Cooperative Extension Service

WEEKLY OUTLOOK

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WEATHER TO DOMINATE CORN AND SOYBEAN PRICES

The rate of old crop corn and soybean consumption is still very important, particularly for the corn market. Some signs of a slowdown in domestic corn consumption are emerging. Liquidation of the breeding herd is occurring for both cattle and hogs. That type of liquidation does not reduce feed consumption very much in the short run, however. Old crop corn prices will likely remain quite high in order to complete the rationing process. Some pressure is mounting to reduce the tax incentives for ethanol production and to reduce the barriers on sugar imports. Both measures would tend to reduce processing use of corn. These changes are expected to be resisted very vigorously, but might be more politically acceptable than restrictions on corn exports. Any lingering subsidies for exports, such as low cost credit, are also being examined for the potential of reducing demand in the short run.

Increasingly, prospects for the 1996 crops will become more important for both the corn and soybean markets. There have been, and still are, a number of concerns about planting and growing conditions for these crops. In the short run, low temperatures have delayed corn planting and seed emergence in some areas. Excessive moisture has delayed planting in parts of the eastern corn belt and threatens to delay planting in the upper plains and in parts of Canada. At the same time, generally dry conditions have persisted in parts of the western corn belt. In the longer run, the market has been concerned about the forecasts of generally hot and dry conditions for the summer months.

Low temperatures remain a concern, particularly for corn already planted. Reports of corn still not emerged three to four weeks after planting are common. Some replanting will be required. Some forecasters are suggesting a return to more normal temperatures after this week. Excessive moisture also remains a concern in some areas, but for the midwest, the benefits of moisture probably outweigh any negative effects of delayed planting, at least for now.

The widespread rainfall of the past weekend has reduced concerns about dry weather in parts of the western corn belt. An improvement in moisture conditions in the western and southwestern growing areas could have two important implications. First, and most obvious, is the potential for getting newly planted crops off to a good start. Second, a change in the pattern towards more precipitation would result in more of the failed wheat acres being replanted to other crops.

Depending on how the 1996 growing season unfolds, there is potential for very volatile markets during the next four months. While appearing unlikely at this time, one of the possible outcomes is a record large feed grain crop in 1996. Such an outcome would require acreage to be substantially larger than indicated in March and average yields to exceed the long term trend. The price implications of a large feed grain harvest would depend partly on what happens to the demand base. Domestically, there is some concern that liquidation of cows and, to a lesser extent, sows, could significantly reduce feed demand during the 1996-97 marketing year. Internationally, the extremely high grain prices currently being experienced will encourage an expansion in production and could lead to a slow down in the export demand for U.S. crops.

At the other extreme, the 1996 growing season may be unfriendly, resulting in another small harvest. Such a scenario could require further rationing, pushing new crop corn and soybean prices sharply higher.

Under the large crop scenario, producers would benefit from forward pricing 1996 crops, and some of the 1997 crops, during the early part of the growing season. The second scenario would clearly favor the delay of pricing decisions. So, what to do?

There are two principles that should guide marketing 1996 crops. First, sales should probably be made in fairly small increments. Rather than selling 15 to 20 percent of the crop at one time, consider more numerous sales in 5 percent increments. As a corollary, consider options strategies for sales that exceed 30 percent of expected production. Second, keep the sales pace in line with individual crop prospects. Current new crop prices offer very good profit potential if yields are high. Favorable production prospects at the individual farm level allow more aggressive new crop pricing.

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