UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CROP PRICES CONTINUE TO STRUGGLE

The prices of corn, soybeans, and wheat remain at historically low levels and well below the Commodity Credit Corporation (CCC) loan rates. Basis is weak for all three commodities. While cash prices are not expected to decline much further, reasons for a significant recovery in prices also remain elusive.

The recent rally in the prices of crude oil, gold, and coffee have triggered hopes for a recovery in the price of other commodities, including grains and oilseeds. The rally in the price of gold and crude oil, however, were triggered by agreements of market participants to restrict supply. Higher coffee prices were the result of concerns that dry weather would negatively impact Brazilian production. Grain and oilseed prices need a solid fundamental reason of their own to move higher.

There are some positive developments for crop prices. World wheat consumption is expected to exceed production for the second straight year, resulting in a further decline in year ending stocks. World coarse grain and soybean stocks are expected to decline modestly by year end. Domestically, improving livestock price prospects, along with a steady number of grain consuming animal units, bodes will for feed demand. Significantly higher prices, however, may require reduced supplies.

The USDA's November *Crop Production* report is not likely to show smaller U.S. corn and soybean crops. Odds actually favor a slightly higher estimate of the corn crop. Near term chances for a reduction in supply are associated with southern hemisphere crops. Currently USDA estimates are for larger coarse grain and wheat crops and only a modest cut in soybean production in the southern hemisphere. There is some concern about dry conditions in Brazil, although it is early in the planting season. Weather conditions there will certainly be important over the next 4 months and could provide some legitimate supply concerns. Longer term, production prospects for the 2000 crops in the northern hemisphere, particularly in the U.S., will be important. A reduction in acreage will not occur, so that yield prospects will be important. Average yields have been generally good for four consecutive years.

History clearly indicates that a period of higher crop prices will eventually emerge. There is not a good way to predict when that will happen. With prices at such low levels, however, marketing strategies this year should include some provision to take advantage of such an event. The most straightforward way to do that is to store some of the crop unpriced, with the protection of the marketing loan. As pointed out last week, a well rounded marketing strategy might also include pricing some of the crop for later delivery, to capture the large premiums, while establishing the loan deficiency payment (LDP) now. As harvest reaches completion, some consideration might be given to establishing the LDP on a small portion of the crop and storing the crop unpriced.

In the meantime, there appears to be some additional income relief on the way. The agricultural appropriations bill includes funds for disaster aid and crop insurance subsidies. The legislation also includes provisions for a doubling of the production flexibility contract payments for the 1999 crop. Those payments are based on base production levels. Last year, those rates were increased by about 50 percent and designated as marketing loss assistance payments. The payments, for program bushels, for the 1999 crop are $.637 for wheat and $.363 for corn. In addition, the legislation also designates $475 million for assistance to oilseed producers. The funds would be allocated on the basis of actual production. In the October *Crop Production* report, the USDA estimated 1999 U.S. oilseed production at 83.75 million tons. The allocation of $475 million would represent a payment of $5.67 per metric ton, or about $.15 per bushel for soybeans. Finally, the legislation doubles the payment limitation for marketing loan gains or loan deficiency payments to $150,000. It is believed that the President will sign the legislation.

The combination of loan deficiency payments (or marketing loan gains), production flexibility contact payments, oilseed payments, and large carry in the market offer a reasonable net price for producers with average or above average yields in 1999.

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