



WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

NOVEMBER 18, 1996

CORN AND SOYBEAN PRICE PROSPECTS

Soybean prices were higher and corn prices were firm following last week's USDA crop report showing larger than expected increases in the estimated size of the crops. Positive price reaction on negative news gives the appearance that corn and soybean prices have made seasonal lows. The next question, then, is how much price recovery should be expected? There is a lot of uncertainty about the answer to that question, but it appears that the answer may differ for corn and soybeans.

For corn, the market generally believes that the 1996 production estimate will get larger. In addition, there is some concern that exports may fall short of the USDA's projection of 1.95 billion bushels. That projection is 12.5 percent below exports during the 1995-96 marketing year. As of November 7, export sales were 30 percent behind the pace of sales of a year ago. As pointed out previously, the hurdle for U.S. exports is the large world grain crop currently being harvested.

The bright spot for corn consumption is in the domestic market. Processing use of corn is recovering from the set-back of last spring and summer. Improving livestock feeding profitability is expected to lead to expanding livestock production. Reports from private sources would suggest a build-up in the hog breeding herd is occurring. The broiler industry, however, is not expanding as expected. First quarter (September-November) consumption of corn will be small and there is a strong likelihood that year ending stocks will build to over 1 billion bushel. For the immediate future, corn prices may be supported by the slow rate of farmer selling. However, that pattern could change dramatically after the first of the year. Typically, there is very little new information flowing into the corn market during the winter months, resulting in a narrow trading range for corn prices. It now appears that will be the pattern this year. New direction in corn prices may have to come from early spring weather conditions and acreage prospects.

While the soybean market has a much larger supply to work with, prospects for a high rate of consumption remain good. For the year, the USDA projects soybean exports to equal those of the 1995-96 marketing year. Through November 7, export sales exceeded last year's sales by 23.5 percent. Export shipments started slowly, but as of November 14 cumulative shipments were equal to those of a year ago. The domestic crush for soybeans has been record large in recent weeks as soybean meal export sales are double the level of a year ago. The most recent USDA projections of soybean consumption during the current marketing year may be too low.

The current pace of soybean use is very impressive, but there are some considerations which may temper the recovery in soybean prices. First, soybean and soybean meal exports will be even more concentrated in the first half of the marketing year than normally is the case. Chinese business in particular, is expected to subside after the first of the year. The torrid pace of export sales over the past five weeks will give way to smaller numbers. A second, but related, limiting factor is the prospects for a large South American soybean harvest in 1997. It is still early in the growing season there, but no significant problems are being reported. As long as those prospects remain good, importers will not aggressively cover their needs beyond the early spring of 1997. Finally, there is a general expectation that the USDA will increase the estimated size of the 1996 U.S. crop again in January. If so, it will be very difficult to avoid a build-up in year ending stocks of soybeans.

The current and expected pattern of soybean consumption suggests that the recovery in soybean prices may run its course over the next two months. Crop problems in South America could obviously alter that expectation. January futures traded to \$6.62 on November 12, and recovered to a high of \$7.015 on January 15. If consumption remains as large as expected over the next few weeks, that recovery could continue into the \$7.25 to \$7.50 range.

Soybean producers should consider a pricing strategy that includes both time and price targets, with the time window being the next two months. Attractive corn marketing strategies are not apparent. In general, producers own too much of the crop. A recovery in December futures to \$2.75 to \$2.80 may be all that can be expected.



Issued by Darrel Good
Extension Economist
University of Illinois

ACES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

Presorted First Class Mail Postage and Fee Paid Urbana, IL Permit No. 25
