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 23, 1994

CORN AND SOYBEAN MARKETS CONTINUE TO BUILD WEATHER PREMIUMS

For the week ending May 20, July corn futures increased by $.0775 per bushel, while December futures rallied $.1175. The July-December spread narrowed to $.1025 per bushel, from a high of about $.43 in early January. During the same week, July soybean futures moved $.37 higher and November futures jumped $.4475. The week of May 23 was expected to produce higher prices, as weekend rainfall in the corn belt was less than projected for the third consecutive weekend. Rainfall early this week was generally projected in the .25 to .5 inch range with only about 50 percent coverage. Dry weather is expected to persist the remainder of the week as the National Weather Service 6 to 10 day forecast released on May 20 projected normal to below normal rainfall for much of the corn belt. The high pressure system established over the midwest continues to dominate the weather pattern.

The fact that soybean prices have rallied more than corn prices suggests that there is more to the recent rally than just weather concerns. The recently planted corn crop is probably more vulnerable to dry weather than the soybean crop. At least three other factors have influenced the willingness to buy soybeans. First, the reversal from the lows of about two weeks ago generated a better technical picture for soybeans than for corn. In addition, soybean prices performed better technically last week than did corn prices. Second, soybean prices are generally perceived to be much more volatile than corn prices, offering the opportunity for larger speculative profits. As mentioned last week, no one wants to miss the train for a major weather rally. Third, there has been a recent rally in commodity prices in general and it is believed that soybean prices will benefit more from an inflation type rally than will corn prices.

The current rally in corn and soybean prices is a function of new crop concerns, but is occurring in a setting of very tight old crop supplies. Carryover stocks may be a few million bushels larger or smaller than currently projected, but the difference will not be important as long as weather concerns persist. With about 16 weeks left in the 1993-94 marketing year, corn exports are running very close to the USDA projection, down 26 percent from the pace of a year ago. Similarly, cumulative soybean exports are running 24 percent behind the pace of a year ago, about as projected. The cumulative domestic soybean crush continues to be slightly larger than projected by the USDA, but has slowed the past two weeks. Based on figures from the National Oilseed Processors Association, the crush during the two weeks ended on May 18 was 3.5 percent less than during the same two weeks last year. Feed use of both corn and soybean meal is being supported by large livestock numbers. The USDA's May 1 *Cattle on Feed* report showed 7 percent more cattle placed in feedlots during April in the 7 major cattle feeding states than were placed during the same month last year. The total feedlot inventory in those states is up 3 percent from last year's inventory.

What now? Corn and soybean futures gapped sharply higher at the opening of trade on May 23. July futures traded above the January high and November futures jumped to a new contract high. July corn futures remained well below the January highs, while December futures traded within 5 cents of the contract high. If weather concerns persist, the next technical target for July soybean futures is the contract high of $7.50. A likely near term target for November futures is the $7.25 to $7.50 range. July corn could find support back to $2.86, halfway between the January high and the recent low. December futures will target the contract high near $2.75 and then the 1993 high near $2.90.

As mentioned last week, weather rallies provide producers an excellent opportunity to price both old and new crops of corn and soybeans. The challenge is great, however. The penalty for pricing too soon can be fairly severe, but the likelihood of pricing at the top of the market is very low. Historically, major weather based price rallies have signalled an end with significant reversal action. That is, within a day, prices have established new highs and closed lower. Then prices moved erratically lower from there. Such a pattern is likely to develop this year, with a reversal signalling the time to price aggressively. The key is to not get stubborn once prices turn lower.

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