



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.

DECEMBER 9, 2002

CORN AND SOYBEAN PRICES – NOW WHAT?

If you blinked, you missed the post-harvest recovery in corn prices. The average cash price of corn in Central Illinois reached a late harvest low of \$2.30 on November 11, rebounded to \$2.40 on November 19, and then declined to \$2.275 on December 5. The average central Illinois basis weakened in late November as the carry disappeared from the futures market. The recent price action was not unexpected given the very strong basis during the harvest period and the struggling corn export market. On Friday of last week, the carry in the futures market for old crop corn increased and average central Illinois basis strengthened to \$-.04 under March futures.

Post-harvest price action in the soybean market has been more typical. The average central Illinois cash price bottomed in early October, rallied about \$.65 into early November and then declined about \$.15 into early December. The average central Illinois basis strengthened to \$-.05 under January in early November and then weakened to about \$-.10 in early December. The post-harvest recovery was driven more by an increase in futures prices than in the strengthening of the basis. The higher futures prices reflected a rapid pace of exports and concerns about the South American crop.

The USDA will update the projections of U.S. and world supply and consumption on December 10. Large changes from the November projections for corn and soybeans are not expected. However, the pace of soybean exports is larger than that implied by the USDA's projection for the year. At 890 million bushels, 2002-03 marketing year exports are expected to be 16.3 percent smaller than exports of a year ago. Through December 5 (14 weeks into the marketing year) shipments were running only 6 percent behind the pace of a year ago. As of November 28, however, unshipped sales of soybeans totaled only 275 million bushels, 12 percent less than on the same date last year.

On January 10, the USDA will release the final estimate of the size of the 2002 U.S. corn and soybean crops. Again, large changes from current projections are not expected, but the late soybean harvest in the south may have resulted in above normal field loss or unharvested acreage. In addition, some believe that the estimate of harvested acreage of corn might be reduced as well, to more fully reflect the impact of drought in some major corn producing areas.

Also on January 10, the USDA will release an estimate of U.S. winter wheat seedings. Typically, this report might have only small implications for corn and soybean prices. This year, however, a large increase in winter wheat seedings is expected. Such an increase would have implication

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for the acreage available for spring planted crops. Questions about the mix of spring planted crops will remain an open issue, but the wheat report will be an early indicator of total acreage of spring crops.

While USDA reports will provide important information to the market place, most attention will remain on the rate of consumption of the crops. Some negative demand news has been received in recent weeks. This has been in the form of smaller domestic livestock inventories, continued large shipments of Chinese corn, larger estimates for Canadian crops, and some improved weather prospects in South America. Positive news includes the large Chinese appetite for soybeans, a record pace of ethanol production, and confirmation of smaller U.S. inventories of soybean oil.

The average cash price of corn during the first quarter of the 2002-03 marketing year was near \$2.40, equal to the mid-point of the USDA's projection of the marketing year average price. The average cash price of soybeans during the first quarter was about \$5.40 per bushel, also equal to the mid-point of the USDA's projection of the marketing year average price.

It may be that both corn and soybean prices will trade in a relatively narrow range during the winter months, particularly if the South American soybean crop makes normal progress. The January 10 USDA reports contain the most potential to give new direction to prices. In addition to final crop estimates and winter wheat seedings, those reports will include the estimates of December 1, 2002 U.S. crop inventories. Expectations of South American production will be firmer by that time as well.

Prices could become more volatile beginning in March as the market refocuses on U.S. production prospects for 2003. Those holding inventory, or other long positions, in anticipation of a price rally should likely plan to hold those positions into the spring. An earlier rally would be welcome, but is currently not expected.

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