will be determined by summer weather conditions rather than spring conditions.

New crop corn and soybean prices are currently in "middle ground", not fully endorsing either of the scenarios just outlined. At $2.55, December corn futures are well above the $2.20 to $2.25 level that could be generated by a bumper crop, but well below the $2.90 to $3.00 level that could result from significant weather problems. Similarly, November soybean futures at $6.25, are above the $5.80 level that could result from a 2.1 billion bushel crop, but well below the $7.00 to $7.25 level that could result from summer weather problems. The range from high to low to date for both December 1994 corn and November 1994 soybean futures has been low (see letter of April 11). New highs or lows, or both, are possible.

What to do? When prices have both substantial upside and downside potential, option strategies might be considered. Buying put options, for example, would provide protection from lower prices. Selling call options at higher strike prices would offer a way to reduce the cost of the price protection, but also establish a ceiling price. The strike price of the call options should reflect a price at which the producer is willing to sell new crop corn or soybeans. The two transactions, buying puts and selling calls, do not have to be completed simultaneously. Ideally, call options should be sold when price volatility is high and put options purchased when volatility is low.

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