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.

APRIL 14, 2003

WHAT NEXT FOR CORN AND SOYBEAN PRICES?

The soybean market had a two-day reaction to the generally negative information in the USDA's March *Grain Stocks* and *Prospective Plantings* report and then proceeded to move to the highest level of the year. May 2003 futures traded to $6.08 and the average cash price in central Illinois reached $5.96. That price is $.02 above the 2001-02 marketing year high and is the highest cash price since the 1997-98 marketing year. The recent price strength is associated with the continuation of a high rate of exports and export sales and some late season concerns about wet weather in parts of South America. Last week, the USDA raised the export projection for the current marketing year by 35 million bushels. At 995 million bushels (1.005 billion if the additional residual use projection is included) the current projection compares to an early season projection of only 800 million bushels. USDA reports show current exports and export commitment above the level of a year ago, when shipments for the year reached 1.063 billion bushels.

Part of the impact of larger-than-expected exports of U.S. soybeans has been offset by the smaller-than-expected domestic crush. The USDA now projects the domestic crush at 1.62 billion bushels, 80 million less than crushed last year and 55 million less than projected last fall. The slow down in the crush since January has been primarily the result of weaker export demand for soybean meal.

The USDA now projects year-ending stocks of U.S. soybeans at 145 million bushels, 63 million below the level of stocks at the beginning of the year. Stocks will be at the lowest level in six years and the second lowest level in 26 years. The smaller inventory in the U.S. is offset by the expectations of large production and a marginal increase in stocks in South America.

Even with the recent price activity, the trading range in the cash price of soybeans in central Illinois since September 1, 2002 has been relatively narrow. The range of $.95, if it persisted through August, would be the smallest marketing year trading range in 11 years and the third smallest range in 30 years. The same pattern is evident in the November 2003 futures contract. The trading range for that contract to date is $.90. Since 1972, the life of contract trading range was $.91 on two occasions (1972 and 1986). After that, the smallest range was $1.17 for the 1995 contract. With inventory at a very low level and indications that U.S. producers will reduce soybean acreage in 2003, a continuation of volatile price behavior should be expected. In the short run, a new marketing year high might be expected. New lows before the end of the summer would likely require a steep drop in exports and a very favorable growing season.

Corn prices were generally higher in the week following the “friendly” USDA reports on March 31. The average spot cash price of corn in central Illinois moved from $2.26 on March 28 to $2.40 on April 7. May 2003 futures moved from a close of $2.2775 on March 28 to a high of $2.4525 on April 8. The price strength was relatively short lived, however, as a slow rate of exports and prospects for ample year-ending stocks pushed prices lower last week.

On April 10, the USDA released its monthly projections of supply and use. For corn, the projection of domestic use was increased by 70 million bushels, but the projection of marketing year exports was reduced by 75 million bushels. Exports are now projected at 1.675 billion bushels, 325 million less than the early season projection. At the projected level, exports would be at the lowest level in 5 years.

The recent corn price activity left prices within the trading range established since September 2002. The marketing year range for the spot cash price of corn in central Illinois has been $.565. That range is relatively small, but the range over the past 29 years has been $.60 or less in 8 other years. It would appear that prospects for ample year ending stocks and an increase in harvested acreage of corn for grain in 2003 would be sufficient to keep corn prices in a relatively narrow range through August. However, the trading range in December 2003 corn futures is also relatively low, at $.34. In addition, the high for that contract of $2.69 is relatively low from an historic perspective. History would suggest an increase in the trading range of December futures prior to expiration of the contract and provides some support for the possibility of a new high in that contract. At the same time, that contract is currently trading only about $.03 above the life-of-contract low. Could be another interesting summer.

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