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.

FEBRUARY 24, 2003

OBSERVATIONS ON CORN AND SOYBEAN PRICE PATTERNS

As pointed out last week, corn and soybean prices during the first half of the 2002-03 marketing year were in a relatively narrow trading range. Some additional and more detailed observations can be made about the price patterns of old and new crop corn and soybean prices to date.

Since September 1, 2002, the average spot cash price of corn in central Illinois has had a trading range of $.565 per bushel. That range is within the trading range experienced over the previous 29 years, although at the low end of the historical range. The smallest trading range was $.445 in 1990-91 and the trading range was $.60 or less in seven other years, most recently in 2000-01. Both the high price ($2.785) and the low price ($2.22) to date are the highest since 1996-97, but are well within the experience of the previous 29 years. The one unusual feature of the price pattern so far is that the post harvest low occurred in January. A post-harvest low occurred in January only one other time in the previous 29 years (1979-80).

The December 2003 corn futures contract has a life-of-contract high of $2.69 and a life-of-contract low of $2.35, for a trading range of $.34. Since 1973, the December futures contract has not had a trading range of less than $.54, and has had a range of less than $.70 only six times, most recently for the 1994 contract. The high price to date ($2.69) is at the low end of historical experience. Since 1973, the contract high was less than $2.75 only in 1986 and 1987 ($2.3525 and $2.16, respectively). The low price to date ($2.35) is at the high end of historical experience. Since 1973, the contract low for December futures was $2.35 or more only seven times, most recently for the 1995 contract.

Based only on historical patterns, it might be expected that the average central Illinois spot cash price of corn would establish a new low before August 31, 2003. On the other hand, December 2003 futures might be expected to establish a new high and a new low before maturity in mid-December. Such a development could likely be generated only by significant swings in weather and crop prospects.

Since September 1, 2002, the average spot cash price of soybeans in central Illinois has traded between $5.895 and $5.01. The range of $.885 is at the low end of ranges experienced since 1973-74. The smallest range was $.615 in 1985-86, followed by $.915 in 1991-92. Recently, the smallest range was $1.055 in 2000-01. Both the highest cash price and lowest cash price to date are well within the historical range, but at the highest level since 1997-98.

The November 2003 soybean futures contract has a life-of-contract high of $5.43 and a life-of-contract low of $4.53. The trading range of $.90 is the smallest of the past 30 years. The previous smallest range was $.9125 for the 1986 contract, followed by $1.1675 for the 1995 contract. Since 1996, the range has varied from $1.625 (2002) to $2.40 (1996). The life-of-contract high to date ($5.43) is the lowest experienced in modern history (post-1973). The previous low was $5.565 for the 1986 contract followed by $5.91 for the 2002 contract. The contract high for November futures has been lower every year since 1996. The life- of- contract low to date ($4.53) is well within the historical range, but is the highest since 1997.

Again, based on historical patterns alone, it might be expected that the average central Illinois spot cash price of soybeans would have an expanded trading range prior to August 31, 2003. Similarly, it might be expected that November 2003 soybean futures would have an expanded trading range prior to contract maturity in mid-November. History does not provide much insight on which direction the range might be expanded, except that the life-of-contract high to date for November 2003 futures is extremely low, even factoring in the influence of South American production. An expanded trading range for soybean prices could be generated by a number of factors, but the most likely factor will be 2003 U.S. crop prospects.

The attitude about 2003 corn and soybean production prospects has recently shifted from concern about extensive dryness to expectations of improved moisture conditions, expanded corn acreage, and large crops in 2003. It is this pattern of shifting production expectations, magnified by current small inventories, that could lead to more volatile prices over the next six months.

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