Cooperative Extension Service

WEEKLY OUTLOOK

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CROP PRODUCTION UNCERTAINTY CONTINUES

Continued concerns about planting delays and crop quality pushed deferred corn and wheat futures contracts to new highs last week. December corn futures established a new high at $2.845 and December Chicago wheat futures established a new high at $4.075. Soybean prices remained choppy, but in a relatively narrow range at a generally low level. In the case of corn, the price strength reflected ideas that persistent planting delays would result in intended corn acreage being switched to other crops or not planted at all as the USDA has made participation in the 0/92 program more attractive. The area most likely to experience such acreage changes is centered in southern Illinois, northern Missouri,and southern Iowa. The northern half of Illinois as well as Indianaand Ohio likely made good planting progress during the first few days of June. Northern Iowa, Minnesota and Wisconsin have experienced the most favorable planting conditions in the midwest. The USDA's June 30 *Acreage* report will provide some insight into changes in corn acreage. Given the timing of that survey, however, the report will still reflect a fair amount of planting intentions.

Beyond the acreage question, still lurk the questions about potential yield of the 1995 crop. The generally late planting and poor early growing conditions in many areas have likely reduced yield significantly from the "potential" yield. After the extremely high yields of 1992 and 1994, however, it is difficult to gauge the likely yield of the 1995 crop. Many in the industry still remember 1974, when a wet spring was followed by a hot-dry summer and an early killing frost. No one is forecasting that scenario for 1995, but the importance of the nature of the remainder of the growing season cannot be overestimated.

On June 2, the Iowa corn yield futures contracts began trading on the Chicago Board of Trade. The contract for September, which reflects the expected Iowa average yield to be reported by the USDA on September 12, traded between 125 and 127 bushels per acre. That compares to last year's average yield estimate of 152 bushels. The five-year average yield in Iowa is 124.4 bushels. That average with the 1993 yield of 80 bushels excluded is 135.5 bushels. The correlation between the Iowa and U.S. average yield is not always close, so that trading of that contract will not necessarily reflect the market's expectation of the U.S. average yield.

The corn market clearly believes that the 1995 corn crop will be small enough to require a price-induced reduction in consumption. The market is currently reflecting a 1995-96 season's average price of about $2.70. Given the current level of livestock prices, that price is high enough to start the domestic rationing process, particularly given the likely large overstatement of the current rate of domestic feed consumption. Growing demand for corn outside of the United States, particularly in Asia, and the lower value of the U.S. dollar may require higher prices to sufficiently ration export consumption.

The wide array of weather and crop problems has resulted in a strong, counter-seasonal increase in wheat prices. The current concerns center around the incidence of yield-reducing diseases in the winter wheat crop. While late, it appears that most of the intended spring wheat crop has been or will be planted.

The late corn planting season has resulted in expectations of some increase in soybean acreage. The late planting of the soybean crop is not as critical for yield prospects, although the yield potential has surely been reduced. As a result, soybean prices continue to lag behind corn and wheat prices. At the close on June 2, the November soybean futures price was only 2.13 times the price of December corn futures.

What to do? For corn, we favor taking advantage of current and expected price strength to price 1995 production. As outlined last week, however, the options market should be strongly considered as a way to maintain flexibility. In contrast, new crop soybean sales should probably remain slow, in anticipation of a better opportunity later in the growing season. Even so, price rallies may be limited to the $6.50 to $6.60 area, basis November futures. The current strength in the wheat market offers winter wheat producers an excellent opportunity to sell right off the combine.

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