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WEEKLY OUTLOOK

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WILL CORN AND SOYBEAN PRICES CONTINUE IN DIFFERENT DIRECTIONS?

Since mid-December, corn prices have strengthened slightly while soybean prices have declined. At the close of trading on January 6, March corn futures were 2 cents higher and cash corn prices in central Illinois were 2 cents higher than on December 16. At the same time, March soybean futures were 18 cents lower and cash prices were about 13 cents lower. The divergence in prices reflects differences in market fundamentals for the two crops.

In the case of corn, export demand started very slowly at the beginning of the marketing year, but has been extremely strong since mid-November. In the 7 weeks ended on December 29, 521 million bushels of corn were sold for export. That compares to sales of only 145 million bushels during the same period last year. Actual export shipments of corn since mid-November have totaled 332 million bushels, up from 227 million during that period last year. On-going drought conditions in much of South African corn growing areas and strong Asian demand for corn suggest that U.S. export sales will remain strong. Many analysts believe that exports for the year will be significantly larger than the current USDA projection of 1.75 billion bushels. Exports near 2 billion bushels are expected. With no change in either the production estimate or the projection of domestic use, exports at that level would result in total corn consumption of nearly 9.2 billion bushels and carryover stocks of less than 1.7 billion bushels.

The key to corn prices over the next few weeks will be the USDA reports released on January 12. Those reports will contain the final estimate of the size of the 1994 harvest and will reveal the magnitude of stocks of corn on December 1. The market is generally expecting a 100 to 200 million bushel increase in the crop estimate. If the estimate is up 200 million, to a total of 10.2 billion, and feed use is on track with the USDA projection, December 1 stocks should have been near 8.25 billion bushels.

Price direction for much of 1995 will depend on the strength of export demand and U.S. crop prospects. If export demand remains as strong as most expect, another large crop will be required in 1995. The 7.5 percent Acreage Reduction Program means that corn plantings will be down, setting the stage for a weather rally this spring and/or summer. Barring surprises in the USDA reports, corn prices should remain firm and could move higher in the spring, suggesting patience in making additional pricing decisions.

Soybean export sales started very quickly early in the marketing year, but have slowed in recent weeks. Early large sales were encouraged by low soybean prices and declines in the value of the U.S. dollar. Many buyers, particularly European buyers, covered their import needs well into 1995. As of December 29, soybean exports were 25 percent larger than on the same date last year. In addition, outstanding sales were 2.5 times as large as on the same date last year. All of that increase, however, reflected large sales prior to mid-October 1994. Since mid-October, fewer soybeans have been sold for export than during the same 11 week period last year. New export sales are expected to remain light as long as South American crop prospects remain good. Exports will likely reach the 785 million bushel level projected by the USDA, but no increase in that projection is expected.

In contrast to the rate of export sales, the rate of domestic soybean crush remains extremely high. The crush in September, October and November was a record 346.2 million bushels, 6 percent larger than during the same three months last year. Figures from the National Oilseed Processors Association show an 11 percent increase in the crush over the past 5 weeks. The large crush is fueled by strong soybean oil demand and the resulting large crush margins. Oil prices appear to be topping, suggesting some slow down in the crush pace. The total crush for the year may be slightly larger than the current USDA projection of 1.355 billion bushels. Even so, stocks of soybeans at the end of the 1994-95 marketing.will be large. Stocks could be near 500 million bushels, if the final production estimate is increased this week. Soybean prices are expected to continue to struggle as long as South American weather is favorable. A spring rally is still possible, but probably has less potential than the corn rally.

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

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