



WEEKLY OUTLOOK

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HARVEST PRESSURE ON CORN AND SOYBEAN PRICES

Soybean harvest is well underway in parts of the corn belt and corn harvest is not far behind. One of the immediate impacts is that the premium for quick shipment will continue to erode and eventually disappear as ample new crop supplies become available. Those premiums are highly variable from location to location and from day to day. On September 19, typical premiums for quick shipment over fall prices in central Illinois were about \$.15 on corn and about \$.40 on soybeans. It seems prudent to capture those premiums on early harvested crops.

With the threat of an early, widespread freeze quickly passing, the focus will now turn to the likely extent of harvest price declines. On September 19, the fall bids in central Illinois reflected an average basis of about $-\$.15$ for corn and $-\$.11$ for soybeans. The corn basis is not quite as strong as last year, when basis eventually narrowed to near zero in October, but it is stronger than the typical basis for this time of year. The soybean basis is very strong in relation to both last year and the typical basis for this time of year. A number of factors suggest that the harvest basis could remain relatively strong for both corn and soybeans.

For corn, the basis should be supported by a modest sized crop and generally ample storage space. Corn prices are low by comparison to harvest time prices of the past two years and producers are generally not anxious to sell at current prices given the prospects for tight stocks and the uncertainty presented by the El Nino weather pattern. Prospects for a wet harvest also suggests that harvest could be spread over a relatively long period of time. There is also a carrying charge in the market, further increasing the incentive to store corn. The one negative factor is the low level of new crop export sales. Exporters will not be aggressively seeking cash corn to cover large export commitments.

In the case of soybeans, the size of the crop is the predominant factor which could put pressure on the harvest basis. The largest increases are coming in the western corn belt. Combined production in Iowa and Minnesota, is expected to be 22.5 percent larger than the 1996 crop. Production in Illinois, Indiana and Ohio is expected to be 11.3 percent larger than the 1996 crop, with the largest increase in Ohio. The impact of a large crop on the basis would be softened by a slow harvest. In addition, once the premium for quick shipment disappears, producers may not be anxious to sell additional quantities of soybeans. The factor with the most potential to support the soybean basis is the rapid pace of consumption. Export sales are large and exporters will need to aggressively buy cash soybeans to meet those commitments. Processor demand should also remain strong.

The magnitude of the basis and the size of the spreads in the futures market as harvest progresses will give clear signals as to the economics of corn and soybean storage. A strong basis and small spreads favor physical storage and vice versa. Spreads have been relatively small in the soybean market, but have increased as harvest has begun. This may be another year of strong harvest basis in the east and large spreads. Producers need to examine both components in making the storage decision.

While a case for a strong basis can be made, lower futures prices into harvest cannot be ruled out. December corn futures are trading below \$2.60 for the first time since August 18. Technically, a case could be made for a drop below \$2.40, however the fundamentals may support prices above that level. Much may depend on how aggressively importers begin to price corn on the harvest price weakness. November soybean futures are challenging recent lows at just under \$6.30. A test of the \$6.05 to \$6.10 area is possible if harvest comes rapidly.

A case for a post harvest recovery in both corn and soybean prices can be made. Clues for the timing and magnitude of such a recovery will unfold over time. The USDA's Hogs and Pigs report to be released on September 26 will give some insight into potential domestic feed demand. The Grain Stocks report to be released on September 30 might be important if September inventories differ significantly from the projections. Beyond that, revised production estimates, export sales, and southern hemisphere weather will all be important.

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