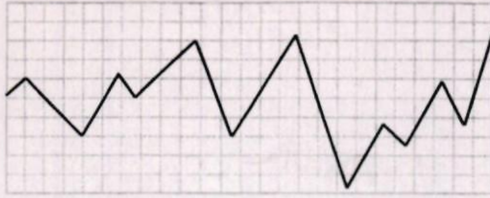


WEEKLY OUTLOOK

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.

JULY 26, 1999

CORN AND SOYBEAN PRICE VOLATILITY CONTINUES

November 1999 soybean futures traded to a low of $4.05 on July 9. December corn futures established a contract low of $1.94 on July 13. The low prices were associated with high crop condition ratings and talk of record or near record corn and soybean yields. An extended period of hot weather, along with dryness in some production areas and isolated flooding in other areas resulted in a quick rally. December corn futures recovered to a high of $2.265 on July 23 and November soybean futures traded to a high of $4.84 on the same day. Cash prices tended to lag the increase in futures prices as basis weakened in many interior locations.

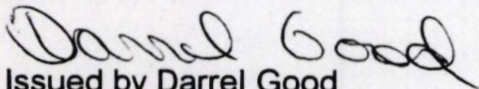
For soybeans, cash prices remained below the CCC loan rate. The price rally primarily benefitted those who are holding old crop soy beans not under loan. Some benefit accrued to those who repaid the CCC loan and sold the crop on a higher price day. For unpriced new crop soybeans, the price rally resulted in no change in net price prospects, just a swap of price for loan deficiency payment (LDP). For new crop soybeans already priced (cash or hedge) the price rally resulted in a decline in potential net price in that the potential LDP on those soybeans declined. The price rally has probably not been large enough to alter consumption plans of end users or to impact planting decisions in South America. Further price increases, however, could have some impact on those decisions. Increases in prices up to the loan rate would have very little positive impact for producers (particularly on the new crop) but could have negative impacts for consumption and could create more competition during the year ahead.

For corn, old crop prices remain below the CCC loan rate. The rally has primarily benefitted those who have old crop inventories not under CCC loan and those who were able to repay the loan on a higher price day. New crop prices for fall delivery are mostly still below the loan rate so the increase did not result in a higher net price for unpriced new crop corn. For corn already priced, the increase resulted in a potentially lower price. That is still potential, however, since net price will be determined by any marketing loan gains after harvest. In some areas, the new crop price for fall delivery moved above the loan rate. As long as prices are below the loan rate, producers can maintain a fairly passive marketing strategy. Prices above the loan rate, however, require a more active decision process.

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING
University of Illinois Extension and Purdue University Cooperative Extension Service provide equal opportunities in programs and employment.

A change in the weather outlook, towards more normal temperatures and prospects for precipitation in some of the drier areas, got the market off to a weaker start during the last week of July. Prices are expected to remain volatile through August. The USDA's August *Crop Production* report to be released on August 12 will be extremely important. The survey for that report is underway and should reflect crop damage to date. The production estimate released in August will be the benchmark from which to evaluate the effect of August weather on production prospects.

The recent price action has provided a coupled of marketing lessons. First, the risk of separating the timing of the pricing decision from the marketing loan decision has once again been exposed. Last year, there was some temptation to establish the LDP at harvest and then retain ownership of the crop. The idea was that prices would recover from the harvest lows and provide a net price well above the CCC loan price. A quick post-harvest price rally did occur, but prices eventually went to new lows, resulting in a net price well below the loan rate for some of the crop. This year, there has been some temptation to forward price at levels below the loan rate in expectation that prices would continue to decline into harvest. The lower prices, and larger LDP, would then result in a net price well above the loan rate. Higher prices jeopardize that strategy. Producers need to manage the risk of strategies that involve separating the pricing decision from the marketing loan decision. Options can be used effectively in some situations. Second, during weather markets, there is some temptation for analysts to extend their opinions beyond their area of expertise. Some economists are tempted to try to become crop scientists and/or meteorologists and some crop scientists and meteorologists extend their analysis and opinions into other areas. It is important that producers seek out and find <u>objective</u> analysts who tend to restrain their analysis to their area of expertise.



Issued by Darrel Good
Extension Economist
University of Illinois

Return Service Requested

U of I Extension Newsletter Service
University of Illinois
at Urbana-Champaign
528 Bevier Hall, MC-184
905 S. Goodwin Ave.
Urbana IL 61801

First Class
U.S. Postage Paid
Permit #75
Champaign, IL