Cooperative Extension Service

WEEKLY OUTLOOK

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CORN AND SOYBEAN PRICING OPPORTUNITIES AHEAD

Corn and soybean prices continue to be dominated by weather and weather forecasts, particularly for the midwest. Other factors are important, but the focus must be on prospective crop size. The low level of old crop stocks emphasizes the need for large crops in 1994. Extremes in weather in recent years and changing and varying forecasts for 1994 make for lots of uncertainty.

A run down of recent weather and the near term National Weather Service forecasts goes as follows: Midwest rainfall for the weekend of May 14 and 15 was variable but generally lighter than expected. Dry and mild conditions during the week of May 16 are expected to result in the completion of corn planting in many areas and rapid progress of soybean planting. The outlook for May 19 through 23 calls for below normal precipitation in most of the midwest, except for the far western part of the belt where normal precipitation levels are expected. Temperatures are expected to be above normal, except for a band of normal temperatures in the far eastern corn belt. The 30-day outlook for mid-May through mid-June calls for normal precipitation and above normal temperatures throughout the midwest.

The current weather outlook suggests that the corn and soybean crops will be planted in a timely fashion and generally get off to a good start. In spite of that outlook, some analysts are concerned about the pattern of high pressure which is currently being established over much of the corn belt. Some are reading this as a shift which may lead to prolonged periods of dry weather. The word "drought" surfaced again this week.

Assuming that planting goes well and harvested acreage of corn and soybeans is near the current projections of 71.5 million and 60 million, respectively, yields would not have to fall much short of trend to result in extremely tight stocks again next year. With ample supplies and moderate prices, the USDA projects corn use during the 1994-95 marketing year at 8.3 billion bushels and carryover stocks at 1.257 billion bushels. At that level of use, an average yield of 118.5 bushels or less would reduce ending stocks to less than 1 billion bushels. A yield of 116 bushels would keep stocks near 800 million bushels.

In the case of soybeans, use during the upcoming marketing year is projected at 1.981 billion bushels, again assuming ample supplies and moderate prices. Carryover stocks are projected at 280 million bushels. A yield of 33.6 bushels or less, then, would reduce next year's ending stocks to under 200 million bushels. A yield of 32.8 bushels or less, would leave ending stocks near 150 million bushels.

The above calculations indicate that average yields would need to decline below trend by only 5 to 6 percent to require higher prices to ration supplies next year. At this juncture there is no real indication that a significant weather problem is likely, but even relatively small yield reductions would create tight supplies. As mentioned the last two weeks, both the corn and soybean markets had taken much of the weather premium out of the price structure. With prices at relatively low levels, then, prices could move sharply higher on the basis of actual or anticipated crop problems.

We expect corn and soybean prices to become increasingly volatile. The speculative community does not want to miss a major weather based price rally so they will tend to buy on the basis of anticipated problems. In turn, false alarms will allow prices to retreat. This pattern could be repeated several times, whether or not a significant problem actually materializes.

For the corn and soybean producer, these volatile markets offer an opportunity to price remaining stocks of old crop and add to new crop sales. Now is the time to establish price and quantity targets, particularly for the new crop. December corn futures have a recent high of \$2.61 and a contract high of \$2.7375 per bushel. November soybean futures have a recent high of about \$6.32 and a contract high of \$6.5575 per bushel. These price levels may provide some resistance in a rising market, particularly if the weather outlook remains mixed. On the downside, December corn futures should be well supported between the contract low of \$2.365 and the recent low of \$2.405 per bushel. November soybean futures should be supported above the recent low of \$6.105 per bushel.

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