UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CORN AND SOYBEAN PRICES NEARING A LOW

March 1999 soybean futures declined nearly $.60 during the month of February and about $.94 since the first of the year. Cash prices in central Illinois declined a similar amount, ending the month at just under $4.40 per bushel. March corn futures declined about $.11 during the month, with cash prices declining about $.14, as the basis weakened during the month. Cash prices dropped under $2.00, returning to near the loan rate. The reasons for the price declines have been well documented.

With prices now at extremely low levels and large speculators already holding large short positions, there is growing expectation that prices have neared a low for the time being. Technically, soybean prices should find some support near the 1976 lows. In addition, prices below the loan rate will keep farmer selling of soybeans at a slow pace. The same will likely be true of corn, as prices have retreated to the loan rate. Finally, there may be a reluctance to push prices any lower in front of the March 31 *Prospective Plantings* report and the beginning of the planting season.

While a low may be forming, expectations for any significant price recovery are not widespread. The generally slow pace of consumption and expectations of larger year ending stocks of soybeans are major hurdles to overcome. In addition, there is a large inventory of soybeans for which farmers have already established the loan deficiency payment (LDP) but have not established a price. As a result, the current price represents a net price below the loan rate for those soybeans. Any rally in prices will likely be met with widespread selling of soybeans. For corn, producers will likely be anxious to sell additional quantities on rallies prior to the planting season. Many may prefer to own corn with call options rather than in inventory, now that option premiums have declined.

New crop prices have not been under as much pressure as old crop prices. November 1999 soybean futures declined about $.42 in February and $.79 since the first of the year. December 1999 corn futures declined $.06 in February and $.07 since the first of the year. As a result, prices for the new crop are substantially higher than old crop prices. March 2000 corn futures on February 26 were $.365 (18 percent) higher than March 1999 futures. March 2000 soybean futures were $.52 (12 percent) higher than March 1999 futures.

The large spread reflected the expectations of large year-ending stocks that will have to be carried into the next marketing year. To some extent, the market has to pay someone to carry those inventories. The larger spread in corn also reflected the expectation of a decline in corn acreage in 1999 and some possibility of a reduction in inventories next year. For central Illinois locations, the market is offering an average corn price for the 1999-2000 marketing year of about $2.25 to $2.30 per bushel, assuming normal basis levels. The soybean market was offering a season's average price of about $4.85 per bushel.

For soybeans, the new crop price is well below the expected loan rate for the 1999 crop. Even so, prices by late summer or early fall could be lower if another large harvest is on tap. Some are inclined to forward price new crop soybeans, anticipating lower prices and a large loan deficiency payment at harvest. There is obvious risk to that strategy if a crop problem develops this summer. With so much time left to market the 1999 crop, it is a risk that probably does not need to be taken on a large part of the crop. The reverse strategy, establishing the LDP and holding unpriced soybeans, has not worked well for the 1998 crop.

For corn, the new crop price is well above the expected loan rate for the 1999 crop. Without a growing season weather problem, prices could decline below the loan rate by harvest, particularly if the decline in corn acreage is less than some of the inflated numbers currently being discussed. At the same time, corn is probably more vulnerable to a weather problem than soybeans. Forward pricing some new crop corn might be considered. If a large percentage of the crop is priced, some protection with call options would be prudent.

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