UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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MARKET FUNDAMENTALS IMPROVING FOR SOYBEANS, DECLINING FOR CORN

During June and early July 1999, the soybean market was anticipating that September 1, 1999 stocks of soybeans would be near 400 million bushels, that the 1999 crop would be near 2.9 billion bushels, and that September 1, 2000 stocks would be near 600 million bushels. Last week's USDA *Grain Stocks* report showed September 1, 1999 stocks of "only" 348 million bushels. The September production estimate was for a 1999 crop of under 2.8 billion bushels and September 1, 2000 stocks were projected at 460 million bushels. The market now expects the October *Crop Production* report, to be released on October 8, to show a further reduction in the 1999 crop estimate and the projection of September 1, 2000 stocks.

While the size of the expected surplus is declining, soybean supplies are still expected to be in surplus for the 1999-00 marketing year. Additional changes will be required to push prices higher. In the big picture, world soybean and soybean product demand will have to be stronger than currently projected; South American soybean production will have to decline; production of another major oil crop will have to decline; or the U.S. soybean crop will have to be smaller in 2000. Recent price strength, although modest, reduces the likelihood of smaller soybean acreage in South America. Recent precipitation in the U.S. also put drought talk on the back burner for now.

Some had suggested that the USDA's proposed changes in the marketing loan program would somehow support soybean prices at higher levels. While the proposed changes might have altered the seasonal pattern in a small way, the overall fundamentals of supply and demand would remain unchanged. For now, it appears that changes, if any, will be delayed until the 2000 crop. Chances of cash soybean prices moving above the Commodity Credit Corporation (CCC) loan level in the immediate future still appear small.

In its September reports, the USDA projected September 1, 1999 stocks of corn at 1.699 billion bushels, estimated the 1999 crop at 9.381 billion bushels, and projected September 1, 2000 stocks at 1.785 billion bushels. The September *Grain Stocks* report pegged September 1, 1999 corn stocks at 1.796 billion bushels, 97 billion above the earlier projection. The report implies that feed and residual use of corn during the summer quarter was nearly 100 million bushels below use during the same quarter last year. September 1 stocks were the largest in 6 years, and the second largest of the past 10 years.

Based on early yield results and private crop estimates, the market is anticipating that the USDA's October crop estimate might exceed the September estimate. If that is the case, and the projection of feed and residual use during the current marketing year is reduced, the projection of September 1, 2000 stocks in the October 8 report could approach 2 billion bushels. An expected surplus of that magnitude would likely keep cash corn prices below the CCC loan level, at least into the first quarter of 2000. That scenario could be avoided if world grain demand is stronger than anticipated, or southern hemisphere crop problems develop.

The cash corn and soybean markets still show a hefty premium for January delivery over harvest delivery in most areas. In central Illinois, that premium averages about $.20 per bushel for corn and $.24 for soybeans. As a percentage of the harvest price, the January premium is much larger for corn (14 percent) than for soybeans (5 percent). Where ample on farm storage is available, pricing corn and soybeans for January (or later) delivery and simultaneously establishing the loan deficiency price (LDP) is still an attractive strategy for a portion of the crop. That strategy will barely cover the cost of commercial storage and interest for corn and will not cover commercial storage costs and interest for soybeans.

With corn prices closer to the CCC loan rate than soybean prices, some on farm or commercial storage might be used to store corn unpriced. The major risk is that prices recover less than the premium already reflected for later delivery. To profit from storing soybeans unpriced, the cash price will have to increase above the CCC loan rate by more than the current premium for later delivery, about $1.20 per bushel by January in central Illinois. A better strategy for soybeans might be to sell the soybeans and establish the LDP now and buy call options with a strike price that reflects a cash price near the CCC loan rate. On October 1, the premium for a March 2000 call options with a strike price of $5.75 was bout $.09 per bushel, the May and July call options with the same strike price had premiums of about $.14 and $.20, respectively. If soybean prices continue to move lower over the next few weeks, those option premiums will decline, providing a better buying opportunity. This strategy establishes a price just slightly below the loan rate (approximately by the amount of the premium) and provides opportunity to participate in any rallies above the loan rate.

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