Cooperative Extension Service

WEEKLY OUTLOOK

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CROP PROSPECTS CONTINUE TO IMPROVE

Corn and soybean prices continue to be hammered by prospects for large crops and growing surpluses. Early August weather conditions and forecasts are very favorable for much of the midwest. Fairly widespread precipitation and below normal temperatures suggest that yield prospects will continue to improve as these conditions favor high test weights. The major uncertainty is the extent of crop damage and/or acreage reduction that has already occurred. The USDA's August 12 *Crop Production* report will help answer that question. Since the survey work for the August report was done in late July, the market will likely expect larger crops than estimated next week.

Both the corn and soybean markets are expected to continue to make new lows. Questions center around how much lower prices will go, the timing of the low, and prospects for post harvest price recovery. These questions are all important for those producers who plan to use the Commodity Credit Corporation (CCC) loan program, but are also important in formulating a general marketing strategy. In the case of corn, December futures have already taken out the $2.25 low of 1993. Targets now include the lows of the last 10 years – $2.20 in 1991, $2.185 in 1989, $2.155 in 1990, $2.105 in 1994, $2.045 in 1992, and perhaps $1.855 in 1988. For November soybeans, the $5.555 low of 1993 has been breached and the $5.52 low of 1990 has been equaled. Targets now include the $5.40 low of 1980, $5.27 in 1994, $5.245 in 1992, $5.17 in 1991, and $4.99 in 1988.

The timing of the lows is important for those producers who plan to take advantage of the CCC marketing loan since the difference between the posted county price and the CCC loan rate will presumably be the greatest at the price low. Based on the history of price patterns in large crop years, the price lows are generally expected around harvest time. Cash prices in central Illinois, for example, have generally bottomed in September or October in large crop years. This suggests that producers will want to try to establish the CCC loan deficiency payment, or repay the CCC loan, early in the crop year.

Historically, cash price recovery from harvest time lows has been significant for both corn and soybeans. Since 1982 (16 crop years) cash corn prices in central Illinois established the marketing year low in September or October eight times. In all of those years, the highest cash price occurred in June, July, or August following harvest. The extent of the recovery ranged from $.445 per bushel in 1990-91 to $2.525 per bushel in 1995-96. The average range from the low to the high price was $1.185. Excluding 1995-96, the maximum recovery was $1.91 (1983) and the average was $.99. The largest price ranges generally occurred when the large crops were followed by small crops (1982-83, 1987-88, 1994-95). The price recovery from the harvest low to the spring/summer high always exceeded the cost of storage.

Since 1982, cash soybean prices in central Illinois established the marketing year low in September or October eight times, and in November one time. Of those nine years, the highest price of the marketing year occurred in May one time, in June three times, in July four times, and in August one time. The extent of the recovery ranged from $.915 in 1991-92 to $5.03 in 1987-88. The average range from the harvest low to the spring/summer high was $2.29. As was the case in corn, the price recovery always exceeded the cost of storage.

Corn and soybean price patterns during the 1998-99 marketing year cannot be anticipated with accuracy. History does suggest that cash prices will rebound from harvest lows. The rebound will likely be modest unless crop problems develop during the year ahead, particularly since acreage reduction programs in the United States are no longer in place. For crops already forward priced, producers will want to make arrangements to establish any available loan deficiency payment before title is transferred. For crops not yet priced, additional downside risk into harvest still exists. Additional pricing may still be prudent, particularly if reownership of at least a portion of the crop is an alternative later on. For corn there is generally enough carry in the market to favor storage where on farm facilities are available.

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