UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JUNE 11, 2001

MORE SUPPORT FOR CORN AND SOYBEAN PRICES

Crop concerns in parts of the U.S., China, Australia, and Canada have provided some support for corn and soybean prices in recent weeks. U.S. growing conditions continue to be less than ideal in many areas. The warmer, drier weather patterns in the eastern corn belt should promote crop development and lead to higher crop condition ratings. However, pockets of excessive precipitation have required some replanting and a few areas of dry conditions shall persist in the eastern and south eastern growing areas. The shift in the weather pattern will likely stir talk of a prolonged period of hot, dry weather. Of more immediate concern is the wetter, cooler pattern in northern growing areas. That pattern is slowing crop development and will likely result in some unplanted acreage. The impact of these developments will not likely be reflected in the USDA's monthly estimate of supply and use released on June 12, but should be reflected in the July report. An update of planted acreage intentions will be available on June 29 and weekly crop condition reports will provide input for revising yield expectations. At this juncture, the potential for large crops still exists, but there is more production uncertainty than in recent years. Replanting decisions on failed winter wheat acreage adds to that uncertainty.

In addition to supply concerns, soybean prices have received some support from the on-going high rate of consumption. The domestic crush is being supported by meal consumption and exports continue to be supported by Chinese buying. The projections of both exports and domestic crush are expected to be increased in the USDA's June 12 update of supply and use. The large exports are coming in the face of larger estimates of the size of the 2001 South American soybean crop. Indications that China may make an early entry into the World Trade Organization (WTO) fuels expectations of continued large soybean exports to China. China has already started booking imports of U.S. soybeans during the 2001-02 marketing year. The early interest in new crop soybeans is generally interpreted as an indication of continued strong demand from China. However, the extremely low prices may be altering the purchasing pattern a little.

In contrast to soybeans, corn prices have suffered from only routine export shipments. The current projection of corn exports for the 2000-01 marketing year may have to be revised a little lower. Prospects for increasing domestic feed use of corn have been limited by projections of declining cattle numbers and a very slow growth in hog numbers. However, prospects for industrial use of corn got a boost from the announcement that California will not be granted an exemption from the reformulated fuel requirements of the Clean Air Act. The decision opens the door for increased corn use for ethanol production. The impact is likely to unfold gradually as additional processing capacity is added.

With current prices at such low levels, there is potential for significant strength in corn and soybean prices. How much of that potential actually materializes will be determined in large part over the next two or three months. Some targets for new crop futures were outlined in last week's issue. For producers holding old crop supplies outside of the loan program, rallies will offer an opportunity to finish marketing that crop. For corn held under loan, spot prices have a chance to move above the Commodity Credit Corporation (CCC) loan rate on the basis of crop concerns. There appears to be only a remote chance that soybean prices will move above the loan rate, so that price increases will only result in the trading of higher market prices for lower marketing loan gains. Still, the only risk of holding soybeans under loan is the cost of ownership.

A similar situation exists for new crop prices. Soybean prices are well under the CCC loan rate and there is very little carry in the new crop price structure. There seems to be little incentive to price new crop soybeans at this juncture. In contrast, harvest bids for corn are near the CCC loan rate in many areas and there is a large carry in the price structure. Based on settlement prices on June 9, the average cash price offered for the 2001 corn crop is about $2.05. July 2002 futures were priced $.425 (21.5 percent) higher than July 2001 futures. The large carry in the market means that there is a substantial premium (weather or otherwise) in new crop prices. Pricing decisions will likely have to be made sooner for corn than for soybeans.

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