Cooperative Extension Service

WEEKLY OUTLOOK

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CORN AND SOYBEAN MARKETS BEGIN TO FOCUS ON NEW CROP

Old crop corn prices continue to be supported at a very high level as the debate about rationing continues. Cash prices have been pushed to record high levels in some markets. The combination of high feed prices and low livestock prices has resulted in losses for many livestock producers. The recent decline in broiler prices has resulted in some red ink in that industry. The financial squeeze is thought to be reducing domestic corn demand. At the same time, however, weekly statistics continue to show an increase in broiler egg set; the February *Cattle on Feed* report showed 2 percent more cattle in feedlots on February 1, 1996 compared to a year earlier; and liquidation of the hog breeding herd appears to be modest at best. The availability of pasture this spring will likely reduce grain demand from the cattle sector, and the liquidation of the cow herd will eventually reduce the supply of feeder cattle. In the near term, however, feed consumption should remain high. The curtailment of U.S. poultry imports by Russia on the basis of concerns about inspection procedures could result in a modest reduction in U.S. broiler production fairly quickly. Such a restriction was termed unlikely late last week. The March 29 *Grain Stocks* report continues to loom as extremely important in gauging the rate of corn feeding. Corn prices will likely be quite volatile over the next several weeks as the market struggles with the rationing question.

The market is also concerned about production prospects for 1996. The first issue is magnitude of planted acreage. Two issues are of interest relative to corn and soybeans. First, is the issue of total planted acreage. Without planting restrictions in 1996, the combined acreage of corn and soybeans will increase, almost without regard to price level. The market must decide how much of an increase is desired. That is, a sizeable increase will occur with new crop prices at current or even lower levels. However, if the market deems it desirable for producers to bring a significant amount of acreage out of the Conservation Reserve Program (CRP) or to take additional risk to plant acreage that has been in the 0/92, the price level may have to be increased. The market will decide on the basis of expected demand during the 1996-97 marketing year and on expectations about the nature of the 1996 growing season.

The market currently seems to be indicating that higher prices are needed to attract acreage into production in 1996. December 1996 corn futures and November 1996 soybean futures traded to new contract highs last week, $3.1775 and $7.35, respectively. In addition, the old crop-new crop spreads narrowed. The July-December corn spread narrowed 3 cents last week, ending at 61.25 cents, premium July. That spread had peaked at about 77 cents in early January. The July-November soybean spread narrowed 5.5 cents last week, ending at 17 cents. That spread peaked at about 58 cents in early January. The apparent need for more acreage reflects expectations that demand will remain strong during the year ahead. In addition, there is growing apprehension about dry growing conditions in 1996, following the dry fall and winter in the southern Plains.

The second acreage issue is the magnitude of acreage of individual crops. This issue speaks to the ratio of new crop corn and soybean prices. At the close of trading on February 23, November 1996 soybean futures stood at 2.32 times the price of December 1996 corn futures. That compares to the old crop (July futures) price ratio of only 1.99. The new crop price ratio still favors corn production over soybean production in most areas in 1996. If the market decides that more soybean acres will be required, the ratio may have to increase. After planting, the ratio will reflect actual planted acreage, yield prospects, and demand projections.

If the market continues to push new crop prices higher as an incentive to plant more acres, forward pricing opportunities will also become more attractive. Refer to last week's letter for a review of alternatives to manage the risk of new crop pricing decisions.

At last week's Outlook Conference, the USDA revealed its current thinking about corn and soybean acreage in 1996. Based on the assumptions of a normal planting season and an extension of the 1990 Farm Bill, the World Agricultural Outlook Board sees corn acreage at 80.8 million, up from 71.2 million in 1995. Soybean acreage would be expected to decline from 62.6 to 61 million acres. Survey results by one private analyst show only 1 million acres of early release CRP acres coming into crop production in the spring of 1996.

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