UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CORN AND SOYBEAN PRICE VOLATILITY TO CONTINUE

The recent rally in corn and soybean prices that began in mid-December made a brief retreat last week. On February 4, July 2000 corn futures closed at $2.355, after trading as high as $2.4275 in the last week of January. Similarly, December futures closed at $2.51 after reaching $2.56 in the previous week. July 2000 soybean futures closed at $5.225, $.25 below the January 28 high. November futures, at $5.314, were off $.235 from the high on January 28.

While basis levels remain fairly weak, some improvement was noted last week. The spot corn basis in central Illinois averaged about $-.19 on February 4, about $.06 stronger than during the previous week, but $.03 weaker than in early January, and about $.10 weaker than is normal for this time of year. The new crop harvest delivery basis is near $-.27 in central Illinois, about $.07 weaker than normal.

The spot soybean basis in central Illinois averaged about $-.20 on February 4, also about $.06 stronger than during the previous week. Basis is about equal to the level of early January this year, but about $.10 weaker than normal. New crop (harvest delivery) basis is similar to corn, averaging about $-.27, $.07 weaker than normal.

Technically, the corn market continues in a short term up trend. However, on a longer term basis, prices are still within the wide sideways pattern that has persisted since mid-1998. The near term higher trend in the soybean market was threatened by last week's correction. Prices are well within the sideways pattern (based on a weekly bar chart) that has persisted for about 17 months.

Fundamentally, corn and soybean meal prices are being supported by robust domestic feed consumption. Rapid placement of cattle in feed lots, expansion in the poultry sector, and a return to livestock feeding profitability are the driving forces behind the perception of strong feed demand. Profitability may generate some interest in expanding hog numbers as well.

With both export shipments and total export commitments of soybeans running about 12 percent above last year's pace, there is some chance that exports for the year will exceed the USDA projection of 865 million bushels. The size of the South American harvest will have some impact on the magnitude of U.S. exports this year. A shortfall in production, however, would likely have a larger impact on U.S. exports during the 2000-01 marketing year. The South American crop is expected to be large, even if a little smaller than the current estimate. Corn exports and export commitments are running well ahead of last year's pace. However, exports were sluggish early in the year last year and moved sharply higher from late spring through the summer. With China willing to export corn on price rallies, there is some reluctance to project exports above the current USDA forecast of 1.975 billion bushels.

While current prospects are for fully adequate year-ending stocks of corn and soybeans, those projections are declining. A smaller level of carryover makes the size of the 2000 crop a little more important. The recent pattern of dry weather in much of the central corn and soybean producing areas provides a back drop of support for prices. Pro-longed periods of dry weather over a widespread area of the midwest are a little unusual. Maintaining generally dry conditions into the planting and growing season would appear to have a low probability. However, the persistence of the La Nina weather pattern has caused some meteorologists to raise the odds of such an event. At a minimum, crop production will be more dependent on timely precipitation than any time in the last 5 years, when soil moisture was generally adequate.

Price volatility will likely continue, but a "bull" market will have to wait on a violation of the long term sideways price pattern. That, in turn, will likely require more general concern about the 2000 growing season.

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