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

November 7, 1994

CORN AND SOYBEAN PRICES — HOW MUCH UPSIDE POTENTIAL?

It appears that corn and soybean prices have established seasonal lows. Prices of both commodities were higher following the large crop estimates from private sources late last week. Those sources estimated the corn crop to be 250 to 750 million bushels larger than the USDA's October estimate. The soybean estimates were 44 to 120 million bushels larger than the USDA's figures of a month ago. The market generally expects the USDA's November estimates, released on November 9, to be larger than their October figures. A corn crop of 9.85 billion bushels and a soybean crop of 2.55 billion may already be factored in the current price structure.

As outlined two weeks ago, soybean prices are being well supported by an extremely fast rate of consumption. The rate of new export sales, however, slowed during the last two weeks of October. Sales averaged 31 million bushels per week from mid-September to mid-October. The average dropped to 16 million for the last two weeks of the month. Soybean oil export sales remain brisk, with reports that China is buying large quantities of vegetable oil from a number of sources.

The slow down in soybean export sales has been offset by an acceleration in the domestic crush rate. The Census Bureau's September crush report revealed a record September crush of 105.5 million bushels, 7.1 percent larger than the crush during September 1993. Estimates from the National Oilseed Processors Association (NOPA) had indicated a 5 percent increase in the September crush. For the three weeks ended November 2, NOPA figures showed a 5.5 percent larger crush than during the same period last year. The weekly crush was a record 23.4 million bushels during the latest week. Many analysts believe that the USDA will be forced to increase the projection of soybean consumption for the current marketing year. Fund traders have been willing buyers of soybeans and soybean oil on the basis of the high rate of consumption.

In contrast to the soybean market, corn futures prices have traded in a remarkably narrow range since late July and particularly since mid-September. December futures have traded in about an 8 cent range over the past two months. Cash corn prices have shown more variability due to wide fluctuations in transportation costs. Corn exports through the first 8 weeks of the marketing year were about 17 percent smaller than during the same period last year. New sales, however, have been relatively large since the last week of September. As of October 27, unshipped sales totaled 328.7 million bushels, about 38 million bushels more than on the same date last year.

The major price supporting factors in the corn market have been a reluctance of farmers to sell the crop, limiting the amount of short hedge pressure, and the fact that corn prices have already declined to the Commodity Credit Corporation has level in many areas. The recent announcement that the Farmer Owned Reserve will be opened to 1994 feedgrain crops does not provide much price support. The opening will encourage producers to store the crop, something that would occur without the opening.

While corn and soybean prices may not decline much, if any, from current levels the upside potential may be somewhat limited as well. Assuming the USDA increases the soybean production estimate to 2.5 billion bushels, stocks of soybeans at the end of the current marketing year will likely exceed 450 million bushels. While oil stocks may remain tight, the large carryover stocks of soybeans represents an abundance of oil. As long as weather conditions remain favorable in South America, prospects of large U.S. stocks should cap near term price rallies. January futures will likely find difficulty moving above \$5.90.

Similarly, if the USDA increases the corn production estimate to 9.8 billion bushels, year ending stocks will be near 2 billion bushels. If the crop estimate is significantly larger than 9.8 billion bushels, the Secretary may increase the Acreage Reduction Program requirement for the 1995 crop above the already announced 7.5 percent. An increase would be more supportive for 1995 crop prices than for 1994 prices. March 1995 futures will likely have difficulty moving above the \$2.40 level.

For producers with a very large percentage of the 1994 crop still unpriced, any near term price strength offers an opportunity to make additional sales. The continuation of large carrying charges in the market favor forward sales, particularly for farm stored crops.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS