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SEASONAL TENDENCIES FOR LOWS IN CORN AND SOYBEAN PRICES

Corn and soybean prices have suffered additional pressure so far in February. Futures prices have established new contract lows and cash prices are nearing the harvest lows.

Corn prices have been pressured by the lack of any friendly fundamental news. Exports continue to be disappointing and there is some expectation that USDA will lower the projection of domestic feed and residual use of corn. The USDA's monthly report of world supply and demand estimates will be released on February 9. Any changes in the projection of feed and residual use, however, may not occur until after the release of the March 1 *Grain Stocks* report on March 31.

March 2005 corn futures traded to a new low of $1.9425 on February 4 and December 2005 futures traded within $.005 of the contract low of $2.265 established on January 19. It would be extremely unusual for the December futures contract to establish a life of contract low at this time of year. Over the past 34 years, the December contract has never had a low in January or March and a low occurred in February only once (1973). In addition, a low occurred in April only twice and never in May. Some additional pressure on futures prices might be expected into June or July if intentions to increase acreage are confirmed and the planting season is favorable.

The average spot cash price of corn declined to $1.78 on February 3, only $.085 above the marketing year low established on November 4. Lows in that market have tended to occur in the fall (15 out of the last 31 years) or in the summer after harvest (14 out of 31 years). The marketing year cash price reached a low in January one time (1980) and in February one time (1975). History, then, would suggest for the current marketing year that either the November low will hold or a new low would not be expected until July or August, probably on the basis of another large crop in 2005.

Recent declines in soybean prices have stemmed from generally good growing conditions for the South American crop, a slow down in the pace of the domestic crush, and expectations of a shift in Chinese business from the U.S. to South America. March 2005 futures reached a new contract low of $4.985 on February 4 and November 2005 futures reached a low of $5.20 on the same day. The average spot cash bid in central Illinois declined to $4.97, only $0.17 above the marketing year low established on October 13, 2004.

The seasonal pattern of contract lows in November soybean futures differs from the pattern for corn. Contract lows have been reached in January, February, or March in 5 of the past 34 years. The most common time for lows, however, is October/November (13 times) and July/August (8 times). The pattern of lows in the cash market is more similar to corn. Lows since 1973/74 have never occurred in January or February. Lows occurred in March once, April once, and never in May. The most common time for lows has been October (11 times) and August (9 times). Like corn, history would suggest that for the current year either the October low will hold or a new low would not be expected until August. The progress of the South American crop, planting intentions of U.S. producers, the potential of soybean rust, and spring/summer weather conditions will all have a part to play in the price pattern over the next six months. History may not provide an accurate guide for 2005.

Old crop corn prices remain below the loan rate with a large loan deficiency payment (LDP) rate continuing in most locations. In addition, bids for harvest delivery of the 2005 crop are near the loan rate. As a result, the loan price serves as a price floor for all of the unpriced crops for which an LDP has not been established. The only risk for unpriced crop from the 2004 harvest for which the LDP has not been established is the cost of storage. That is a relatively small cost and suggests that such corn be held into the start of the growing season in order to capture weather rallies should they occur. There is also no urgency to price additional new crop corn. In contrast, there is considerable risk associated with holding unpriced old crop corn for which the LDP or marketing loan gain (MLG) has been established.

Soybean prices have once again declined below the loan rate, generating positive LDPs for the 2004 crop. Pricing strategies for soybeans, then should be similar to those for corn. The loan price provides a price floor for all unpriced soybeans for which loan benefits have not been established.

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