Cooperative Extension Service

WEEKLY OUTLOOK

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CORN AND SOYBEANS: POST-HARVEST PRICE RECOVERY COMPLETE

The cash price for the 1998 corn crop in central Illinois dropped to $1.72 on September 18, but rebounded to $2.14 on November 11. The $.42 price recovery reflected a $.20 increase in December futures and a $.22 improvement in the basis. The cash price of soybeans declined to $4.88 on October 1, but rebounded to $5.67 on November 11. November futures advanced by $.64 and the basis improved by $.15.

Higher corn prices were generated primarily by tight farmer holding, improving export sales, and the Russian aid package which reportedly contained 500,000 tons of corn. Large hog slaughter also suggested that feed use of corn is proceeding at a very rapid pace.

The quick rebound in soybean prices reflected the small crop estimate in October, slight improvement in the level of export sales, inclusion of soybeans and soybean meal in the Russian aid package, and tight farmer holding.

The sharp decline in prices at harvest and the quick recovery in the basis and cash prices immediately following harvest is a characteristic of price behavior in large crop years. Such a pattern is often followed by a narrow trading range during the winter months. That pattern may well be followed this year.

Last week the USDA raised the estimated size of the 1998 corn crop by 93 million bushels. Even though the export projection was increased by 25 million bushels, the projection of carryover stocks was increased by 68 million bushels, to a total of 1.775 billion bushels. Somewhat as a surprise, the estimated size of the 1998 soybean crop was reduced by 6 million bushels. This followed a reduction of 140 million bushels in October. In addition, the USDA raised the projection of soybean use during the current marketing year by 23 million bushels. The carryover projection declined by 30 million bushels, but is still very large, at 365 million bushels.

The slow down in export sales of corn and soybeans and in the domestic crush of soybeans registered last week was a reminder that supplies are ample and stocks are building. Another "event" will be required to push prices another notch higher. The opportunities for such an event may be scarce this winter. The one major factor of importance is South American weather. Barring a quick recovery in Asian economies, a shortfall in corn and/or soybean production there may be the only factor that could generate larger than projected exports.

Assuming an uneventful winter and a resulting narrow trading range, prices would be expected to become more volatile in the spring and summer of 1999. The expected volatility would stem from acreage, yield, and production uncertainty in the northern hemisphere.

Th market is already contemplating what kind of acreage changes may take place in 1999. Total acreage may be reduced, but only very modestly unless the Conservation Reserve Program is expanded. At least one private source has estimated a 4 million acre reduction in winter wheat seedings. Some decline is likely, but probably not that much. The USDA will release its estimate on January 12. A reduction in corn acreage in the south and a general increase in soybean acreage is expected. One of the major uncertainties is cotton. Due to weak export demand, cotton prices have not been pushed higher by the small 1998 crop. A winter time rally might attract more acres in 1999.

Spring and summer weather, particularly in the U.S., will be the dominating factor. Without a serious threat of a yield shortfall, the cash price of corn in central Illinois might be limited to a recovery into $2.45 to $2.50 range. Soybean prices might be limited to the area of $6.25.

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