UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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ANY POLICY SOLUTIONS TO CURRENT LOW CROP PRICES?

New crop corn futures have recovered nearly $.15 from the February low and new crop soybean futures have rallied $.30. July wheat futures at Chicago have also climbed about $.30 from the late February low. A number of factors have contributed to the reversal of the sharp downtrend of this past winter. Uncertainty about the effects of late season weather in South America, drought conditions in China, additional export credit guarantees for South Korea and Mexico, and unwinding of short positions in front of the spring planting season have been noted as supportive factors. In addition, rumors about possible policy moves to address low crop prices have also played a role.

Early on, there was some speculation that Commodity Credit Corporation (CCC) loan rates might be adjusted for the 1999 crops. In particular, comments from Washington indicated that the corn, and possibly wheat, loan rates were too low in relation to soybeans. The Secretary of Agriculture has limited discretion in adjusting loan rates and has announced that 1999 rates will be at the maximum allowed by the 1996 legislation and at the same level as for the 1998 crops. Legislation would be required to raise loan rates. With winter wheat already seeded and spring planting underway in the south, a change in rates for 1999 seems unlikely.

On the demand front, the American Soybean Association proposed that the USDA buy $1 billion of soybean and soybean products for donation. Such a program is apparently seen as a way to reduce soybean inventories in the face of another large South American crop and prospects for increased acreage in the United States. It is not clear under which USDA program the proposal could be conducted or how much political support there is for such a proposal. Critics of the proposal suggest that to a large extent, donation programs would tend to reduce commercial purchases, resulting in only a small impact on total exports.

The policy discussion that attracted most attention centered on expansion of the Conservation Reserve Program (CRP). There is apparently no formal proposal on the table, from either the USDA or individual members of Congress. However, the idea is to establish a "short term" CRP that might idle several million additional acres of crop land for one to five years. The short term program is seen as a way to limit production until world demand conditions improve. Other ideas include expanding the current 10 year CRP by as much as 9 million acres.
The market reacted strongly to CRP rumors and talk since reducing supplies is the quickest way to improve prices significantly. Soybeans and wheat prices reacted strongest to the talk since any program implemented this year would likely have the most impact on later seeded crops.

Most analysts, however, seem to agree that it would be very difficult to implement a fair expansion to the CRP that would impact 1999 crops. Winter wheat is already seeded by the time a program could be implemented, spring planting would be well underway. Still, the fact that some effort might be considered to reduce planted acreage this year or next sent a strong signal to market participants. If market fundamentals do not improve, some action may be taken to improve prices. An alternative is that the government refrain from significant action to influence prices, on the assumption that fundamentals are or will be improving, and only addresses the farm income situation as it did in the fall of 1998. A further adjustment in production contract payments would be the most straightforward way of addressing low incomes. Continued support to find the ever-elusive workable, comprehensive insurance scheme is also likely.

In spite of the recent gains, both old and new crop soybean prices remain well under the CCC loan rate. New crop wheat prices in Illinois and Indiana are flirting with the loan rate. Old crop corn prices are marginally above the loan rate, while new crop prices are well above the loan rate. Market fundamentals continue to be a little more supportive for corn and wheat than for soybeans. Barring any program to reduce crop acres in 1999, prices have limited upside potential as long as weather patterns remain favorable. For now, $2.60 December corn futures and $3.00 July wheat futures (Chicago) seem to be reasonable targets for forward pricing opportunities. New crop soybean sales need not be considered as long as the price is below the loan rate. USDA reports later this month will provide an opportunity to update price targets.

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