



# 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.

**JULY 21, 2008**

## **CORN AND SOYBEAN PRICES – NOW WHAT?**

December 2008 corn futures increased about \$2.00 per bushel during the month of June, topping out just under \$8.00. During the same period, November 2008 soybean futures rallied more than \$3.00, topping out just under \$16.37.

Much of the June rally was related to weather conditions in the U.S. as excessive rainfall threatened acreage and yield in a wide area over the midwest. That weather pattern followed a generally wet, cool May that resulted in late planting and slow emergence in some areas. Soybean prices were also supported by a generally strong export pace. USDA export estimates indicate that soybean exports during June totaled about 57 million bushels, compared to about 45 million in June 2007. Continued strong demand by China and interruptions in exports from Argentina contributed to the large June exports.

Prices of both crops turned lower in July. Corn prices have been pressured by a combination of larger than expected acreage estimates released by the USDA on June 30, improving crop conditions, and lower crude oil prices. As of July 13, the USDA estimated that 64 percent of the corn crop was in good or excellent condition, equal to the rating of a year ago. Lower crude oil prices have resulted in lower prices for ethanol. The average price of ethanol at Iowa plants declined from \$2.82 per gallon on July 3, 2008 to \$2.57 per gallon on July 18. At the close of overnight trade on July 21, December 2008 corn futures settled \$1.74 below the contract high.

Soybean prices have not declined as sharply as corn prices. While December 2008 futures are down by more than 20 percent from the contract high, November 2008 soybean futures at \$14.40 are down 12 percent from the contract high. Soybean prices have been a little more resilient because of the uncertainty about Argentine exports and because of more concern about U.S. crop conditions. As of July 13, the USDA estimated that 59 percent of the U.S. crop was in good or excellent condition, compared to 62 percent in those categories a year earlier. While crop condition ratings are not much different than is typical for this time of year, the lateness of the crop and continuing dry weather in the Delta has created uncertainty about production prospects.

The same factors that have been contributing to the extreme price moves of the past four months will continue to be important for corn and soybean prices for the next two months.

On the demand side, there are indications that Argentine export activity could return to a more normal state and U.S. soybean exports have slowed in July. After adjusting for larger Census Bureau estimates compared to USDA estimates, shipments during the last 6.5 weeks of the marketing year will need to average 10 million bushels per week to reach the USDA forecast of 1.145 billion for the year. The average over the three weeks ended July 17 was 7.7 million, although the estimate for the week ended July 17 is subject to revision. For corn, the drop in ethanol prices over the past two weeks has been more than offset by the decline in corn prices. Spot cash prices for corn, ethanol, and distillers grain suggest that the current gross crush margin is at the high end of the margins experienced over the past 11 months. Corn consumption for ethanol should continue to increase as forecast as corn prices follow crude oil prices.

At the top of the list of price factors is the production potential of the 2008 U.S. crops. While crop condition ratings generally support yield prospects at or above trend values, the lateness of the crop will be a lingering concern. As of July 13, only 13 percent of the corn crop was in the silk stage, compared to 50 percent on the same date last year and the 5-year average of 36 percent. Recent weather conditions, however, suggest that maturity will progress rapidly. In addition, the Climate Prediction Center (CPC) outlook for August weather contained a generally favorable outlook for the midwest. As of July 13, 26 percent of the soybean crop was reported to be in the bloom stage, compared to 54 percent on the same date last year and the 5-year average of 45 percent. Another concern going forward is the generally dry pattern in the Delta and southeast and the CPC forecast of above average temperatures for that region in August. Rain chances for that area in the near term are improving, depending to some extent on hurricane activity.

While yield uncertainty will persist there is more than the typical amount of uncertainty about corn and soybean acreage. The USDA will provide updated forecasts of planted and harvested acreage, along with the first yield forecast of the season, on August 12.

Corn and soybean prices continue to weaken, but could settle into more of a sideways pattern as production prospects unfold. Still, large daily price movements can be expected.

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