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.

JUNE 23, 2003

ODDS OF LARGE U.S. CORN AND SOYBEAN CROPS INCREASING?

The 2003 U.S. planting season and early part of the growing season for corn and soybeans were less than perfect. This is reflected in low crop condition ratings for Indiana, Kansas, Kentucky, Louisiana, Michigan, North Carolina, Ohio, Pennsylvania, and Texas. In addition, parts of other states (Southern Illinois, for example) have low crop ratings. Wet weather likely resulted in relatively large prevented plantings in some areas. Nationwide, however, the USDA crop condition ratings for the week ended June 15 showed both the corn and soybean crops in much better condition than on the same date last year. With 71 percent of the corn crop and 68 percent of the soybean crop rated in good or excellent condition, yield prospects remained good at mid-month.

The National Weather Service forecast for the period June 28 through July 2 indicated prospects for normal temperatures in most of the corn and soybean growing areas. That same forecast indicated prospects for below normal precipitation for an area running from Michigan through eastern Texas that include much of Illinois, Indiana, and Missouri. The forecast for the month of July, released on June 19, indicated prospects for normal or below normal temperatures and normal to above normal precipitation for essentially all of the corn and soybean producing areas. Finally, the 90 day forecast through September indicated normal temperatures and precipitation for all production areas. As the saying goes "it is not over until it is over"; adverse weather events could occur. However, the current forecast suggests reasonable chances for at least trend-line corn and soybean yields in 2003. Yields above trend may be more likely than yields below trend.

U.S. weather, crop conditions, and yield prospects are clearly important factors for corn and soybean prices at this time of year. However, other factors do and will influence prices. As mentioned last week, the USDA's June 1 *Grain Stocks* report and *Acreage* reports will contain important information for both the supply and demand side of the markets. The June 1 stocks estimates will provide solid information about the rate of consumption. The *Acreage* report will shed some light on the magnitude of prevented plantings, acreage shifts, and March survey sampling errors. One popular private analyst expects the June report to reveal less spring wheat and cotton acreage, more corn and soybean acreage, and more total acreage than indicated in the March *Prospective Plantings* report.

Beyond the U.S., developments in other areas of the world will be potentially important for the demand for U.S. corn and soybean crops. The size of Chinese crops, the magnitude of planted acreage in South America, and the magnitude of Chinese corn exports and soybeans and soybean oil imports are among the important developments that could influence corn and soybean prices. Positive demand factors in the face of large U.S. crops will not likely be sufficient to produce significant price rallies, but can certainly temper the negative price impact of large crops. U.S. and world grain and oilseed inventories are small enough that prices will remain volatile and trade in wide ranges, as has been the case for the past 30 years. In addition, the higher prices that have been experienced over the past year may not quickly give way to the low prices that persisted from July 1998 through June 2002.

The higher prices for November 2003 soybean futures that have developed since May, along with a strong harvest time basis in many areas, offer producers an opportunity to implement pre-harvest pricing strategies for a portion of the crop. The strong basis and lack of carry in the new crop futures market discourages plans to store the 2003 crop. In addition, the old crop-new crop price inversion results in the possibility of a substantial premium for early harvested soybeans. A strategy of spreading sales of new crop soybeans during the critical growing season appears to have merit. A large U.S. crop has the potential for eventually pushing new crop prices below the CCC loan rate. Upside potential for November 2003 futures include the contract high of $5.88 and highs for the 2000 through 2002 contracts ranging from $5.91 to $6.30.

The price pattern for December 2003 corn futures has been sideways, in a relatively narrow range, since October 2002. A strategy of spreading some new crop sales over the next six weeks also has merit. New crop prices are above the loan rate and the harvest basis is generally strong. The relatively small carry in the new crop futures market also provides little reward for storage of the 2003 crop.

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