



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.

MAY 10, 1999

WHEN WILL CORN AND SOYBEAN PRICES RECOVER?

The monthly average cash price of corn in central Illinois dropped below \$2.50 per bushel in April 1998 and has remained low since. The average price in September 1998 was \$1.775. From November 1998 through April 1999 the monthly average price ranged from \$2.05 to \$2.09. Cash corn prices are at the lowest level since the fall of 1994. December 1999 futures established a contract low on April 30 and remain near that level.

The monthly average price of soybeans in central Illinois dropped below \$6.50 in March 1998, and traded to an average of \$4.60 in March 1999. Prices have remained at that low level through early May. Cash prices are slightly lower than during October 1987 and are the lowest since April 1976. November 1999 futures traded to a contract low in late February 1999 and are threatening that low again.

Prices have been unable to advance in spite of threats of planting delays and the endless discussion of potential acreage shifts and potential yield impacts. The market is apparently reluctant to read too much into planting delays in early May, recognizing that summer weather is more important if crops get planted in a reasonable time frame. The current interpretation of the La Nina weather pattern is that it is likely to persist through the summer and provide some extremes in weather, but not persistent patterns that would significantly threaten U.S. average yields. The market may also remember that combined acreage of corn and soybeans could exceed the surprisingly small estimate in the USDA March *Prospective Plantings* report.

Reports that late season weather problems have likely trimmed the size of the South American soybean harvest; large export sales of corn over the past month; and loosening of some trade restrictions have provided little price support. Like many sayings, the old adage that the "cure for low prices is low prices" only partially reflects reality. Low prices may increase consumption, but by definition do not increase demand. Low prices may also reduce production, but not in the short run. Domestically, low prices in the past often resulted in larger acreage reduction programs, but such programs are currently not available. Low prices may also encourage less production in other parts of the world, but as long as prices exceed the cash cost of production, acreage cuts are likely to be modest.

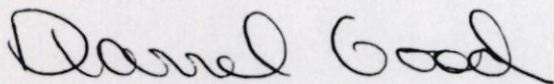
Higher prices will require an improvement in demand, a shortfall in production, or a combination of the two. For corn, there are hints of some improvement in demand. An

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economic recovery in Asia, along with smaller southern hemisphere crops, may result in a further recovery in U.S. corn exports over the next year. Efforts to supply the European Union with non-GMO corn could help revive shipments to that part of the world as well. Increases in domestic processing uses of corn and likely increases in livestock prices will help support domestic consumption. For soybeans, the likely increase in palm oil production may limit increases in soybean oil exports. Low prices, however, may trim South American production next year.

Demand-led price rallies are not common and often occur over relatively long periods of time. Prices are generally more responsive to a shortfall in production, particularly in the U.S. Current drought conditions in China may reduce crop production, primarily wheat, but U.S. production prospects remain favorable, although it is early in the growing season. If the 1999 U.S. wheat, corn, and soybean crops are large, more serious attention may be given to acreage reduction schemes for 2000. While other policy responses will likely be proposed – long term grain reserves, direct income payments, and insurance – prices would be most responsive to the potential for a reduction in production in 2000. Based on discussion to date, the most likely way to implement a short-term reduction in planted acreage would be through the Conservation Reserve Program. Although more efficient approaches are available, they may not be as politically acceptable.



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