

# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**AUGUST 24, 1998**

## **WILL CORN AND SOYBEAN PRICES RECOVER?**

In most large crop years with low prices at harvest time, the questions have centered around when and by how much prices would recover. This year, with on going export demand concerns and the absence of U.S. set aside programs, the questions have been extended to whether or not prices will recover to favorable levels at all (for producers) during the 1998-99 marketing year. First, to repeat the obvious, prices must stop declining before a rally can materialize. Corn and soybean prices established new contract lows again last week, with December corn futures trading near the low of 1994 and November soybean futures declining below the 1994 low and trading near the 1992 low.

Corn futures may be closer to the bottom than soybean futures. Based on USDA's weekly crop condition reports and reports from private sources, the corn crop estimate is not expected to grow from the August estimate of 9.6 billion bushels. Late season weather patterns and obvious crop problems argue for a slightly smaller crop. The estimate of the size of the soybean crop may continue to grow. Average crop conditions continue to show slight improvement and average pod counts in the midwest are apparently quite high. Late season dryness and disease problems are obvious in some areas, which will likely limit the increase in the crop estimate.

For both corn and soybeans, futures may reach a low before the cash price reaches a seasonal low. A large, early harvest and a slow export pace are expected to create storage problems and a weaker than normal basis during the harvest period. The weak basis and large carry in the market will make price later and minimum price contacts very expensive for the producer. As storage space fills, some forced sales will likely occur at the peak of harvest.

Significant price recovery will require a fundamental change in demand and/or supply prospects. On the demand side, exports and export prospects are currently the weak sister. Exports during the 1998-99 marketing year are projected at a modest 850 million bushels for soybeans and an anemic 1.6 billion bushels for corn, even with prices at the lowest level in 4 years.

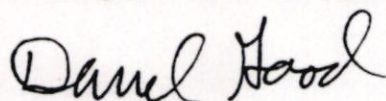
Potential for higher than projected exports does exist. As pointed out last week, significant crop problems in China may alter the projected corn and soybean trade balance there toward larger imports (soybeans and soybean products) and smaller exports (corn). Declining economic conditions, however, may be a negative influence. Most analysts are not optimistic about a recovery in Asian economies and improved import demand any time soon. The U.S., however, may be inclined to use export assistance programs for a number of countries.

A second possibility for larger U.S. exports is smaller than expected crops in the rest of the world. The grain crops in the former Soviet Union are estimated to be 5 percent smaller than the July estimate and 22 percent smaller than the 1997 harvest. The smaller crop will likely have minimal impact on imports, however, due to severe economic problems in Russia. Their criticism of U.S. foreign policy will not likely put them in a favorable light for import assistance from the U.S.

For U.S. exports to significantly exceed current projections, smaller crops in other exporting countries may be required. The first test will be the South American crops due to be planted in a couple of months. Averages yield of corn and soybeans there are not expected to repeat the high levels of 1998, but the current small declines projected by the USDA would not likely generate much additional demand for U.S. crops. Smaller crop prospects for the northern hemisphere in 1999 would provide some support. Reports of intentions to reduce wheat acreage again in 1999, however, point to more feed grain and oilseed area.

If prices remain low and prospects are not improving by the end of the calendar year, USDA and/or Congress may consider more aggressive programs to address low prices and low income prospects for producers.

History provides consistent evidence that cash prices recover from harvest lows. Current prospects for 1998-99 suggest the post harvest recovery could be small by historic standards, leaving prices at disappointing levels.



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