



WEEKLY OUTLOOK

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NEW CROP CORN AND SOYBEAN PRICES -- TOO LOW, TOO EARLY?

December 1997 corn futures established a contract high of \$3.10 on August 13, 1996; declined to \$2.57 on January 9, 1997; rallied to \$2.98 on March 20; and traded to about \$2.56 on May 23. The recent decline has reflected prospects for adequate carryover stocks at the end of the current marketing year and prospects for above-trend yields in 1997 due to the early planting of the crop. As of May 18, an estimated 88 percent of the crop had been planted. Planting progress has been comparable to the rapid pace of the mid-1980s and in 1992.

November 1997 soybean futures traded below \$6.50 on November 12, 1996; established a contract high of \$7.50 on March 10, 1997; declined to \$6.81 on April 18, 1997; recovered to \$7.14 on May 12; and traded as low as \$6.755 on May 23. The recent price decline reflects a slow down in the rate of consumption of 1996 crop soybeans and timely planting of the 1997 crop. Weekly consumption of soybeans has declined to about 29 million bushels, below the average rate of 31 million that can be accommodated by available supplies. As of May 18, an estimated 46 percent of the 1997 crop had been planted. Planting progress has been the most rapid since 1987 and 1988.

In general, early planting has been associated with high average yields, although exceptions have certainly occurred. In the 18 years from 1979 through 1996, corn planting exceeded 85 percent by the third week of May in six years -- 1980, 1985, 1986, 1987, 1988, and 1992. The U.S. average yield established a new record high level in four of those years -- 1985, 1986, 1987, and 1992. Other years of relatively early planting (1982, 1989, 1990, and 1994) also had record or near record yields.

In 1980 and 1988, the U.S. average yields were well below trend due to adverse growing seasons. In 1980, hot weather in the critical part of the growing season reduced yields significantly. In 1988, yields were affected by hot, dry weather early in the growing season. Precipitation in late June and July prevented the crop from being a complete disaster.

For soybeans, early planted crops since 1979 include 1980, 1985, 1986, 1987, 1988, 1992, and 1994. Record high U.S. average yields were achieved in 1985, 1991, and 1994. Above trend yields were also achieved in 1986 and 1987. Very low yields resulted from poor weather in 1980 and 1988.

While the track record of early planting resulting in high yields is fairly strong, some wonder if the corn and soybean markets are reacting too quickly this year. Several factors suggest that new crop prices need to retain some "weather premiums". First, world inventories of all major crop commodities remain low and demand for agricultural commodities appears to be continuing to grow. The 1997 crops need to be large to accommodate the growth at "reasonable" prices. Second, while the corn and soybean crops have been planted very early, plant growth has been delayed by below normal temperatures in many areas. Comparisons can be made to previous years of early planting and high average yields once the USDA starts releasing additional crop progress data (plant height, etc.). Third, weather "scares" often occur, even in years of high average yields. November soybean futures, for example, established contract highs in June of 1987, 1992, and 1994. December corn futures established highs in June 1987 and 1994 and in July 1979. Finally, the most critical part of the growing season is still to come.

One of the difficulties in assessing the level of "weather premium" that exists is determining the value of the crops under the scenario of large production. The USDA's World Agricultural Outlook Board has made initial projections of the 1997-98 season's average price of corn and soybeans under the scenario of large crops and increases in year-ending carryover stocks. For corn, the average price is expected to fall in a range of \$2.25 to \$2.65. The average soybean price is projected in a range of \$5.50 to \$7.00. Based on closing futures prices on May 23, the market is reflecting a seasons average of about \$2.45 for the corn crop and about \$6.60 for the soybean crop. The corn priced is equal to the mid-point of the USDA's projection, while the soybean price is about \$.35 above the midpoint of the USDA projection.

The recent decline in new crop corn prices appears to be sufficient to accommodate a large crop. Further declines in new crop soybean prices may occur if old crop prices continue to decline and the newly planted crop makes good progress. November futures at \$6.50 would be consistent with the midpoint of the USDA's price projection for the year.



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