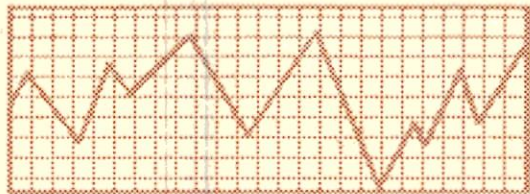




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WEEKLY OUTLOOK

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

June 27, 1994

ONE MORE WEATHER RALLY?

As pointed out last week, in the six weeks from early May through mid-June, December corn futures rallied \$.37 per bushel and November soybean futures increased by \$.89 per bushel. Over the past week, December corn futures declined \$.40 and November soybean futures dropped \$.67 per bushel. The severe reversal in prices last week reflected a sudden reversal in weather prospects. On June 17, there was widespread agreement that hot, dry conditions would prevail last week. Those prospects changed over the weekend and widespread rainfall and moderating temperatures were experienced in the eastern corn belt.

Old crop prices have followed new crop prices lower, as the rate of use of old crop supplies has fallen in line with USDA projections. With 11 weeks remaining in the marketing year, cumulative soybean exports are down 25 percent from shipments of a year ago. The magnitude of outstanding sales (down 41 percent) suggest that the USDA's projection of a 25 percent decline for the year is probably a reasonable projection.

The Census Bureau's May 1994 crush report indicated that the domestic rate of soybean oil use is continuing to moderate. A low level of oil exports has also contributed to the slow down in oil consumption. Apparent disappearance of oil in May was 11 percent less than during the same month last year. Disappearance during the first 8 months of the 1993-94 marketing year was down 0.5 percent.

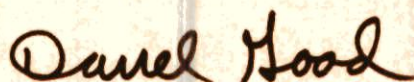
Domestic consumption of soybean meal remains high, but the margin of increase over last year's consumption has begun to narrow. Exports remain weak, so that total consumption of meal has been less than that of a year ago in 7 of the first 8 months of the 1993-94 marketing year. For the period October 1993 through May 1994, meal use was down 1.6 percent from use during the same period last year.

With 11 weeks left in the 1993-94 corn marketing year, cumulative exports were trailing those of a year ago by nearly 28 percent. Export sales during the first half of June were relatively large, but as of June 16, outstanding sales were 36 percent smaller than on the same day last year. Domestic feed use of corn is the major unknown. Use during the March-May period will be revealed in the *Grain Stocks* report to be released this week.

The recent decline in prices has once again taken much of the weather premium out of both the corn and soybean markets. With the critical part of the growing season still to come, further near term declines seem unlikely. December corn futures are finding good support just above \$2.35 and November soybean futures appear to be well supported above the \$6.30 level. For corn, weather over the next 4 weeks will be extremely important for determining the average yield of the 1994 crop. The pollination period will start early in the western corn belt and will be extended over a relatively long period of time due to the variation in maturity of the crop in the eastern corn belt. A return of hot, dry conditions would propel prices higher again. At this juncture, however, conditions do not suggest the potential of a widespread problem. If that is avoided, it will be difficult for December futures to exceed the contract high of \$2.77. A favorable pollination period could see prices begin another leg lower into the harvest period.

The critical period for development of the soybean crop extends into late July and early August. Weather forecasts for that period are not very reliable. Favorable conditions could push November futures under the \$6.00 mark as harvest approaches. For both corn and soybeans, we favor pricing of additional quantities of new crop on any weather related price bounce in July.

For the most part, old crop corn and soybean prices will likely follow new crop prices, particularly if weather conditions favor another rally. The tightness in old crop supplies, however, could hold old crop prices at a significant premium to new crop prices in the case of favorable weather and declining new crop prices. The June 30 *Grain Stocks* report will be important in assessing just how tight current supplies really are.



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