UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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FOR NOW, SOME PRODUCERS MIGHT PREFER LOWER CORN AND SOYBEAN PRICES

The extended period of low crop prices has producers and policy makers eagerly awaiting a recovery to higher levels. For many corn and soybean producers, a price recovery after harvest this year is probably preferable to a recovery before harvest. Those favoring a pre-harvest recovery include those holding old crop supplies, not protected by the marketing loan program, that have to be moved prior to harvest and those with the loan repayment locked in at a lower level than currently available. For those formulating new crop pricing plans, a pre-harvest price recovery that keeps prices below the loan rate would likely result in lower net income than a post harvest price rally. Lower prices into harvest and through November 2000 could result in higher net incomes for many producers. That producers might prefer lower rather than higher crop prices, when prices are below the Commodity Credit Corporation loan rate, is a reflection of the mechanics of the marketing loan program and some revenue insurance instruments.

Producers who have contracted for delivery of corn and soybeans after harvest are eligible for loan deficiency payments on that portion of the crop. The lower prices go, the larger those payments will be. For crops that have not been forward contracted, many producers plan to establish the loan deficiency payment at harvest and hold the crop for an anticipated price improvement. Low prices make this strategy more attractive in that the risk of lower prices is reduced and the chances of a significant price rally are increased.

Some producers with revenue insurance may also prefer that prices remain low, or decline even further, through October for soybeans and November for corn. That is because for some, the revenue guarantee is based on average yield and the higher of the average price of November soybean futures in February or October and the higher of the average price of December corn futures in February or November. Actual revenue is calculated as actual yields times harvest price. The average price of December 2000 corn futures in February 2000 was $2.51 and the average price of November soybean futures was $5.32. The respective futures prices are currently well below those averages and lower prices would increase the likelihood of an insurance payment even if yields are above average. A price rally after November, if it occurred, could be used to price crops that have not been contracted. Lower prices over the next two to three months, followed by a price rally, would allow producers to maximize government program and insurance benefits and to sell crops at higher prices. The current rally in prices is a cruel twist for producers not yet ready to harvest.

Timing aside, the question remains whether or not there is reason to expect a significant recovery in crop prices in the near future. There are a few factors that point to some price improvement over the next several months. The first check point will be the USDA's September estimates of U.S. and world crop production. If those numbers are not larger, or perhaps are a bit smaller, than the August numbers, further declines in futures prices would not be expected. Locally, basis and cash prices will reflect crop size, harvest progress, and storage capacity issues.

Prospects for corn and soybean consumption are promising. Increases in domestic broiler and hog production are expected. Exports will be supported by strong Chinese demand for soybeans; increased domestic soybean consumption in Brazil; and a much smaller Chinese corn crop. Stocks at the end of the 2000-01 marketing year may be well below those currently projected by the USDA. While a shortage is certainly not expected, a high level of consumption and minimum build-up of stocks would open the door for price rallies later on if U.S. or world crop concerns materialize.

Over the past 18 seasons, cash corn prices in central Illinois have established a marketing year low in the fall (September or October) 8 times. The low the other 10 years was in either July or August following harvest. In the 8 years with a fall low, the marketing year high for the cash price was achieved in June, July, or August following harvest. The range from low to high during those 8 years ranged from $.445 (1990-91) to $2.525 (1995-96). The average range was $1.185.

For soybeans, the marketing year low cash price in central Illinois was established in the fall in 9 of the past 18 years. Like corn, the marketing year high cash price was reached in June, July or August following harvest. The one exception was a May high in 1996-97. The range from low to high varied from $.915 (1991-92) to $5.03 (1987-88). The average price range was $2.29. Excluding the drought years of 1983 and 1988, the average price range was $1.615.

While prices may remain at generally low levels during the 2000-01 marketing year, there is a very high probability that prices will be well above the harvest time price at some point during the year.

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