Cooperative Extension Service

WEEKLY OUTLOOK

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CAN CORN AND SOYBEAN PRICES REPEAT LAST YEAR'S RECOVERY?

In our May 27, 1997 newsletter we pondered whether the decline in new crop corn and soybean prices had occurred too early and whether prices were too low. December corn futures declined another $.30 into early July 1997 and November soybean futures dropped almost $1.00 per bushel into early July. Late season dryness caused a turnaround in prices and a unique harvest time rally resulted in a $.70 recovery in December corn futures and $1.70 rebound in November soybean futures from the July lows.

Currently, December futures are about $.15 per bushel lower and November soybean futures about $1.00 per bushel lower than on the same date last year. Can prices manage a pre-harvest recovery this year? In addition to late season dryness in some growing areas last year, prices were supported by optimistic demand projections and unparalled publicity of the El Nino weather event. Since then, economic problems have reduced Asian demand, the El Nino helped produce large crops in the southern hemisphere, and the U.S. has increased corn and soybean acreage (based on March intentions). On the positive side, domestic feed consumption is record large due to expanding livestock and poultry production and soybean oil export demand has been strong due to Chinese consumption and interruptions in palm oil exports.

Price recovery could be generated by either a surprise on the demand or supply side of the equation. Surprises in domestic demand for feed will likely have to come from the hog sector. Beef cattle numbers are declining and poultry numbers increasing. The June 1 *Hogs and Pigs* report, to be released on June 26, will indicate whether hog numbers have peaked on this cycle or are continuing to increase. Exports of U.S. corn and soybeans will face stiff competition from southern hemisphere supplies for several more months. Improvements in demand will likely have to be generated by a quick recovery in Asian demand, crop problems in a major producing area, or a turnaround in Chinese corn trade.

On the domestic supply side, the biggest unknown is growing season weather. The crops have been planted in a timely fashion and early season moisture has generally been ample. Problem areas do exist -- too hot, too dry, too wet, etc., but crop ratings are generally quite high. July and August weather will once again hold the key to yield prospects. Forecasters continue to be divided on summer weather expectations.

The second supply side factor that will be important is the June 30 *Acreage* report. The survey for the report has already been conducted. Given the timely planting of spring crops and the

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early harvest of the winter wheat crop, acreage estimates in this report should be very close to actual plantings. The market will be looking for any shifts in acreage from March intentions and any net increase or decrease in total acreage.

Finally, the June 30 *Grain Stocks* report will identify the supplies of old crop corn and soybeans available for use through the end of the marketing year. In addition, the market will be able to more accurately evaluate the likely level of year-ending stocks.

Without a demand or supply surprise, corn and soybean prices could move even lower by harvest time, in much the same fashion as wheat prices. The initial targets for December corn futures would be the $2.27 low of last July and then the $2.10 low of 1994. November 1998 soybean futures have already taken out the $5.77 low for November 1997 futures. The next target on the long term charts is the low near $5.27 in the fall of 1994.

It is easy to remain negative about corn and soybean price prospects for the near term. However, low prices contain the seeds of price recovery. When those seeds may germinate and grow is unknown. For the 1998 crops, producers should probably plan for the worst (lower prices) but also be prepared to take advantage of a price recovery over the next year.

As pointed out last week, these plans should accommodate storage of a large portion of the 1998 crops which have not already been priced in the case of continued price declines. Additional price protection should also be considered on growing season rallies. Finally, reownership might be considered if prices reach the low levels possible with large crops.

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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