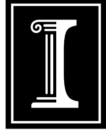
UNIVERSITY OF ILLINOIS
EXTENSION

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.

JULY 16, 2001

CROP PRICES FOLLOW WEATHER FORECASTS

It is often pointed out that weather and crop conditions in the U.S. are the most important crop price factors during this time of year. That fact was clearly demonstrated last week. The USDA reports on June 29, showing generally smaller than expected U.S. acreage and stocks of U.S. corn and soybeans provided underlying support for corn and soybean prices. Last week's monthly update of the world supply and consumption situation provided additional support for prices. In that report, the USDA confirmed prospects for increased use of U.S. corn and soybeans during the 2001-02 marketing year and for declining world stocks of grains and oilseeds. China even made a surprise purchase of U.S. corn for delivery after the fall harvest. But it was the forecast of an extended period of hot, dry weather for the corn belt that sent prices sharply higher. Speculators and commercial traders alike were buying futures based on fears of weather reduced U.S. crops. Initially, farmers were the primary sellers as prices went higher, although some speculative profit taking emerged in the corn market on Friday. Some forecasters have softened the hot, dry outlook somewhat.

Most observers agree that crops, particularly in western and northern growing areas, are vulnerable to weather damage due to late planting and timing of the reproductive phase of crop development. At the same time, widespread losses probably have not yet occurred. The problem, then, in market action based on weather forecasts is that forecasts can and do change, sometimes frequently. Generally, weather markets push prices to higher levels than can be sustained for a long period of time. As a result, producers are inclined to price a portion of the expected crop on such rallies, but do not want to price too much too early. Conversely, producers often find it difficult to lock in prices once prices start moving sharply lower. In summary, weather markets provide good pricing opportunities, but can be difficult to manage.

It is often useful to keep crop size in perspective. Over the past 12 years, the season's average price of corn was $2.50 or higher in only three years – 1993-94 ($2.50), 1995-96 ($3.24); and 1996-97 ($2.71). In those years, the ending stocks-to-use ratio was reduced to 11 percent, 5 percent, and 10 percent, respectively. The USDA currently projects a market for 9.735 billion bushels of corn during the 2001-02 marketing year. For year ending stocks to be reduced to 10 percent of use (assuming beginning stocks of 2.053 billion bushels), the 2001 crop would have to be about 8.64 billion bushels. Based on a harvested acreage estimate of 69.3 million, a crop of that size would require an average yield of 124.7 bushels per acre. Trend yield is generally considered to be near 137 bushels.

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING
The Illinois and Indiana Cooperative Extension Services provide equal opportunities in programs and employment.

For soybeans, the prospects of a small year ending-stocks-to-use ratio appears to have less significance than in the past due to increased production in South America. For example, for the current marketing year, the year ending stocks-to-use ratio is projected at nine percent, with a season's average price of $4.50. In the past (1993-94, 1995-96, and 1997-98), a similar stocks-to-use ratio was associated with an average price of about $6.50. Similar prices now might require a year ending stocks-to-use ratio of six to seven percent. The USDA projects use during the 2001-02 marketing year at 2.85 billion bushels, so that stocks might need to be reduced to 180 million bushels or less to see average prices over $5.50. Such a scenario (assuming another large South American crop in 2002) would require a 2001 crop of about 2.77 billion bushels, implying a national average yield of about 37.3 bushels per acre. That is only about 2.2 bushels below trend yield. In the case of a small crop and/or small ending stocks relative to use, corn and soybean prices would be expected to trade at prices well above the average sometime during the relevant pricing period.

For now, new crop soybean prices are below the loan rate and the higher price trend appears to have stalled. The soybean oil market has finally shown signs of life after declining to 28-year lows earlier this year. Patience in pricing new crop soybeans appears to still be warranted. New crop corn prices have moved above the loan rate. December futures moved nearly $.40 higher from June 25 to the high on July 12. Resistence is now seen at $2.50 and $2.60, with initial support at $2.20. Some new crop sales at prices above the loan rate appear warranted. December futures above $2.50 would also bring options into play, as minimum prices above the loan level could be established.

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