Cooperative Extension Service

WEEKLY OUTLOOK

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CORN AND SOYBEAN PRICES TO CONTINUE TO DECLINE?

The corn and soybean markets continue to be influenced by a wide range of fundamental factors. Tight old crop supplies mean that uncertainty about old crop demand has persisted as a price factor beyond the normal time frame. Fluctuating weather conditions and mixed opinions about 1997 crop production prospects are also important factors, as typically is the case at this time of year.

July 1997 corn futures have declined about $.40 per bushel from the April 1 high of just over $3.20, before finding support near $2.80. The USDA's May *Cattle on Feed* report confirmed a continuation of rapid placement of cattle into feedlots. In the 7-major cattle feeding states, feedlots with capacity of 1,000 head or more, placed nearly 13 percent more cattle on feed in April 1997 than in April 1996. On-feed numbers were 9.4 percent larger on May 1, 1997 than on the same date last year. Large feedlot inventories, expanding broiler production, and expectations that hog production is expanding have convinced many that feed and residual use of corn will exceed the current USDA projection of 5.325 billion bushels. A reading on consumption during the third quarter of the 1996-97 marketing year will not be available until the June *Grain Stocks* report is released on June 30.

Corn export inspections need to average about 31.5 million bushels per week from now through August to reach the USDA projection of 1.825 billion bushels. Inspections were below that level for each of the four weeks ended on May 15. New sales need to average 14.4 million per week and are currently near 20 million. It appears that exports are on target to reach the USDA projection.

A slow recovery in the production of ethanol suggests that domestic processing use of corn may fall short of the USDA production of 1.67 billion bushels. Even if feed use exceeds the current projection, year ending stocks will be ample if the 1997 crop reaches its potential.

Rapid planting of the 1997 crop and generally favorable growing conditions suggest that a crop near the USDA projection of 9.84 billion bushels is possible. December futures have declined more than $.30 from the early April high. History shows, however, that it is not so much how the growing season begins, but how it ends that determines crop size.

Corn prices are expected to continue to be pressured by current fundamentals. July futures should find support near $2.75, where the winter rally started. December futures have support at the contract low near $2.50.

July 1997 soybean futures rallied to new highs in early March, consolidated for a few weeks, moved to a new high in early April, retreated $.50, moved to a new high in early May, and then have declined $.50. The high prices since February have been in response to the high rate of consumption and the need to ration supplies. The weekly rate of consumption has declined dramatically since mid-March, partly in response to the higher prices and partly in a normal seasonal pattern as South American supplies became volatile. Consumption is quickly declining to the level needed to ensure a carryover of 125 million bushels. Prices are expected to continue to move modestly lower, unless the weekly use figures turn higher again. July futures should find support near $8.20. Confirmation of sufficient rationing and ideal growing conditions could eventually push that contract lower.

November 1997 soybean futures reached a high of $7.50 on March 10, declined to near $6.80 in mid-April on the basis of large planting intentions, and currently are trading near $7.00. New crop prices have held up better than new crop corn prices for several reasons. First, the large discount to old crop prices discourages traders from pushing new crop prices lower. Second, some private analysts are suggesting that planted acreage may be as much as one million acres less than revealed in the March *Prospective Plantings* report. Third, the market really has not responded to the large increase in world oilseed acreage planned for 1997-98. Fourth, declining estimates for the size of the current South American harvest suggest that the seasonal recovery in U.S. soybean demand could be quite strong this fall. If old crop prices continue to decline and crop progress is favorable, November futures would be expected to retreat, probably to the $6.50 area initially.

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<u>NOTE TO DTN SUBSCRIBERS</u>: A 15-week self-study course designed to help farmers deal with the risk and profit opportunities of the "new agricultural environment" will be offered beginning June 4. Please see DTN for details.

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