Cooperative Extension Service

# WEEKLY OUTLOOK

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## CORN AND SOYBEANS STAGE A HARVEST TIME RALLY

December corn futures traded to a low of $2.555 on October 2, but rebounded to a high of $2.935 on October 10. November soybeans rallied from an October 1 low of $6.20 to an October 13 high of $7.20 per bushel. Such price strength is rare for this time of year, particularly with large crops and rapid harvest progress.

For corn, the price picture began to improve with the USDA's September *Hogs and Pigs* report released on September 26. That report showed significant expansion in hog production and supports domestic feed demand for corn. The USDA now projects that pork production will increase nearly 9 percent in 1998. Further price support was furnished by the September *Grain Stocks* report released on September 30. That report showed smaller than expected corn inventories which resulted in a larger estimate of feed and residual use of corn last year. Rumors that China would discontinue corn exports helped push December futures limit up on October 7. Finally, the production and supply and demand estimates released on October 10 were interpreted as very friendly for corn prices.

The 1997 corn crop is now estimated at 9.312 billion bushels, 44 million larger than the September estimate, but smaller than private estimates. The estimate of the Chinese corn crop was reduced by nearly 200 million bushels and helped convince USDA to keep its U.S. export projection at 2.025 billion bushels, even though sales to date have been quite small. The projection of feed and residual use of corn for the current marketing year was increased to a record 5.625 billion bushels. Year enduing stocks are now projected at a snug 781 million bushels, representing a 4.3 week supply at the projected rate of consumption.

For soybeans, higher prices have been generated by a steady flow of data showing a high rate of consumption. The domestic crush reached almost 30 million bushels during the week ended October 8. The seasonal increase in the rate of crush is running about 2 weeks ahead of the normal schedule. The USDA is projecting a 4 percent increase in domestic crush this year. During the first 5.5 weeks of the year, the crush is nearly 6 percent ahead of last year's total. Export sales of soybeans and soybean products remain large. Soybean sales are nearly 63 percent larger than at this time last year. Meal sales are running 126 percent larger than sales of a year ago and commercial oil sales are up 435 percent. The market was impressed with large product sales for the week ended October 2, but those sales included roll-overs of undelivered sales from the 1996-97 marketing year.

Soybean prices have also been supported by concerns about dry weather impacts on the Asian palm oil crop. Reduced output would increase the demand for soybean oil. Finally, prices were supported by the October 10 crop production report, showing an estimated crop of 2.712 billion bushels. That estimate is 24 million bushels below the September estimate and is in contrast with private estimates of an unchanged to larger crop.

The USDA projects the marketing year average price of corn in a range of $2.55 to $2.95. Based on prices on October 13, and assuming normal basis patterns later in the year, the market is currently offering a season's average price of about $2.90. Further price increases are not expected in the near term. In spite of last week's rumors, China reportedly sold another 4 to 12 million bushels of corn over the weekend for export in January, February, and March 1998. The market needs to see some hard evidence of improved demand for U.S. exports as recent price strength reflected expectations, not actual sales. There is also a strong tendency for the U.S. production estimate to increase in November. Over the past 25 years, the estimate has never been lowered in November following an increase in October. Additional price strength later on cannot be ruled out. Based on historical ranges in cash prices during the 12 month marketing year, the spot cash price in central Illinois is expected to move above $3.00 at some point during the current marketing year.

The USDA projects the marketing year average price of soybeans in a range of $5.75 to $6.85. Based on prices on October 13, and typical late-season basis levels, the market is currently offering an average price of about $7.10. A fair amount of friendly expectations have been built into the price structure. A more-two sided trade is expected to develop for now. Higher prices may materialize if the consumption rate remains high, particularly if concerns about the South American soybean crop develop. Based on typical ranges of cash prices during the marketing year, a move above $7.00 can be anticipated for the spot cash price.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

CES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

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