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CORN AND SOYBEAN PRICES IN THE WINTER DOLDRUMS

It is generally expected that corn and soybean prices will trade in a relatively narrow range in the winter months, particularly in February. This is a period when southern hemisphere crop prospects are pretty well known and the northern hemisphere planting season has not yet started. The market generally focuses on the rate of consumption and overall demand prospects. The USDA will update world supply and consumption prospects on February 8. Price volatility is expected to increase in the spring months as northern hemisphere weather and crop prospects dominate price action.

On the consumption side, the market focuses primarily on exports at this time of year, although trends in livestock production are certainly monitored for potential changes in domestic use. For corn, the market has been disappointed in the rate of export sales and shipments for most of the year. As of February 1, 22 weeks into the marketing year, export shipments were trailing last year's pace by about 105 million bushels, due to Chinese competition in the South Korean market and slow sales to Japan due to the StarLink issue. However, the rate of export sales accelerated in late January. As of January 25, outstanding export sales stood at 278 million bushels, only 20 million less than on the same date last year. There is some optimism that sales will continue to be large as Chinese supplies dwindle and as Japan increases purchases of U.S. corn. Japan's corn requirements are large and alternative supplies are limited. Even though StarLink continues to be reported in some Japanese shipments, resistance to U.S. corn is declining due to the reality of supply and demand and the lack of any problems associated with feeding of StarLink corn. The USDA may hold the projection of marketing year exports at 2.15 billion bushels, but there is a lot of ground to be made up. For the last 30 weeks of the year, shipments will need to average 45.5 million bushels per week, compared to the 34.7 million bushel average in the first 22 weeks.

Soybean export shipments through the first 22 weeks of the marketing year totaled 532 million bushels, about the same as shipments of a year ago. The big story, however, is the magnitude of unshipped sales. Those sales stood at 237 million bushels on January 25, compared to only 132 million bushels on the same date last year. The two largest importers, the European Union and China, account for the bulk of the increased sales. For the year, the USDA has projected exports at 975 million bushels, equal to last year's shipments. It now appears that shipments will exceed this projection, and USDA is expected to reveal a larger projection on February 8. Spreading restrictions on meat and bone meal feeding throughout the world are improving the

prospects for soybean and soybean meal demand. Restrictions on feeding in South America may keep more of the 2001 soybean crop at home, rather than in the world market. Some of the positive impact of reduced meat and bone meal feeding on soybean meal demand may be offset by reductions in beef cattle numbers, particularly in Europe. Longer term, it will be important that any permanent reduction in beef consumption be offset by increased pork and/or poultry consumption.

The recent developments on the export front have helped corn and soybean prices recover from the sharp decline following the January 11 USDA reports. March 2001 corn futures declined \$0.21 following those reports, while March 2001 soybean futures dropped \$0.38. The recovery last week totaled \$.05 for March corn and \$.09 for March soybeans. Some additional recovery is possible if export sales continue to be large. In general, about half of the January decline could be recovered, suggesting another \$.05 to \$.06 for corn and \$.10 for soybeans. The increase will come grudgingly as long as South American crop prospects are good. Higher prices in the near term would likely require some additional fundamental support, such as late season dryness in South America. Beyond February, the market will obviously begin to focus more on potential production in the U.S. in 2001. The USDA's March 30 *Prospective Plantings* report will be extremely important. The intentions for switching corn acres to soybeans will be of most interest, but the likely plantings of sorghum and spring wheat will also have important implications. Ultimately, however, the growing season weather and resulting average yields will be most important in determining the size of the crops and the level of prices. The weather forecasting season will begin in earnest in mid-April as spring weather patterns become established.

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