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WEEKLY OUTLOOK



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WEATHER PREMIUM FADES

Corn and soybean prices were in a general up trend from early January through early May. December 2000 corn futures moved from a low of about \$2.35 on January 10 to a high of about \$2.73 on May 3. November 2000 soybean futures rallied from \$4.96 to \$5.945 during the same period. The rally was initiated by the January USDA reports that contained a reduction of 280 million bushels in the projected level of year ending corn inventories and a 30 million bushel reduction in projected soybean stocks. The price increase was supported during the winter and early spring months by better than expected soybean export demand from China, below normal precipitation in some key growing areas, and forecasts of a warm, dry growing season.

Last week, December 2000 corn futures traded to a low of about \$2.41, closing at \$2.485. November 2000 soybean futures traded to a low of about \$5.19, but made a recovery to close at \$5.425. The decline in prices over the past month has reflected a significant improvement in moisture conditions in many areas and generally rapid progress of the crops. At the end of May, an estimated 85 percent of the soybean acres were planted and two-thirds of the crop was emerged, well above the 30 percent of a year ago. Ninety-three percent of the corn crop had emerged, compared to 73 percent last year. Sixty-six percent of the soybean crop and 70 percent of the corn crop were rated in good to excellent condition. A year ago, 75 percent of the corn crop that had emerged was rated in good to excellent condition. Crop conditions this year are not outstanding, but generally good. The average height of the Illinois corn crop, for example, was estimated at eight inches. That is well above the four inches of last year and the five year average of three inches, but well below the twelve inch average of 1987.

On June 9, the USDA's World Agricultural Outlook Board will release revised supply, consumption, and price estimates for the current marketing year and the 2000-01 marketing year. The projection of corn and soybean crop size for 2000 will still be based on planting intentions and a subjective estimate of yield potential. It is expected that yield projections will be held near trend values, although crop progress and crop ratings are somewhat below the values that could have been generated by such an early planting season. Overall, large adjustments to the corn and soybean supply and consumption outlook presented last month are not expected. A small reduction in the estimated size of the U.S. winter wheat crop is anticipated.

Changes in projections for crop supply, consumption, and stocks in the rest of the world will also be of interest. Attention will likely be focused on production and trade projections for China due to ongoing weather problems there. Last month, the USDA projected a 7 percent reduction in Chinese wheat production this year and a 62 million bushel increase in wheat imports during the 2000-01 marketing year. For corn, a 2 percent reduction in crop size was anticipated. Chinese corn exports during the 2000-01 marketing year were projected to decline by 118 million bushels.

U.S. weather conditions and crop prospects will continue to dominate corn and soybean price action. With the critical part of the growing season still to come, yield and production uncertainty is still high. Unlike the late April and early May price rally, however, the market will now likely require crop threatening weather, rather than forecasts of such weather, in order to move prices higher. With periodic moisture events, production potential is high enough to result in a third year of adequate supplies and low prices. The Commodity Credit Corporation loan rate continues to provide minimum price protection for the 2000 and 2001 soybean crops, as prices are currently below the loan rate. However, prices for both the 2000 and 2001 corn crops remain above the loan rate. With the downside price risk associated with another large crop, it is important that some of the crop be priced above the loan rate. For now, it appears that the old support level of \$2.50 in the December 2000 corn futures contract will serve as an important area of resistance.

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