CORN AND SOYBEAN PRICES – HOW MUCH HIGHER?

Cash corn and soybean prices continue to move higher in a typical post-harvest fashion following the harvest of large crops. On a close-to-close basis, December 2001 corn futures moved only $.05 higher from November 2 through November 16. March 2002 futures were up only $.035 during that period. The cash price of corn in central Illinois, however, recovered by $.12 per bushel during that two-week period, as the nearby basis strengthened by $.07. January 2002 soybean futures rallied by $.165, on a close-to-close basis, from November 6 through November 16. The cash price of soybeans in central Illinois increased by $.235 per bushel over the same period, as the soybean basis also strengthened by $.07.

Additional strengthening of the corn basis is expected over the next three months. The average cash price in central Illinois on November 16 was $.26 under March 2002 futures. Based on the history of the past three years, that basis should strengthen to -$.15 to -$.10 by the first of March 2002. The market, then, is offering $.11 to $.16 to store corn until March 2002. The average cash price of soybeans in central Illinois is currently about $.20 under March 2002 futures. Again, based on the history of the past three years, that basis should strengthen to -$.15 to -$.10 by March 2002. The market, then, is likely only offering $.05 to $.10 per bushel to store soybeans until March 2002. Interest cost to store crops not under Commodity Credit Corporation (CCC) loan until March is about $.04 per bushel for corn and $.09 per bushel for soybeans. The current price structure offers little incentive to store soybeans that are not under CCC loan.

The larger question, of course, is whether there is reason to expect futures prices to also move higher over the next three to four months. Fundamentally, that question will be answered in large part by the rate of consumption as revealed in weekly, monthly and quarterly reports by USDA and other agencies; the size of the final crop estimates and the grain stocks estimates to be released on January 11, 2002; and development of South American corn and soybean crops. Other factors will obviously have price impact as well.

The rapid rate of soybean export sales and the accelerating rate of export shipments, in conjunction with the current extremely low level of prices, suggests that there is some room for higher soybean futures prices. Export sales through November 8 totaled about 524 million bushels, representing nearly 53.5 percent of the USDA projection for the year. Total sales were 19 percent larger than on the same date last year. Export inspections through November 15 (11
weeks into the marketing year) totaled 269 million bushels, only 4 percent behind the pace of last year’s inspections.

The slow pace of corn export sales and export shipment are a problem for the corn market. Sales as of November 8 were 5 percent less than on the same date last year and inspections through November 15 were running about 13 percent behind the pace of a year ago. Still, the market is not overly concerned with the slow pace, believing that the smaller southern hemisphere crop will result in large U.S. exports during the spring and summer of 2002.

Technically, March corn futures seems to have some potential to move higher in an effort to fill the gap left following the October USDA crop forecast. The top of that gap is at about $2.25. March soybean futures have moved into the gap left after the October USDA crop report. The top of that gap is at about $4.60.

Finally, historical trading ranges for corn and soybeans suggest that soybean prices in particular may increase by more than just basis strengthening. The harvest low in the cash price of soybeans in central Illinois was $3.985. If that is also the marketing year low, the cash price of soybeans might be expected to trade to near $5.00 per bushel before the marketing year is over, most likely in the spring/summer of 2002. Such a rally would likely require some crop concerns to unfold during that time. The marketing year high cash price in central Illinois over the past three years ranged from $5.20 to $5.795. For corn, the marketing year low in the cash price in central Illinois so far this year is $1.795 per bushel. That low is well above the marketing year low established the past four years ($1.45 to $1.665), leaving a little more doubt that the marketing year low has been established. The marketing year high cash price in central Illinois over the past three years ranged from $2.105 to $2.225 suggesting that cash prices still have some upside potential this year.

The current market fundamental factors, some technical factors, and historic price patterns all suggest that corn and soybean prices have potential to trade to higher levels yet this marketing year. For now, there appears to be more potential for soybean price increases due to large export sales and the current low price level.

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