



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN CROPS OFF TO A SLOW START**

As often noted, U.S. weather and crop conditions tend to dominate activity in the corn and soybean markets at this time of year. The start to the 2005 growing season has raised some concerns about production potential, resulting in higher prices over the past two weeks.

Warm, dry conditions in early April allowed corn planting to get an early start, particularly in Illinois. Excess precipitation in some areas along with widespread low temperatures created some germination problems resulting in some replaying of the corn crop. In addition, plant populations have been reduced to less than optimal levels in some areas. Now, dry conditions in large portions of the eastern corn belt are raising further concerns about development of the corn crop. The soybean crop has also suffered some planting and germination problems due to areas of excessive precipitation or abnormally dry conditions. Some areas in central Illinois, for example, have had less than 25 percent of normal precipitation since March 1.

Dry conditions have also resulted in a significant decline in the crop condition ratings for the U.S. winter wheat crop, suggesting that production will fall short of the USDA's May projection of 1.59 billion bushels. The U.S. is not alone in experiencing weather and crop concerns. Dry weather significantly reduced soybean production in southern Brazil. Areas of Australia, and to a lesser extent in Asia, are being impacted by dry weather as well. This year appears to be significantly different from 2004 when conditions were very favorable for crop production in most areas of the world, with the notable exception of southern Brazil.

Corn and soybean prices have responded to the broad spectrum of crop concerns. November 2005 soybean futures traded to near \$6.90, about \$.40 above the previous contract high and about \$.80 above the mid-May low. Spot cash soybean prices also moved to marketing year highs in many areas. The central Illinois price was near \$6.70 early on May 31, about \$1.90 above the low reached on October 13, 2004. Basis levels have strengthened significantly over the past several weeks. December 2005 corn futures traded to \$2.45, well below the contract high of \$2.885 reached in April 2004, but nearly \$.25 above the contract low reached in mid-May. The spot cash price of corn in central Illinois was near \$2.05, the highest since early September 2004 and about \$.35 above the low reached in early November 2004. Price reaction in the soybean market has been stronger than in the corn market. One reason may be the perception that corn plantings exceeded March intentions and that soybean acreage fell short of intentions. A combination of

strong demand and crop concerns has increased the speculative interest in the soybean market. The trading range in November 2005 soybean futures, December 2005 corn futures, and in the central Illinois spot cash price for both crops so far this marketing year are within the range experienced since the early 1970s. However, the range in November soybean futures so far this year has been exceeded in 24 of the past 32 years. The range in the central Illinois cash price has been exceeded in 19 of the past 31 years. The range in December corn futures has been exceeded in 26 of the past 32 years and the range in the spot cash price has been exceeded in 27 of the past 31 years.

It is still very early in the growing season so that prices can be expected to remain volatile. The National Weather Service forecast for the period June 5 through June 9 is for normal to above normal temperatures from the Plains states and east and for above normal precipitation for the bulk of the corn and soybean producing states. Since recent rainfall coverage and amounts have been generally less than forecast, the market will likely take a wait and see attitude towards the latest forecast. If conditions unfold as forecast, prices will likely retreat sharply from current levels. Unfavorable weather would likely set off another round of commercial and speculative buying.

Weather markets typically have resulted in high prices during the growing season, generally followed by much lower prices after harvest. The timing of the growing season price peak, however, has varied and is difficult to predict precisely because it is weather determined. The challenge is to take advantage of the period of high prices by timing the sales of both old crop inventories and expected production. For old crop inventory, a naive strategy of metering out sales during this period of weather uncertainty with balloon sales if and when the weather turns more favorable could be followed. New crop sales are a bit more problematic because of production uncertainty, but the same naive strategy as for old crop is not without merit. The actual strategy might depend on the type of crop or revenue insurance in place and the willingness to use options to manage both production and price risk.

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