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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.

MAY 19, 2003

CORN AND SOYBEAN PRICES TO FOLLOW CROP PROSPECTS

Corn and soybean prices were generally higher again last week, although some weakness was noted on Friday. Both old and new crop soybean futures established new contract highs and the central Illinois average cash price of soybeans moved to the highest level in nearly five years. Old crop corn futures moved to the highest level since early November 2002, while spot cash prices and new crop futures moved to the highest level since early September 2002.

Much of the buying interest in corn and soybeans since the first of May was generated by wet weather in many areas and the resultant slow down in planting progress. Additionally, soybean exports continued at a pace above that projected by the USDA. Given that much of the friendly news for corn prices was associated with the new crop, it is somewhat surprising that July 2003 futures were stronger than December 2003 futures. July futures moved from a $.02 discount to December futures at the first of the month to a $.045 premium on May 16. In contrast, July 2003 soybean futures moved from a $.785 premium to November futures on May 1 to a $.7025 premium on May 16. Given the relative abundance of old crop corn supplies and the tightness of old crop soybean supplies, the spreads might have been expected to move in opposite directions. The market may be expecting a sharp decline in the rate of U.S. soybean exports, as importers increasingly turn to South American supplies. In fact, the USDA's weekly export inspection report released on May 19 indicated that exports for the week ended may 15 totaled only 3.7 million bushels. That is about one million bushels below the weekly rate required to reach the USDA projection for the year. Reports of some imports of South American soybean meal into the U.S. may also be a signal that, while tight, supplies may be adequate until the new harvest. The level of June 1 inventories will not be revealed until June 30.

The soybean price pattern continues to be more interesting than the corn price pattern. Since 1973-74 (29 years), the average cash price of soybeans in central Illinois has established a marketing year high in the spring or summer months 19 times. The high occurred in April once, May four times, June four times, July eight times, and August twice. From an historical perspective, then, we are in the time frame when highs in cash prices should be expected, with some chance the high may have been established last week. With the entire growing season to unfold, however, prices could continue to be volatile.

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An examination of price patterns for November 2003 futures provides less confidence that a high has been established. The November contract has reached a high in May only once (1990) over the past 32 years. The high to date for the November 2003 contract of $5.76 is the lowest high for a November contract since 1972.

The recent strength in corn prices have left prices well within the range established since September 2002. The only unusual feature of prices to date continues to be the very narrow trading range for new crop contracts. December 2003 futures have a trading range of only $.385. Since 1971, the December contract has had a low trading range of $.41 (1972) and a high of $2.05 (1974). Since 1989, the trading range has varied from $.55 to $1.50.

Historical price patterns are of some interest and may provide some general guidelines for the current year, but market fundamentals will dictate how prices unfold over the next few months. The market for corn and soybeans will likely continue to focus on U.S. crop weather, planting progress, and early crop conditions. Another look at planted acreage of corn and soybeans will not be available until the release of the USDA's *Acreage* report on June 30. One popular private source has forecast an increase in both corn and soybean acreage compared to March intentions.

The recent price strength provides an opportunity for producers to advance sales of both old and new crop corn and soybeans. The strong basis in some areas and inverted futures market suggests that all old crop inventory should be sold. Long positions to speculate on summer weather markets may be less costly in the futures market than in the cash market under the current price structure. New crop prices for both corn and soybeans are well above the loan rate in many areas and above the USDA's projected average for the 2003-04 marketing year if trend line yields are reached in 2003.

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