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WEEKLY OUTLOOK

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LARGE CORN AND SOYBEAN CROPS IN 1998?

The corn and soybean market increasingly reflects expectations of large U.S. crops in 1998. December 1998 corn futures have traded within about \$.08 of the pre-rally level of September 1997. November 1998 soybean futures have traded within \$.06 of those lows. However, both new crop corn and soybean futures continue to carry a slight premium over old crop futures. On March 20, May 1999 corn futures were \$.225 (8.5 percent) higher than May 1998 futures. May 1998 and May 1999 futures were about equally priced, but July 1999 futures had a \$.085 premium to July 1998 futures.

The potential for large crops stems from expectations of an increase in planted acreage of both corn and soybeans. Weather conditions and price behavior over the next two months will influence acreage decisions. The market will use the March 31 *Prospective Plantings* report as a benchmark for judging final acreage figures. The National Weather Service outlook for April gave equal chances to above, below, and normal precipitation. Without significant delays, the March intentions figures may be close to actual plantings for the Midwest. Some intentions may have already changed in the southeast and/or Delta States. In addition, producers in the northern plains states have more time to adjust planting decisions.

Growing season weather and the resulting average yields will be more important than acreage in determining final crop size. The current El Nino event adds additional uncertainty to prospects for planting and growing season weather. Currently, the El Nino event is expected to persist until July and possibly as late as November 1998. Near normal spring temperatures and precipitation are expected. There is a tendency for the presence of the El Nino to result in below normal summer temperatures in the corn belt. If heat stress does develop, it would be expected in the southeast and/or eastern corn belt. History indicates that the presence of an El Nino has tended to result in above trend-line yields for corn.

If 81.5 million acres of corn are planted and 75 million are harvested for grain, and if the national average yield is near the trend of 130 bushels per acre, the 1998 crop will total 9.75 billion bushels. That is 440 million bushels above the USDA projection of use for the current marketing year. If 72.5 million acres of soybeans are planted and 71.5 million are harvested, and if the national average yield is near the trend of 40 bushels per acre, the 1998 crop will total 2.86 billion bushels. That figure is 250 million bushels above the USDA projection of use for the current marketing year and would come on the heels of a 20 percent increase in production in South America.

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In the context of continued economic problems in Asia and large southern hemisphere crops of corn and soybeans, large U.S. crops could put additional downside pressure on prices into the fall of 1998. December 1998 corn futures might be expected to at least test, and probably decline below, the current contract low of \$2.47 reached in June 1997. November 1998 soybean futures could decline below the contract low of \$5.97 reached in July 1997. December 1997 corn futures and November 1997 soybean futures traded to a low of \$2.275 and \$5.77, respectively, in July 1997.

What to do? Little confidence in crop size forecasts can be developed this early in the production cycle. A number of factors could prevent prices from going as low as suggested here, and could push prices higher than expected. Even periods of weather concerns (without significant crop damage) could push December corn futures back to the \$3.00 level and November futures to \$7.00. Higher prices would not be a problem for producers. The risk that should be managed is the risk of sharply lower prices into the fall harvest. Pre-harvest pricing strategies should probably center around pricing enough of the new crop at "reasonable" levels so that forced selling at lower price levels can be avoided. What constitutes a "reasonable" price differs among producers and it may be difficult for the market to generate acceptable prices for some producers. It would be unusual, however, to not have periods of weather based rallies during the planting and growing season.

If the current El Nino pattern persists into late fall and then a La Nina develops (cooler than normal sea surface temperatures) the possibility of crop problems in 1999 would begin to be discussed. In addition, a recovery in export demand or crop problems in major production areas in the year ahead could fuel an eventual recovery in corn and soybean prices. A combination of pre-harvest pricing at current or higher levels, holding through a period of low prices later this year, and pricing on a post-harvest (or earlier) recovery might well produce acceptable results for the 1998 crops.

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