Cooperative Extension Service

# WEEKLY OUTLOOK

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## CORN AND SOYBEAN PRICES — ANY PROSPECTS FOR RECOVERY?

**Corn and soybean prices have declined sharply** as fears of hot, dry weather in mid-June gave way to extremely favorable growing conditions in much of the midwest. Last week, the USDA's World Outlook Board projected a 1994 corn harvest of 9 billion bushels and a soybean crop of 2.155 billion bushels. The large projections represent a bold statement about potential yield with so much of the growing season remaining. The projections reflect crop condition reports, which showed 85 percent of the corn crop and 79 percent of the soybean crop in good to excellent condition as of July 10. The corn crop in Iowa, Minnesota and Wisconsin was in especially good condition. The Iowa soybean crop topped the ratings, with 95 percent rated in good or excellent condition.

The World Board's corn crop projection is based on an average U.S. yield of 125.4 bushels per acre, 3.3 bushels above the trend yield used in making the June projection. The soybean yield potential was pegged at 35.5 bushels per acre, 0.5 bushels above the trend projection of last month.

Corn consumption during the 1994-95 marketing year is expected to increase by 730 million bushels, or about 10 percent, if supplies are ample and prices low. Domestic use is expected to expand by about 9 percent to a total of 6.91 billion bushels, while exports are projected to jump 14 percent, to a total of 1.425 billion bushels. U.S. corn exports are expected to benefit from a smaller crop in South Africa and larger shipments to Mexico. Stocks of corn at the end of the 1994-95 marketing year are projected at a comfortable 1.55 billion bushels. Under that scenario, the USDA projects a 1994-95 season's average price between $2.00 and $2.40 per bushel.

For soybeans, consumption during the 1994-95 marketing year is expected to increase by 94 million bushels, or nearly 5 percent, led by an 8 percent increase in exports. Year ending stocks are projected to grow from a scrawny 170 million bushels this year to an abundant 300 million bushels next year. Under that scenario, the USDA projects the 1994-95 season's average price to be between $5.10 and $6.10 per bushel.

At the close of trading on July 15, the corn futures market was offering a season's average price of about $2.15 (assuming a national average basis of $.17). The soybean futures market was offering a season's average price of about $5.75 (assuming a basis of $.15). The market has quickly adjusted to the large crop expectations and is offering a price in the lower half of the range of the projection of the season's average price. Making significant new crop sales at current price levels is probably not warranted, even though prices could sink a little lower on confirmation of a large crop in August and September.

Prospects for a near term recovery in prices are limited. The most obvious source of recovery would be a shortfall in production. The USDA's corn and soybean yield projections are the second largest, falling short of the 1992 record of 131.4 and 37.6 bushels, respectively. Based on an exceptionally large "residual" disappearance of corn and soybeans during the 1992-93 marketing year, it appears that the 1992 crops were overestimated by about 1 percent. Unless acreage figures are revised, the 1992 corn yield may have been overstated by about 1.5 bushels. Similarly, the 1992 soybean yield may have been about 0.4 bushels less than the current estimate. On that basis, current yield projections for 1994 look a little optimistic given the flooding in the southeast and extremely dry weather in parts of central and eastern Illinois. Even so, the 1994 crops will be large unless August is extremely dry or a significant portion of the crop is affected by an early frost.

A second potential source of price recovery is commercial buying for the export market. The combination of low prices and weak U.S. dollar has stimulated buying by importers over the past 2 weeks. However, that buying would probably slow if prices moved much higher.

It appears that significant improvement in prices in the near term is unlikely. Producers who need to price additional quantities of new crop before harvest may have limited opportunities. December corn futures have significant technical resistance in the $2.35 and $2.40 range. Similarly, November soybean futures has resistance in the $5.95 to $6.05 range.

Longer term prospects for price recovery are better. Almost without exception, cash prices in previous large crop years have recovered from harvest time lows by more than the cost of ownership. The peak of that recovery, however, typically does not occur until the following spring or summer. The extent of the price rebound is primarily a function of prospects of the following year's crop.

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