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# WEEKLY OUTLOOK

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## **CORN AND SOYBEAN RALLY NEEDS SOME HELP**

Corn and soybean prices slumped in December. A month's end, March corn futures settled at \$2.135 and January soybean futures settled at \$5.3775 per bushel. During the first week of January, March corn futures rallied nearly \$.09 and January soybean futures moved nearly \$.13 higher. The higher prices did not appear to reflect a lot of new buying, but mostly liquidation of short positions. Liquidation of those positions was stimulated by less than ideal weather in a few areas in South America and positioning ahead of USDA reports to be released on January 12.

Fundamentally, the soybean market remains relatively weak. The domestic crush rate has slowed. Weekly figures from the National Oilseed Processors Association show that the domestic crush has been below the level of last year for 6 consecutive weeks and in 8 of the past 9 weeks. The slower pace of soybean meal exports accounts for some of the slow down in the rate of crush. As of December 31, meal exports were running about 16 percent behind the pace of a year ago. The decline was in shipments to Europe, reflecting the abundant supplies of South American meal. The rate of soybean exports and export sales also remain disappointing. The pace is nearly 25 percent below the level of a year ago. Last year, exports were unusually large in the first quarter of the marketing year. Even so, this year's pace is behind that needed to reach the USDA's December projection of 840 million bushels.

Corn fundamentals are a little more supportive. Domestic feed use has presumably been large in light of record hog production in 1998. The export pace accelerated in November and December and sales are running ahead of the rate needed to reach the USDA projection of 1.7 billion bushels for the year.

For the early January price strength to continue, the corn and soybean markets will need some fundamental help. There are at least two potential sources of short term price support. First, are the USDA reports released on January 12 (the day after this was written). The USDA will release final production estimates for the 1998 crops and estimates of December 1 stocks. The recent downward revision in the estimated size of the 1997 crops, based on Census data, have some expecting a similar downward revision in the estimated size of the 1998 crops.

For corn, a downward revision in the crop estimate and confirmation of large feed and residual use, as reflected in the December 1 stocks estimate, could result in a downward revision in the projection of year ending stocks. One area of uncertainty, however, is the magnitude of feed and residual use from the hog sector for the remainder of the 1998-99 marketing year. The December Hogs and Pigs

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report slowed plans for cut backs in farrowings (one percent this winter and seven percent in the spring). The USDA has also proposed buying some hogs under a pseudorabies program and destroying them rather than having them fed to market weight. At the same time, recent improvements in hog prices and the potential for USDA and state financial assistance may encourage production at higher levels than intended a month ago. In each of the last two years, the January reports have contained some surprises for corn, resulting in higher prices. Will it happen again?

For soybeans, use to date is pretty well known. The major focus will be on the final production estimate for 1998 and whether or not the USDA lowers the projection of use for the current year based on the slow pace to date. The net effect of changes in the production estimate and use projections will be reflected in the projection of year ending stocks.

A second source of potential price support is South American weather. January and February are critical months for crop development. Adverse weather and expectations of yield reductions would be supportive for demand and price prospects for U.S. corn and soybeans.

Beyond these two developments, the market will be influenced later on by prospects for production in 1999. Growing conditions and average yield will be the most important factors in determining crop size. However, there will also be substantial interest in planted acreage of corn and soybeans. The USDA will release a Prospective Plantings report for spring planted crops on March 31. Until then, the market will base expectations about acreage on relative prices and on the winter wheat seedings estimate released on January 12. The magnitude and geography of changes in winter wheat acreage will have implication for area available to plant feed grains and oil seeds in the spring.

*Darrel Good*

Issued by Darrel Good  
Extension Economist  
University of Illinois

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CES Newsletter Service  
University of Illinois  
at Urbana-Champaign  
69 Mumford Hall  
1301 West Gregory Drive  
Urbana IL 61801