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HIGHER CORN AND SOYBEAN PRICES EXPECTED

Corn and soybean prices have recovered most of the declines experienced in mid-January. The average cash price of corn in central Illinois declined from $2.39 on January 8 to $2.22 on January 14, recovered to $2.375 on February 12, and was at $2.36 on February 14. March 2003 futures settled at $2.4525 on January 8, $2.305 on January 13, and $2.4025 on February 14. Similarly, the average cash price of soybeans in central Illinois declined from $5.755 on January 8 to $5.41 on January 16, but recovered to $5.665 on February 14. March 2003 futures settled at $5.82 on January 8, $5.49 on January 16, and $5.73 on February 14. All of the recent recovery in soybean prices has been the result of higher soybean meal prices. Oil prices continue to be pressured by last week's increase in the USDA's projection of year ending stocks. New crop futures have been strong as well. December 2003 corn futures have traded to the highest level since last October and November 2003 soybean futures have traded to the highest level since last September.

Corn prices have recovered even in the face of a fairly dismal pace of exports and export sales. As of February 6, the USDA reported that the total of shipments and outstanding export sales were 14 percent smaller than the total of a year ago. For the current marketing year, the USDA expects exports to be only 3 percent smaller than shipments during the 2001-02 marketing year. The market continues to be hopeful that Chinese competition will diminish during the last half of the 2002-03 marketing year. Corn prices are receiving support from a rapid pace of domestic use of corn for ethanol production. Last week, the USDA raised the projection of corn use for fuel production during the current year by 20 million bushels, to a total of 920 million. That compares to use of 714 million bushels during the 2001-02 marketing year.

Soybean prices have responded to the continuation of the rapid pace of exports to China. The USDA now projects soybean exports to all destinations during the current marketing year at 940 million bushels, compared to 1.063 billion last year. However, due to the discrepancy between USDA and Census Bureau estimates of soybean exports so far this year (Census Bureau estimates are well below those of the USDA), the USDA also increased the forecast of residual use of soybeans by 15 million bushels. In effect, the USDA is projecting exports at 955 million bushels, 10 percent less than exports of a year ago. As of February 6, 2003, cumulative shipments were only 4 percent less than shipments of a year ago and total commitments (shipments plus outstanding sales) were almost equal to the commitments of a year ago. With year-ending stocks of soybeans projected at only 165 million bushels, the normal seasonal pace of exports cannot be sustained. It may be that the availability of South American soybeans will slow the pace of U.S. exports sufficiently so that U.S. stocks are not threatened. The USDA now projects the current South American harvest at 3.24 billion bushels, 70 million larger than the January projection and 426 million bushels larger than last year's crop. Sixty-five percent of the increase is expected to occur in Brazil. For the 2002-03 marketing year, the USDA expects South America to account for 53 percent of world soybean exports, up from 42 percent last year. If the pace of U.S. exports and export sales do not slow soon, higher prices may be required to force a reduction in use, either export or domestic.

Both corn and soybean prices appear to be at an important juncture, having recovered from January losses, but remaining below early January highs. Seasonally, we are approaching the time frame that prospects for the 2003 U.S. crops may determine the fate of prices, a point we have made in recent weeks and one that is underscored by prospects of small stocks and some early concerns about soil moisture conditions. Everything seems to be pointing to more volatile prices over the next few months. Trading ranges to date have been relatively narrow. December 2003 corn futures have had a trading range of only $.34. The smallest range in the previous 32 years was $.54 (1987). Similarly, November 2003 soybean futures have had a trading range of $.90. In the previous 30 years, the trading range was less than $1.15 only once ($.91 for the 1986 contract). Since September 1, 2002, the trading ranges for the average cash price of corn and soybeans in central Illinois have been $.575 and $.885, respectively. In the previous 30 years, the trading range for cash corn prices during the 12 month marketing year was $.575 or less only three times. The trading range for cash soybean prices was less than $1.00 only twice.

It appears that the trading ranges for spot cash prices in the current marketing year, and for new crop futures in particular, will be expanded. The more difficult question is, in which direction? Given that December 2003 corn futures have traded to a high of only $2.69 and November 2003 futures have traded to a high of only $5.43, it appears likely that the trading range of those contracts will be expanded to the upside. It is a tougher call for old crop prices, but new highs in the cash soybean market have a high probability. It will be difficult for cash corn prices to exceed the early September 2002 highs.

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