UNIVERSITY OF ILLINOIS EXTENSION

# WEEKLY OUTLOOK

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**AUGUST 30, 1999**

## CORN AND SOYBEAN MARKETS WAIT FOR CROP REPORT

Corn and soybean futures have traded in a fairly narrow range since the initial reaction to the USDA's August crop production estimates. On a closing basis, December 1999 corn futures have traded between $2.1525 and $2.295, with a lower trend over the past 8 days. November 1999 soybean futures have traded between $4.475 and $4.7225, with a slightly higher trend.

As always, a number of factors will be important in determining the price of corn and soybeans over the next several months. The size of the U.S. harvest, however, will set the tone for the level of prices. The next USDA estimate of crop size will be released on September 10, followed by a report on October 8. Most believe that upcoming estimates will be smaller than the August estimates. Since 1975, there have been 9 years when the September corn yield estimate was below the August estimate by more than 1 bushel per acre. In only 2 of those years (1993 and 1995) was the January yield estimate significantly below the October yield estimate. It appears that the October estimate will give a pretty good indicator of crop size.

A significant reduction in the corn crop estimate this year would result in a quick price recovery, a strengthening of the basis (particularly in the eastern corn belt), and a further reduction in the magnitude of spreads in the futures market. Such a scenario would make harvest time sales attractive, with some forward pricing of farm stored corn if the premiums justify the cost of storage.

Assuming that, over a reasonable price range, there is a market for 9.41 billion bushels of U.S. corn during the 1999-00 marketing year (as projected by USDA), the 1999 crop is likely small enough to reduce year ending stocks. A crop of 9.4 billion bushels would result in a projection of year ending stocks of 1.7 billion bushels and a season's average price of $2.00 to $2.05. For each 100 million bushel reduction in crop size (and year ending stocks), the season's average price might average about $.10 higher, depending on how the 2000 crop develops. A crop of 9 billion bushels, for example, would suggest a season's average price of about $2.40 to $2.45 per bushel.

For soybeans, there have been only 7 years since 1975 when the September U.S. average yield estimate was at least 0.3 bushels below the August estimate. Of those 7 years, there were only 2 years when the January yield estimate was below the October yield estimate – 1976 (0.2 bushels) and 1987 (0.3 bushels). In the other 5 years, the January yield estimate exceeded the

October estimate. The evidence is even stronger for soybeans than corn that potential yield reduction should be fully reflected by the October *Crop Production* report.

Assuming that, over a reasonable price range, there is a market for 2.72 billion bushels of U.S. soybeans during the 1999-00 marketing year, the production estimate will have to decline sharply to suggest any reduction in carryover stocks during the year ahead. With harvested acreage at 73.3 million acres, the U.S. average yield would have to decline below 37.1 bushels per acre to produce a crop smaller than 2.72 billion bushels. That would be a decline of 2.2 bushels per acre from the August estimate. The January yield estimate has been below the August yield estimate by 2.2 bushels or more only twice since 1975-1983 (4 bushels) and 1984 (2.3 bushels). To generate a season's average price above the Commodity Credit Corporation (CCC) loan rate, year ending stocks would likely have to decline to near 300 million bushels. Everything else equal, such a decline would require a U.S. average yield under 36 bushels per acre.

After harvest, other factors will have influence on corn and soybean prices. The recent large soybean and soybean meal purchases by China have generated expectations of better-than-projected exports of those commodities during the year ahead. As of August 19, China had purchased 4.6 million bushels of U.S. soybeans for delivery during the 1999-00 marketing year, compared to 1.8 million bushels on the same date last year. Without a reduction in South American production, a large increase in purchases by China will be required to reach the 15 percent increase in soybean and soybean meal exports projected by the USDA.

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