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 15, 2001

CORN AND SOYBEAN MARKETS GET A SHOCK

The USDA's October *Crop Production* report, released on October 12, contained larger than expected forecasts of the 2001 U.S. corn and soybean crops. The corn crop is forecast at 9.43 billion bushels, 540 million smaller than last year's harvest, but about 200 million larger than the September forecast. The increase reflects a 2.8 bushel per acre increase in the forecast of the U.S. average yield. At 136.3 bushels, that yield is only 0.8 bushel below the average for the 200 crop. Compared to last month's forecast, the largest increase in state yield forecasts came in Kentucky (10 bushels), North Carolina (9 bushels), and Indiana (8 bushels). The highest average yield for states without significant irrigated acreage is the 160 bushels for Indiana.

Even with a 75 million bushel increase in the projection of corn exports during the current marketing year and a 40 million bushel decrease in the estimate of stocks at the beginning of the year (September 1, 2001), the USDA's projection of year ending stocks increased by nearly 100 million bushels. Projected at 1.458 billion bushels, year ending stocks would be about 440 million less than stocks at the beginning of the year.

Other important changes in the forecast of world corn supply and use included an increase of 118 million bushels (3 percent) in the estimated size of the Chinese corn harvest. That increase was offset by smaller estimates for Argentina, Canada, and Europe. World consumption of corn during the 2001-02 marketing year is expected to exceed production for the second consecutive year, resulting in a further draw down in inventories.

The 2001 U.S. soybean crop is now forecast at 2.907 billion bushels, 73 million larger than the September forecast and 149 million larger than the record crop of 2000. The U.S. average yield forecast was increased by one bushel per acre from the September forecast. At 39.2 bushels per acre, the forecast is the second largest on record, 2.2 bushels below the average of 1994. The average yield forecast in October was higher in every major producing state expect Michigan, where the forecast dropped one bushel. The highest state average yield (49 bushels) is forecast for Indiana.

The larger soybean production forecast was accompanied by a 10 million bushels reduction in the forecast of exports during the current marketing year. As a result, year ending stocks (September 1, 2002) are now projected at 345 million bushels, 90 million larger than projected last month and 97 million larger than stocks at the beginning of the year. Other important changes in the October forecast of world soybean supply and use during the 2001-02 marketing year included a 129 million bushel (5 percent) increase in the projected size of the 2002 South American crop. That crop is projected at 2.642 billion bushels, 5.3 percent larger than the record 2001 harvest. The record 2001-02 world soybean crop of 6.638 billion bushels is expected to be mostly consumed, as use will be supported by on-going low prices.

Producer pricing decisions for corn and soybeans will continue to be tied to the use of the marketing loan program and will be influenced by the magnitude of carry in the price structure. A relatively large carry in the corn market offers more pricing alternatives for corn than for soybeans. As of October 12, the premium for January 2002 delivery over spot delivery in central Illinois average about $.19 per bushel. Assuming a normal spring basis, the premium for June delivery was about $.35. One alternative for those with adequate, low cost storage is to establish the loan deficiency payment (LDP) now and forward price the crop for later delivery. That strategy locks in the loan price plus some small return to storage, but would not allow the producer to benefit should prices move higher at a later date. Producers might forward price the stored crop by purchasing put options. That strategy would provide downside price protection and allow the producer to participate in any subsequent rallies in the futures prices. As of October 12, at-the-money put options were priced at about $.08 per bushel for March 2002 and about $.15 for July 2002. For those with insufficient or high cost storage, a similar strategy would involve establishing the LDP, selling the crop, and purchasing call options. A third alternative is to place the crop under loan and establish the repayment rate for 60 days. That strategy would allow producers to benefit from cash price rallies above the loan rate and to be protected from lower cash prices at the end of the 60 day period. A fourth strategy is to establish the LDP now and hold the crop in anticipation of post-harvest rallies in the cash price. This strategy obviously provides no protection should prices move lower. A fifth strategy would involve establishing the LDP now and pricing the crop for immediate delivery, in effect accepting the loan price as the net selling price.

For soybeans, the lack of carry in the market does not favor forward pricing the stored crop. Strategies for soybeans include establishing the LDP and selling the crop now; establishing the LDP and storing the crop unpriced; establishing the LDP and selling the crop on a basis contract; or establishing the LDP, selling the crop, and purchasing call options. For both corn and soybeans, some combination of strategies might be considered as a way to manage price risk.

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