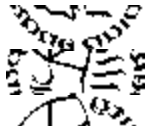




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WEEKLY OUTLOOK

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WILL CORN AND SOYBEAN PRICES BREAKOUT FROM A FOUR YEAR SLUMP?

Cash prices for corn and soybeans have been at low levels since late summer of 1998. For the 44 months from August 1998 through March 2002, the average monthly central Illinois cash soybean price ranged from \$4.08 (July 1999) to \$5.57 (November 1998). The average price over that period was \$4.68. April 2002 will be the 45th consecutive month of extremely low soybean prices. From August 1998 through March 2002, the average monthly central Illinois cash corn price ranged from \$1.58 (September 2000) to \$2.145 (May 2000). The average price over that period was \$1.90. As with soybeans, April 2002 will mark the 45th consecutive month of low corn prices. This is the longest period of low prices since the 1960s.

While prices have been at low levels since August 1998, the range in cash prices has been large. For corn, the lowest average daily cash price in central Illinois was \$1.45 (August 1, 2000) and the highest price was \$2.225 (May 3, 2000). The range in cash prices during each of the three crop years 1998-99 through 2000-01 varied from \$.595 to \$.775 per bushel. For soybeans, the lowest average daily cash price in central Illinois was \$3.875 (July 8, 1999) and the highest cash price was \$5.795 (November 11, 1998). The range in cash prices during each of the three crop years 1998-99 through 2000-01 varied from \$1.055 to \$1.92.

For the current marketing year, the pattern of low prices has persisted, but the trading range has been relatively narrow to date. For corn, the average daily cash price has varied from \$1.795 (October 15, 2001) to \$2.03 (September 13, 2001), a range of only \$.235. For soybeans, the average daily cash price has varied from \$3.985 (October 22, 2001) to \$4.715 (September 3, 2001), a range of only \$.73 per bushel.

The price patterns described here lead to two important questions. First, will cash prices during the current marketing year exceed the ranges established in the first 7.5 months of the marketing year? Second, when will cash prices break out of the four-year pattern of extremely low prices? The second question is phrased as "when" will higher prices occur, not "if" higher prices will occur.

The price range for the current marketing year could be expanded by a lower cash price, a higher cash price, or both. For soybeans, the lowest cash price to date is below \$4 and is consistent with the magnitude of lows for the previous three crop years. Given intentions by U.S. producers to reduce soybean acreage in 2002, it is unlikely that new lows will be established in the cash market soon, if at all. If the trading range is to be expanded, it is most likely to occur with higher cash prices. Over the past 28 years, the lowest cash price of

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soybeans in central Illinois occurred in the fall (September, October, or November) 12 times, as was the case this year. The highest cash price in those 12 years occurred in May twice, June four times, July five times, and August once. In addition to those 12 years, the highest cash price also occurred in May, June, July in five other years. A new high in the cash soybean market this year will likely require confirmation of reduced acreage and a period of concern about the crop. If acreage is not reduced, a period of more significant threat to the crop will be required.

For corn, the lowest cash price in central Illinois to date is well above the lows established in the previous four crop years while the high is below the highs established in the three previous crop years. Given U.S. producers intentions to plant more corn in 2002, the cash price range could arguably be expanded by either a new high or a new low. In the previous 13 years when the lowest cash price was established in the fall, the highest cash price occurred in the May through August period 12 times. The high was in December last year. If a new high is to occur, it will likely require a threat to the U.S. crop during the summer of 2002. Over the past 28 years, the high in the cash corn market occurred in the fall on nine occasions (as is the case so far this year). The lowest cash price in those years occurred in August six times and July twice. A good growing season in 2002, in combination with more acres, would likely produce a new low in the cash corn market in the summer of 2002.

There are several reasons for the long period of very low corn and soybean prices and the importance of those factors has been debated. Fundamentally, the most important reason has been consecutive large crops in the U.S. and the rest of the world since 1996. In the absence of price support, supply control, or storage programs, market prices have moved to a low level in order to "clear the market". Prices will move to higher levels when supply is significantly reduced and/or demand is significantly expanded. Demand shifts tend to occur rather slowly, so that higher prices are more likely to occur as a result of a reduction in supply. Given current U.S. and world farm policy, a supply reduction may have to be generated by a shortfall in production. Those occurrences are difficult to forecast.

Issued by Darrel Good
Extension Economist
University of Illinois