



WEEKLY OUTLOOK



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HAVE THE HIGHS BEEN ESTABLISHED FOR CORN AND SOYBEAN PRICES?

Cash corn prices have moved sharply higher over the past two weeks. A number of factors have contributed to the higher trend.

The average cash price of corn in central Illinois reached a 2006-07 marketing year high of \$4.125 on February 22, 2007. Prices moved lower in March, with a low of \$3.16 reached on April 3, following the release of the USDA's *Prospective Plantings* report. Since then, prices have recovered by \$.50, with the average central Illinois' overnight bid at country elevators quoted at \$3.66 on May 4. Part of the recovery in cash prices has resulted from a strengthening of the basis. The average spot cash bid was about \$.43 under July futures in late March and early April, but was only \$.25 under on May 4. The basis in that area is now a bit stronger than the basis of a year ago, and only \$.05 and \$.07 weaker than in 2005 and 2004, respectively. The stronger basis likely reflects a slow down in farmer sales of old crop corn even as consumption continues at a rapid pace. The new crop basis is still generally weak, with the harvest basis on May 4 about \$.16 weaker than the previous four year average.

In addition to the stronger basis, cash prices have moved higher along with higher futures prices. July 2007 futures peaked at about \$4.60 in late February, declined to about \$3.60 in early April, but settled at \$3.90 on May 4. Futures prices have been supported by a combination of a continued high rate of consumption and delays in planting the 2007 crop. The USDA reported that only 23 percent of the crop was planted as of April 29. That compares to 48 percent planted last year and the 2002-2006 average progress of 42 percent. Progress was likely slow in western growing areas during the week ended May 6. The slow progress raises concerns that some intended corn acreage will not be planted and that yield potential will be negatively impacted by the late planting. The USDA will release an estimate of planted acreage on June 29. Until then, the market will focus on planting progress and the weekly report of crop conditions. July and August weather is most important for determining yields, but the late planting may increase the risk of falling short of trend yields.

Since 1973, the central Illinois cash price of corn has never established a marketing year

high in February. The same is true for December futures. There is no fundamental reason that the February high this year cannot hold as the marketing year high, but the late planting in combination with a high rate of consumption and declining stocks adds to the speculation that new highs will yet be established. Other than September (8 times), the cash price in central Illinois has most often reached a high in July (7 times), followed by June (5 times) and August (4 times).

The average cash price of soybeans in central Illinois reached a 2006-07 marketing year high of \$7.505 on February 22, 2007, declined to \$6.775 on April 24, and stood at \$7.005 on May 4. The recovery since April 24 has resulted from a marginal (\$.04) strengthening of the basis (which remains unusually weak) and a \$.19 increase in July futures. In general, soybean prices are being supported by soybean oil prices. The cash price of soybean oil at central Illinois plants is near \$.32 per pound, 28 percent higher than prices of a year ago. At \$187.00 per ton, the average central Illinois plant price of soybean meal is only about 5 percent above the price of a year earlier. The average country elevator spot cash bid for soybeans is 22.7 percent higher than the price of a year ago, even though the basis is about \$.15 weaker.

Soybean oil prices continue to move higher even though domestic inventories are at a record level. Stocks at plants at the end of March were estimated at 3.354 billion pounds, 23 percent larger than stocks of a year ago. Soybean oil prices are being supported by the global increase in biodiesel production that is consuming larger quantities of canola oil, palm oil, and soybean oil. The Census Bureau estimates that 220 million pounds of soybean oil were used for bio-diesel production in the U.S. during March 2007. That represents 13 percent of total domestic use and exports of soybean oil during the month.

Like corn prices, cash soybean prices in Central Illinois have never established a marketing year high in February, as has been the case so far this year. Over the last 33 years, highs have tended to occur in July (8 times), June (5 times), September (6 times) and May (4 times). For the current high to be exceeded, some summer crop concerns will likely be required.

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