Cooperative Extension Service

# WEEKLY OUTLOOK

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## NEW CROP CORN AND SOYBEAN PROSPECTS

**The unexpectedly high rate of use of the 1994 corn crop will apparently result** in a rather modest level of carryover stocks on September 1, 1995. At the same time, it is expected that corn acreage will decline in 1995 due to the 7.5 percent Acreage Reduction Program (ARP). Based on current supply and demand prospects, it can be argued that the 7.5 percent ARP is too large. When the size of that program was finalized in November, many argued for a 10 percent ARP due to the size of the 1994 harvest. The USDA does have authority to offer modified contracts for the 1995 ARP, but with sign-up well underway and planting only a month away in the South, it does not appear likely that such contracts will be offered.

Recently, new crop corn futures have been inching higher. December 1995 futures settled at $2.5725 on February 17, only $.0575 below the contract high established last June. With expectations of continued high rates of both domestic use and exports of corn, the market needs to offer prices that will encourage "enough" corn acreage in 1995. How much is enough depends on yield prospects and prospects for consumption during the 1995-96 marketing year. For now, it appears that new crop corn prices need to stay high in relation to soybean prices to prevent additional acres of corn base being "flexed" to soybean acres. The price of corn needs to be higher than normal in relation to soybean prices due to the increases in the price of fertilizer. The current ratio of November soybean futures to December corn futures is 2.28 to 1. That ratio probably favors corn over soybeans on flex acres. At some point, corn prices may need to be high enough so that some producers abandon the ARP entirely. Early season weather forecasts will be extremely important. If the market anticipates a problem early, prices can respond to encourage more acres. If the planting season is favorable and most producers participate in the ARP, a late season weather problem that threatened average yields would result in higher prices as a way to discourage consumption. Informal surveys of producers in Illinois suggest that new crop corn prices are not yet high enough to seriously consider not participating in the ARP.

The concern about the size of the 1995 corn crop should keep new crop prices at a premium to old crop prices. December 1995 futures are currently 10 cents above July 1995 futures. That spread could get larger. In addition, corn prices could become quite volatile during the growing season. While carryover stocks were much smaller last year, demand prospects were very weak. Only a couple of weeks of dry weather were required to push December futures to $2.77. In fact, December futures have traded to at least $2.75 in each of the last seven years. We still favor patience in pricing new crop corn.

As documented on other occasions, the supply and demand situation for soybeans is somewhat different than for corn. The current rate of consumption is record large and consumption is expected to remain high into the 1995-96 marketing year and beyond. However, carryover stocks are expected to be large and South America has prospects for another record harvest. The task of the soybean market is to encourage consumption and discourage soybean plantings. Soybean oil supplies are tighter than meal supplies, so that soybean meal prices are bearing the burden of this task. High cotton prices and increasing corn prices will help limit soybean acreage in 1995.

At the same time that prices must remain low enough to encourage use, new crop prices must remain high enough to pay for carrying large quantities of soybeans into the 1995-96 marketing year. Producers will carry some supplies to speculate on higher prices next year, but a carrying charge must persist to encourage additional storage. The implication is that soybean prices will likely remain low, but November 1995 futures will remain above July 1995 futures. That premium is currently 12 cents. Soybean market fundamentals are not very constructive and lower prices may be forthcoming over the next few weeks. However, prices will respond to periods of adverse weather this spring and summer. We favor waiting for those periods of concern to price new crop soybeans. For the 1989 through 1994 contracts for November futures, the contract high ranged from $6.51 (1992) to $7.93 (1989). The high for the November 1995 contract has been $6.45, established last summer. Weather problems would have to be significant for that price to be exceeded, but a return above $6.00 is possible.

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