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CORN AND SOYBEAN PRICES – HOW HIGH?

Corn and soybean prices continue to be supported by improved demand and by supply concerns. December 2000 corn futures traded to a high of $2.6425 on March 17, while November 2000 soybean futures traded to a high of $5.59, both exceeding the late January highs. Last week's price strength was fueled primarily by forecasts of a continuation of warm, dry weather into the spring of the year. The National Weather Service 30 and 90 forecasts (through June) showed large areas of below normal precipitation and above normal temperatures.

The concern about the potential size of the 2000 crop is occurring in an environment of improved demand. Economic recovery in some southeast Asian countries, along with recent large purchases of soybeans by China, underscores the market enthusiasm about potential export demand. Soybean harvest delays in South America have also been helpful for U.S. soybean export prospects. Prospects for increased domestic consumption of soybean meal in Brazil may also reduce export competition. Even the lowly soybean oil market has shown some life in the face of mounting stocks as the market anticipates declining competition for soybean oil, particularly from palm oil. Longer term, there is widespread optimism that China will increase agricultural imports as it enters the World Trade Organization.

Domestically, feed demand prospects are being fueled by livestock feeding profitability and larger than expected numbers of livestock. The USDA's March *Cattle-On-Feed* report, released on March 17, confirmed a 9 percent increase in the number of cattle in U.S. feedlots. In addition, there is substantial pressure being applied to increase ethanol consumption and, in turn, corn processing.

Increasingly, a scenario of tightening stocks and higher prices is being anticipated for the 2000-01 corn and soybean marketing year. As usual, however, the evidence is not all one sided. Some private sources are now anticipating a slightly larger South American harvest than estimated by USDA earlier this month. Evidence of continued economic problems in South Korea and a slowing of the rate of economic growth in China are also caution flags on the demand side. If China does discontinue its current practice of subsidizing corn production and exports as a requirement to enter the World Trade Organization, the U.S. will likely gain export market share. However, a reduction in Chinese corn production would presumably lead to increased production, and reduced imports, of other crops.

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On the supply side, the National Weather Service forecast is for below normal precipitation through June. It is not a forecast for no precipitation. Moisture levels will likely be such that the corn and soybean crops get planted early and off to a good start. The more important questions center around summer weather. More normal and timely precipitation could still produce a large crop. A hot, dry summer could obviously result in very small crops. Meteorologists are somewhat divided in opinions about summer weather.

At this juncture, our expectations are for continued improvements in domestic and export demand; below trend yields (but not a disaster) in 2000; a further draw down in U.S. and world stocks in 2000-01; and higher average prices. If 77 million acres of corn are planted, about 70 million acres will be harvested for grain. A national average yield of 125 bushels would result in a crop of 8.75 billion bushels. Demand might be strong enough to support consumption at a record 9.6 billion bushels, even with higher prices, resulting in year ending stocks just under 900 million bushels. Stocks at a similar level resulted in a U.S. average price of $2.50 in 1993-94 and $2.71 in 1996-97. The market is currently offering a 2000-01 marketing year average price near $2.45, reflecting a weak basis and a small carry. There appears to be the potential for somewhat higher corn prices, perhaps with December 2000 futures challenging the contract high just under $2.80.

If soybean plantings reach 75 million acres, harvested acreage should be near 74 million. A national average yield of 35 bushels would produce a crop of 2.59 billion bushels. If demand remains robust, consumption could expand to 2.72 billion bushels, even with higher prices. That scenario would leave 2000-01 year ending stocks at a modest 200 million bushels. Stocks near that level resulted in an average price of $6.40 in 1993-94 and $6.47 in 1997-98. Demand, however, is probably not currently as strong as in those two years. The market is currently offering a 2000-01 marketing year average price near $5.40. As in the case of corn, higher soybean prices are expected, IF yields are adversely affected by 2000 growing season weather.

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