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.

OCTOBER 8, 2001

HARVEST LOWS NEAR?

The average spot cash price of corn in central Illinois traded to a marketing year low of $1.835 on October 2, 2001. That price was nearly $.20 below the marketing year high established on September 13. The basis has remained fairly steady near -$.25, about $.05 stronger than the basis of a year ago. December 2001, corn futures traded to a low of $2.0825 on October 3, only $.06 above the contract low established in June 2001.

The average spot cash price of soybeans reached a marketing year low of $4.26 in the first week of October. That price was $.455 below the marketing year high reached on September 4. The low price to date is similar to the marketing year low of the past two years ($4.145 and $4.295, respectively). The central Illinois basis is averaging about -$.24 per bushel, near the level of a year ago.

With harvest progressing rapidly and with smaller total crop production resulting in more ample storage capacity, it appears that the prices of corn and soybeans are nearing seasonal lows, or perhaps a marketing year low. Over the past 28 years, the marketing year low price of corn in central Illinois has been reached in the first quarter of the marketing year 13 times. In 12 of those years, the low was reached in September or October. The low in 1975-76 was established in November. Over the same time period, the average cash price of soybeans reached a marketing year low during the first quarter of the year 12 times. The latest data for the low was November 1.

If the lowest spot cash price of corn is established in the fall time period, history would suggest that the marketing year high spot cash price will most likely be $.50 to $.75 above the lowest price. For soybeans, history would suggest that the highest spot cash price would be $1.00 to $1.25 above the lowest price. Even if the marketing year low cash price is not established in the fall, a post-harvest price recovery would be expected, with new lows not likely until the spring or summer of 2002.

The USDA's October *Crop Production* report, to be released on October 12, may be important in determining if seasonal lows in the cash market have been established, or will be established soon. Private forecasts for the size of the 2001 corn crop continue to vary from 100 million bushels below the USDA's September forecast to 100 million bushels above the September forecast. This is a relatively small range, but with year ending stocks expected to declined significantly, 100 million bushels is important. A smaller forecast on October 12 would suggest that a seasonal low has been established, while a larger forecast would suggest the low is yet to come, likely this month. Based on late season crop condition ratings and yield reports, we expect the USDA October yield and production forecasts to be just a little larger than the September forecasts. This would be similar to the pattern of 1989, 1991, 1997, and 1999, when slightly smaller September forecasts were followed by slightly larger October forecasts. For soybeans, we expect the October crop forecast to be slightly smaller than the September forecast, although recent history shows that a smaller September forecast is followed by a smaller October forecast less than half the time.

The demand picture for corn and soybeans will also be influential in determining the level and timing of seasonal lows in prices. More importantly, the rate of use of these crops will be important in determining the magnitude and timing of a post harvest recovery in prices. The lack of expansion in hog numbers and the expected decline in placements of cattle into feedlots point to a stable situation for feed use of corn and soybean meal. For corn, the market will follow the growth in ethanol production and the rate of export sales for indications of consumption. For soybeans, the market will follow the rate of export sales, the development of the South American soybean crop, and the size of other vegetable oil crops.

Corn export sales accelerated in the last half of September and are now running only 5 percent behind the pace of a year ago. Accumulated sales of soybeans for export are now running about 5 percent ahead of last year's pace. China's decisions relative to the policy on importing of GMO soybeans will be important to overall soybean export demand.

Producer pricing decisions will continue to be tied to the use of the marketing loan program. The likelihood of a seasonal low in October suggests establishing the loan deficiency payment (LDP) and owning a portion of the crop for a post-harvest price recovery. The carry in the corn market suggests that establishing the LDP and pricing a portion of the crop for later delivery might also be considered. For soybeans, the lack of carry in the market suggests that ownership in the form of basis contracts or futures might be lower cost than physical storage. The risk of lower prices (and margin calls with futures), however, would still be present.

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