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# WEEKLY OUTLOOK

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## **CORN AND SOYBEAN PRICES TAKE A BREATH**

The increase in soybean prices over the past two months was driven primarily by a rapid rate of U.S. exports in an environment of relatively small inventories. Some concerns about delayed planting provided additional support for the past two weeks. Prices also got a sharp, one day boost from news of BSE in Canada. The strong price reaction stemmed from ideas that soybean meal feeding would increase if restrictions were placed on bone meal feeding. All of these price supporting factors now appear to be dissipating to some degree.

Large U.S. soybean exports this spring reflected large shipments to China and delay in movement of South American soybeans to the export market due to a combination of some harvest delays and changing currency values. As of May 15, China had imported 278 million bushels of U.S. soybeans, nearly 80 percent more than imported a year ago. However, there were no outstanding sales of old crop U.S. soybeans to China as of May 15. China has bought about four million bushels of U.S. soybeans for shipment during the 2003-04 marketing year.

U.S. soybean exports have not yet rolled over and died. Shipments of U.S. soybeans to all destinations moved back above 10 million bushels for the week ended May 22 after dropping below four million bushels the previous week. Shipments between now and the end of August need to average only 4.1 million bushels per week to reach the official USDA projection of 1.01 billion bushels and five million per week to reach the unofficial projection of 1.023 billion bushels. In combination with the slow down in the domestic crush of soybeans, a slower export pace would suggest that U.S. supplies will be sufficient to meet consumption needs until the new crop is harvested. That slower pattern, however, has not yet materialized.

The recent pattern of more favorable planting weather has removed some of the concern about the potential adverse yield effects of late soybean planting. While the planting pace is running behind the average pace, significant delays may be limited.

The modest strength in corn prices that occurred in the first half of May appears to have been driven by concerns about planting delays and a one day BSE reaction. Domestic consumption of corn for ethanol production continues at a record pace, but the pace of exports remains very slow. Based on the USDA's *Export Sales* report, cumulative shipments of U.S. corn through May 15 totaled only 1.1 billion bushels, 14 percent less than cumulative shipments of a year ago. That pace of shipments is in line with the USDA's projection of a 14 percent decline in exports for the year. To reach the projection of 1.625 billion bushels for the year, shipments between now and the

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end of August need to average 34.8 million bushels per week. The average rate of shipments to date is 30 million bushels per week. Old crop corn supplies should be fully adequate to meet consumption needs until the new crop is harvested. However, the relative strength in old crop corn futures and the on-going strength in the corn basis in many areas would indicate some tightness in old crop stocks, or at least reluctance of producers to sell old crop stocks. There may be a little more interest in the June 1 stocks estimate, to be released on June 30, than is typically the case. The market now believes that most of the U.S. corn crop will be planted before June 1, moderating some of the concerns about the potential negative yield impacts of late planting.

Corn prices have now given back much of the recent gains, with July 2003 futures trading near \$2.40 after spiking to a high of \$2.59. A continuation of generally favorable weather for new crop development might be expected to push July futures under \$2.35, and perhaps back to the late April low near \$2.30. December futures could trade to a new contract low, if near term weather is favorable. The current low for that contract is \$2.305. July 2003 soybean futures traded to a contract high of \$6.58 last week, moved below \$6.20 early in the season on May 27, and then closed near \$6.30. Technically, that contract has the potential to drop back to the \$5.90 area, but such a decline near term would require a confirmation of a sharp reduction in exports and favorable crop conditions.

Longer term, both corn and soybean prices could continue to be quite volatile, with U.S. production prospects being the dominant factor. The most important part of the production season is still to come. In addition to yield uncertainty, there is also some uncertainty about the magnitude of planted acreage of corn and soybeans. The USDA will provide an update in the June *Acreage* report. With generally timely planting, the June report should provide a fairly accurate estimate of planted acreage. Summer weather concerns could provide additional pricing opportunities for producers. The pattern being demonstrated again this year is that weather and crop concerns tend to provide only brief periods of higher prices. Crop damaging weather is required to push prices to sharply higher levels for a prolonged period.

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