



WEEKLY OUTLOOK

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CORN AND SOYBEANS: WHAT WILL THE NEW YEAR BRING?

By historical standards, the 1996 U.S. corn and soybean crops were large. The corn crop was the third largest and the soybean crop was the second largest ever harvested. Corn and soybean prices, however, have not followed a typical "large crop" pattern. The most striking feature of this year's price pattern has been the extremely strong cash basis, particularly for corn, and lack of carrying charge in the futures market. The large corn crop of 1992 pushed the central Illinois cash basis to \$.20 under December futures at the peak of harvest. The December-March futures spread moved to \$.10. In 1994, the harvest basis (central Illinois) declined to \$.30 under December futures and the December-March spread widened to \$.11. This year, the central Illinois basis declined to only \$.08 under December and the December-March spread peaked at about \$.07. That spread is currently about 0.

Similarly, the central Illinois harvest soybean basis widened to about \$.17 in 1992 and \$.26 in 1994. The November-March futures spread widened to \$.14 in 1992 and \$.22 in 1994. The central Illinois harvest basis declined to about \$.18 this year, and the November-March spread widened to about \$.17. Those values persisted for only a short period of time, and then both the basis and spreads narrowed rapidly in mid-October.

The generally strong basis pattern this year is attributed to a number of factors. In the case of corn, ample storage capacity, depleted pipeline inventories, and a reluctance of farmers to sell large quantities of corn have supported the basis. Those same factors have contributed to the strong soybean basis. In addition, soybean consumption has proceeded at a very rapid pace. The domestic crush during October was a record 126.1 million bushels, 5.6 million above the crush of October 1995. Soybean exports during the first quarter of the 1996-97 marketing year (September-November) were a record 295 million bushels, 50 million above exports during the first quarter of the marketing year last year.

There is some likelihood that the corn and soybean basis and cash prices may weaken after the first of the year. January is traditionally a month of very large farmer sales. Those sales could be quite large this year as some sales have apparently been delayed because of the uncertainty about federal income tax treatment of delayed payment contracts. In addition, a failure of corn prices to rally may result in some "give up" sales.

The soybean picture is a bit more complicated. In addition to the pace of farmer sales, at least two other factors will be important to new year prices. One factor will be the rate of soybean and

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soybean product purchases by China. As of November 21, China had purchased 43 million bushels of U.S. soybeans, compared to only 5 million bushels at the same time last year. China had also purchased 421,000 tons of U.S. meal (none at this time last year) and 126,000 tons of U.S. soybean oil, compared to 52,000 last year. Many analysts believe that Chinese demand has been concentrated early in the U.S. marketing year and will decline rapidly after the first of the year, when domestic supplies become available.

A second factor that will impact U.S. soybean prices will be the development of the South American soybean crop. Planting of that crop has proceeded trouble free for the most part. Public and private sources still project the potential for a very large harvest in 1997, particularly in Brazil. For the most part, projections are in line with the most recent USDA estimate of a record 1.525 billion bushel South American crop. Last year's production totaled 1.4 billion bushels. Prospects of a large South American harvest would reduce the urgency of importers to cover their needs from U.S. supplies.

Whether a new year's slump in corn and soybean prices is long lasting will be influenced by the USDA's final production and December 1 stocks estimates to be released in early January and then ultimately by the 1997 growing season. At a minimum, producers should consider protecting the basis on corn and soybean sales to be made after the first of the year.

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