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PRICING THE 1997 CORN AND SOYBEAN CROPS

During the 1980s and early 1990s the highest prices and best pricing opportunities for corn and soybeans often occurred during the growing season. This pattern reflected the generally adequate to surplus stocks of both corn and soybeans. Prices tended to increase during weather scares or actual weather events as the supply was threatened, and then settled back to lower levels after harvest. This pattern of price behavior made pricing decisions extremely difficult. Producers were challenged to forward price crops during the growing season when production uncertainty was the greatest.

While it is still too early to call it a trend, price patterns appear to be changing. For the 1995 crop, for example, weather and crop concerns propelled prices to historically attractive levels during the growing season. Producers who aggressively priced at those levels were disappointed as prices went to much higher levels following harvest. For the 1996 crop, very high prices were also available during the growing season, but producers were generally much less aggressive in forward pricing. For several months after harvest, the lack of pre-harvest pricing appeared to be a major error. However, prices rallied during the winter and early spring to give producers a second chance at high prices.

The reasons for the recent change in the pattern of prices are centered around tighter world crop inventories. Production shortfalls in 1995 and continued rapid growth in consumption of grains and oilseeds reduced world inventories to historically low levels. Large crops in 1996-97 will result in only a modest buildup of world inventories of the major grains. Oilseed stocks continue to dwindle. In addition, to a changing pattern, these conditions have resulted in a higher price level for the major crop commodities. It is in this context that forward pricing decisions for the 1997 corn and soybean crops must be made.

On the surface, it appears that a significant increase in oilseed production could occur in 1997-98. Soybean producers in the U.S. indicated intentions to plant an additional 4.6 million acres in 1997. Increases in oilseed acreage are also expected in Canada, Europe, and China. South America will also have incentive to keep acreage high.

Recent increases in wheat prices may attract more spring wheat acres and fewer acres of oilseeds in the northern plains and Canada. In addition, the rapid rate of corn planting in the eastern corn belt has probably resulted in corn acreage exceeding March intentions. That increase would be at the expense of soybean acreage. World demand for soybeans, particularly soybean meal, is expected to continue to grow in 1997-98 as meat consumption is stimulated by continued economic growth.

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With reasonable weather in the northern hemisphere, oilseed production will still be large in 1997. Stocks may not build to burdensome levels if demand expectations are correct and if the 1997 Argentine soybean crop has been reduced to 11 million tons. The market is currently offering an average price (eastern corn belt) for the 1997-98 soybean crop near $6.90 per bushel. While that is well below the current cash price, it suggests that any growing season rallies should still be considered as pricing opportunities. However, if price patterns and price levels have entered a new era, there may be less urgency to forward price than in the past.

The large discount in the new crop soybean price compared to the old crop price reflects the large inversion in the soybean meal market. December 1997 futures are $61.80 (22 percent) below May 1997 futures. On the other hand, the current surplus of soybean oil has forced a carrying charge in that market. December futures are about 3 percent higher than May futures. If world oilseed production increases as expected in 1997-98 and meal demand remains as strong as expected, oil will remain in surplus in 1997-98. If so, the relationship between new crop meal and oil prices will change as fall harvest approaches.

For corn, U.S. producers have indicated intentions to plant an additional 1.9 million acres in 1997. As indicated earlier, the final figure may be a little higher. A large harvest appears to be on the horizon. Domestic demand prospects are good as poultry and hog production expand. A smaller sorghum crop and high wheat prices will also support corn feeding. Corn export prospects depend partly on the level of production of coarse grains and wheat in the rest of the world. It is unlikely that production can be maintain at the level of this past year., An increase in U.S. exports world keep 1997-98 year ending stocks at a reasonable level. As with soybeans, growing season rallies would offer opportunities to forward price a portion of the 1997 crop, but there may be less pressure than in recent history to aggressively prices on those rallies.

If the theory of changing price patterns and price levels is correct, there is a bit of irony in the new "risky" environment of agriculture. Price analysis and forecasting will be more difficult, but marketing may be easier as multiple opportunities present themselves.

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