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CORN AND SOYBEAN PRICES SHOWING SOME LIFE

March 2000 corn futures traded to about $1.95 in mid-December, but rebounded to $2.07 by the close on January 7. The average cash price in central Illinois increased from $1.79 to $1.90 during the same period, as the basis remained about steady. December 2000 corn futures traded to a low of $2.26 in mid-December 1999 and closed at $2.3675 on January 7. For soybeans, January 2000 futures traded to about $4.46 in mid-December, but settled at $4.715 on January 7. During the same time, the average cash price of soybeans in central Illinois moved from about $4.35 to $4.59. November 2000 futures advanced from a low of $4.72 on December 13 to a settle of $5.02 on January 7.

A number of factors contributed to the recent mini-rally in corn and soybean prices. USDA reports showing larger than expected numbers of cattle on feed and a larger than expected December 1 inventory of hogs, along with a recovery in livestock prices, suggest a strong domestic feed demand for corn and soybean meal. The USDA's December 1 *Grain Stocks* report, to be released on January 12, will reveal if the expectation is justified for corn. Decent levels of export sales, particularly for corn, raised hopes that the USDA's export projection figures for the current marketing year were too low. A lack of aggressive corn export sales by China and indications that the Argentine corn crop might be a little smaller than the December estimate were also friendly developments. A continuation of large areas of below-normal precipitation in the U.S. also played a supporting role. For soybeans, however, the major factor was the less than ideal start to the growing season in some parts of South America. A smaller crop there would support U.S. exports of soybeans and soybean meal.

It is difficult to judge how far the current "rally" will carry corn and soybean prices. Estimates and projections in the USDA's January 12 reports will provide further fundamental information about supply and demand prospects. The development of the South American corn and soybean crops will be very important over the next 3 months. Ultimately, production prospects in the U.S. will determine where prices end up. Currently, many analysts expect to see at least a marginal decline in corn acreage and a marginal increase in soybean acreage unless price ratios or loan rates change significantly. As always, the most important factor will be growing season weather and average yields for the 2000 crops.

Within this context of price uncertainty, producers must decide how to market the remainder of the 1999 crops and perhaps some portion of the 2000 crops. For old crop soybeans, the spot cash price is still well under the loan rate in most areas. Without a weather event, prices will have difficulty moving above the loan level. Producers who have already taken the loan deficiency payment on

For soybean producers who are considering carrying “unprotected” crops into the U.S. weather market, some sort of downside price protection might be considered. For farm stored soybeans, buying put options might be considered. July $4.75 put options had a premium value of $.25 on January 7. For commercially stored crops, selling the soybeans now and buying deferred call options might be considered. July $5.25 call options had a premium of $.24 on January 7.

For soybeans still protected by the marketing loan program, some consideration might be given to putting the crop under loan, if not done already, and using the 60 day lock in on the repayment rate. This strategy will allow producers to benefit from a price rally even if the rally does not go above the loan rate. The strategy of holding soybeans unpriced, under the loan program, and without the repayment rate locked in holds the potential of just trading dollars – higher price and lower LDP as prices increase and vice versa.

For old crop corn, spot cash prices are nearing the loan level in many areas. Continuing to hold the crop unpriced under the protection of the loan program is probably the most prudent strategy. If the posted county price is below the loan rate, locking in the repayment rate for 60 days might be considered. For both corn and soybeans, use of the 60 day lock in might be spread over a period of time rather than putting all eligible crop in that program at once. For producers who have already taken the LDP on a portion of the crop, using current price strength to price some of that crop should be considered. For producers waiting for spring/summer weather rallies, some downside price protection might be considered. On January 7, at-the-money July 2000 options cost about 15 cents.

For new crop corn and soybeans, pricing below the loan rate does not appear warranted at this time. Current corn prices are above the loan rate, but not by enough to warrant large sales. The purchase of new crop corn put options at current prices is NOT an attractive alternative since the option premium reduces the minimum price protection back to only the loan rate.

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820