



# WEEKLY OUTLOOK



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## **IS THE CORN AND SOYBEAN PRICE RALLY OVER?**

Hot, dry weather conditions and concerns about crop size drove December 2001 corn futures to a summer high of \$2.47 on July 13. November 2001 soybean futures reached a summer peak of \$5.38 on July 17. At the close of trade on August 17, December futures were at \$2.2825, and November futures were at \$5.0275. Those prices are \$.06 and \$.0925, respectively below the settlement prices of August 10, the day the USDA's *Crop Production* report was released. Prices were sharply lower in early trading on August 20. The market has had a lot of supply and demand information to absorb over the past 10 days.

On the supply side, the USDA's weekly report of crop conditions has shown deteriorating crop conditions since the August yield estimate was released. As of August 12, only 60 percent of the corn crop and 57 percent of the soybean crop was rated in good or excellent condition. That compares to 75 and 65 percent, respectively, a year ago. Ratings were near the lowest for the season. The generally warm and dry conditions of late July and early August convinced most analysts that 2001 U.S. average corn and soybean yields would be below the August forecast. However, cooler temperatures and a little more abundant rainfall in mid-August created more divided opinions about yield potential, particularly for soybeans.

On the demand side, an acceleration of corn export sales this summer, particularly to Japan, improved export prospects for the marketing year ending this month. The USDA raised its forecast to 1.875 billion bushels, 50 million larger than the July forecast. The USDA has also forecast a significant increase in corn and soybean oil exports during the 2001-02 marketing year and expects soybean and soybean meal exports to remain large. In addition, the recent restriction on the use of the oxygenated fuel, MTBE, has generated expectations of expanding use of corn for ethanol production. For the year ahead, the USDA has forecast a 60 million bushel (9.7 percent) increase in use of corn for ethanol production.

Much of the optimism about corn exports during the year ahead centers around prospects for a second consecutive small corn crop in China and reduced competition from Chinese exports. The USDA has forecast a decline of 235 million bushels in Chinese exports during the 2001-02 marketing year. However, China has recently announced additional corn export tenders. The results of those tenders are not clear, but they may have represented more than 100 million bushels of additional sales by China.

For soybeans, on-going reports of plans to expand soybean acreage in Brazil by 9 to 10 percent this year raises concerns about continuing competition in the export market. The USDA now projects 2002 South American production potential at 2.513 billion bushels, 55 million larger than the 2001 record harvest. In addition, GMO issues continue to haunt the soybean market. China recently announced a policy that would restrict imports of GMO, although the details are not available and it is not clear how such a policy would be enforced. Finally, scientific reports last week of the presence of additional DNA associated with a popular GMO soybean, while not new information, sent a bit of a shock through the market.

For the next two months, corn and soybean prices will continue to be influenced by expectations about U.S. crop size. Recent events, however, suggest other factors may be important as well. The continuation of seasonal temperatures and some rainfall in the midwest suggest that prices will remain below the mid-July highs. The USDA will release new production forecasts on September 12.

Harvest time marketing strategies will be influenced by the level of cash prices in relation to loan prices, the magnitude of the carry in the price structure, and the cost and availability of storage. If prices are near the loan level (more likely for corn than soybeans) producers will likely be interested in storing the crop under loan. Such a strategy involves little price risk, but generates storage costs. If prices are significantly above the loan rate, producers will likely make large sales at harvest, given that pre-harvest sales have been small. This scenario has a low probability, particularly for soybeans. Finally, if prices are well below the loan rate, producers will likely establish loan deficiency payments and retain ownership of much of the crop. The lack of carry in the soybean price structure offers little incentive to store soybeans, so that "ownership" by other methods (futures, basis contracts, etc.) might be considered. The carry in the corn market may be large enough to make sales for deferred delivery attractive.

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