

WEEKLY OUTLOOK

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PRICING 1995 CROPS

Prospects for large crops in 1994 have pushed corn and soybean prices to the lowest level since October 1992. Most agree that storage of those crops in anticipation of a typical seasonal price recovery is the best strategy. There are differences of opinion about the potential size and timing of a price recovery, but that does not alter the storage strategy.

What about the 1995 crop? December 1994 corn futures have declined about \$.60 from the June high to the current \$2.17 level. In contrast, December 1995 corn futures are currently trading near \$2.46, only \$.17 below the contract high established in June. November 1994 soybean futures have declined \$1.45 from the June high to the current \$5.54 per bushel. November 1995 soybean futures are currently trading at \$5.97, only \$.48 below the May high and nearly \$.20 above the July low.

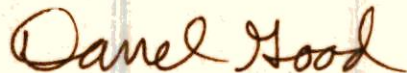
The \$.29 premium in December 1995 over December 1994 corn futures and the \$.43 premium in November 1995 soybean futures is due primarily to two factors. First, prospects of large 1994 crops and a substantial increase in year ending stocks have forced a carrying charge into the new crop futures contracts. Secondly, the market expects smaller crops in 1995 due to reduced acreage and, perhaps, smaller average yields. Reduced acreage would stem from the Acreage Reduction Program (ARP) for the 1995 corn crop. Based on the projected ratio of carryover stocks to use during the 1994-95 marketing year, the Secretary of Agriculture may establish the ARP between 0 and 12.5 percent of the base acres. Most expect an ARP of either 5 percent or 7.5 percent. The preliminary announcement for the 1995 ARP is to be made by September 30. Adjustments in the rate can be made until November 15. An ARP rate of 7.5 percent could reduce combined corn and soybean acreage by 3 to 4 million acres, depending on the level of program participation.

Over the past six years, December corn futures have established a contract high between \$2.75 and \$2.965. The high to date for the December 1995 contract is \$2.63. The history of the past 6 years suggests that the high will be exceeded, probably in the spring of 1995. From that standpoint, there appears to be no urgency in forward pricing the 1995 corn crop. However, a further increase in the estimated size of the 1994 crop and an ARP rate at the low end of expectations could see December 1995 futures decline

further before a seasonal rebound next spring. A trouble free planting season in 1995 and prospects for another large crop could result in a disappointing spring rally, similar to the pattern in 1986 and 1987. A first sale of the 1995 crop might be considered in case such a pattern is repeated this year.

For soybeans, the contract high in November futures over the past 5 years has ranged from \$6.51 (1992) to \$7.575 (1993). The high to date for the November 1995 contract has been \$6.45. Odds suggest that the current high will be exceeded, but perhaps not by much. The current price of \$5.97 does not appear to be especially attractive with all of the South American growing season still to come and the uncertainty about weather conditions in the U.S. next year.

Unlike corn and soybean prices, wheat prices have been trending higher since July. July 1995 futures at Chicago reached a new high of \$3.6375 last week. The higher wheat prices are expected to stimulate an increase in winter wheat seedings, particularly in Illinois. Seedings in Illinois were reduced nearly one-third last year because conditions were too wet to allow field work. The good yield and high quality of the 1994 crop and generally favorable weather conditions this year should be further incentive to increase winter wheat acreage. We expect wheat prices to reach a peak before the end of the year, breaking the pattern of a late winter peak of the past three years. Consideration should be given to pricing a portion of the 1995 crop. July 1994 futures traded as low as \$3.04 in the first week of July this year.



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