UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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PROSPECTS FOR CORN AND SOYBEAN PRICES

So far in the 1999-00 marketing year, the cash corn price in central Illinois has traded to a high of $1.905 (September 7) and a low of $1.675 (October 8). The price stood at $1.805 on November 19. All of the price recovery since October 8 has been in the form of basis gain. Futures prices actually declined by $.06 and the basis narrowed by $.19. For soybeans, the central Illinois price has traded to a high of $4.935 (September 7) and a low of $4.35 (October 26). The price stood at $4.48 on November 19. Since October 26, January futures have declined about $.14, while the basis has narrowed about $.27. For both corn and soybeans, the basis has narrowed significantly this month, as suggested in our newsletter two weeks ago. Basis has narrowed as the rate of farmer selling has slowed.

To date, the trading range in the cash price of corn in central Illinois for the 1999-00 marketing year has been $.23 and the trading range in the cash price of soybeans has been $.585. Based on the price history of the past 26 years, it is very likely that the trading range will be expanded by the end of the marketing year. For corn, the marketing year range of the cash price in central Illinois has been a minimum of $.445 (1990-91) and a maximum of $2.525 (1995-96). The range was $.60 last year. For soybeans, the marketing year range of cash prices has been a minimum of $.615 (1985-86) and a maximum of $5.205 (1976-77). The range last year was $1.92.

New lows in the cash price of corn and soybeans cannot be ruled out. Those new lows, if they did occur, would most likely be late in the marketing year under the scenario of large South American crops and good growing conditions in the U.S. That was certainly the case last year. After recovering from harvest lows, both corn and soybean prices established new lows in the first half of July 1999.

For now, however, it appears that the trading range will likely be expanded modestly with higher cash prices. Basis levels are expected to continue to strengthen until farmers start delivering January sales. That may be in the last half of December. Futures prices are also likely to get support from better feed demand prospects stemming from higher livestock prices and an unexpected increase in the number of cattle on-feed. Some dry conditions in South America may be supportive as well. The pace of exports and export sales will provide short term price direction. Weekly soybean export sales typically remain quite large through at least December. Sales begin a typical seasonal decline in January or February if crop conditions are good in South America.

Providing a back drop to all of the normal market fundamentals for this time of year is the persistent dryness in the mid-section of the U.S. The market is obviously very sensitive to whether or not the dry pattern will continue into the 2000 growing season. This could be a very agonizing winter as forecasters develop scenarios, provide forecasts, and, in some cases, spin the outlook.

Marketing strategies for old crop corn and soybeans seems fairly straightforward – protect against downside price risk but be in a position to profit from higher prices. The most straightforward way to do that is to hold inventory under CCC loan. That is most attractive for corn since cash prices are approaching the loan rate. There is a good chance that cash prices will exceed the loan rate during the next four months. If prices are still under the loan rate in late winter, locking in the loan repayment rate for 60 days in anticipation of a spring rally will be an attractive alternative.

For soybeans, the cash price is still about $.95 under the loan rate. While higher prices may occur, a move above the loan rate is less likely than for corn. At least two alternatives are available. First, the loan repayment rate can be locked in for 60 days (for loans already dispersed). Using this approach, there is a benefit from any increase in price, whether or not prices move above the loan rate. Second, producers might collect the loan deficiency payment and use options to protect the price. For farm stored soybeans, retaining ownership and buying put options might be preferred. For commercially stored beans, selling the crop and buying call options might be preferred. Using at-the-money options gives downside price protection, but also provides some profit even if subsequent price rallies are not above the loan rate.

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